Annual Report

MHV Water Limited
For the year ended 31 May 2018

MHVwater

Contents

Company directory

MHV Water Limited
For the year ended 31 May 2018

Nature of business

Water scheme and environmental management

Address

326 Burnett Street
Ashburton 7700

Registered office

KPMG - Ashburton
151 Burnett Street
Ashburton 7700

Company number

2218532

Date of Incorporation

23 February 2009

IRD number

056-108-629

New Zealand business number

9429032350401

Directors

John Nicholls
William Dewhirst
Phillip Everest
Vincent Lobb
Evan Chisnall
Craig Osborne
Nigel Reith
Mark Saunders
Richard Wilson

Accountants

KPMG - Ashburton
151 Burnett Street
Ashburton 7700

Bank

Westpac
122 Tancred Street
Ashburton 7700

Solicitors

Tavendale and Partners
62 Cass Street
Ashburton 7700

Auditor

Crowe Horwath New Zealand Audit Partnership
1 Show Place
Addington
Christchurch 8024

Chair's Report

The end of the 2017/18 financial year marks another key milestone in the history of our irrigation scheme as we present the first annual report since the merger of Mayfield Hinds Irrigation and Valetta Irrigation and subsequent name change to MHV Water Ltd.

As a consequence of the merger the Board developed a new strategy for the business and has been consulting with shareholders to get input and feedback into this. The strategy (as shown in Figure 1) defines the "backbone" of who we are as a company and what we must focus on and is organised into four sections:

1. Our mission defines why we exist.
2. Our values describe how we behave.
3. Our purposes are the outcomes we want.
4. Our initiatives are the things we must do to deliver these outcomes.

Fig.1

Water for Optimal Growth

We have a core responsibility to our shareholders, and the broader community, to maximise the value obtained from the water resources which we have available. This requires operating a robust delivery infrastructure to supply water where it is needed, using storage to better match timing of water supply and demand, and facilitating transfers of water between shareholders.

We now operate three key pieces of delivery infrastructure; the Valetta Pipeline, the Mayfield Hinds open channel system and the Ruapuna Pipeline. As per the merger agreement, infrastructure charges are set separately for each of these systems based on the costs of that system. These are recorded separately and shown under Note 21 (Segmental Reporting) within our accounts.

Construction on the Ruapuna pipeline commenced in 2017 and the pipeline was operational in time for the start of the irrigation season on 10 September 2017. The pipeline was officially opened by the Rt Hon Nick Smith, Minister for the Environment and Her Worship the Mayor, Donna Favel on 19 September. Water charges commenced once the pipeline was operational so are only for a 10 month period. Additionally, the pipeline was built to supply 3,300 ha (1609lps) and currently supplies 1,205 lps. We hope, through further share issues, to fill the pipeline over the next few years which will further improve the economics of the pipeline

The key focus with the Valetta pipeline is to improve the resilience, reliability and performance of this line. In some areas it is not delivering its designed capacity and/or pressure and a program of work is underway to remedy this. Initial analysis suggests upgrades to the junctions and pressure reduction valves may remove the performance bottlenecks and this work is scheduled for the 2018 winter and should be complete for the 2018/19 season. The pipeline is now five years old and some maintenance issues are beginning to become apparent. We are structuring our programme of preventative maintenance as well as having a process to ensure we are in a position to efficiently remedy issues as they arise, assess the likelihood that similar issues might arise elsewhere within the network and, if so, building the contingency plans into our Asset Management Programme to ensure we can rapidly fix these issues if they arise during the irrigation season.

On 25 July 2018, subsequent to the end of the season, a major collapse of 1.7 km of the main pipeline between Valetta ponds 1 and 2 occurred. The cause of this was a blocked air-vent which restricted air into the pipeline when it was being drained for maintenance creating a vacuum and the subsequent collapse. In a race against time to reinstate supply prior to the start of the irrigation season, parallel workstreams were initiated to either re-inflate the existing pipe or replace it.

There are no immediate plans to pipe the Mayfield Hinds open channel scheme and we do not expect to review this in detail for another 5-10 years, until such time as we fully understand the aquifer recharge and water balance. In the meantime there are opportunities to improve the efficiency, equity and safety of the system through the use of automated control gates and offtakes. During the 2018 season shut-down we will have installed 20 automated offtakes on laterals 1 and 5. The performance of these will be monitored over the course of the next season in order to validate the gains from these before proceeding with the remainder of scheme offtakes. An additional 7 offtakes which can only be reached through farms are being automated in order to minimise biosecurity risks in response to the presence of Mycoplasma Bovis.

We expect over time to increase scheme water storage in order to improve reliability, support scheme expansion through storing shoulder water for supply during the December/January peak and offsetting reduced future reliability when restrictions on the use of Ashburton river water increase. RDRML received resource consent approval for the construction of a large scale water storage pond at Klondyke and for the taking of an additional 10 m^3/second of water when the Rangitata river is in high flow. However these consents have been appealed and the outcome of these appeals will not be known for some time. In the meantime we continue to consider other options to increase our access to stored water across the scheme.

A feasibility study in the development of a "Hackthorne" line has been undertaken to determine the potential to supply water to the Hackthorne area within the Valetta command area between the existing line and the south branch of the Ashburton river. This study assumes that additional normal Valetta water shares would be issued (supported by storage) and/or that Valetta growth water shares would be created which would only be entitled to receive water after the demands of normal shares and scheme storage had been satisfied (the same priority that is applied to growth shares within the Mayfield Hinds area). Once this feasibility study is completed we expect that it will be brought to existing shareholders for consideration and approval.

Environmental Sustainability

The 2018 General Election illustrated first-hand the challenge we face as an agricultural sector around public attitudes and perceptions towards water use and water quality. We must work to reduce the impact our farming operations have on the environment, to meet the targets required of us by Environment Canterbury and also get better at engaging with the broader community and telling them our story.

We have agreed with RDRML that MHV Water should take ownership of the Land Use and Nutrient Discharge Consent which sets the collective limit nitrate losses permitted from shareholder farms. This consent expires in May 2019 and, during the year, we lodged our application for a new consent which is currently being considered by Environment Canterbury. Holding the consent collectively is much more efficient than every farm needing its own consent and having MHV Water hold the consent ensures that it is managed as close to the farm gate as possible. This reduces the confusion around who is responsible for environmental compliance which makes it easier to tell our collective story and makes it easier for us to work with our shareholders to achieve the on-farm improvements required. While some of the detail of the new consent is still being worked through, in principle, the consent will require the same reductions in nutrient losses as are prescribed for the rest of the Hinds/Hekeao zone in Plan Change 2 of the Land and Water Regional Plan. These require all farms to be operating at good management practice from 2017 and to achieve reductions below this of 15%, 25% and 36% by 2025, 2030 and 2035 respectively.

On-farm training courses are being run throughout the season to raise awareness and understanding of nutrient losses and good irrigation practice. These are a key step toward achieving good management practice and we will continue to run and evolve these to support our Shareholders.

Audited self-management is another key tool for ensuring we improve our environmental performance and meet our obligations. This starts with the preparation of Farm Environment Plans and is followed up with regular auditing of these plans. During the year all farm environment plans were completed on-time and to the required standard. 76 farms were audited, of which 30% received an A grade and 70% received a B grade. This is a good result and reflects well on us all.

All Shareholders need to be thoroughly exploring their options to make improvements to their stewardship or kaitiakitanga and as a scheme we will be not only encouraging continuous improvement, but requiring it. I remind you that any material changes on farm, especially those which result in an increase in nutrient leaching require a call to our environmental team and may require Board Approval. To support Shareholders further a roadmap for nutrient reductions will be released later in the year with practical ways Shareholders can reduce their environmental impact.

The community led MAR (Managed Aquifer Recharge) project expanded during the year to include 14 new micro-sites in addition to the Laghmor infiltration pond. These micro-sites are essentially large soak holes with a flow of clean water. MHV Water continue to support the MAR project through using our infrastructure to deliver water to these sites, operational support and by providing financial support to the project. MAR was identified in Plan Change 2 as a key workstream to help improve water quality and the reductions in nitrate losses set out above assume MAR is in place and working as planned.

Our view is that we need to pursue "catchment" wide solutions to managing water quality and we continue to seek out opportunities to collaborate with other irrigation schemes and others in the community to try and bring a co-ordinated and consolidated approach.

William Dench joined the MHV Water team on a permanent basis in October as a groundwater hydrologist. William carried out a water quality monitoring project for us in 2016-2017 as part of his research for a Masters at Canterbury University. William's role included building a robust water monitoring programme that built on his thesis work, to continue to monitor and assess water quality, and to undertake opportunities for additional research to better understand our groundwater resource and our impact on it. We have also sub-contracted William to undertake monitoring work for the MAR project and Environment Canterbury.

Our obligation to be responsible stewards of the environment is something we share with Arowhenua, the original kaitiaki of the land, and Environment Canterbury and Mel and her team have to worked through the year to strengthen our relationship and engagement with them.

Economic Sustainability

The company is financially strong and in good shape. A rebate from RDRML, refunding money that they were holding to fund the Klondyke Resource consent application, resulted in a one-off gain of $413k, and we had two months where there we no charges.

The balance of share capital from share sales for the Ruapuna line and further growth water (going from 3.5mm to 4.2mm maximum application rates for M class shares) resulted in capital contributions of $2.012m which was used to repay the remaining debt associated with the building of Carew. The consequent interest savings, and RDRML rebate meant that we were able to suspend water charges for Mayfield Hinds open channel users for three months during the year.

The Valetta Irrigation Limited working capital, as per the merger document, was to be used for the benefit of the V Shareholders, as such $483k was repaid from the Valetta debt, plus a further $200k repaid following the end of the financial year. Some of these funds may now need to be redrawn during the year for the infrastructure R & M but we wanted the Shareholders to have the benefit of the interest saving in the interim period.

The collapse of the Valetta pipeline, subsequent to the end of the year, is currently estimated to be approximately $300,000. In addition to the repair, the Directors have decided to purchase additional pipe worth $450,000 to be held as inventory. The repair and stock purchase is expected to be funded out of existing banking facilities.

Stay Strong

We remain conscious that our irrigation scheme is an intergenerational asset and that we are the guardians of it for now. We have a responsibility to ensure that we manage the scheme with the prudence and forward-site that previous generations have shown before us. Consequently, we need to manage the quality and succession of our people, our culture and our internal systems and processes to ensure our ongoing strength.

A benefit of the merger is that the expanded scheme is allowing us to build greater resilience into our operations team. We have been able to reconfigure rosters in order to ensure that, even during the height of the season, our staff get appropriate time off and that we have at least two people who understand each part of our scheme.

The Health and Safety of our team and the public are of paramount importance. Over the last few years we have developed a strong process for identifying and managing health and safety risks and pleasingly, the culture of our team and importance with which they treat their health and safety obligations continues to grow and strengthen.

Along with others working from the combined Irrigo office, we relocated to new office premises on 1 June. Collectively (with other Canterbury Irrigators), we had outgrown the Kermode St offices and the landlord was seeking to demolish the building. The new premises on Burnett Street are much more fit-for-purpose with small meeting rooms to facilitate FEP meetings and provide an appropriate working environment for our team.

A water tax, first mooted during the 2017 General Election campaign, may very well be among the recommendations of the Government's Taxation Working Group. Alongside IrrigationNZ and other primary industry bodies we will need to contribute actively to this discussion. Key principles which are likely to guide our response are;

- Any tax must fairly recognise the historical risks and investments that farmers have taken.
- If a tax is to be imposed, the mechanism for measuring and collecting the tax must be efficient; it should not tax water that is not used and should not force unnecessary cost onto the sector to administer.

Enable Innovation

We are mindful that we need to both pursue innovations with the scheme to improve the efficiency and effectiveness of our operations and also, to ensure that we encourage and enable on-farm innovations. At the same time, as a co-operative, we have an obligation to treat all shareholders in a fair and equitable manner.

Historically the Board of Mayfield Hinds Irrigation had used its discretion and allowed a number of shareholders to operate direct irrigation takes from the water races rather than buffering these takes through storage ponds. This discretion was provided on the assumption that the scheme would be piped. With the decision in 2015 not to pipe the scheme and no immediate plans for piping, it was no longer considered appropriate to allow these direct takes to occur. Consequently affected shareholders were contacted and have been asked to build on-farm storage ponds and these are planned or underway with all shareholders.

The Mid-Canterbury Agri-Innovation Seminar was run on 2nd May. This brought together a range of presenters with topics ranging from the potential for disruption brought about by exponential change through to the use of cow breeding, bio-reactors and Ecotain™ plantain to reduce on-farm nitrate losses. Feedback from those who attended was very positive and we will look for opportunities to run similar events in the future.

Closing Remarks

Finally, our success is ultimately measured on our ability to efficiently and reliably deliver water onto farm and to manage our collective environmental footprint. The scheme operated throughout the irrigation season with minimal disruption, we instigated our revised strategy, made considerable gains with our stakeholder engagement and fostered a collaborative culture across the sector. Our thanks to Mel, Sam and the whole team for their hard work, dedication and support.

My thanks also to my fellow Directors for their work on your behalf during the year and to our Shareholders for their continued support and engagement.

John Nicholls
Chair

2017-18 Snapshot

Mission and Purposes

Sustainable Solutions for our Shareholders and the Community

Water for Optimal Growth

Environmentally & Economically Sustainable

Stay Strong: Our People, Our Culture, Our Values

Enable Innovation

Key Facts

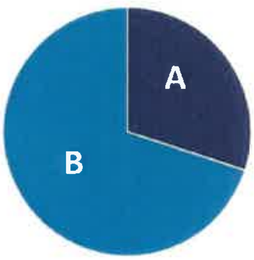
- 206 Shareholders
- 100km piped infrastructure
- 320km of open race infrastructure
- One strong united voice
- Sector Leading Groundwater programme
- 16 new MAR sites consented
- Divisional Accounts in place
- 76 FEP Audits completed 2017-18
- We support c.$500m of on farm production

Workshops Held

On-farm Workshops and training courses:

- Irrigation Calibration and Maintenance
- Soil Moisture Monitoring
- Effective Irrigation Scheduling
- Strategies to reduce N Loss
- Aiming for an A

FEP Audit Grades



Agri Innovation Mid Canterbury 2018

300 Attendees

11 Workshops 221 Attendees

MHVwater

Irrigo Centre
326 Burnett St
Ashburton 7700
03 307 8389
info@mhvwater.nz
mhvwater.nz

RDRML Report

The last 12 months have seen the environment in which Rangitata Diversion Race Management Limited (RDRML) operates, significantly alter.

The new coalition government has led to a level of uncertainty as to how we will be allowed to operate in the future. An example of this is a possible rewrite of the NPS for freshwater management with a view to have greater controls over the management of water and water quality by central government.

The other is the merger of Mayfield Hinds Irrigation Ltd and Valetta Irrigation Ltd into MHV Water Ltd. Together with Ashburton Lyndhurst Irrigation Ltd (ALIL) the schemes as shareholders in RDRML, have indicated and are demonstrating their desire to have a greater control over their futures. This has led to RDRML relinquishing its land use consent and the schemes being issued with a mirror consent by Environment Canterbury (ECAN). RDRML will no longer have any input into nutrient management. Ben and his team must be thanked for their hard work in getting the original consent in a time there was no template as to what was required.

RDRML's involvement in MAR continues to evolve in Mid Canterbury. We support the distribution of Ashburton District Council (ADC) water to the current sites and have completed a potential offtake for stream augmentation into the Hinds River.

Klondyke Storage has continued to progress. After nine years of discussion and five years of focused work, the two-week hearing in late April and early May, heard the company's application for 22 consents associated with the proposal. There were significant voices of opposition to the suite of consents under application from Ngai Tahu, Rangitata Water Limited, White Water New Zealand, Central South Island Fish and Game and several individual fishing interests.

Even though the hearing decision falls into the next year's reporting period, it must be acknowledged that the decision was a comprehensive success for RDRML, with all consents that were applied for, granted. Ben and the consulting team that he led should be very pleased with the outcome. Three parties have since appealed these consents and this will be a focus in the coming year.

Operational

The 17/18 year ran as smoothly as ever. There was a spike in irrigation demand in late November followed by an extended wet period resulting in Trustpower using 65% of the total water for generation which is greater than in previous years. This is one of the strengths of RDRML, as our consented water is always utilised.

A dispute with the ADC over the ownership of the bridges which cross the RDR race was settled. The bridges are now part of the districts roading network .

John Van Polanen retired at the end of the financial year having spent five years as chairman. His experience and strong leadership will be missed. Richard Wilson from MHV was elected Chairman.

We would like to thank Ben and his team for the hard work put in to ensure RDRML's success over the previous year.

Richard Wilson
Chairman

Vincent Lobb
RDRML Director

Scheme Usage Statistics 2017/2018

Scheme Usage Statistics	2017/2018 Usage (m^3)	2017/2018 Usage (% of total)
Highbank	573,538,517	65.81
BCI	39,422,020	4.52
ALIL	79,645,963	9.14
MHV (Mayfield Hinds)	134,548,911	15.44
MHV (Valetta)	36,743,849	4.22
ADC	6,145,049	0.71
Carl Shannon	46,367	0.00
Cumberland Dairy (BCI/MHV)	898,718	0.16
Total	**870,989,394**	**100.00**

NB There was also 522,850m3 of High Flow consented water used by Cumberland Dairy, not included in the above figures.

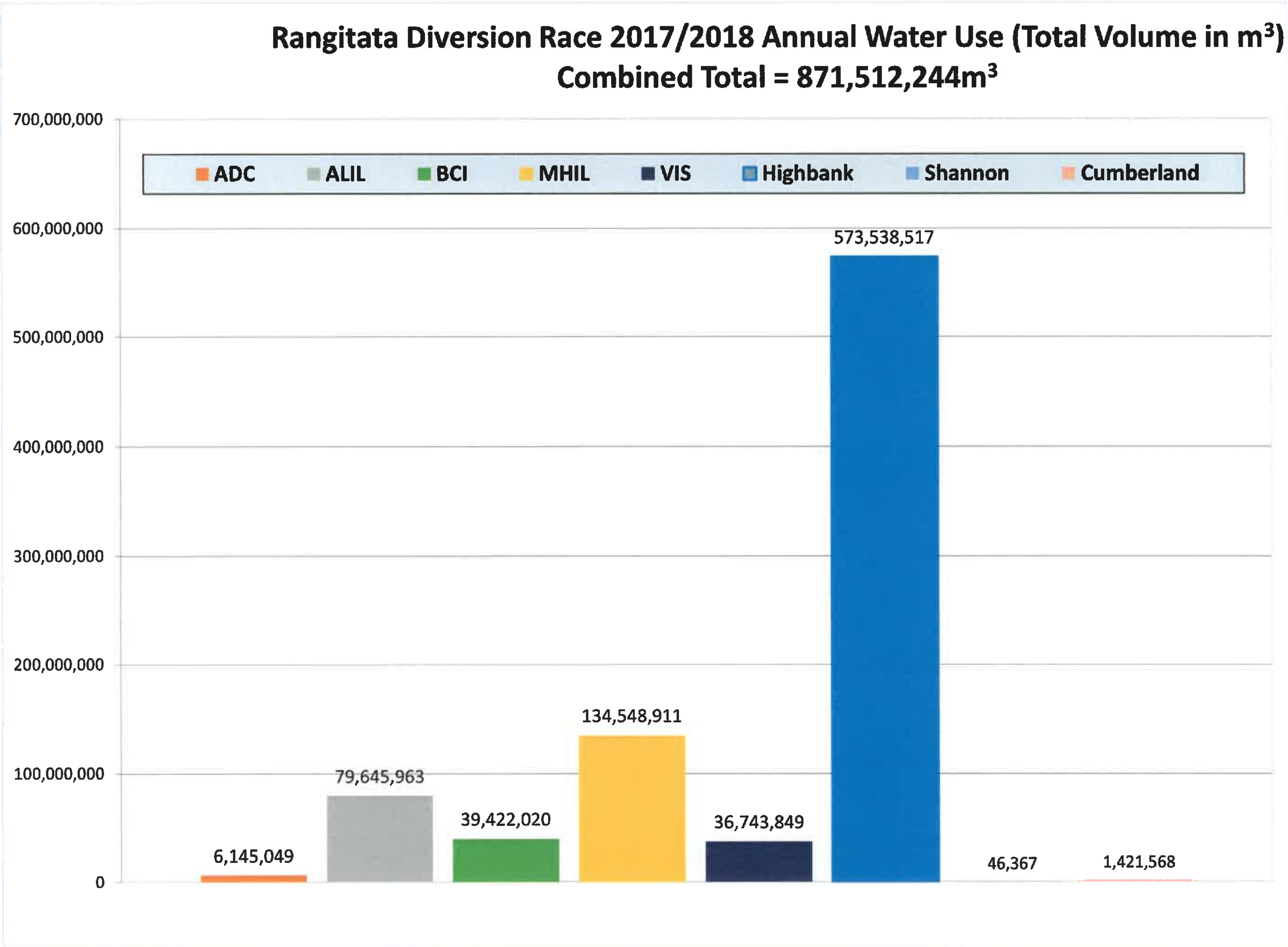
Scheme Reliability Statistics 2017/2018

Operational Statistics	Percentage (%)
Annual reliability [1]	79.8
Generation season reliability [1]	74.3
Irrigation season reliability [1]	82.2
Percentage of total intake that was from South Ashburton	7.0
Percentage of total intake that was from Rangitata	93.0
Annual Average Distribution Efficiency [2]	98.6

Notes:

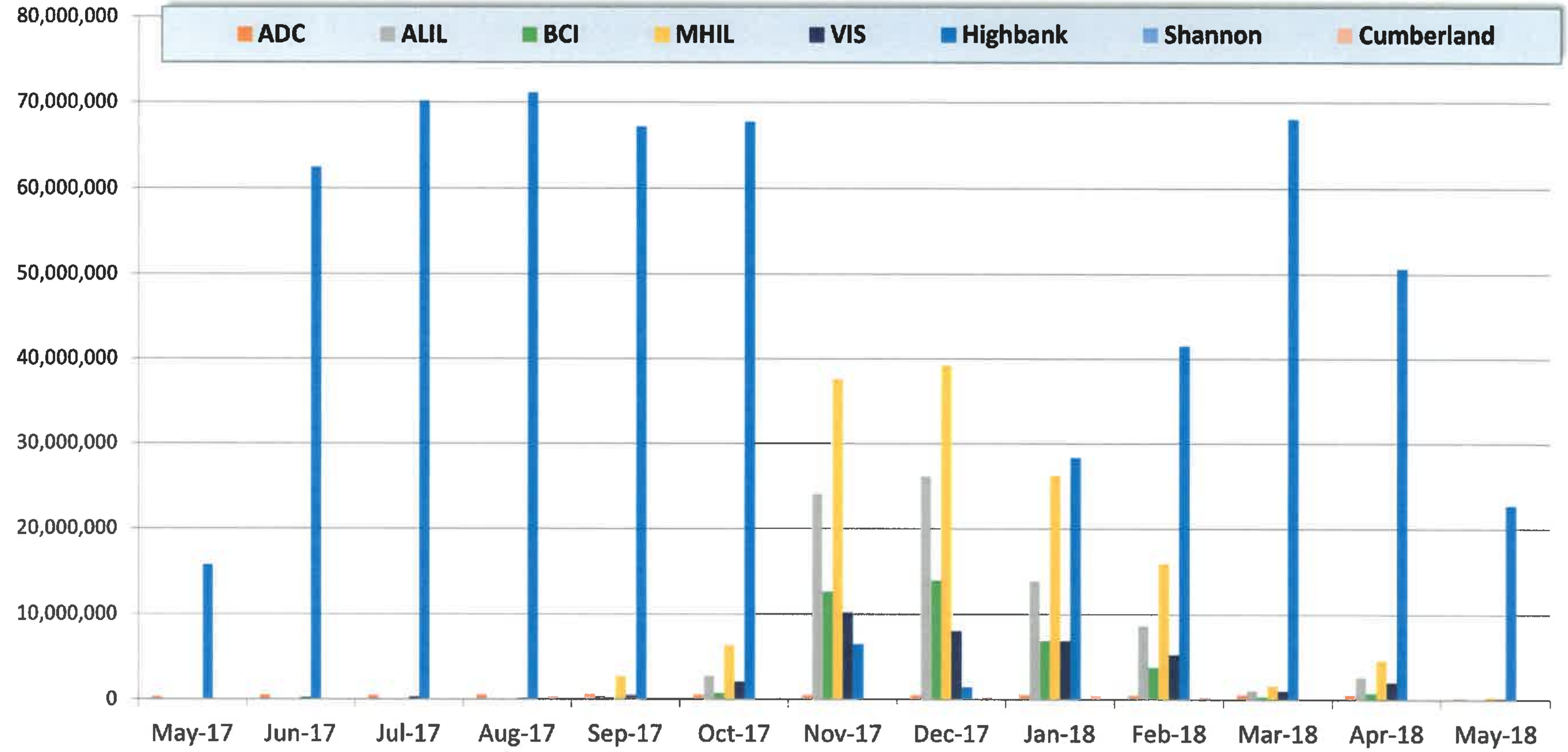
1 the reliability figures show the percentage of consented water that RDR took from the Rangitata and South Ashburton over the entire season, taking restriction levels into account

2 the Annual Average Distribution Efficiency is the ratio of total usage (Highbank and Schemes) to the total inflow (Rangitata and South Ashburton) – the stated figure is the % of the water taken at the intakes that was used by the Schemes and Highbank. It takes into account any water spilt at the South and North Ashburton spillways.



Rangitata Diversion Race 2017/2018 Annual Water Use (Total Volume in m³)
Combined Total = 871,512,244m³
700,000,000
600,000,000
500,000,000
400,000,000
300,000,000
200,000,000
100,000,000
0
ADC
ALIL
BCI
MHIL
VIS
Highbank
Shannon
Cumberland
6,145,049
79,645,963
39,422,020
134,548,911
36,743,849
573,538,517
46,367
1,421,568

Rangitata Diversion Race 2017/2018
Monthly Water Use (m^3)



	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
ADC	298,425	513,271	465,274	548,507	548,598	539,015	497,649	505,390	524,633	474,481	537,363	517,259	175,185
ALIL	94,113	20,528	21,574	21,943	312,096	2,734,851	24,035,708	26,141,791	13,887,988	8,660,256	1,079,388	2,602,041	33,685
BCI	0	0	0	0	247,397	758,670	12,640,346	13,975,675	6,903,153	3,737,034	356,066	761,835	41,846
MHIL	0	0	0	0	2,723,144	6,375,869	37,583,649	39,170,192	26,225,441	15,915,370	1,644,729	4,591,176	319,341
VIS	38,311	224,016	276,481	153,441	480,716	2,086,641	10,212,072	8,035,105	6,881,939	5,222,795	971,500	2,005,842	154,990
Highbank	15,768,228	62,460,773	70,186,183	71,137,661	67,162,245	67,712,946	6,503,527	1,445,432	28,327,212	41,468,579	68,038,252	50,632,863	22,694,614
Shannon	0	0	0	0	0	0	11,546	19,081	11,679	4,062	0	0	0
Cumberland	0	0	0	301,168	14,224	0	111,947	259,203	434,518	259,806	432	40,270	0

Annual report

MHV Water Limited
For the year ended 31 May 2018

The business of the company is Water Scheme Management. The nature of the company's business has not changed during the year under review.

As required by Section 211 of the Companies Act 1993 we disclose the following information:

Key Person Interests

During the year the following share transactions occurred involving a director:

- 1,900 MG Shares allotted to Chisnall Ruapuna Ltd on 20/12/17
- 1,600 MG Shares allotted to RD & MA Wilson Ltd on 20/12/17
- 11 M shares transferred from Broadfields Farm Ltd to M &M Bush Family Trust 18/12/17

At 31 May 2018 the Directors held the following shares:

- Evan K Chisnall: 36,082 shares through Chisnall Farms Ltd(11,961), Chisnall Home Farm Ltd(9,077), Chisnall Ruapuna Ltd(15,044). (2017: 3,961)
- Craig E Osborne: Nil. (2017:Nil)
- John R Nicholls: 33,446 shares through Mahanga Dairies Ltd (7,394), Ma Taua Dairies Ltd (7,855), Delarbe Farm Ltd (3,286), Akitu Dairies Ltd (8,749), Fairmont Farm Ltd (2,054) & Kairoa Dairies Ltd (4,108). (2017: 3,115 shares)
- Nigel H Reith: 13,308 shares through Reith Dairy Limited. (2017: 1,620 shares)
- Richard D Wilson: 32,117 shares through RD & MA Wilson Limited. (2017: 3,715 shares).
- Phillip G Everest: 21,832 shares through Riverbank Farm Ltd (Ashburton) Limited (9,077) & Broadfields Farm (Ash) Ltd (12,755). (2017: 1,105 shares)
- Vincent J Lobb: 22,721 shares through Lobblinn Farms Ltd (13,557) & Kanuka Syndicate Ltd (9,164). (2017: Nil)
- William M Dewhirst: 13,222 shares through Guyon Farm Ltd (5,367) & Millar Farm Ltd (7,855). (2017: Nil)
- Mark Saunders: 13,043 shares through Waioto Farm Ltd. (2017: Nil)

Use of Company Information

The Board received no notices during the year from Directors requesting to use company information received in their capacity as Directors which would not have been otherwise available to them.

Directors' Interests

The following transactions were entered into by the Directors of the Company:

During the year all the Directors, with the exception of Craig Osborne, purchased water on the same normal trading terms from MHV Water Limited as other shareholders.

The Directors disclosed the following general interests:

Nigel H Reith	
Weigh-it Services Limited	Director
Reith Dairy Limited	Director
The Rakaia Hub Limited	Director
Nigel & Jane Reith Family Trust	Trustee & Beneficiary
Irrigo Centre Ltd	Alternative Director
John R Nicholls	
Delarbe Farm Limited	Director
Ma Taua Dairies Limited	Director
Quigley Contracting Limited & Group	Chair
Kairoa Dairies Limited	Director
Mahanga Dairies Limited	Director
Akitu Dairies Limited	Director
Rylib Trust	Trustee & Beneficiary
Jeeves Trust	Trustee & Beneficiary
Rylib Group Limited	Director
MC Water Limited	Director
Fairmont Farm Ltd	Director
Richard D Wilson	
RD & MA Wilson Limited	Director
RD & MA Wilson	Partner
Rangitata Diversion Race Management Limited	Director
Phillip G Everest	
Flemington Farm Limited	Director
Riverbank Farm (Ashburton) Limited	Director
MAR Governance Group	Member
RDR Irrigation Limited	Director
Estate of W E Kingston	Trustee
Broadfields Farm Ltd	Shareholder
Everest Farm Consulting Ltd	Director
Hinds Drains Network Group	Committee
Craig E Osborne	
MCO Family Trust	Trustee & Beneficiary
Carme Ag Limited	Director
NZ Institute of Primary Industry Management, National Board	President
NZ Institute of Primary Industry Management, Canterbury-Westland Branch	Committee Member

Evan K Chisnall	
Chisnall Home Farm Limited	Director
Chisnall Farms Limited	Director
Chisnall Ruapuna Limited	Director
Chisnall Mt Somers Limited	Director
Chaxsons Limited	Director
RDR Irrigation Limited	Director
E K & M J Chisnall Family Trust	Trustee & Beneficiary
E.K. & M.J. Chisnall Limited	Director
Barrhill Chertsey Irrigation Limited	Shareholder
Strathmore Dairies Limited	Director
Trustpower	Shareholder
Vincent J Lobb	
Lobblinn Farms Ltd	Director
Kanuka Syndicate Ltd	Director
Irrigo Centre Ltd	Director
Rangitata Diversion Race Management Ltd	Director
Barrhill Chertsey Irrigation Ltd	Shareholder
William M Dewhirst	
Guyon Farm Ltd	Director
Millar Farm Ltd	Director
WM & LA Dewhirst Family Trust	Trustee
MC Water Ltd	Director
Mark A Saunders	
Waioto Farm Ltd	Director
ATS Fuel Ltd	Director
Ruralco NZ Ltd	Director
Pro Active NZ	Director
Ormsby Group (Lacmore 2013 Ltd, Chudleigh Holdings, Cloverdale Holdings, Ashdown Land Co, Tuatahi, Mirrabook, Pentim)	Related party
MAR Governance Group	Committee

C E Osborne is a director and shareholder of Carme Ag Limited.The company, during the year under review paid Carme Ag Limited$3,600 (2017: 3,420) for strategy consultancy services. As at 31 May 2018 NIL was outstanding in relation to these services (2017: $3,150).

We consider the following transactions as related party transactions:

- Farm Activity Variation Applications
- Leases of Water
- Surplus Water Agreements

Transactions of this nature occurred during the year, and none of these were approved outside of existing company policy.

Hinds/Hekeao Managed Aquifer Recharge pilot

The Hinds/Hekeao Managed Aquifer Recharge Governance Group is an unincorporated group established by the Hinds/Hekeao Zone Committee to prove the concept of managed aquifer recharge (MAR) within the Hinds/Hekeao zone. MAR has significant potential to improve groundwater quality and on-farm reductions in nutrient losses required by Plan Change 2 of the Canterbury Regional Council Land and Water Regional Plan assume that MAR is successfully adopted across the zone. Without MAR, more stringent on-farm reductions would be required to meet environmental water quality targets. As such the company considers MAR to be of benefit to shareholders and provides direct and indirect support to the MAR Governance Group on favorable terms. During the year the company entered into a memorandum of understanding with the group to agree various operational matters in relation to MAR trials and to work together to achieve the trial outcomes. Company infrastructure is used to deliver water to 15 trial infiltration sites and company staff are involved in providing operational support to the trial. This support has an estimated value of $24,000 and is provided to the MAR group at no cost. The company provides a ground water monitoring service for the trials and was paid $20,393 during 2018 by Environment Canterbury for this.

P Everest and M Saunders are members of the MAR committee.

Remuneration and other benefits

Directors remuneration paid during the year or due and payable is as follows:

The Directors of the company as at balance date are listed in the Directory.

The Company has insured all its current and past Directors against liabilities to other parties that may arise from their positions as directors. As per the merger documentation between Mayfield Hinds Irrigation Ltd (now MHV Water Ltd) and Valetta Irrigation Ltd, the past Directors of Valetta Irrigation Ltd have also been included in this insurance. The insurance does not cover liabilities arising from criminal actions.

Following the successful Shareholder vote approving the acquisition of Valetta Irrigation Limited, William Mark Dewhirst, Vincent John Lobb and Mark Andrew Saunders were appointed as Directors on the 1st June 2017.

	2018	2017
Directors Fees and Expenses		
Evan K Chisnall	13,071	20,775
John R Nicholls	26,143	30,000
Nigel H Reith	13,071	13,900
Phillip G Everest	13,071	14,400
Richard D Wilson	13,071	17,300
William M Dewhirst	17,429	-
Vincent J Lobb	13,071	-
Mark A Saunders	13,071	-
Craig E Osborne (Independent)	18,954	26,800
Total Directors Fees and Expenses	**140,952**	**123,175**

Employee Remuneration

The number of employees whose total remuneration, including non-cash benefits, was over $100,000 during the year ended 31 May 2018 are specified in the following bands:

	2018	2017
Number of Staff		
$100,000 - $110,000	1	-
$130,000 - $140,000	-	1
$190,000 - $200,000	1	-

For and on behalf of the Board

Chair

Director

on the 18th of September 2018

Statement of comprehensive income

MHV Water Limited
For the year ended 31 May 2018

	NOTES	2018	2017
Revenue			
Revenue	1	4,527,675	2,954,644
Total Revenue		**4,527,675**	**2,954,644**
Expenses			
Operating expenses	2	1,702,489	2,020,378
Administration	3	621,752	356,134
Other operating expenses	4	39,918	30,320
Non cash expenses	5	1,801,677	1,079,654
Finance	6	873,866	231,590
Total Expenses		**5,039,702**	**3,718,076**
Net profit		**(512,027)**	**(763,432)**
Other income			
Share of associates profit/(loss)	10	(901)	794
Gain/loss on investments		10,754	-
Total Other income		**9,853**	**794**
Operating profit/(loss) before adjustments		**(502,175)**	**(762,638)**
Operating surplus/(deficit) before tax		**(502,175)**	**(762,638)**
Tax expense			
Income Tax Expense	15	102,937	42,947
Net profit/(loss) for the year		**(605,112)**	**(805,585)**

	NOTES	2018	2017
Other comprehensive income			
Net profit/(loss) for the year		(605,112)	(805,585)
Items that may be subsequently recycled through profit and loss			
Current year gains/(losses)		(79,772)	-
Deferred tax effect		22,336	-
Cashflow hedge recycled through profit and loss		(138,019)	181,778
Deferred tax effect		38,645	(50,898)
Total		**(156,810)**	**130,880**
Total comprehensive income for the year		**(761,922)**	**(674,705)**

CROWE HORWATH NEW ZEALAND

These statements are to be read in conjunction with the notes to the financial statements and subject to the Audit report.

Statement of changes in equity

MHV Water Limited
For the year ended 31 May 2018

	NOTES	SHARE CAPITAL	HEDGING RESERVE	RETAINED EARNINGS	TOTAL
2017					
Equity at 1 June 2016		10,331,615	(130,880)	1,395,549	11,596,284
Comprehensive Income		-	130,880	(805,586)	(674,706)
Share capital issued		6,666,248	-	-	6,666,248
Equity at 31 May 2017	18	**16,997,863**	-	**589,963**	**17,587,826**

	NOTES	SHARE CAPITAL	HEDGING RESERVE	RETAINED EARNINGS	TOTAL
2018					
Equity at 1 June 2017		16,997,863	-	589,963	17,587,826
Comprehensive Income		-	(156,810)	(605,112)	(761,922)
Share capital Issued		17,509,973	-	-	17,509,973
Equity at 31 May 2018	18	**34,507,836**	**(156,810)**	**(15,149)**	**34,335,878**

CROWE HORWATH NEW ZEALAND

These statements are to be read in conjunction with the notes to the financial statements and subject to the Audit report.

Statement of financial position

MHV Water Limited
As at 31 May 2018

	NOTES	31 MAY 2018	31 MAY 2017
Assets			
Current assets			
Cash and cash equivalents	7	161,580	193,047
Trade and other receivables	8	534,229	831,429
Income tax receivable	15	854	585
Total Current assets		**696,663**	**1,025,061**
Non-current assets			
Property, plant and equipment	19	52,625,087	26,265,433
Investments	9	39,635	40,564
Intangibles	20	76,415	32,972
Total Non-current assets		**52,741,137**	**26,338,969**
Total Assets		**53,437,800**	**27,364,030**
Liabilities			
Current liabilities			
Trade and other payables	12	352,468	3,198,319
Current portion of interest bearing borrowings	14	-	5,952,321
Total Current liabilities		**352,468**	**9,150,640**
Non-current liabilities			
Non current portion of interest bearing borrowings	14	18,219,955	138,019
Deferred Tax Liability	17	529,499	487,543
Total Non-current liabilities		**18,749,454**	**625,562**
Total Liabilities		**19,101,922**	**9,776,202**
Net assets		**34,335,878**	**17,587,828**
Equity			
Total equity		34,335,878	17,587,828
Total Equity		**34,335,878**	**17,587,828**

CROWE HORWATH NEW ZEALAND

These statements are to be read in conjunction with the notes to the financial statements and subject to the Audit report.

Statement of cashflows

MHV Water Limited
For the year ended 31 May 2018

	2018	2017
Cash Flows		
Cash flows from operating activities		
Cash was received from		
Receipts from providing goods and services	4,196,824	2,770,212
Donations, fundraising and similar receipts	-	213,235
Receipts from GST	628,695	-
Receipts from tax	-	1,174
Total Cash was received from	**4,825,519**	**2,984,621**
Cash was applied to		
Payments to suppliers and employees	2,608,253	2,258,808
Payment of interest	840,604	246,489
Payment of GST	-	230,352
Payment of tax	269	-
Other payments	-	652,180
Total Cash was applied to	**3,449,126**	**3,387,829**
Total Cash flows from operating activities	**1,376,393**	**(403,208)**
Cash flows from investing		
Cash was received from		
Receipts from sale of investments	10,781	-
Receipts from interest	528	5,003
Total Cash was received from	**11,309**	**5,003**
Cash was applied to		
Payments to acquire property, plant and equipment	30,930,506	4,506,043
Payments to acquire intangible assets	48,479	21,390
Total Cash was applied to	**30,978,985**	**4,527,433**
Total Cash flows from investing	**(30,967,676)**	**(4,522,430)**
Cash flows from financing		
Cash was received from		
Receipts from share capital	17,509,973	6,666,248
Receipts from loan drawdowns	18,002,164	3,321,856
Total Cash was received from	**35,512,137**	**9,988,104**
Cash was applied to		
Payments to loan repayment	5,952,321	5,330,000
Total Cash was applied to	**5,952,321**	**5,330,000**
Total Cash flows from financing	**29,559,816**	**4,658,104**
Net increase/(decrease) in cash	**(31,467)**	**(267,534)**

CROWE HORWATH NEW ZEALAND

These statements are to be read in conjunction with the notes to the financial statements and subject to the Audit report.

	2018	2017
Cash Balances		
Cash and cash equivalents at beginning of period	193,046	460,580
Cash and cash equivalents at end of period	161,580	193,046
Net change in cash for period	(31,467)	(267,534)

	2018	2017
Reconciliation with Reporting Profit		
Profit for Year	(605,112)	(805,586)
Non cash items		
Profit from associates	901	(794)
Depreciation and loss on asset disposal	1,939,696	941,635
Movement in fair value of interest rate swaps	(138,019)	138,019
Gain on asset disposal	4,399	-
Gain on investment disposal	10,781	-
Total Non cash items	**1,817,758**	**1,078,860**
Movement in net current assets/liablities		
Increase/(decrease) in accounts payable	(244,230)	194,235
(Increase)/decrease in accounts receivable	(323,917)	(206,532)
(Increase)/decrease in Inventory	-	14,171
Shareholder deferred rebate	-	(652,180)
Income tax	102,668	44,121
GST	628,698	(230,352)
Total Movement in net current assets/liablities	**163,219**	**(836,537)**
Items classified as investing activities		
Interest received	528	(5,003)
Borrowing costs capitalised	-	(7,349)
IAF grant offset against PPE	-	172,407
Total Items classified as investing activities	**528**	**160,055**
Net cashflow from operating activities	**1,376,393**	**(403,208)**

CROWE HORWATH NEW ZEALAND

These statements are to be read in conjunction with the notes to the financial statements and subject to the Audit report.

Notes to the financial statements

MHV Water Limited
For the year ended 31 May 2018

Reporting entity

MHV Water Limited (the "Company") is a co-operative company registered under the Co-Operative Companies Act 1996 on the 23 February 2009 and domiciled in New Zealand.

The company is an FMC reporting entity for the purposes of Part 7 of the Financial Markets Conduct Act 2013. The financial statements comply with this Act.

The Company is a water supply and environmental management company receiving its share of water from the Rangitata Diversion Race Management Limited (RDRML) and distributing this water to its shareholder members. The Company's scheme area is on the northern bank of the Rangitata River through to the southern bank of the Ashburton River and from the foothills in the west down to the east coast. The company also administers land use and discharge consents for its members.

Basis of preparation

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards, as appropriate for Tier 1 profit orientated entities.

These financial statements are presented in New Zealand dollars ($), rounded to the nearest dollar.

The financial statements are for the year ended 31 May 2018. The financial statements were authorised for issue by the directors on the date specified on the annual report.

Use of estimates and judgments

The preparation of the financial statements in conformity with NZ IFRS requires management to make judgments, 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.

The principle areas of judgement in preparing these financial statements are set out below. Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the notes relating to:

- Property, plant and equipment
- Intangible assets
- Financial instruments
- Impairment
- Determination of fair values

Goods and services tax

All amounts are shown exclusive of Goods & Services Tax (GST), except for receivables and payables which are shown inclusive of GST.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous year.

CROWE HORWATH NEW ZEALAND

These notes are to be read subject to the Audit report.

Notes to the financial statements

MHV Water Limited
For the year ended 31 May 2018

Specific accounting policies

The following specific accounting policies which materially affect the measurement of profit and financial position have been applied.

	2018	2017
1. Revenue		
Water charges		
Water charges	4,463,665	2,842,234
Turbine scheme charges	12,417	12,481
Total Water charges	**4,476,081**	**2,854,715**
Other income		
Gain/loss on sale of fixed assets	4,399	-
Interest income	528	5,003
Land lease	13,131	3,000
Irrigation acceleration fund grant	-	40,828
Other scheme management	-	12,000
Miscellaneous income	15,776	23,098
Rental - scheme cottages	17,760	16,000
Total Other income	**51,594**	**99,929**
Total Revenue	**4,527,675**	**2,954,644**

Revenue recognition policy

Revenue is recognised and measured at fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the company and the revenue can be reliably measured.

NZ IFRS 15: Revenue from Contracts with Customers

The company has applied this standard from 1 June 2018.

Water charges

Revenue from water charges is recognised when the season for water delivery commences and is available for use by the shareholder. Shareholders are invoiced monthly in arrears.

Rental income

The cottages are rented to the company employees. The rental on the cottages is negotiated annually as part of their remuneration packages.

The Land Lease is for the un-utilised land surrounding the Carew storage ponds, Valetta Pond 1 and Valetta Pond 3.

CROWE HORWATH NEW ZEALAND

These notes are to be read subject to the Audit report.

Interest income

Interest income is reported on an accrual basis using the effective interest method.

Government grants

Government Grants received are recognised in either the Statement of Comprehensive Income or have been deducted from the cost price of the constructed asset and will result in a reduced depreciation expense.

2. Operating expenses

	2018	2017
Consultancy Fees	76,837	497,337
Directors expenses	1,379	58,200
Electricity expense	88,108	32,623
Employee and employment expenses	736,892	462,320
Hire equipment	7,461	62,599
Insurance	97,396	60,298
Repairs and maintenance	179,738	225,354
Scheme feasibility studies	36,451	27,438
RDRML charge	352,443	513,516
Subscriptions - Irrigation NZ	65,530	43,416
Vehicle expenses	60,254	37,277
Total Operating expenses	**1,702,489**	**2,020,378**

3. Administration expenses

	2018	2017
Accounting fees - annual financial statement	34,267	16,685
Other accounting services	6,670	23,947
Directors fees and expenses	141,554	64,975
Scheme secretarial and administration expenses	73,031	72,080
Share register expenses	8,589	3,385
Environmental management	64,648	-
Rates	39,700	27,241
Other	253,292	147,821
Total Administration expenses	**621,752**	**356,134**

4. Other operating expenses

	2018	2017
Audit fees	39,918	10,880
Other assurance services	-	19,440
Total Other operating expenses	**39,918**	**30,320**

5. Non cash expenses

	2018	2017
Depreciation	1,939,696	941,635
Movements in fair value of interest rate swaps	(138,019)	138,019
Total Non cash expenses	**1,801,677**	**1,079,654**

CROWE HORWATH NEW ZEALAND

These notes are to be read subject to the Audit report.

	2018	2017

6. Finance expenses

Interest Expense	873,866	231,590
Total Finance expenses	**873,866**	**231,590**

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred.

Interest income and interest expenses

Interest income and interest expenses are recognised in the statement of comprehensive income as they occur, using the effective interest method.

	2018	2017

7. Cash and cash equivalents

Current assets		
ANZ - Call Bank Account	-	17
ANZ - Main Bank Account	-	193,010
Book Cash Tin	-	20
Westpac - Business Account	161,365	-
Westpac - Savings 01	210	-
Westpac - Savings 90	5	-
Total Current assets	**161,580**	**193,047**
Total Cash and cash equivalents	**161,580**	**193,047**

Cash and cash equivalents policy

Cash in the balance sheet comprises cash at bank, call deposits, short term highly liquid investments with maturities of three months or less, and bank overdrafts.

Bank overdraft

The company has an overdraft facility of $500,000 which is secured by securities currently provided by the company in favour of Westpac Banking Corporation. In 2017 the company had an overdraft facility of $500,000 which was secured by securities provided by the company in favour of ANZ Bank of New Zealand Ltd.

The interest rate charged on the overdraft facility is at the Bank's Business Bank Indicator Rate (BBIR) plus a margin for credit risk.

At 31 May 2018 this was 6.35% (2017: 7.55% pa).

	2018	2017

8. Trade and other receivables

Trade and other receivables	560,094	234,170
Prepayments	26,549	20,975
GST	(52,414)	576,284
Total Trade and other receivables	**534,229**	**831,429**

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Trade and other receivables policy

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment, and due to their short term nature they are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Collectability of trade receivables is reviewed on an ongoing basis at an operating level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the company will not be able to collect the receivable. Financial difficulties of the debtor or default payments are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

9. Share investments held

	2018	2017
Ruralco	943	943
Electricity Ashburton	50	50
Irrigo Centre Ltd	8,642	9,543
RDR Irrigation Ltd	-	28
RDRML Ltd	30,000	30,000
Total Share investments held	**39,635**	**40,564**

Rangitata Diversion Race Management Ltd

The company holds 60,000 or 30% (2017: 30,000 or 15%) of the shares in RDRML and is entitled to be represented on its Board by two of its six directors (2017: one). These shares hold 40% of the voting right in RDRML. The procedure for sale or disposal of these shares is covered in a signed shareholder deed dated 14 January 2003.

The company is required to pay a share of RDRML operating and capital costs, this contribution is calculated annually by RDRML based on the scheme water usage from the RDR.

On 1 June 2017, MHV acquired 30,000 shares in RDRML from Valetta Irrigation Ltd. Per the sale and purchase agreement between the two parties, these shares were acquired at no cost.

R D Wilson and V J Lobb are the company's director representative on the RDRML board.

RDRML is neither an associate or subsidiary of the company.

Irrigo Centre Limited (ICL)

The company holds 4,000 or 25% shares (2017: 4,000 or 20%) in ICL and is entitled to be represented on its Board by one of four directors (2017: one of five directors). The company has been set up to provide administration services to its shareholder irrigation companies on a time cost basis and any others on a contract basis. The company uses the equity method to account for its interest in ICL. The carrying amount of the investment in the associate is increased or decreased to recognise the company's share of the profit or loss of the associate, adjusted where necessary to ensure consistency with the accounting policies of the company. As ICL is a private company there are no quoted prices available for their shares.

No dividends were received during the year under review (2017: Nil).

As part of the purchase of the Valetta Irrigation Ltd business, MHV acquired 4000 shares in ICL. Per the sale and purchase agreement between the two parties, these shares were acquired at no cost. During the year, these 4000 shares were repurchased by ICL for $10,710 and cancelled.

V J Lobb is the company's director representative on the ICL board.

ICL is an associate of the company as the company can exercise significant influence but not control over it.

RDR Irrigation Ltd (RDRI)

The company holds 31,718 "A" (50%) shares (2017: 31,718 shares) in RDRI and 7,339 "C" (11%) shares (2017: nil shares) along with Ashburton Lyndhurst Irrigation Limited (who hold 24,323 "B" shares) and is represented on the RDRI's Board by two directors. Each share was issued at 10 cents and was unpaid at 31 May 2018. The company was set up to provide management consultancy services for the shareholders.

In the prior year, the company used the equity method to account for its interest in RDRI. During the current year, the company bank account was closed and it ceased all activities. On this basis, the company is no longer equity accounted and the value of the investment has been written down to zero.

No dividends were received during the year under review (2017: Nil).

As part of the purchase of the Valetta Irrigation Ltd business, MHV acquired 7,339 C shares in RDRI. Per the sale and purchase agreement between the two parties, these shares were acquired at no cost.

P G Everest and E K Chisnall are the company's representatives on the RDRI board.

RDRI is an associate as the company can exercise significant influence but not control over it.

MC Water Limited

The company owns two shares (100%) in MC Water Limited (2017: 1 Share). At balance date the shares in the company remain unpaid. MC Water Limited has not traded during the year under review.

J C Nicholls and W M Dewhirst are the company's director representation on the MC Water Limited board.

10. Associate Companies

	2018	2017
ICL		
Assets	129,379	141,285
Liabilities	96,027	93,570
Revenue	789,540	728,555
Surplus/(Deficit)	(3,604)	3,965
% Held	25	20
Share of associate surplus/(deficit)	(901)	794

	2018	2017
RDRI		
Assets	-	54
Liabilities	-	-
Revenue	-	1,395
Surplus/(Deficit)	-	(1)
% Held	50	50
Share of associate surplus/(deficit)	-	-

11. Related Parties Transactions

	2018	2017
Rangitata Diversion Race Management (RDRML)		
Service charges	315,001	513,516
Total Rangitata Diversion Race Management (RDRML)	**315,001**	**513,516**

These notes are to be read subject to the Audit report.

	2018	2017
Irrigo Centre Limited (ICL)		
Service Charges	73,031	72,080
Total Irrigo Centre Limited (ICL)	**73,031**	**72,080**

	2018	2017
12. Trade and other payables		
Trade and other payables	265,967	3,149,553
Creditors - Interest Accrued	43,030	9,768
Retentions	43,471	38,998
Total Trade and other payables	**352,468**	**3,198,319**

Trade and other payables policy

Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the company prior to the end of the financial year that are unpaid and arise when the company becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

13. Financial instruments

Recognition and measurement

Financial instruments are recognised when the company becomes party to a financial contract. Financial instruments are measured initially at fair value, adjusted by transaction costs, except for those carried at fair value through the statement of comprehensive income, which are initially measured at fair value. They include bank funds, bank overdrafts, receivables, payables, investments in and loans to others, and term borrowings.

In addition the company is party to financial instruments to meets its financing needs and to reduce exposure to fluctuations in interest rates. The financial instruments include bank overdraft facilities and swaps.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets other that those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- Amortised cost
- Financial instruments at fair value through other comprehensive income (FVTOCI)
- Financial instruments at fair value through profit and loss (FVTPL)

All financial instruments, except for those at FVTPL, are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category.

All income and expenses relating to financial assets that are recognised in the statement of comprehensive income are presented within interest expenses or interest income, except for impairment of trade receivables, which is presented within other expenses.

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Amortised cost

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method less provision for impairment. Discounting is omitted where the effect of the discounting is immaterial. The company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

Financial instruments at fair value through other comprehensive income (FVTOCI)

Financial assets at FVTOCI are those assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and then contract terms give rise on specific dates to cash flows that are soley payments of principal and interest.

The company does not deal in the selling of financial assets and therefore has not classified any financial assets as being FVTOCI.

Financial instruments at fair value through profit and loss (FVTPL)

Financial assets at FVTPL include financial assets that are neither classified at amortised cost or at fair value through other comprehensive income. Financial assets are initially recognised at fair value including directly attributable transactions costs.

Classification and subsequent measurement of financial liabilities

The company's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities designated as FVTPL, that are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments are accounted for at FVTPL. All interest related charges and, if applicable, changes in an instruments fair value that are reported in the statement of comprehensive income are included within interest expenses.

Financial instruments measured at fair value

The following presents the company's financial assets and financial liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair values.

Level 1: Quoted prices, unadjusted in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly, as prices or indirectly, derived from prices. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows using published market swap rates as prepared by Westpac Banking Corporation.

Level 3: Inputs for the asset or liability that are not based on observable market data.

2017	Level 1	Level 2	Level 3	Total
Assets:				
Investment in RDR Management Ltd			30,000	30,000
Shares in Ashburton Trading Society Ltd			943	943
Shares in Electricity Ashburton Ltd			50	50
Liabilities:				
Interest rate swaps		138,019		138,019

2018	Level 1	Level 2	Level 3	Total
Assets:				
Investment in RDR Management Ltd			30,000	30,000
Shares in Ashburton Trading Society Ltd			943	943
Shares in Electricity Ashburton Ltd			50	50
Liabilities:				
Interest rate swaps		217,792		217,792

	2018	2017
Credit Risk		
ANZ - Main Bank Account	-	193,010
ANZ - Call Bank Account	-	17
GST receivable	-	576,284
Accounts Receivable	560,094	234,170
Westpac - Main Account	161,365	-
Westpac Savings Accounts	215	-
Total Credit Risk	**721,674**	**1,003,481**

Credit risk

To the extent that the company has a receivable from another party, there is a credit risk in the event of non-performance by that counterparty. Financial instruments which potentially expose the company to credit risk principally consist of bank balances, swaps, loans and receivables.

The company manages its exposure to credit risk to minimise losses from bad debts.

The company continuously monitors the credit quality of major financial institutions that are counterparty to its financial instruments, and does not anticipate non-performance by the counterparties. The company further minimises its credit risk by limiting the amount of funds placed with any one financial institution at any one time.

Maximum exposures to credit risk at balance date are the carrying amounts of the listed financial assets. These are the maximum exposures net of any recognised impairment losses. No collateral is held for these.

Concentrations of credit risk

100% (2017: 100%) of the company's cash at balance date was with one bank.

The company does not have any other significant concentrations of credit risk. (2017: $152,104 from Ministry of Primary Industries Irrigation Acceleration Fund included in accounts receivable and $571,197 of GST receivable from Inland Revenue).

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Liquidity risk

Liquidity risk represents the company's ability to meets its financial obligations on time. For the most part the company generates sufficient cashflows from its operating activities to make timely payments. It does however maintain committed credit lines to cover any shortfalls. The company has a total bank overdraft facility of $500,000 (2017: $500,000).

MHV shifted banking facilities to Westpac Banking Corporation during the year. The facility agreement provides the Company with a limit of $30 million, which was subsequently reduced to $24 million, including a $500,000 overdraft facility, with a term of five years from the date of initial draw down. Security for the facility is by way of General Security Agreement over the assets of the Company.

Currency risk

The company does not have any exposure to foreign exchange risk as a result of transactions denominated in foreign currencies.

Interest rate risk

The company has exposure to interest rate risk to the extent that it borrows or invests for a fixed term at fixed rates. The company manages its cost of borrowing by placing limits on the proportion of borrowings on floating rates, fixed rates or capped rates, with terms dependant on prevailing interest rates.

Over the medium term, the Board will manage interest rate risk by placing a portion of borrowings on floating rates, fixed rates or capped rates, with terms dependent on prevailing interest rates. The Board's draft policy is to hedge a portion of borrowings on a reducing basis based on the term. For terms of less than 1 year, the minimum hedge is 30% and the maximum hedge is 70%. For terms over 1 year, the minimum hedge is 0%-20% and the maximum is 30%-60%. This is subject to review by the Board on at least a six monthly basis and they may operate outside of these limits.

The company uses interest rate swaps to manage its cash flow interest rate risk. These have been designated as hedge instruments. These arrangements have been entered into to mitigate interest rate risk arising from changes in the interest rates available to the company.

All interest rate swaps are recognised initially at fair value and reported subsequently at fair value in the Statement of Financial Position.

To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other income and are included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge is recognised immediately in the statement of comprehensive income. At the time the hedged item affects profit or loss, any gain or loss previously recognised in other income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other income. However, if a non-financial asset or liability is recognised as a result of the hedged transaction, the gains and losses previously recognised in other income are included in the initial measurement of the hedged item.

All interest related charges and, if applicable, changes in an instrument's fair value that are reported in the statement of comprehensive income are included within interest expense or interest income.

Market risk

The future fluctuation to cash flows of interest payments to Westpac Banking Corporation (2017: ANZ Bank of New Zealand Limited) have been reduced through the signing of an interest rate swap. This has limited the company's exposure to the changes in the market prices of interest rates. Should the company be affected by a change in the margin charged by Westpac Banking Corporation over and above the interest rate swap rate, the company will cover the effect of this change by altering the water charges to it members.

At balance date the principal or contract amounts of interest rate contracts outstanding were:

	2018	2017
Interest Rate Swaps		
Cashflow Hedges	(217,792)	(138,019)
Total hedging instruments	**(217,792)**	**(138,019)**

These notes are to be read subject to the Audit report.

In 2017, the interest rate swaps were treated as ineffective, resulting in the unrealised loss being included in net profit. In 2018, consistent with the draft hedging policy, the interest rate swaps are now treated as effective. The prior year loss has now been recycled through the profit and loss as a negative expense, netting off with the loss now shown in the other comprehensive income.

Interest rate sensitivity

The following analysis illustrates the sensitivity of profit and equity to a reasonable change in interest of +/- 0.25%. These changes are considered to be reasonably foreseeable based on the current market conditions.

The calculations are based on a change in the average market interest rates for each period and the financial instrument held at each reporting date that are sensitive to changes in the interest rates.

	Profit for the year		Equity	
	+ 0.25%	- 0.25%	+ 0.25%	- 0.25%
31 May 2017	(7,381)	7,381	(5,314)	5,314
31 May 2018	(45,005)	45,005	(45,005)	45,005

14. Interest Bearing Borrowings

	2018	2017
Total current portion		
Loan - ANZ Bank (Carew)	-	3,282,645
Loan - ANZ Bank (Ruapuna scheme)	-	2,669,676
Total Total current portion	**-**	**5,952,321**
Non-current portion		
Loan - ANZ Bank (Swap)	-	138,019
Loans - Westpac	18,002,163	-
Loan - Westpac (Swap)	217,792	-
Total Non-current portion	**18,219,955**	**138,019**

Term liabilities

The company has $24,000,000 term loan facility from Westpac Banking Corporation (2017: $11,000,000 ANZ Bank of New Zealand). Security is a general security agreement over all the assets and undertakings of the company both present and future. There are no bank covenants restricting borrowings other than a Debt Service Cover Ratio of 1.10 to 1 of net cash after operations to debt servicing costs. There are additional reporting covenants that the company are fully compliant with. All bank and internal capital management objectives have been met.

As at 31 May 2018, $18,002,163 has been drawn down under this facility (2017: $5,952,322 ANZ Bank of New Zealand). The current interest rate applicable to this new facility with Westpac is based on the bank's Corporate Indicator Rate plus a margin for credit risk. The weighted average interest rate as at 31 May 2018 is 3.13% (2017: 3.4%). These facilities were granted under the existing securities provided to the bank.

There is no requirement to repay principal on the Westpac facility until the company draws down to the amortising facility threshold. MHV is only committed to paying interest only until such time, resulting in a commitment of $607,573 based on the current balance.

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	2018	2017

15. Tax

	2018	2017
Tax reconciliation		
Net surplus/(deficit) before tax	(502,175)	(762,639)
Total net surplus/deficit before tax	**(502,175)**	**(762,639)**
Tax payable at 28%	(140,609)	(213,539)
Tax adjustments		
Deferred tax adjustments	-	45,532
Total Tax adjustments	**-**	**45,532**
Permanent differences		
Non deductible expenses	(16,733)	177,076
Equity accounted investments	252	(222)
Total Permanent differences	**(16,481)**	**176,854**
Temporary Differences		
Capital contributions	-	206
Tax losses not recognised	128,816	33,894
Total Temporary Differences	**128,816**	**34,100**
Income tax expense	(28,274)	42,947
The income tax expense is represented by		
Current tax	-	-
Deferred tax	102,937	42,947
Income tax expense for the year	**102,937**	**42,947**

Income tax policy

Tax expense comprises of current and deferred tax and is calculated using rates enacted or substantively enacted at balance date. Current tax and deferred tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case the tax is recognised as an adjustment against the item to which it relates.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

16. Imputation Credit Account

	2018	2017
Opening Balance	405,225	405,902
Resident Withholding Tax	134	1,082
Refund Received	(549)	(1,759)
Total Imputation Credit Account	**404,810**	**405,225**

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Notes to the financial statements

MHV Water Limited
For the year ended 31 May 2018

17. Deferred Tax Asset (Liability)

	FIXED ASSETS	EMPLOYEE ENTITLEMENTS	OTHER	TAX LOSSES	TOTAL
Year ended 31 May 2017					
Balance at 1 June 2016	(471,173)	3,821	53,642	20,012	(393,698)
Charged to Income	(23,467)	532	-	(20,012)	(42,947)
Charged to Other Comprehensive Income	-	-	(50,898)	-	(50,898)
Balance at 31 May 2017	**(494,640)**	**4,353**	**2,744**	**-**	**(487,543)**

	FIXED ASSETS	EMPLOYEE ENTITLEMENTS	OTHER	TAX LOSSES	TOTAL
Year ended 31 May 2018					
Balance 1 June 2017	(494,640)	4,353	2,744	-	(487,543)
Charged to Income	(112,220)	4,389	4,894	-	(102,937)
Charged to Other Comprehensive Income	-	-	60,981	-	60,981
Total Year ended 31 May 2018	**(606,860)**	**8,742**	**68,619**	**-**	**(529,499)**

Due to the Co-operative nature of the company and the likelihood of further losses being incurred in the foreseeable future, the company has decided to eliminate from the financial statements last years deferred tax asset in relation to losses. A deferred tax asset has not been recognised in relation to tax losses $381,076 (2017: $121,051).

There are no other unrecognised temporary differences (2017: Nil).

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These notes are to be read subject to the Audit report.

Notes to the financial statements

MHV Water Limited
For the year ended 31 May 2018

18. Total Equity

There are 1,956,616 ordinary shares on issue, with 1,412,842 classified as M Shares, 94,145 classified as MG Shares and 449,629 classified as V shares. Each ordinary share entitles the shareholder to receive, for fair consideration, 0.01 litre of water per second. M Shares and V Shares entitle the holder to one vote per share, and MG Shares entitle the holder to one vote for every ten shares, up to a maximum of 10% of the total votes that can be cast.

All shares are fully paid (2017: Normal shares - 169,738 fully paid, 2,250 partly paid to $624 with $416 uncalled. Growth shares - 3,862 fully paid, 4,485 partly paid to $360 with $240 uncalled and 1,700 partly paid to $64 with $576 uncalled)

Water will only be made available to holders of MG Shares if the requirement of all M shareholders has been met. Only holders of M Shares have rights to participate in the storage water in the Carew storage ponds and MG Shares rank below the filling of the Carew storage ponds.

	NUMBER OF SHARES	SHARE VALUE
2017		
M Shares (formerly known as Normal Shares)		
Opening M Shares	171,788	9,830,795
Share Calls	-	2,918,448
M shares issued	200	208,000
Closing M Shares	**171,988**	**12,957,243**
MG Shares (formerly known as Growth Shares)		
Opening MG Shares	8,347	500,820
Share Calls	-	3,430,980
MG Shares Issued	1,700	108,820
Closing MG Shares	**10,047**	**4,040,620**
Closing Total Ordinary Shares	**182,035**	**16,997,863**

	NUMBER OF SHARES	SHARE VALUE
2018		
M Shares		
Opening M Shares	171,988	12,957,243
Share calls	-	936,000
M Shares Issued (share split)	1,240,854	-
Closing M Shares	**1,412,842**	**13,893,243**
MG Shares		
Opening MG Shares	10,047	4,040,620
Share calls	-	2,055,600
MG Shares Issued	11,605	928,400
MG Shares Issued (share split)	72,493	-
Closing MG Shares	**94,145**	**7,024,620**
V Shares		
Opening V Shares	-	-

These notes are to be read subject to the Audit report.

	NUMBER OF SHARES	SHARE VALUE
V Shares Issued	449,629	13,589,973
Closing V Shares	**449,629**	**13,589,973**
Closing Total Ordinary Shares	**1,956,616**	**34,507,836**

On 1 June 2017, as part of the acquisition of the Valetta irrigation asset, 449,629 V Shares were issued to shareholders in Valetta Irrigation Ltd for a total consideration of $13,589,973.

As part of the Valetta acquisition, the Company renamed its Normal and Growth shares to M and MG shares respectively and undertook a share split of its M and MG shares so that shareholders in the Company would hold 100 shares for every 1 litre of contracted water per second. For every 1 M or MG share held, 8.214286 shares were issued. A total of 1,240,854 M shares and 72,493 MG shares were issued with 8 June 2017 being the record date on the share register.

On 16 October 2017 the company issued an Information Memorandum for the issue of MG shares to existing shareholders at $80 per share. Shareholders subscribed for 11,605 MG shares for a total consideration of $928,400. The shares were issued on 20 December 2017.

Subject to Board approval, Shareholders are able to sell their shares, typically through a tender process to either existing shareholders not fully contracted or new shareholders within the Scheme area. The Company facilitates this process. Ordinary shares have a nomial value of $1 per share.

The Company's capital is managed with the objective of issuing new shares to irrigate additional land within its scheme boundaries through water being available through its own efficiencies or that of RDR Management Limited. The Company's primary source of working capital funding is through an annual water charge to cover the Company's operational expenditure. The Company is able to pay dividends but its primary focus is to deliver reliable water in the most cost effective manner to its shareholders.

Notes to the financial statements

MHV Water Limited
For the year ended 31 May 2018

19. Property, Plant & Equipment

	SCHEME STRUCTURES	BUILDINGS	PLANT & EQUIPMENT	MOTOR VEHICLES	LAND	TOTALS
Period Ending 31 May 2017						
Carrying Amount 1 June 2016	16,647,021	335,564	331,499	115,463	3,155,975	20,585,522
Additions	301,436	-	695,929	18,261	-	1,015,626
Assets under construction	5,547,356	-	57,236	-	-	5,604,592
Depreciation	(784,494)	(11,675)	(119,244)	(24,894)	-	(940,307)
Carrying Amount 31 May 2017	**21,711,319**	**323,889**	**965,420**	**108,830**	**3,155,975**	**26,265,433**

	SCHEME STRUCTURES	BUILDINGS	PLANT & EQUIPMENT	MOTOR VEHICLES	LAND	TOTALS
31 May 2017						
Cost or Valuation	23,889,570	522,355	1,429,487	176,557	3,155,975	29,173,944
Accumulated deprecation	(2,178,251)	(198,466)	(464,067)	(67,727)	-	(2,908,511)
Carrying Amount	**21,711,319**	**323,889**	**965,420**	**108,830**	**3,155,975**	**26,265,433**

	SCHEME STRUCTURES	BUILDINGS	PLANT & EQUIPMENT	MOTOR VEHICLES	LAND	TOTALS
Period Ending 31 May 2018						
Carrying amount 1 June 2017	21,711,319	323,889	965,420	108,830	3,155,975	26,265,433
Additions	26,619,319	5,326	210,534	138,608	787,981	27,761,768
Disposals	-	-	-	(36,688)	-	(36,688)
Assets under construction	569,232	-	-	-	-	569,232
Depreciation	(1,743,269)	(12,222)	(140,562)	(38,606)	-	(1,934,660)
Carrying Amount 31 May 2018	**47,156,601**	**316,993**	**1,035,392**	**172,144**	**3,943,956**	**52,625,086**

	SCHEME STRUCTURES	BUILDINGS	PLANT & EQUIPMENT	MOTOR VEHICLES	LAND	TOTALS
31 May 2018						
Cost or Valuation	51,078,123	527,681	1,640,020	278,477	3,943,956	57,468,257
Accumulated depreciation	(3,921,521)	(210,687)	(604,629)	(106,334)	-	(4,843,171)
Carrying amount	**47,156,602**	**316,994**	**1,035,391**	**172,143**	**3,943,956**	**52,625,086**

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These notes are to be read subject to the Audit report.

Recognition and measurement

Except for land and buildings, items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Where material parts of an item of plant, property and equipment have different useful lives, they are accounted for as separate items of plant, property and equipment.

Land and buildings held at 1 June 2006 were revalued to fair value based on a valuation completed by an independent valuer on 1 June 2006 and this fair value was treated as its deemed cost at the date of transition to NZ IFRS. In applying this one off transitional adjustment the Company has applied the cost model in recognition of its property, plant and equipment.

Subsequent costs

Subsequent costs are added to the carrying amount of an item of property, plant and equipment when the cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised in the statement of comprehensive income as an expense incurred.

Depreciation

Depreciation is charged to the profit and loss at the following rates:

Scheme structures: 4% - 8% diminishing value and 1.5% - 40% straight line

Buildings: 3% - 21.6% diminishing value

Plant and equipment: 8% - 60% diminishing value

Motor vehicles: 20% - 30% diminishing value

Land: 0%

Impairment

The carrying amounts of assets other than inventories are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of the assets and are recognised in the statement of comprehensive income.

Estimated recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting these to their present value using a pre-tax discount rate that reflects the current market rates and the risks specific to the asset. For an asset that does not generate largely independent cash flows the recoverable amount is determined by the cash generating unit to which the asset belongs.

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Notes to the financial statements

MHV Water Limited
For the year ended 31 May 2018

20. Intangible Assets

	WATER RIGHTS	EASEMENT COSTS	RESOURCE CONSENTS	TOTAL
Year ending 31 May 2017				
Carrying value 1 June 2016	-	11,274	1,634	12,908
Additions	-	-	21,392	21,392
Amortisation	-	(1,221)	(107)	(1,328)
Carrying Amount 31 May 2017	-	**10,053**	**22,919**	**32,972**

	WATER RIGHTS	EASEMENT COSTS	RESOURCE CONSENTS	TOTAL
31 May 2017				
Cost	627,446	36,670	25,130	689,246
Impairment Losses	(627,446)	-	-	(627,446)
Accumulated Amortisation	-	(26,617)	(2,211)	(28,828)
Carrying Amount	-	**10,053**	**22,919**	**32,972**

	WATER RIGHTS	EASEMENT COSTS	RESOURCE CONSENTS	TOTAL
Year ending 31 May 2018				
Carrying amount 1 June 2017	-	10,053	22,919	32,972
Additions	-	-	48,479	48,479
Amortisation	-	(1,210)	(3,826)	(5,036)
Carrying Amount 31 May 2018	-	**8,843**	**67,572**	**76,415**

	WATER RIGHTS	EASEMENT COSTS	RESOURCE CONSENTS	TOTAL
31 May 2018				
Cost	627,446	36,670	73,609	737,725
Impairment Losses	(627,446)	-	-	(627,446)
Accumulated Amortisation	-	(27,827)	(6,037)	(33,864)
Carrying Amount	-	**8,843**	**67,572**	**76,415**

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These notes are to be read subject to the Audit report.

Recognition and measurement

Intangible assets, with the exception of the Water Access Rights, have been recorded at their historical cost less amortisation.

Easement costs

Easement costs are incurred by the Company so that the Company can operate its water delivery system over land not owned by the Company. Easements have a useful life of 30 years.

Resource consents

Resource consents were incurred in 1996 by the Company in order to operate its water delivery system including any unused water discharge. The resource consents have a useful life of 35 years.

Two further consents were issued in 2017 year in relation to the diverting and discharging of water to land at Harris Drain. These resource consents have a useful life of 20 years.

Water access rights

Water access rights were incurred in 2015 by the company for additional water. The water access rights are considered to have an indefinite useful life as the water supply agreement between the company and RDRML has no fixed supply period.

Directors have made an annual impairment review on the intangible asset. They have reviewed the Weighted Average Costs of Capital, residual value, cash flow forecasts and assessed that on balance, it is reasonable to fully impair the intangible asset to nil value.

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Notes to the financial statements

MHV Water Limited
For the year ended 31 May 2018

21. Segment reporting

	MAYFIELD HINDS OPEN RACE	RUAPUNA EXTENSION PIPELINE	VALETTA PIPELINE	TOTAL
2018				
Operating Profit				
Income				
Water Charges	2,321,655	624,397	1,326,405	4,272,457
Other Income	54,888	2,693	208,390	265,972
Total Income	**2,376,543**	**627,090**	**1,534,795**	**4,538,429**
Expenses				
Opex	24,504	71,754	131,056	227,314
Finance Expenses	(14,911)	393,568	488,333	866,990
Shared Scheme costs	1,543,479	107,186	493,056	2,143,721
Total Expenses	**1,553,072**	**572,508**	**1,112,445**	**3,238,026**
Total Operating Profit	**823,471**	**54,582**	**422,350**	**1,300,403**
Non Cash Expenses				(1,801,877)
Net Profit/(Loss)				**(501,474)**

	MAYFIELD HINDS OPEN RACE	RUAPUNA EXTENSION PIPELINE	VALETTA PIPELINE	TOTAL
Interest bearing borrowings				
Internal borrowings	(2,133,737)	2,133,737	-	-
Westpac Loans	-	7,789,663	10,212,500	18,002,163
Total Interest bearing borrowings	**(2,133,737)**	**9,923,400**	**10,212,500**	**18,002,163**

MHV Water Limited currently only operates in one segment, being water scheme and environmental management. This may change going forward if MHV starts providing significant environmental management services to customers who it does not also provide water scheme management too.

For shareholder transparency, separate reporting is provided above in relation to the three separate lines, the Mayfield Hinds Open Race, Ruapuna Extension Pipeline and Valetta Pipeline, on a similar basis that is reported to the Directors by Management.

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Directors and Management have agreed a cost and capital allocation policy where the guiding principle is that costs are shared equally by all uses unless there is a valid reason not to. As the three lines have different capital and operating costs, each is treated separately. This is consistent with the merger protocol document between Mayfeild Hinds Irrigation Ltd and Valetta Irrigation Ltd which required the water between the two lines to be managed separately.

The following guidelines are followed:

- Income specific to a part of the infrastructure should be allocated to that infrastructure.
- Costs specific to a piece of specific infrastructure are separately identified and apportioned to the users of that infrastructure.
- Capital raised is allocated to the share class releasing water for sale.
- Interest costs shall be allocated to the specific infrastructure to which the debt relates. Where accumulated funds from one line are utilised by another line to minimise the entity interest costs, a notional interest charge will be made between the two lines. This may result in a negative finance expense for one or more lines which reflects the benefit from managing debt on a Company basis.
- The debt allocated to the Ruapuna Extension Pipeline is based on the capital cost of building that line, less the share capital and external debt allocated to that line.
- Costs not specific to a piece of infrastructure will be treated as Shared Scheme costs
- Shared costs should be allocated to the infrastructure based on the water entitlement of that infrastructure. As all shares have the same water entitlement (0.01 lps), the number of shares for each line is used as the basis for allocating the Shared Scheme costs.
- Depreciation and other non cash expenses are not allocated to the three separate lines as the Directors and Management budget and review expenditure on a cash basis, including operating cost and capital requirements, to determine water charges.

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Notes to the financial statements

MHV Water Limited
For the year ended 31 May 2018

22. Key management personnel

Key management personal include the Directors of the Company and the Chief Executive. During the year, remuneration has been paid to these personal as follows:

	2018	2017
Salaries & Directors fees		
Salaries & Directors fees	335,952	253,386

23. Capital commitments

There are no capital commitments at balance date.

24. Contingent liabilities

As a shareholder in RDRML the company would be obligated for a share of the costs associated with the application for resource consents should the project not proceed. Allocation of the costs would be made by reference to average share of water use over the previous five years. Based on estimated water use the company would be liable for 29.5% of the costs incurred by RDRML, resulting in a potential liability of $590,000 (2017: $590,000).

There are no other contingent liabilities at balance date. (2017: nil)

25. Subsequent events

On 27 July 2018, the Valetta mainline between pond 1 and 2 collapsed. Approximately 1.7km of 1600mm pipe collapsed under negative pressure that was created when the line was being drained. The cost of repair is currently estimated to be approximately $300,000. In addition to the repair, the Directors have decided to purchase additional pipe worth $450,000 to be held as inventory. The repair and stock purchase is expected to be funded out of existing banking facilities.

Prior to balance date, MHV entered negotiations to purchase of 23 new gates to upgrade the existing gates on the Mayfield Hinds open races. This purchase went under contract in June 2018 for $515,075 excluding installation. Subsequent to this, MHV have elected to install an additional 5 gates on the Mayfield Hinds open races, to minimise biosecurity risks in response to Mycoplasma Bovis. The contracted cost for the additional gates is $112,064.

26. Major transactions

On the 1 June 2017, MHV Water Ltd acquired the assets of Valetta Irrigation Ltd, a developer of water infrastructure and distributor of water. The acquisition of Valetta allows MHV to gain administrative efficiencies, allows shareholders to receive a better level of service, and allows the company to have a larger voice when communicating with regulators and the wider public around irrigation and environmental issues.

The purchase consideration for the assets was $10,687,300 cash, funded via a new bank facility with Westpac, and the issue of 449,629 V shares. The fair value of the 449,629 V class shares issued as part of the consideration for the purchase was a total of $13,589,973 as set out in the valuation report prepared by Deloitte dated May 2017. The V shares issued represent 23% of the total MHV shares on issue.

The assets acquired by MHV from Valetta, as set out in the sale and purchase agreement are fixed assets of $23,703,999 which relate to the Valetta scheme assets, working capital of $573,273, and all other assets of $1.

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These notes are to be read subject to the Audit report.

Crowe Horwath
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of MHV Water Limited

Opinion

We have audited the financial statements of MHV Water Limited (the Company) on pages 22 to 48, which comprise the statement of financial position as at 31 May 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 May 2018, and its financial performance and its cash flows for the year then ended in accordance with *New Zealand equivalents to International Financial Reporting Standards* (NZ IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in the Company.

Information other than the financial statements and auditor's report

The directors are responsible for the other information. The other information comprises the information included in the company directory, Chair's report, 2017-18 snapshot, Rangitata Diversion Race Management Ltd report, and annual report on pages 3 to 21, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors’ Responsibilities for the Financial Statements

The directors are responsible on behalf of the Company for the preparation and fair presentation of the financial statements in accordance with NZ IFRS, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors 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 Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are 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 ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 these financial statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Michael Lee.

For and on behalf of:

Crowe Horwath

Crowe Horwath New Zealand Audit Partnership

CHARTERED ACCOUNTANTS

Dated at Christchurch this 18th day of September 2018