



Barossa Infrastructure LIMITED

annual report 2011

Corporate Directory

Domicile of Barossa
Infrastructure Ltd: Australia

Barossa Infrastructure Ltd
incorporated in: South Australia

Legal form of Barossa
Infrastructure Ltd:
Unlisted Public Company

Board of Directors

David Klingberg AO (Chairman)
Wendy Allan
Grant Burge
Geoffrey Davis
Gayle Grieger
Victor Patrick
Martin Pfeiffer
Edgar Schild
Steven Wilson

General Manager

Paul Shanks

Company Secretary

Geoffrey Davis

Corporate Adviser

Capital Strategies Pty Ltd
A.C.N. 008 181 173

Auditors

KPMG

Lawyers

Minter Ellison

Customer Service Centre

2 Basedow Road
Tanunda, SA 5352
Phone 08 8563 2300
Fax 08 8563 1266

Registered Office

A.C.N. 084 108 958
Barossa Infrastructure Ltd
C/- Level 6
81 Flinders Street
Adelaide, SA 5000

Website

<http://barossainfrastructure.com.au>



Directors



MR DAVID KLINGBERG
Chairman



MS WENDY ALLAN
Director



MR GRANT BURGE
Director



MR GEOFFREY DAVIS
Director



DR GAYLE GRIEGER
Director



MR VICTOR PATRICK
Director



MR MARTIN PFEIFFER
Director



MR EDGAR SCHILD
Director



MR STEVEN WILSON
Director





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It is almost 10 years since Barossa Infrastructure Ltd supplied its first water to customers. We believe the Scheme is a tribute to our customers and the community and reflects the hard work of the founding Board. It was also a relief to a number of our customers who had been carting water for their young vines. As we near the tenth anniversary your Company is financially sound, has repaid two thirds of the Bank loan and is on track to complete the repayment in 2016.

This is despite another difficult year for all concerned. The Company commenced the year with the good news for customers that despite the continuation of rationing of River Murray Water Rights, the Company's customers would not be rationed. However, rain over the summer months resulted in water sales being the lowest since the Scheme's inception. The reduced water sales resulted in the Company's worst financial result. Winter water sales and charges for unused water as part of a 'take or pay' scheme are expected to offset much of this loss. However, this will not occur until the 2012 financial year.

As indicated above, rationing of River Murray Water Rights continued for 6 of the last 7 years. In South Australia high levels of carryover of water allocations from the previous year limited allocations to 67% of entitlement, thereby ensuring South Australia did not exceed its extraction cap. This was despite minor flood flows this year. Good winter and summer rains and Murray Darling storages at 83% capacity have resulted in no rationing in the 2011/12 year and makes rationing unlikely in the following year.

Approval of 2,277 Megalitres of carryover, including 563 Megalitres for customers, meant that the Company could offer customers 100% of their contract amount. In such a wet year little of this was used. Following the end of drought measures in the allocation of River Murray Water Rights the Minister cancelled carryover from the 2011 year in South Australia. There is approval in principal for carryover from 2012. The rules are still being developed.

Consumption for the year to 30 June 2011 was 2,540 Megalitres compared with 5,070 Megalitres last year. This included 240 Megalitres of Nuriootpa Community Wastewater Management Scheme (CWMS) water supplied to customers on Gomersal Road. The total supplied in 2010/11 was 2,200 Megalitres below the budgeted amount.

River Murray Water Leases

The Company is required as a condition of its bank loan to have 'Water Access Entitlements' for at least 50% of the estimated demand secured for 3 years and 60% secured for the next water year. This has been achieved with the Company holding about 25% of these entitlements and long term leases to cover the balance required. A long term objective remains to secure a higher percentage of permanent water access entitlements as finances and market conditions permit.

The long term security of these water access entitlements and their annual trading of allocations is likely to be improved once the Basin Plan for the Murray Darling Basin is implemented as there will be policies included to further facilitate a national water market. The Commonwealth Government continues to be active in the River Murray Water Rights market with regular tenders. The impact is to maintain higher prices.

The Company did not purchase additional water access entitlements in the 2010/11 year. It did, however, enter into a 5 year lease for 500 Megalitres of water rights in order to ensure that the 3 year bank leasing covenant of 50% is met.

The Company has assured water leases for the 2011/12 year by arranging carryover in Victoria of 950 Megalitres. This was transferred to South Australia in July.

Metering

Barossa Infrastructure Ltd was pleased to receive a grant of in excess of \$700,000 as part of the 'Private Irrigation Infrastructure Program' to purchase electronic meters to facilitate more accurate metering of water use. This is part of the Commonwealth Government's 'Water for the Future' program. In exchange for the grant, the Company has surrendered 100 Megalitres of 'Water Access Entitlements' as part of the expected savings resulting from the more accurate metering of water use. Benefits are also available to customers as the new meters are more reliable and do not require a filter in the customer connection. Customers will of course still need to maintain adequate filtration for their drip irrigation systems.

Finances

Despite the end of rationing for the Company's customers, water sales were \$1.3 million less than the previous year. With most of the Company's costs fixed, this resulted in a loss of \$432,000 after tax compared with the small profit of \$175,000 in 2009/10. There was a corresponding reduction in cash reserves of \$461,000 compared with the reduction of \$204,000 in the previous year.

Debtors remain low and reflect the value with which the Company's customers regard both the Scheme and their asset in the Company, notwithstanding the difficulties in which the Wine Grape Industry currently operates.

Future

The first year's operation of the CWMS has had some difficulties due to the wet winter and summer, with customers unable to take the full amount of water available. However, diversification in sources of water is a key element to managing the future uncertainty associated with climate change and drought.

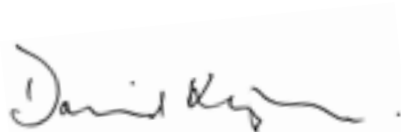
Investigations have included long term leases of interstate water rights and the use of waste water from townships and wineries. The Company is also hopeful that opportunities for the use of storm water can be realised. As with all new water sources, appropriate studies and analyses will be carried out to ensure the water can be used in a sustainable manner.

Corporate Governance

Barossa Infrastructure Ltd's corporate governance objectives are restated in this report, including the Company's ongoing commitment to the long term sustainable use of supplementary irrigation water. The Board assesses its direction and performance against these goals, which are regularly reviewed.

The Company continues to be indebted to our General Manager, Mr Paul Shanks, for the extremely professional and efficient ongoing operation of the Scheme. Our thanks also are due to his staff, Ms Patsy Biscoe and Mrs Lisa Buckley, and to Mr Martin Pfeiffer who provides back up to the General Manager.

My thanks go to all of the Directors for their continued diligence and support and for the skills and knowledge they bring to the Company.



David J Klingberg AO
Chairman

20 September 2011

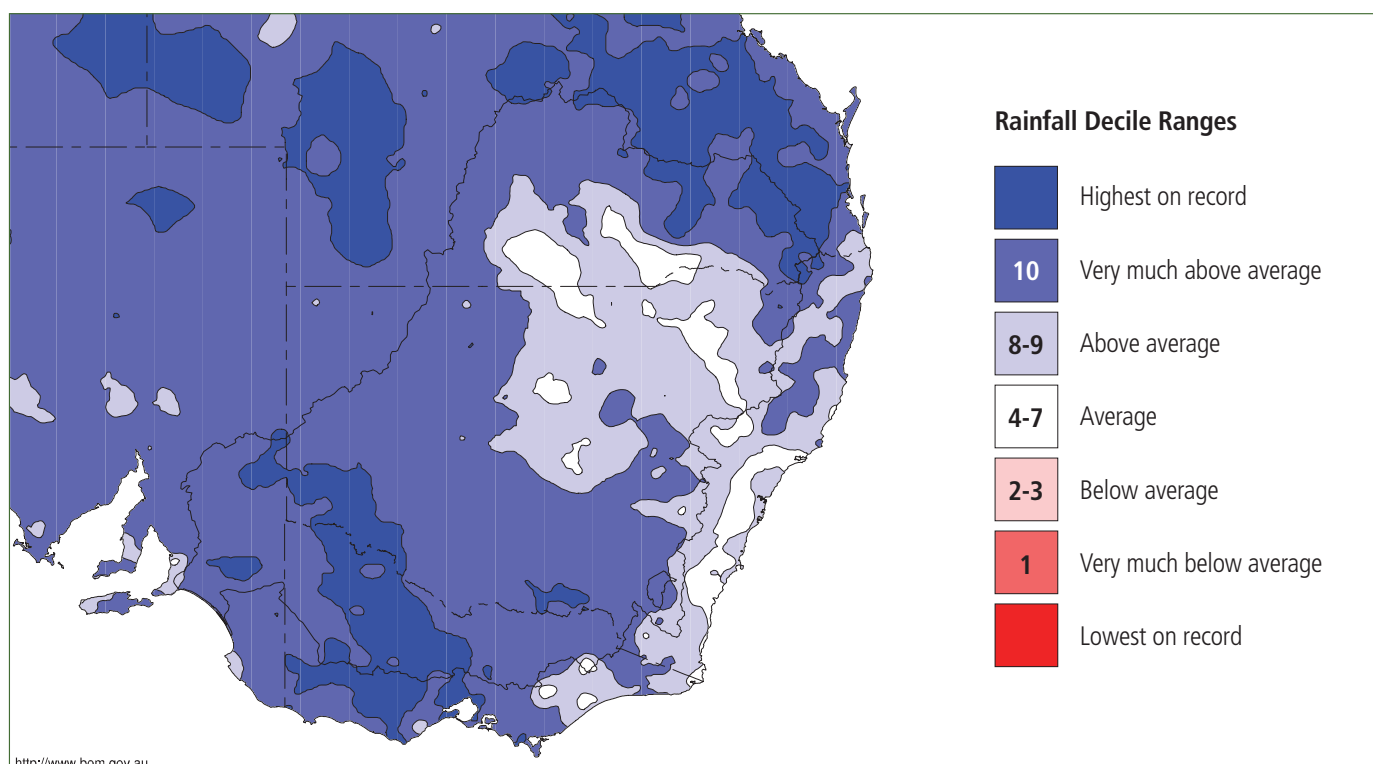


The wet winter and summer resulted in minor flood flows into South Australia and more significant flooding elsewhere in the Murray Darling Basin. The river and lower lakes have returned to normal levels. Water quality has remained good at the pumping station at Mannum. Flow into South Australia in 2010/11 was 15,000 Gigalitres compared with 1,770 Gigalitres in the previous year. The Minister has already announced full allocations in South Australia, and with River Murray storages in excess of 80% of capacity in August, there is a high likelihood of a similar allocation in the 2012/13 season.

As the system ages, and with the variable weather experienced over the last 10 years, faults are exposed and service disruptions occur. Changes to the maintenance system, with contractors on call to carry out repairs and greater stores of spares held, have been made in response. During the year upgrades to the control system were implemented and these will assist in providing a reliable supply through access to better and more timely information.

Metering has been an area of concern for some time. Slimes and dirt in the supply, block the filter in the customer connection and require additional maintenance by the customer and the Company. There is also an unacceptably high level of unmetered water. The on-going replacement of these meters over the next two years will overcome this maintenance requirement. Much of the cost of the replacement is provided by a Commonwealth Government grant (the Private Irrigation Infrastructure Program) as mentioned in the Chairman's report. The saving in unmetered water will reduce the Company's operating costs.

Rainfall deciles for the Murray-Darling Basin, from 1 August 2010 to 31 July 2011



Water Demand

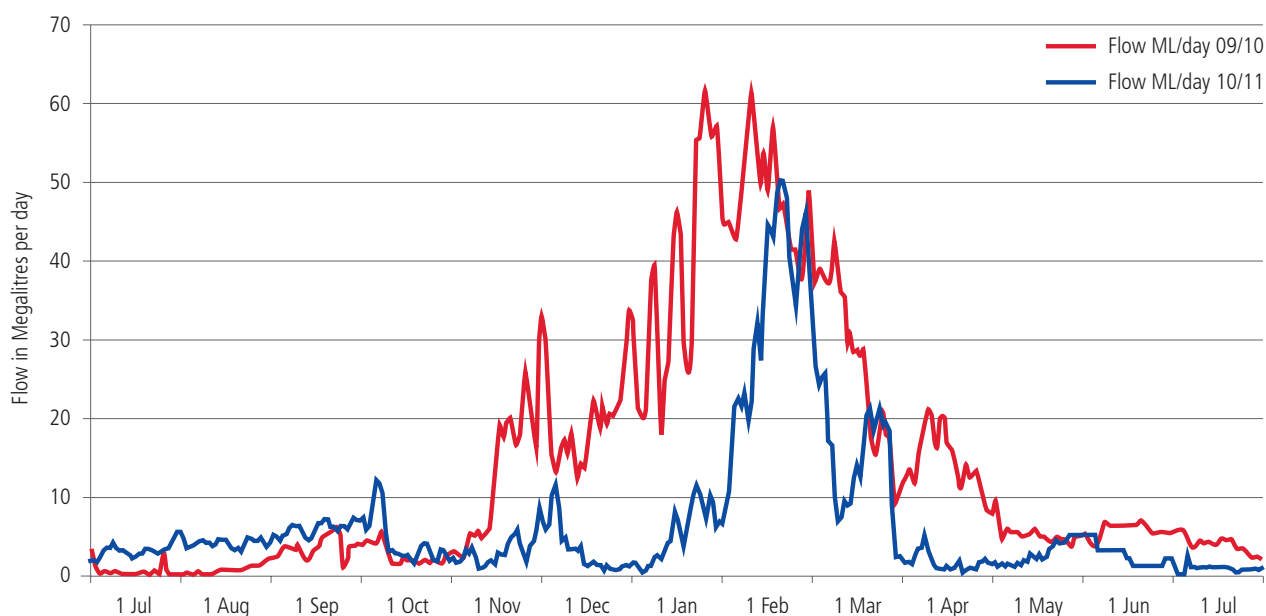
The past two seasons have illustrated the variability of local weather. In 2009/10 maximum temperatures were 2 degrees above average while in 2010/11 maximum temperatures were nearly a degree below average. Rainfall varied similarly, as over the Peak water demand period in 2009/10 54mm fell in Nuriootpa compared with 346mm in 2010/11.

The second graph shows the temperature variations.

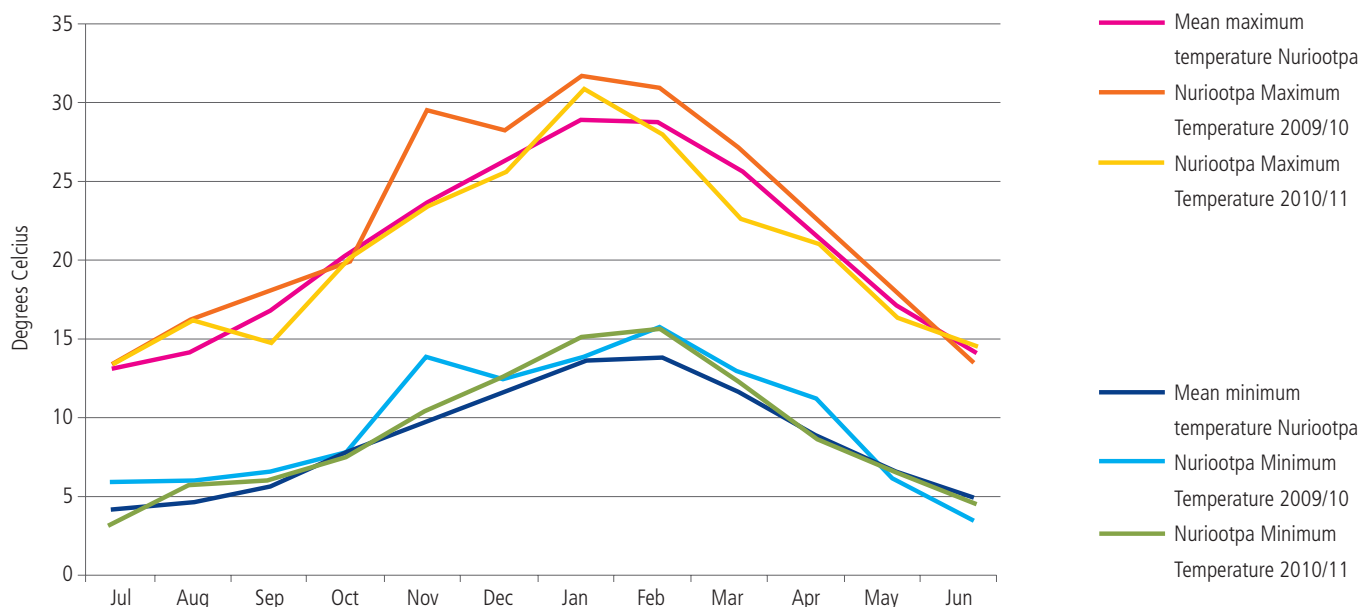
The result was that the total water supplied in the 2010/11 year was 2,540 Megalitres compared with 5,070 Megalitres in the previous year. Peak demand was 51 Megalitres per day compared with 61 and 65 Megalitres per day in the previous 2 years. The system capacity is in excess of 100 Megalitres per day.

Barossa Infrastructure Daily Consumption in Megalitres

Comparison of Flow in 2009/10 and 2010/11



Monthly Average Temperatures in Nuriootpa



Operations

Mr Martin Pfeiffer continues to support me and takes over if I am unavailable. Martin is engaged on a retainer and spends one day a month with me to ensure he is up to date with operating issues and can respond to customer needs. Additionally our maintenance contractor provides valuable operational support. Good corporate governance requires such critical operational back up and it is pleasing it can be provided on such a cost effective basis.

Valley Irrigation continues to provide a high quality maintenance service and assistance with pipeline operations. The system operated with very high reliability during the critical irrigation season. This year there were a total of 7 leaks in the pipeline plus 3 occasions when council graders damaged air valves. There were a total of 17 leaks at customer connections, some of which also disrupted supply to customers. When a small leak occurs the repair is often delayed to minimise disruptions to the customer's irrigation program.

After a number of years of operation it is now possible to see how demand varies on an annual basis. Below is a graph of water demand over both financial years and Barossa Infrastructure Ltd water years.

River Murray

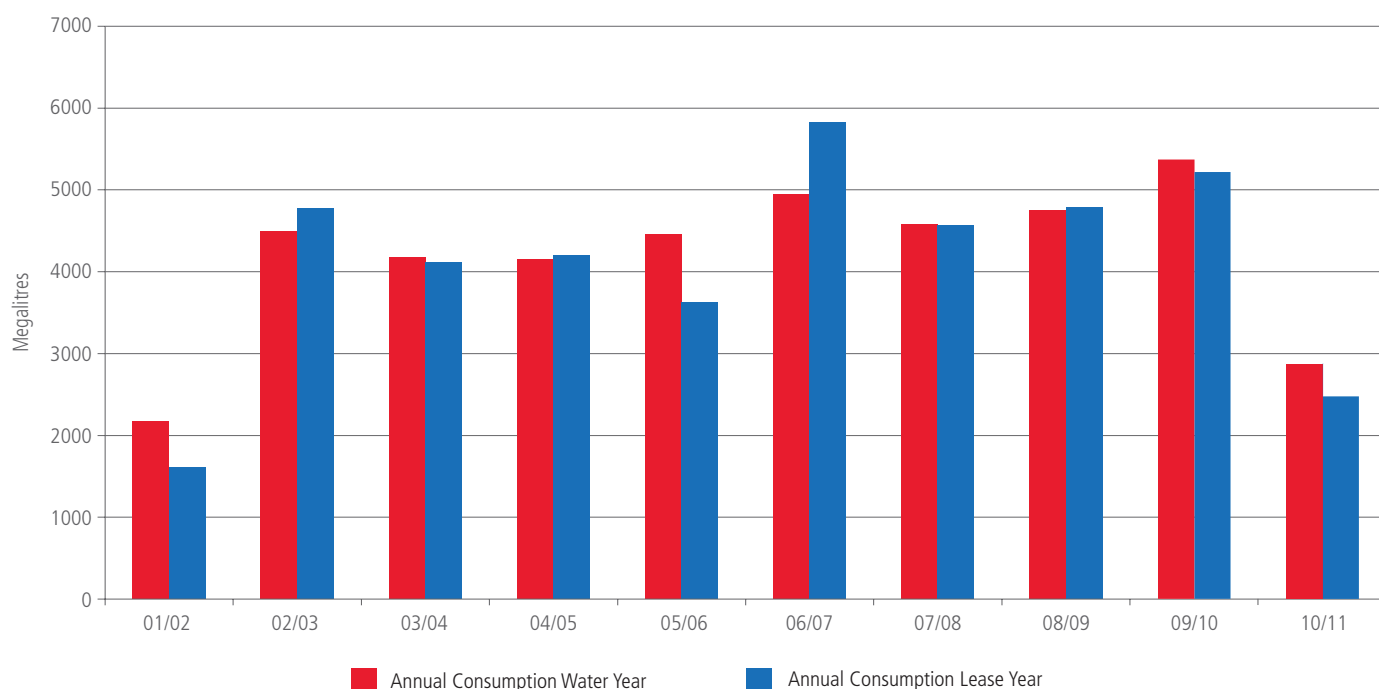
Following the release of the Guide to the Basin Plan there has been considerable community discussion that has led to its effective withdrawal and the appointment of a new Chair for the Murray Darling Basin Authority. The Draft Plan, as required under the Water Act, will be issued no earlier than mid November 2011 resulting in a delay of about a year in the finalisation of the Basin Plan.

Key issues likely in the Basin Plan for Barossa Infrastructure are:

- no compulsory buy backs of water entitlements
- significantly more water for the environment and the Murray Mouth
- investment in infrastructure to improve the efficiency of both irrigation and watering of environmental assets
- further cost recovery by the Government
- enhanced and reduced barriers to water trading and
- in dry years less water for irrigation in South Australia

Under the Water Transport Agreement with SA Water, Barossa Infrastructure Ltd is required to hold River Murray Water Rights equivalent to the amount of water taken. This means the Company is subject to the

Barossa Infrastructure Annual Consumption in Megalitres



same conditions for River Murray Water as other South Australian water users. The Company supports the full implementation of the Basin Plan.

Environmental Considerations

An important part of the Company's responsibility is to ensure that supplementary irrigation water is used in an effective manner and that no detrimental environmental impact occurs. A detailed environmental assessment was carried out in consultation with the Catchment Board and the Department of Water. In addition, Barossa Infrastructure Ltd provides assistance with annual monitoring of stream flows and critical ground water locations to ensure there are no long term detrimental effects of the use of Barossa Infrastructure Ltd water. A separate statement is included in the section covering corporate governance to indicate the importance of this issue.

Before the commencement of the Nuriootpa Community Wastewater Management Scheme a detailed risk assessment was carried out by environmental consultants, Green Ochre Pty Ltd, as part of the approval process from the Department of Health. An annual audit is also required to ensure the safe use of this water.

The Barossa Council is providing regular test results that confirm the quality of the wastewater.

WEB Site

During the year the web site <http://barossainfrastructure.com.au> was implemented to improve the information flow to customers. The site includes information on current disruptions, water quality, newsletters and the Annual Report.

Customers and Staff

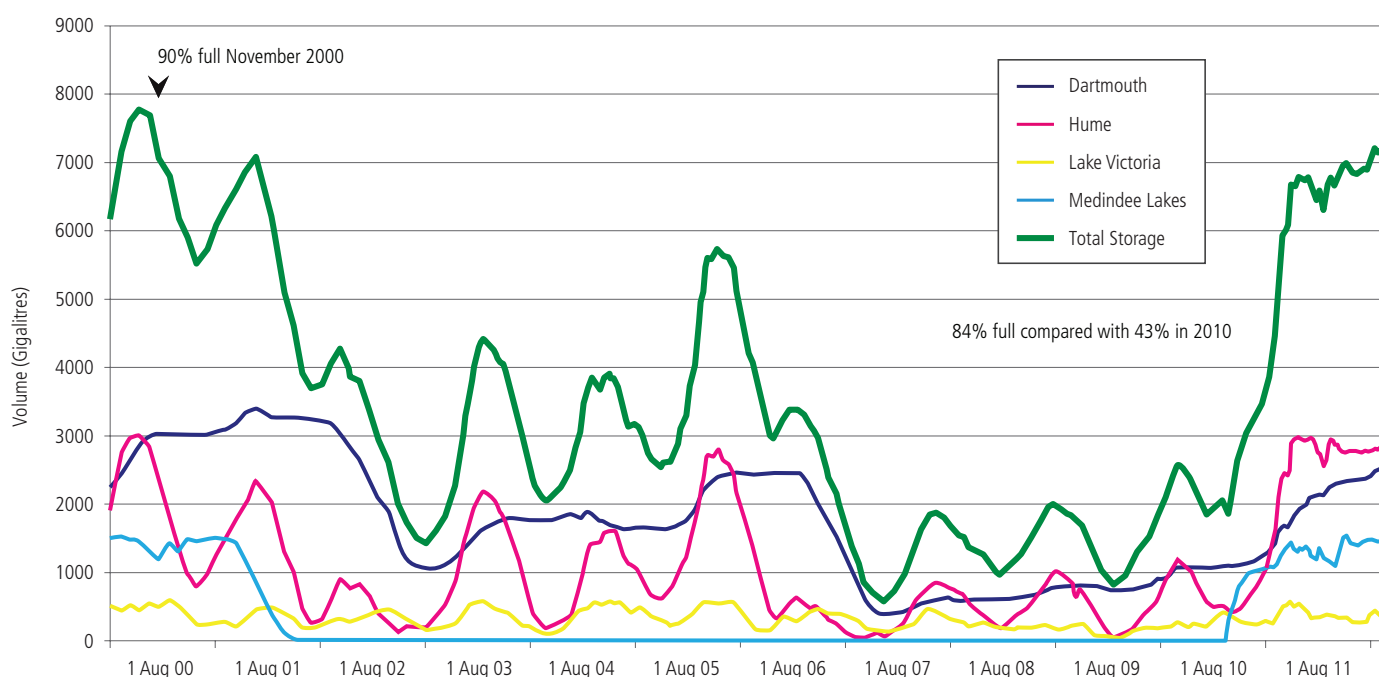
My thanks go to Mrs Lisa Buckley and Ms Patsy Biscoe for their commitment, efficiency and support throughout the year. Thank you to all customers for your support and I urge you to contact me if you require assistance with the operation of your connection or have any suggestions on how the system may be improved.



Paul Shanks
General Manager

20 September 2011

River Murray - Active Storages Available to the River Murray Commission



Corporate Governance Statement

Barossa Infrastructure Ltd's Board and Management are committed to the sustainable provision of supplementary irrigation water for viticulture in the Barossa Region. All profits from operations are returned to the shareholders in the form of the lowest sustainable price for water.

The Board updates this statement annually, considering any further issues that may require attention.

Board Role

The Board is composed of from three to twelve Directors including two Independent Directors. An Independent Director is defined in the Company's Constitution as one who has no financial interest in the Company or any commercial interests in any vineyard or winery in the Barossa Region.

The Board is accountable to the shareholders and the Barossa community for the sustainable performance of the Company. The Board meets at least six times annually and sets policies and monitors performance at these meetings.

In addition to this, the Board invites participation from relevant organisations that will assist in meeting the Company's objectives and environmental requirements. This includes meeting ongoing environmental monitoring requirements. A draft 'Water Industry Bill' has been circulated. It may impact on Barossa Infrastructure Ltd with increased regulation requirements and the water price or water transport charges subject to regulation by the industry regulator, Essential Services Commission of South Australia (ESCOSA).

The Board has delegated to the Executive Committee consisting of Chairman, Company Secretary, another Director and General Manager, the day to day operational decisions within approved policies and budgets.

Risk Management

The Board is committed to the management of the major areas of risk as identified below:

- the Basin Plan and its long term impact on water availability
- water leasing costs and relevant Government policy that may affect the leasing costs of water rights
- environmental risks which are identified and monitored
- additional environmental monitoring and reporting to the Department of Health of the impact of the use of reclaimed wastewater
- potential future expansion of the Scheme when conditions in the wine grape industry are sustainable, with water sales contracts having now reached the first target of 7,000 Megalitres per annum
- access to funds to purchase a percentage of the required River Murray water leases
- interest costs of outstanding loans
- occupational health and safety of employees and contractors
- safety of pipe and pumping assets and management of any bursts and defects
- drought and water restrictions
- climate change and climate variability affecting the long term access to water
- quality of water including monitoring the risk of contamination of the water source from the Warren Reservoir and supply from SA Water
- management succession issues, and
- the state of the Australian Wine Industry and economic changes that affect customers and suppliers.

Environmental Performance

During the drought the Board has supported the need to conserve water by requiring customers to observe a similar rationing in their water use to that applicable to River Murray water users. It continues to support water trading between customers and other River Murray water users, thereby assisting the best economic allocation of water during periods of rationing.

Review of gauging stations and shallow aquifer monitoring has indicated no areas of concern. This monitoring is still at an early stage and more useful information will be available in the future.

Barossa Infrastructure Ltd assists relevant organisations in the collection and dissemination of information that will enhance the environment and promote good viticultural practices. This has included the 'District Irrigation Annual Report'. The Company has joined both the Murray Darling Association and the South Australian Murray Irrigators Incorporated.

As part of the process of examining the taking of treated wastewater from the Nuriootpa Community Wastewater Management Scheme, Barossa Infrastructure Ltd engaged Green Ochre Pty Ltd to prepare a detailed risk management plan and make a submission to the Department of Health for approval and to audit the implementation of the Scheme.

Sustainability

The Board is committed to the long term sustainability of the supply of Barossa Infrastructure Ltd water to shareholders and customers.



Directors' Report

The Directors present their report together with the financial report of Barossa Infrastructure Limited ("the Company") for the year ended 30 June 2011 and the auditor's report thereon.

Directors

The Directors of the Company at any time during or since the financial year are:

| Name, Qualifications and Independence Status | Age | Experience and Special Responsibilities |
|---|-----|---|
| Wendy Kay Allan Director | 45 | Vigneron Director – Owner/Operator Pindarie Pty Ltd Graduate Diploma in Wine Business Associate Diploma in Farm Management – Viticulture Former Viticultural Lecturer TAFE Barossa Campus Former Viticultural Consultant, Winemakers Federation of Australia Former Senior Viticulturist, Southcorp Wines 1998 - 1995 Wine Industry Study Tours Chile, France Former Barossa Vineyard Manager, Southcorp Wines Former Viticultural Extension Manager, Penfolds Wine Group 1992 Viticulture Research and New Technology Study Tour Israel, Italy, France and Germany 1989 Study Trip Geyser Peak Winery California <i>Appointed 4 June 2008</i> |
| Grant Walker Burge Director | 60 | Vigneron Chief Executive Grant Burge Wines Pty Ltd Barossa Valley Strategic Water Management Study 'Vision 2045' Baron of the Barossa – Inducted 1990 Past Director Krondorf Ltd, Mildara Ltd, Rycroft Vineyards Pty Ltd Past Member Barossa Water Resources Board Past Councillor The Barossa Council Past President & Committee Member Barossa Winemakers Association <i>Appointed 14 September 1998</i> |
| Geoffrey Maxwell Davis B Ec, FCA Independent Director Company Secretary | 63 | Chartered Accountant, Principal Geoff Davis & Associates Past Chairman AC Johnston Pty Ltd (Pirramimma Wines) Former Partner Ernst & Young <i>Appointed 3 August 1999, Member Executive Committee</i> |

| Name, Qualifications and Independence Status | Age | Experience and Special Responsibilities |
|---|-----|---|
| Gayle Robin Grieger B Sc (Hon), PhD Director | 39 | Scientist Senior NRM Policy Officer, Adelaide and Mt Lofty Ranges NRM Board Former Viticultural lecturer TAFE Barossa Campus Member Australian Soil Science Society Past Member Australian Society of Viticulture & Oenology Past Committee Member 7th South Australian Rural Women's Gathering <i>Appointed 2 February 2004</i> |
| David John Klingberg AO FTSE, Btech(Civil), DUniSA, FIEAust, FAusIMM, FAICD Independent Director Chairman | 67 | Professional Engineer Former Managing Director Kinhill Ltd Engineering Group Immediate Past Chancellor University of South Australia <i>Fellow of:</i> Australian Academy of Technological Sciences & Engineering Institution of Engineers Australia Australasian Institute of Mining and Metallurgy Chairman Centrex Metals Limited Chairman Mawson Lakes Joint Venture (project completed 30 June 2011) Director Snowy Hydro Ltd Director E & A Limited Director Codan Limited Board Member Renewables SA Past Chairman Premiers Climate Change Council Patron Cancer Council of South Australia and St Andrew's Hospital Foundation <i>Appointed 29 September 1998, Member Executive Committee</i> |
| Martin Paul Pfeiffer Director | 59 | Vigneron Director – Owner/Operator Whistler Wines, Heysen Estate Vineyards 1998 Wine Industry Study Tour France, Italy, Germany, Spain 1999 Irrigation Technology Tour Israel, California Member Barossa Wine & Tourism Association Member Barossa Winemakers Past President Barossa Lions Club <i>Appointed 18 December 1998</i> |

Directors' Report

| Name, Qualifications and Independence Status | Age | Experience and Special Responsibilities |
|--|-----|---|
| Victor John Patrick Director | 67 | <p>Director Red Dirt Estate Joint Venture</p> <p>Director Graymoor Estate Joint Venture</p> <p>Director Farmer Eden Valley/Kalangadoo</p> <p>Diploma – Viticulture, Vinification, Wine Chemistry & Technology Oenological</p> <p>Diploma Agriculture</p> <p>2004-1996 Director Viticulture Foster's Group</p> <p>1996-1987 Director Global Viticulture Mildara Blass Ltd</p> <p>1987-1985 Ass. General Manager Vineyards Southcorp Wines</p> <p>Chairman Wine Grape Growers Australia</p> <p>Member Wine Grape Council of SA</p> <p>Member SA Wine Industry Assoc. Environment Committee</p> <p>Member University of Adelaide School of Agriculture</p> <p>Food & Wine Advisory Board</p> <p>Former Chairperson SE Soil Conservation Board</p> <p>Former Chairperson SA Wine Industry Council</p> <p>Former President SA Wine Industry Association</p> <p>Former Member SA Soil Conservation Board</p> <p>Former Member Lower SE Water Resources Committee</p> <p>Former Member SE Catchment Management Board</p> <p>Former Member SA Water Resources Council</p> <p><i>Appointed 28 April 2008, Member Executive Committee</i></p> |
| Edgar Gordon Schild Director | 70 | <p>Vigneron</p> <p>Managing Director EG & LF Schild Pty Ltd, Schild Estate Wines</p> <p>Wine Industry Study Tour Australia, Europe, California, South Africa</p> <p>1996 Barossa Valley Vigneron of the Year</p> <p>Member Barossa Grape Growers Council</p> <p>Life Member Rowland Flat Agricultural Bureau</p> <p><i>Appointed 14 September 1998</i></p> |
| Steven James Wilson Director | 56 | <p>Vigneron</p> <p>Managing Director Anandale Vineyards Pty Ltd, Lindfield Rd Wines Pty Ltd</p> <p>Past Member Wine Grape Growers Council – Tanunda branch</p> <p>Member & Past Secretary South Australian Farmers Federation</p> <p>Past Member SAFF Research & Development Board</p> <p>Past Director BREDA</p> <p><i>Appointed 14 September 1998</i></p> |

Directors' Meeting Attendance

For the year ended 30 June 2011, there have been 8 meetings of Directors. Those Directors and their attendance at meetings are as follows:

| Director | Board Meetings | |
|---------------|----------------|---|
| | A | B |
| W K Allan | 7 | 8 |
| G W Burge | 4* | 8 |
| G M Davis | 8 | 8 |
| G R Grieger | 7 | 8 |
| D J Klingberg | 8 | 8 |
| V J Patrick | 7 | 8 |
| M P Pfeiffer | 7 | 8 |
| E G Schild | 6 | 8 |
| S J Wilson | 8 | 8 |

A – Number of meetings attended

B – Number of meetings held during the time the Director held office during the year

* – Unavailable for 2 meetings because of changes to time/dates

Principal Activities

The principal activities of the Company during the year consisted of:

- The delivery of water to customers from the pipeline
- The continual addressing of technical and operating matters to ensure the reliable operation of the pipeline system, and
- Securing sufficient River Murray Water Rights to enable delivery of water in accordance with the supply contract with SA Water.

Review of Operations

The net loss after providing for income tax amounted to \$431,627 (2010: profit \$175,433).

Water restrictions applying to River Murray Water Rights limited the quantity of water available to customers to 67% of their contracted quantities for the water year. As a result of Company and customer carryover water rights, the Company was able to set customer water allocations at 100%. Despite full water allocations the Company recorded a loss due to significant rain events

and maximum average temperatures experienced throughout the year, decreasing the need for irrigation water by customers. In December 2010 the Minister for the River Murray, Paul Caica, announced that carryover for River Murray water users would end on 30 June 2011. The trading loss will be offset by unused water charges, as per customer contracts, to be billed in October 2011 once final readings for the 2011 water year are taken.

The Company was successful in its application for Commonwealth funding under the Private Irrigation Infrastructure Program (PIIP) for South Australia. The funding will be used to upgrade mechanical meters to more accurate electronic meters. The Board anticipates the meter upgrades will reduce the water lost in the system as well as providing additional capabilities for customers to monitor their water use.

The Nuriootpa Community Wastewater Management Scheme was connected and operational for a full year and delivered 195ML of water.

The Company owns or leases on a long term basis approximately 76% of the River Murray Water Rights it requires to supply customers. Due to weather conditions, customer demand for water decreased throughout the year and the Company did not need to stand in the market to obtain additional leases to cover demand. The Company entered into a long term lease arrangement of 5 years for 500ML of water in order to comply with its banking lease covenant.

State of Affairs

During July 2010, a loan repayment of \$1,432,000 was made. Subsequent to the end of the financial year a further loan repayment of \$1,432,000 has occurred, bringing the bank loan outstanding to \$7,096,281.

During the year an additional 22ML of premium water was contracted for by customers, resulting in \$38,500 of additional share capital.

In the opinion of the Directors there were no other significant changes in the state of affairs in the Company that occurred during the financial year under review.

Directors' Report

Remuneration Report – audited

Principles of compensation – audited

Remuneration is referred to as compensation throughout this report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company, including Directors of the Company and other Executives. Key management personnel comprise the Directors of the Company and the General Manager.

Compensation levels for key management personnel of the Company are competitively set to attract and retain appropriately qualified and experienced Directors and Executives. No element of the compensation is dependent on the satisfaction of a performance condition.

The annual review takes into account the Executive's achievement of preset performance targets. The General Manager has a five year contract expiring in June 2015 and this provides for annual reviews taking into account achievement of performance targets and market conditions. The service contract can be terminated by the Company or General Manager providing three months notice. The Company may make a payment in lieu of notice equivalent to three months base salary.

No part of any Directors' or Executive's remuneration is related to performance, and is fixed for the year. The agreed performance targets used for annual remuneration reviews are based on the Board's policy of delivering water at the lowest possible cost on a long term sustainable basis.

Details of the nature and the amount of each major element of remuneration of each Director of the Company and the named Company executives are:

| 2011 | | Short-term | | | Post-employment | Other long term | Termination benefits | Share-based payments | |
|---|-------------|------------------|----------------|-----------------------|-------------------------|-----------------|----------------------|----------------------|------------------|
| Directors - Non-executive | Year | Salary & Fees | STI cash bonus | Non-monetary benefits | Superannuation benefits | | | Options and rights | Total |
| Mr D J Klingberg <i>(Chairman)</i> | 2011 | \$53,534 | - | - | - | - | - | - | \$53,534 |
| | 2010 | \$51,975 | - | - | - | - | - | - | \$51,975 |
| Ms W K Allan | 2011 | \$8,615 | - | - | \$775 | - | - | - | \$9,390 |
| | 2010 | \$8,364 | - | - | \$753 | - | - | - | \$9,117 |
| Mr G W Burge | 2011 | \$8,615 | - | - | \$775 | - | - | - | \$9,390 |
| | 2010 | \$8,364 | - | - | \$753 | - | - | - | \$9,117 |
| Mr G M Davis | 2011 | \$18,540 | - | - | - | - | - | - | \$18,540 |
| | 2010 | \$18,900 | - | - | - | - | - | - | \$18,900 |
| Dr G R Grieger | 2011 | \$8,615 | - | - | \$775 | - | - | - | \$9,390 |
| | 2010 | \$8,364 | - | - | \$753 | - | - | - | \$9,117 |
| Mr V J Patrick | 2011 | \$8,615 | - | - | \$775 | - | - | - | \$9,390 |
| | 2010 | \$8,364 | - | - | \$753 | - | - | - | \$9,117 |
| Mr M P Pfeiffer | 2011 | - | - | - | \$33,464 | - | - | - | \$33,464 |
| | 2010 | - | - | - | \$32,276 | - | - | - | \$32,276 |
| Mr E G Schild | 2011 | \$8,615 | - | - | \$775 | - | - | - | \$9,390 |
| | 2010 | \$8,364 | - | - | \$753 | - | - | - | \$9,117 |
| Mr S J Wilson | 2011 | \$8,615 | - | - | \$775 | - | - | - | \$9,390 |
| | 2010 | \$8,364 | - | - | \$753 | - | - | - | \$9,117 |
| Executive | | | | | | | | | |
| Mr A P Shanks | 2011 | \$82,476 | - | - | \$50,000 | \$5,912 | - | - | \$138,388 |
| <i>(General Manager)</i> | 2010 | \$76,168 | - | - | \$50,000 | \$4,652 | - | - | \$130,820 |
| Total compensation: key management personnel (company) | 2011 | \$206,240 | - | - | \$88,114 | \$5,912 | - | - | \$300,266 |
| | 2010 | \$197,227 | - | - | \$86,794 | \$4,652 | - | - | \$288,673 |

Each key management person held the position described above for the entire reporting period.

Directors

Total compensation for all Directors, last voted upon by shareholders at the 2008 AGM, is not to exceed \$160,000 per annum. Directors' fees and the 9% super guarantee for 2011 amounted to \$137,804.

Environmental Regulation

The project for delivery of River Murray Water to the Barossa Region is subject to strict environmental regulation. An independent consultant prepared the environmental report to assist in the Company's final application to the Development Approval Commission and the relevant Water Catchment Board. All necessary approvals have been received. The Company works closely with the Department of Water, Land & Biodiversity Conservation and the Adelaide and Mt. Lofty Natural Resources Management Board for ongoing monitoring of water usage and changes in water tables.

Likely Developments

The objective of the Company continues to be the reliable delivery of quality water to its customers at the lowest appropriate commercial price. The Company will complete its ninth full "water year" on 30 September 2011.

The meter upgrades under the PIIP scheme will continue throughout the course of the year and are due to be completed by December 2012 under the agreement.

Indemnification

The Company has agreed to indemnify all of the Directors of the Company against all liabilities to another person that may arise from their position as Directors of the Company except where the liability arises out of conduct involving lack of good faith. The agreement stipulates that the Company will meet the future amount of any such liabilities, including costs and expenses.

The Company has paid premiums amounting to \$5,786 to insure against such liabilities. The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome

- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

Events Subsequent to Reporting Date

Since the end of the financial year the State Government has announced 100% water allocations for 2012. The Company has sufficient water rights to cover customer contracts and therefore will not need to stand in the market for additional water rights.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations or the state of affairs of the Company in future years.

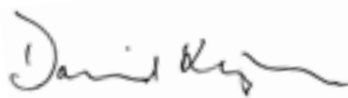
Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The Auditor's Independence Declaration by KPMG is set out on page 44 and forms part of the Directors' Report for the financial year ended 30 June 2011.

Rounding of Amounts

The Company is not of a kind referred to in Class Order 98/0100 issued by the Australian Securities & Investments Commission and therefore cannot 'round off' any amounts to the nearest thousand dollars. The Company must show the amounts in the Directors' report and financial report at the nearest whole dollar of the amount.

This report is made in accordance with a resolution of the Directors.



D J Klingberg AO
Director



G M Davis
Director

Tanunda, S.A.
20 September 2011

Statement of Comprehensive Income

For the year ended 30 June 2011

| | Note | 2011 \$ | 2010 \$ |
|---|-------|--------------------|------------------|
| Sale of Water | | 2,078,082 | 3,372,275 |
| Cost of Sales | | (3,888,918) | (4,250,360) |
| Gross Loss | | (1,810,836) | (878,085) |
| Infrastructure Levies Revenue | | 2,451,516 | 2,497,407 |
| Other Income | | 1,380 | 6,335 |
| Administrative Expenses | | (656,556) | (709,792) |
| Results from operating activities | | (14,496) | 915,865 |
| Financial Income | | 103,480 | 78,371 |
| Financial Expenses | | (671,152) | (751,397) |
| Net financing costs | | (567,672) | (673,026) |
| Profit/(Loss) before tax | | (582,168) | 242,839 |
| Income Tax Benefit/(Expense) | 4 (a) | 150,541 | (67,406) |
| Profit/(Loss) After Tax | | (431,627) | 175,433 |
| Total Comprehensive Income/(Loss) for the year | | (431,627) | 175,433 |

The accompanying notes form part of these financial statements

Statement of Changes in Equity

For the year ended 30 June 2011

Attributable to equity holders of the Company

| | Share Capital \$ | Retained Earnings \$ | Total Equity \$ |
|--|------------------------|----------------------------|-----------------------|
| Balance at 1 July 2009 | 9,477,000 | 3,713,940 | 13,190,940 |
| Total comprehensive income for the period | | | |
| Profit | - | 175,433 | 175,433 |
| Contributions by owners | | | |
| Issue of ordinary shares | 49,000 | - | 49,000 |
| Balance at 30 June 2010 | 9,526,000 | 3,889,373 | 13,415,373 |
| Balance at 1 July 2010 | 9,526,000 | 3,889,373 | 13,415,373 |
| Total comprehensive income for the period | | | |
| Loss | - | (431,627) | (431,627) |
| Contributions by owners | | | |
| Issue of ordinary shares | 38,500 | - | 38,500 |
| Balance at 30 June 2011 | 9,564,500 | 3,457,746 | 13,022,246 |

The accompanying notes form part of these financial statements

Statement of Financial Position

For the year ended 30 June 2011

| | Note | 2011 \$ | 2010 \$ |
|--------------------------------------|-------|-------------------|------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and Cash Equivalents | 5 | 2,476,522 | 2,937,369 |
| Trade and Other Receivables | 6 | 1,471,764 | 1,430,346 |
| Other Assets | 7 | 358,124 | 765,352 |
| Current Tax Assets | 4 (c) | 39,149 | |
| Total Current Assets | | 4,345,559 | 5,133,067 |
| Non-current Assets | | | |
| Property, Plant and Equipment | 8 | 18,801,330 | 19,503,511 |
| Intangible Assets | 9 | 2,369,589 | 2,529,901 |
| Total Non-current Assets | | 21,170,919 | 22,033,412 |
| TOTAL ASSETS | | 25,516,478 | 27,166,479 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Trade and Other Payables | 10 | 2,899,518 | 2,637,076 |
| Employee Benefits | 15 | 64,950 | 54,804 |
| Current Tax Liabilities | 4 (c) | - | 120,312 |
| Interest-bearing Loans & Borrowings | 11 | 1,432,000 | 1,432,000 |
| Deferred Income | 16 | 15,500 | - |
| Total Current Liabilities | | 4,411,968 | 4,244,192 |
| Non-current Liabilities | | | |
| Trade and Other Payables | 10 | 618,560 | 607,336 |
| Interest-bearing Loans & Borrowings | 11 | 7,151,781 | 8,578,664 |
| Deferred Income | 16 | 139,500 | - |
| Deferred Tax Liabilities | 4 (d) | 172,423 | 320,914 |
| Total Non-current Liabilities | | 8,082,264 | 9,506,914 |
| TOTAL LIABILITIES | | 12,494,232 | 13,751,106 |
| NET ASSETS | | 13,022,246 | 13,415,373 |
| EQUITY | | | |
| Issued Capital | 12 | 9,564,500 | 9,526,000 |
| Retained Earnings | 12 | 3,457,746 | 3,889,373 |
| TOTAL EQUITY | | 13,022,246 | 13,415,373 |

The accompanying notes form part of these financial statements

Statement of Cash Flows

For the year ended 30 June 2011

| | Note | 2011 \$ | 2010 \$ |
|---|------|--------------------|-------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash Receipts from Customers | | 4,795,370 | 5,761,409 |
| Cash Paid to Suppliers and Employees | | (3,344,661) | (3,828,620) |
| Cash Generated from Operations | | 1,450,709 | 1,932,789 |
| Interest Received | | 108,755 | 94,393 |
| Interest Paid | | (671,453) | (755,970) |
| Income Taxes Paid | | (157,410) | (34,100) |
| Net Cash from Operating Activities | 14 | 730,601 | 1,237,112 |
| CASH FLOWS USED IN INVESTING ACTIVITIES | | | |
| Proceeds from sale of Property, Plant and Equipment | | - | 7,273 |
| Proceeds from sale of Intangibles – RMWR | | 160,000 | - |
| Proceeds from Government Funding | | 155,000 | - |
| Acquisition of Property, Plant and Equipment | | (111,597) | (65,274) |
| Acquisition of Intangibles – Software | 9 | (1,351) | - |
| Net Cash from/(used) in Investing Activities | | 202,052 | (58,001) |
| CASH FLOWS USED IN FINANCING ACTIVITIES | | | |
| Proceeds from the Issue of Share Capital | | 38,500 | 49,000 |
| Repayment of Borrowings | | (1,432,000) | (1,432,000) |
| Net Cash used in Financing Activities | | (1,393,500) | (1,383,000) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | (460,847) | (203,889) |
| Cash and Cash Equivalents at 1 July 2010 | | 2,937,369 | 3,141,258 |
| Cash and Cash Equivalents at 30 June 2011 | 5 | 2,476,522 | 2,937,369 |

The accompanying notes form part of these financial statements

Notes to and Forming Part of the Financial Statements

For the year ended 30 June 2011

Note 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Barossa Infrastructure Limited (the "Company") is a company domiciled in Australia. The financial statements were approved by the Board of Directors on 20th September 2011.

(a) Statement of Compliance

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

(b) Basis of Measurement

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

New Standards and Interpretations Not Yet Adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2010, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company, except for AASB 9 *Financial Instruments*, which becomes mandatory for the Company's 2014 financial statements and could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

Use of Estimates and Judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- note 1 (g) – valuation of financial instruments
- note 1 (h) and (i) – fixed assets and amortisation

The accounting policies set out below have been applied consistently to all periods presented in the financial statements.

(c) Revenue Recognition

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

Sale of Water

Revenue from the sale of water is recognised (net of discounts and allowances) when the water passes through the customer's meter and the risks and rewards of ownership have therefore passed to the customer.

Note 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Revenue from Infrastructure Levies is recognised in the water year to which they relate. Infrastructure Levies due by 30 June in any year apply to the water year commencing the following 1 October. Refer Note 1(m) for details of income in advance.

Government Grants

Government grants related to assets are presented in the statement of financial position as deferred income when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Finance Income

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

Sale of Non-current Assets

The gain or loss on sale of non-current asset sales is recognised as revenue or expense at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

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

(d) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

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

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(e) Finance Expenses

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

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

Finance costs are expensed as incurred unless they relate to qualifying assets in which case they are capitalised to the cost of the asset as occurred during the construction of the pipeline.

(f) Income Tax – Note 4

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

Note 1 continued overleaf

Notes to and Forming Part of the Financial Statements

For the year ended 30 June 2011

Note 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments 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. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(g) Financial Instruments

(i) Non-derivative financial assets

The Company recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

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

The Company has the following non-derivative financial assets:

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents and, trade and other receivables.

Note 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(ii) Non-derivative financial liabilities

The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: loans and borrowings and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(h) Acquisition of Assets

All assets acquired including property, plant and equipment and intangibles other than goodwill, are initially recorded at their cost of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

The costs of assets constructed or internally generated by the Company, other than goodwill, include the cost of materials and direct labour. Directly attributable overheads and other incidental costs are also capitalised to the asset. Finance costs are capitalised to qualifying assets as set out in Note 1(e).

(i) Depreciation

Complex Assets

The components of major assets that have materially different useful lives, are effectively accounted for as separate assets, and are separately depreciated.

Useful Lives

All assets have limited useful lives and are depreciated over their estimated useful lives on a diminishing value basis.

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

Notes to and Forming Part of the Financial Statements

For the year ended 30 June 2011

Note 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Depreciation methods, useful lives and residual values are reviewed at each reporting date. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation is expensed. The depreciation rates used for each class of asset are as follows:

| | 2011 | 2010 |
|------------------------------|-------------|-------------|
| Pipeline & Installation | 3.75% - 20% | 3.75% - 20% |
| Pumps & Installation | 3.75% - 20% | 3.75% - 20% |
| Meters & Installation | 15% - 20% | 15% - 20% |
| Office Furniture & Equipment | 3% - 66.6% | 3% - 66.6% |
| Motor Vehicles | 25% | 18.7% - 25% |

(j) Intangible Assets

(i) River Murray Water Rights

River Murray Water Rights, that are acquired by the Company and are considered to have an indefinite life, are stated at cost less any impairment losses (see 1(k)). The Company is required to test intangible assets for impairment by comparing its recoverable amount with its carrying amount annually and whenever there is an indication that the intangible asset may be impaired.

(ii) Other Intangible Assets

Other intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

- software 2.5 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(k) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise and indications that a debtor will enter bankruptcy.

Note 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *continued*

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives the recoverable amount is estimated at each reporting date. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(I) Financial Risk Management

Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

Notes to and Forming Part of the Financial Statements

For the year ended 30 June 2011

Note 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Risk Management Framework

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

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

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises from the Company's receivables from customers.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. All customers are shareholders who have a direct interest in the Company. The Company's customer base is located in the prime sector of the Barossa Valley which is less impacted by the current problems facing the wine industry. The Company does not have a significant exposure to any one customer as no single customer is in excess of approximately 7 percent (2010: 7%) of the Company's revenue.

The majority of the Company's customers have been transacting with the Company for over nine years, and no losses have occurred.

The Company has not established an allowance for impairment due to the historical success in controlling receivables. The credit policy of the Company requires that all overdue receivables are actively followed up. Receivables are reviewed bi-annually to assess whether any indications of impairment are evident.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Company's reputation.

The Company prepares long-term cash flow models to project the liquidity needs of future years.

Market Risk

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

Interest rate risk

The Company has reduced its exposure to interest rate increases on borrowings by entering into an arrangement to fix forward interest rates up to October 2011 at rates averaging 7.87%. The Board is currently discussing with its lender appropriate management of the risk of interest rate rises over the remaining five years of the loan.

Note 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Capital Management

The Board's policy is to maintain a strong capital base and a balance between borrowings and share capital. The policy is not to maximise dividend returns to shareholders but to deliver water at the lowest price that is sustainable in the long term. The Board's aim is to continue to reduce the bank debt and improve the flexibility of the Company to take advantage of investment opportunities, such as the acquisition of permanent River Murray Water Rights or the entering into long term contracts for the purchase of water from other sources such as town CWMS.

(m) Income in Advance – Note 10

Of income in advance \$614,560 relates to Infrastructure Levies billed and due at 30 June 2010. These levies related to the water year 1 October 2010 – 30 September 2011. Therefore, one quarter of the total Infrastructure Levies billed at 30 June 2010 is income in advance at 30 June 2011.

By the same principle the total Infrastructure Levies billed and due at 30 June 2011 relate to the water year 1 October 2011 – 30 September 2012. Therefore the total amount billed of \$2,474,241 is income in advance at 30 June 2011 of which \$1,277,170 has been received in cash and \$1,197,071 is due by customers, as at reporting date. Subsequent to reporting date and up to 19 August 2011, a further \$796,291 has been received in cash.

(n) Employee Benefits

Annual Leave

Liabilities for employee benefits for annual leave represent present obligations that are expected to be settled within 12 months of the reporting date, resulting from employees' services provided up to the reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Company expects to pay as at reporting date.

Long Service Leave

Liabilities for employee benefits for long service leave are calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and are discounted using the weighted average borrowing rate of the Company at the balance sheet date.

Defined contribution superannuation funds

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the profit or loss in the periods during which services are rendered by employees.

At 30 June 2011 the Company had three employees.

(o) Provisions

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

Notes to and Forming Part of the Financial Statements

For the year ended 30 June 2011

Note 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(p) Interest Bearing Borrowings – Note 11

Bank loans are recognised at their principal amount. Interest paid was capitalised to “Other Construction Related Costs” during the construction of the pipeline and associated infrastructure up to 31 December 2001. From 1 January 2002, interest paid and accrued has been recognised as an expense.

(q) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease.

(r) Operating Segment

The Company has one business segment which operates a pipeline network to supply irrigation water in the Barossa Valley. Information regarding the result of the single segment is included below. Performance is measured based on profit before income tax as included in the internal management reports that are reviewed by the Board. Segment profit is used to measure performance as the Board believes that such information is the most relevant in evaluating the results of the operation relative to other entities that operate within the same industry.

Comparative segment information has been represented in conformity with the requirement of AASB 8 Operating Segments.

Information about individual reportable segment

| | 2011 | 2010 |
|--|------------|------------|
| | \$ | \$ |
| External revenue | 4,530,978 | 5,876,017 |
| Interest income | 103,480 | 78,371 |
| Interest Expense | 671,152 | 751,397 |
| Depreciation and Amortisation | 1,047,799 | 1,107,134 |
| Reportable segment profit/(loss) before income tax | (582,168) | 242,839 |
| Reportable segment assets | 25,516,478 | 27,166,479 |
| Capital expenditure | 361,121 | 65,274 |

| | 2011 \$ | 2010 \$ |
|--|----------------|----------------|
| Note 2: PERSONNEL EXPENSES | | |
| Wages, salaries and Directors fees | 236,493 | 223,786 |
| Other associated personnel expenses | 3,484 | 3,711 |
| Contributions to defined contribution superannuation funds | 90,626 | 89,182 |
| Increase/(Decrease) in liability for annual leave | 5,230 | (4,750) |
| Increase in liability for long service leave | 4,916 | 4,897 |
| | 340,749 | 316,826 |

Note 3: AUDITOR'S REMUNERATION

| | | |
|---|---------------|---------------|
| Auditors of the Company: KPMG Australia | 30,000 | 29,000 |
| Other Services: KPMG Australia | | |
| Taxation Advice | 3,500 | 4,200 |
| | 33,500 | 33,200 |

Note 4: INCOME TAX (BENEFIT)/EXPENSE

(a) Recognised in the statement of comprehensive income

| | | |
|------------------------------------|------------------|---------------|
| Current period | (66,207) | 120,312 |
| Adjustment for prior periods | 11,319 | (11,319) |
| Deferred tax expense | | |
| Reversal of temporary differences | (95,653) | (41,587) |
| Total income tax (benefit)/expense | (150,541) | 67,406 |

Note 4 continued overleaf

Notes to and Forming Part of the Financial Statements

For the year ended 30 June 2011

2011
\$

2010
\$

Note 4: INCOME TAX EXPENSE *continued*

(b) Numerical reconciliation between tax expense and pre-tax accounting profit

| | | |
|--|------------------|----------|
| Profit/(Loss) before tax | (582,168) | 242,839 |
| Income tax using company tax rate of 30% (2010: 30%) | (174,651) | 72,852 |
| Decrease/Increase in income tax (benefit)/expense due to: | | |
| Non-deductible expenses | 1,265 | 876 |
| Non-deductible depreciation | 11,168 | 11,924 |
| Tax Incentives | - | (6,927) |
| Current year capital losses for which no deferred tax asset was recognised | 358 | - |
| Under/over provided in prior periods | 11,319 | (11,319) |
| Income tax (benefit)/expense on pre-tax net profit | (150,541) | 67,406 |

(c) Current Tax Assets/(Liabilities)

Movements during the year:

| | | |
|---|-----------|----------|
| Balance at beginning of year | (120,312) | 44,333 |
| Income tax paid/(refunded): operating activities – prior year | 118,261 | (33,014) |
| Current year's income tax (benefit)/expense on pre-tax profit | (150,541) | 67,406 |
| Timing differences for accounting and income tax purposes | 152,592 | 41,587 |

| | | |
|-----------------------|---------------|-----------|
| | - | (120,312) |
| Less Instalments Paid | 39,149 | - |
| | 39,149 | (120,312) |

(d) Deferred Tax Assets and Liabilities

Deferred tax liability is attributable to:

| | | |
|-------------------------------|---------|---------|
| Property, plant and equipment | 299,477 | 307,158 |
| Accrued interest income | 5,138 | 6,720 |
| Accrued leasing charge | - | 23,477 |

304,615 337,355

Deferred tax asset is attributable to:

| | | |
|-------------------------------|----------------|--------|
| Employee benefits | 19,485 | 16,441 |
| Unearned revenue | 46,500 | - |
| 2011 carried forward tax loss | 66,207 | - |
| | 132,192 | 16,441 |

| | | |
|------------------------------|----------------|---------|
| Net Deferred Tax Liabilities | 172,423 | 320,914 |
|------------------------------|----------------|---------|

| | 2011 | 2010 |
|--|------|------|
| | \$ | \$ |

Note 4: INCOME TAX EXPENSE *continued*

**(e) Movement in temporary differences during the year
all recognised in income**

| | | |
|--------------------------------|--------|--------|
| Property , plant and equipment | 11,782 | 20,703 |
| Interest income | 1,582 | 4,481 |
| Leasing charge | 23,477 | 16,463 |
| Employee benefits | 3,044 | (60) |
| Government Grant | 46,500 | - |
| Carried forward tax losses | 66,207 | - |

| | | |
|--------------|----------------|---------------|
| Net movement | 152,592 | 41,587 |
|--------------|----------------|---------------|

Note 5: CASH AND CASH EQUIVALENTS

| | | |
|--|-----------|-----------|
| Cash at Bank – Adelaide Bank (Infrastructure Levy) – refer Note 11 | 2,123,848 | 2,594,023 |
| Cash at Bank – Bank SA Tanunda Cheque Account | 86,541 | 343,346 |
| Cash at Bank – Bendigo Bank (PIIP Funding Account) | 266,133 | - |

| | |
|------------------|------------------|
| 2,476,522 | 2,937,369 |
|------------------|------------------|

Cash at bank is restricted under a Memorandum of Set-off with Adelaide Bank Limited. Refer Note 11 for further details.

Note 6: TRADE AND OTHER RECEIVABLES

| | | |
|--------------------|-----------|-----------|
| Trade Debtors | 1,401,035 | 1,386,545 |
| Net GST Receivable | 70,729 | 43,801 |

| | |
|------------------|------------------|
| 1,471,764 | 1,430,346 |
|------------------|------------------|

Note 7: OTHER CURRENT ASSETS

| | | |
|--|---------|---------|
| Prepayments | 195,709 | 292,148 |
| Accrued Income – Water Sales | 145,290 | 372,547 |
| Accrued Income – Leasing Cost Recovery | - | 78,257 |
| Accrued Income – Interest Income | 17,125 | 22,400 |

| | |
|----------------|----------------|
| 358,124 | 765,352 |
|----------------|----------------|

Notes to and Forming Part of the Financial Statements

For the year ended 30 June 2011

2011
\$

2010
\$

Note 8: PROPERTY, PLANT & EQUIPMENT

Pipeline and Installation

| | | |
|---------------------------------|--------------|-------------|
| At cost | 27,824,815 | 27,824,815 |
| Less: Accumulated Depreciation | (10,894,965) | (9,996,461) |
| Total Pipeline and Installation | 16,929,850 | 17,828,354 |

Pumps and Installation

| | | |
|--------------------------------|-----------|-----------|
| At cost | 2,058,493 | 2,073,593 |
| Less: Accumulated Depreciation | (914,799) | (848,063) |
| Total Pumps and Installation | 1,143,694 | 1,225,530 |

Meters and Installation

| | | |
|--------------------------------|-----------|-----------|
| At cost | 1,199,014 | 1,178,345 |
| Less: Accumulated Depreciation | (846,280) | (778,555) |
| Total Meters and Installation | 352,734 | 399,790 |

Capital Works in Progress

| | | |
|---------------------------------|---------|---|
| At cost | 324,175 | - |
| Less: Accumulated Depreciation | - | - |
| Total Capital Works in Progress | 324,175 | - |

Office Equipment

| | | |
|--------------------------------|----------|----------|
| At cost | 73,599 | 94,762 |
| Less: Accumulated Depreciation | (48,397) | (79,158) |
| Total Office Equipment | 25,202 | 15,604 |

Motor Vehicles

| | | |
|--------------------------------|----------|---------|
| At cost | 40,016 | 40,016 |
| Less: Accumulated Depreciation | (14,341) | (5,783) |
| Total Motor Vehicles | 25,675 | 34,233 |

| | | |
|--|------------|------------|
| Total Property, Plant & Equipment net book value | 18,801,330 | 19,503,511 |
|--|------------|------------|

| | 2011 \$ | 2010 \$ |
|--|------------|------------|
|--|------------|------------|

Note 8: PROPERTY, PLANT & EQUIPMENT *continued*

Reconciliations

Pipeline and Installation

| | | |
|--------------------------------------|------------|------------|
| Carrying Amount at Beginning of Year | 17,828,354 | 18,777,318 |
| Acquisitions | - | 5,042 |
| Depreciation | (898,504) | (954,006) |
| Carrying Amount at End of Year | 16,929,850 | 17,828,354 |

Pumps and Installation

| | | |
|--------------------------------------|-----------|-----------|
| Carrying Amount at Beginning of Year | 1,225,530 | 1,307,605 |
| Disposals | (15,101) | - |
| Depreciation | (66,735) | (82,075) |
| Carrying Amount at End of Year | 1,143,694 | 1,225,530 |

Meters and Installation

| | | |
|--------------------------------------|----------|----------|
| Carrying Amount at Beginning of Year | 399,790 | 342,035 |
| Acquisitions | 20,669 | 116,876 |
| Depreciation | (67,725) | (59,121) |
| Carrying Amount at End of Year | 352,734 | 399,790 |

Capital Works in Progress

| | | |
|--|---------|-----------|
| Carrying Amount at Beginning of Year | - | 97,017 |
| Acquisitions | 324,175 | 19,859 |
| Transferred costs to Meters and Installation | - | (116,876) |
| Carrying Amount at End of Year | 324,175 | - |

Office Equipment

| | | |
|--------------------------------------|---------|---------|
| Carrying Amount at Beginning of Year | 15,604 | 19,948 |
| Acquisitions | 16,277 | 357 |
| Disposals | (871) | - |
| Depreciation | (5,808) | (4,701) |
| Carrying Amount at End of Year | 25,202 | 15,604 |

Motor Vehicles

| | | |
|--------------------------------------|---------|----------|
| Carrying Amount at Beginning of Year | 34,233 | 14,379 |
| Acquisitions | - | 40,016 |
| Disposals | - | (13,242) |
| Depreciation | (8,558) | (6,920) |
| Carrying Amount at End of Year | 25,675 | 34,233 |

| | | |
|--|------------------|------------------|
| Total Depreciation Expense for Year | 1,047,330 | 1,106,823 |
|--|------------------|------------------|

Notes to and Forming Part of the Financial Statements

For the year ended 30 June 2011

2011
\$

2010
\$

Note 9: INTANGIBLE ASSETS

River Murray Water Rights – at cost

| | | |
|--------------------------------------|-----------|-----------|
| Carrying Amount at Beginning of Year | 2,529,573 | 2,529,573 |
| Disposals | (161,194) | - |
| Carrying Amount at End of Year | 2,368,379 | 2,529,573 |

The Board has chosen to carry intangible assets at cost. However if the intangible assets were restated to fair value the 1,543 ML of River Murray Water Rights which have an average cost of \$1,535 could be restated to a current fair value of \$2,622,505 based on the current listed average price of \$1,700 per ML at 30 June 2011.

In assessing the useful life of River Murray Water Rights consideration is given to the contractual right granted to each non-cancellable share of water access entitlement to the River Murray resources. In light of the water access entitlement rights being non-cancellable and the Company's intention to continue using such water access entitlement rights in its operations, no factor could be identified that would result in the water access entitlement rights having a finite useful life and accordingly are assessed as having an indefinite useful life.

Software – at cost

| | | |
|--------------------------------------|-------|-------|
| Carrying Amount at Beginning of Year | 328 | 639 |
| Acquisitions | 1,351 | - |
| Less: Amortisation & Impairment | (469) | (311) |
| Carrying Amount at End of Year | 1,210 | 328 |

| | | |
|---|------------------|-----------|
| Total Intangible Assets at net book value | 2,369,589 | 2,529,901 |
|---|------------------|-----------|

Note 10: TRADE AND OTHER PAYABLES

Current

| | | |
|------------------------------|-----------|-----------|
| Trade Creditors | 270,392 | 27,375 |
| Other Creditors and Accruals | 158,886 | 179,861 |
| Income in Advance | 2,470,240 | 2,429,840 |

2,899,518 2,637,076

Non-current

| | | |
|-------------------|---------|---------|
| Income in Advance | 618,560 | 607,336 |
|-------------------|---------|---------|

618,560 607,336

| | 2011 \$ | 2010 \$ |
|--|------------|------------|
|--|------------|------------|

Note 11: INTEREST BEARING LOANS AND BORROWINGS

| | | |
|--|------------------|-----------|
| Current | | |
| Secured Loan – Adelaide Bank Ltd | 1,432,000 | 1,432,000 |
| Total Current Interest Bearing Loans and Borrowings | 1,432,000 | 1,432,000 |
| Non-current | | |
| Secured Loan – Adelaide Bank Ltd | 7,096,281 | 8,523,164 |
| Other Non-current Loans | 55,500 | 55,500 |
| Total Non-current Interest Bearing Loans and Borrowings | 7,151,781 | 8,578,664 |

Bank Loans

The Adelaide Bank Ltd loan is set at fixed interest rate until the 2nd October 2011 and is secured by a registered Deed of Charge over the assets of the company and specific Registered Charges over customer contracts, water transport agreement and leases over water rights. In addition the Company is required to have a minimum balance equivalent to the following year's interest payments (estimated at \$591,703) at July each year in deposit funds pursuant to a Memorandum of Set-off against the outstanding loans.

Loan principal is repaid over a 15 year period – July 2002 to July 2016, at \$1,432,000 per annum.

Note 12: MOVEMENTS IN EQUITY

| | | |
|--|------------------|-----------|
| Ordinary Shares | | |
| Balance at the Beginning of the Year | 9,526,000 | 9,477,000 |
| Shares Issued at \$1 each | 38,500 | 49,000 |
| Total Share Capital | 9,564,500 | 9,526,000 |
| Retained Earnings | | |
| Retained earnings at beginning of year | 3,889,373 | 3,713,940 |
| Total recognised income and expense | (431,627) | 175,433 |
| Balance at end of year | 3,457,746 | 3,889,373 |

Notes to and Forming Part of the Financial Statements

For the year ended 30 June 2011

2011
\$

2010
\$

Note 13: LEASES

Non-cancellable operating leases are payable as follows

| | | |
|---|------------------|------------------|
| Within one year | 623,316 | 541,678 |
| One year or later and not later than five years | 1,015,615 | 1,256,765 |
| Later than five years | 1,290 | 16,321 |
| | 1,640,221 | 1,814,764 |

The Company leases River Murray Water Rights under non-cancellable operating leases for periods from 1 to 6 years. Lease payments comprise a base amount plus a movement in the Consumer Price Index.

Note 14: RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

| | | |
|--|----------------|------------------|
| Profit/(Loss) for the period | (431,627) | 175,433 |
| Adjustments for: | | |
| Depreciation and Amortisation | 1,047,799 | 1,107,134 |
| Loss on Sale of Non Current Assets | 2,064 | 5,971 |
| Income Tax (Benefit)/Expense | (150,541) | 67,406 |
| Operating profit before changes in working capital | 467,695 | 1,355,944 |

Changes in assets and liabilities (attributable to the operating activities of the Company):

| | | |
|---|-----------|-----------|
| (Increase)/decrease in receivables | (14,490) | (120,210) |
| Increase/(decrease) in Income in Advance | 51,625 | (63,166) |
| Net GST Paid | (3,487) | (1,110) |
| (Increase)/decrease in Prepayments & Accrued Income | 407,229 | 96,466 |
| Increase/(decrease) in Creditors | (14,849) | (8,566) |
| Increase/(decrease) in Accruals | (15,859) | 11,707 |
| Increase/(decrease) in Provisions and Employee Benefits | 10,147 | 147 |
| Income Taxes Paid | (157,410) | (34,100) |

| | | |
|------------------------------------|----------------|------------------|
| Net Cash from Operating Activities | 730,601 | 1,237,122 |
|------------------------------------|----------------|------------------|

| | 2011 \$ | 2010 \$ |
|---|------------|------------|
| Note 15: EMPLOYEE BENEFITS | | |
| Aggregate Liability for Employee Entitlements | | |
| Current | | |
| - Liability for annual leave | 25,814 | 20,584 |
| - Liability for long service leave | 39,136 | 34,220 |
| | 64,950 | 54,804 |
| Number of Employees at Year End | 3 | 3 |

Note 16: DEFERRED INCOME

| | | |
|--------------------|---------|---|
| Current | | |
| Government Grants | 15,500 | - |
| Non-Current | | |
| Government Grants | 139,500 | - |
| | 155,000 | - |

The Company is the recipient of a government grant payable in four instalments over two years and subject to performance milestones. The grants are required to be used for the acquisition of more accurate and reliable electronic meters to replace existing mechanical meters. The Company is required to contribute \$334,000 cash and a further \$100,000 in kind to the project. A condition of the grant is to supply progress reports acceptable to the Commonwealth Department of Sustainability, Environment, Water, Population and Communities and compliance with this requirement is not seen as a risk. The cost of meters is fixed by contract leaving the cost of installation as the only variable. Any risk associated with this is seen as minimal.

Notes to and Forming Part of the Financial Statements

For the year ended 30 June 2011

2011

\$

2010

\$

Note 17: RELATED PARTY DISCLOSURES

Key management personnel compensation

The key management personnel compensation included in 'personnel expenses' (see note 2) are as follows:

| | | |
|---|----------------|----------------|
| Short-term employee and Director benefits | 206,240 | 197,227 |
| Other long term benefits | 5,912 | 4,652 |
| Post employment benefits | 88,114 | 86,794 |
| | 300,266 | 288,673 |

Apart from the details disclosed in this note, no key management personnel have entered into a material contract with the Company. There were no material contracts involving key management personnel interests existing at year end, other than water contracts entered into by the key management personnel as customers of the water project on the same terms and conditions as all other investors/customers.

Directors' holdings of shares

The interests of Directors of the reporting entity and their Director related entities, in shares with the Company at year end are as follows:

| | 2011 Number Held | 2010 Number Held |
|--|---------------------|---------------------|
| W K Allan | - | - |
| A Brooks | 7,000 | 7,000 |
| H & A Brooks | 43,750 | 43,750 |
| G W Burge | - | - |
| Burge Corporation Pty Ltd | 493,500 | 493,500 |
| E G Schild | - | - |
| E G & L G Schild Pty Ltd | 91,000 | 91,000 |
| M P Pfeiffer | - | - |
| M P & C J Pfeiffer | 17,500 | 17,500 |
| Total Number of Shares in the Company held by Directors and their Director Related Entities: | 652,750 | 652,750 |

Note 17: RELATED PARTY DISCLOSURES *continued*

Other Transactions with the Company

The Company Secretary of Barossa Infrastructure Limited, G M Davis, is a key management person who is the principal of the firm Geoff Davis & Associates, Chartered Accountants resulting in him having significant influence over the financial and operating policies of that entity. Geoff Davis & Associates has provided secretarial, consulting and accounting services to the Company in the ordinary course of business for the year ended 30 June 2011. The terms and conditions of the transactions with G M Davis and his related entity were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-related parties on an arm's length basis.

M P Pfeiffer has provided staffing support in the absence of the General Manager during the year ended 30 June 2011.

Details of amounts other than Directors' fees paid to the above mentioned Director Related Entities are as follows:

| Director | Director Related Entity | 2011 \$ | 2010 \$ |
|------------------------|--------------------------|------------|------------|
| G M Davis | Geoff Davis & Associates | 92,857 | 108,820 |
| Current Payable | Geoff Davis & Associates | 9,979 | 7,828 |

Note 18: FINANCIAL INSTRUMENTS

(i) Credit Risk

Exposure to credit risk

The carrying amount of the Company's financial assets represents the maximum credit exposure. The Company's maximum exposure to credit risk at the reporting date was:

| | Note | Carrying Amount 2011 \$ | 2010 \$ |
|-----------------------------|------|-------------------------------|------------------|
| Cash and cash equivalents | 5 | 2,476,522 | 2,937,369 |
| Trade and other receivables | 6 | 1,448,322 | 1,430,346 |
| | | 3,924,844 | 4,367,715 |

Impairment losses

The aging of the Company's trade receivables at the reporting date was:

| | Gross 2011 \$ | Gross 2010 \$ |
|------------------------|------------------|------------------|
| Not past due | 1,182,070 | 1,252,678 |
| Past due 31-60 days | 4,081 | 1,978 |
| Past due 61-90 days | 75,222 | 107,549 |
| Past due 91 – 150 days | 139,662 | 24,340 |
| | 1,401,035 | 1,386,545 |

Based on historic default rates, the Company believes that no impairment allowance is necessary in respect of trade receivables that are not past due or past due by up to 30 days. Of the trade receivables balance of \$1,401,035 at 30 June 2011, payments since received from customers for the period from 1 July 2011 to 19 August 2011 amount to \$830,165. The remaining outstanding balance relates to customers that have a satisfactory credit history with the Company.

Note 18 continued overleaf

Notes to and Forming Part of the Financial Statements

For the year ended 30 June 2011

Note 18: FINANCIAL INSTRUMENTS *continued*

(ii) Liquidity Risk

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

| Non-derivative financial liabilities | Carrying | Contractual cash flows | 6 mths or less | 6 – 12 months | 1 – 2 years | 2 – 5 years | More than 5 years |
|---|------------------|---------------------------|--------------------|------------------|--------------------|--------------------|----------------------|
| Secured bank loans | 8,528,281 | (10,178,871) | (1,708,755) | (276,755) | (1,873,814) | (4,951,266) | (1,368,281) |
| Unsecured loans | 55,500 | (55,500) | - | - | - | - | (55,500) |
| Trade & other payables | 171,415 | (171,415) | (171,415) | - | - | - | - |
| | 8,755,196 | (10,405,786) | (1,880,170) | (276,755) | (1,873,814) | (4,951,266) | (1,423,781) |

(iii) Interest Rate Risk

Profile

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

| | Carrying Amount | |
|----------------------------------|--------------------|-------------|
| | 2011 | 2010 |
| | \$ | \$ |
| Fixed rate instruments | | |
| Financial liabilities | (8,528,281) | (8,586,735) |
| Variable rate instruments | | |
| Financial assets | 2,476,522 | 2,937,369 |
| Financial liabilities | - | (1,368,429) |
| | 2,476,522 | 1,568,940 |

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial liabilities at fair value through profit or loss, therefore a change in interest rates at the reporting date would not affect profit or loss.

Note 19: EVENTS SUBSEQUENT TO REPORTING DATE

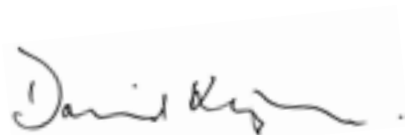
Since reporting date, the South Australian State Government has announced that 100% water allocations will apply to entitlements for River Murray Water. Water storage in the Murray Darling system is at a decade high of 83%.

Directors' Declaration

In the opinion of the Directors of the Company:

- (a) the financial statements and notes, set out on pages 18 to 42, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company as at 30 June 2011 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (c) the Directors draw attention to note 1 (a) to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors.



D J Klingberg AO

Director



G M Davis

Director

Tanunda, S.A.

20 September 2011

Auditor's Independence Declaration



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

To: the directors of Barossa Infrastructure Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

A blue ink signature of a KPMG representative.

KPMG

A blue ink signature of Scott Fleming.

Scott Fleming
Partner

Adelaide

20 September 2011



Independent auditor's report to the members of Barossa Infrastructure Limited

Report on the financial report

We have audited the accompanying financial report of Barossa Infrastructure Limited (the Company), which comprises the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 19 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Report



Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Barossa Infrastructure Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

Report on the remuneration report

We have audited the Remuneration Report included in pages 15 to 17 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Barossa Infrastructure Limited for the year ended 30 June 2011, complies with Section 300A of the *Corporations Act 2001*.

A stylized blue signature of a KPMG representative.

KPMG

A stylized blue signature of Scott Fleming.

Scott Fleming
Partner

Adelaide

20 September 2011





Customer Service Centre

2 Basedow Rd,
Tanunda, SA 5352
Phone 08 8563 2300
Fax 08 8563 1266

Registered Office

Barossa Infrastructure Ltd
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Adelaide, SA 5000