

Duxton Water Limited (ASX: D20) ('Duxton Water' or 'the Company') is pleased to provide the Quarterly Activities Report for the period ended 31 December 2020. The purpose of this report is to provide an update on key areas of business activity during the quarter ended 31 December 2020. This report should be read in conjunction with the Company's respective Quarterly Cash Flow Report (Appendix 4C).

WATER PORTFOLIO UPDATE

ENTITLEMENTS

The Company continues to build a targeted portfolio of water entitlements primarily located in the southern Murray Darling Basin ('SMDB') and utilises this portfolio to provide flexible water supply solutions to our Australian farming partners. At 31 December 2020, the Company held approximately 81.2GL of permanent water entitlements across 19 different asset types and classes. During the December 2020 quarter, the Company continued to undertake a level of rebalancing of its permanent portfolio. This unlocked statutory earnings and enabled the Company to strategically deploy capital into regions where the Company sees intrinsic value or future strategic benefit.

Since 2014, water entitlements in the SMDB have seen price increases of approximately 250% to its peak in January/February 2020. Between March to May 2020, entitlement prices consolidated and retraced by ~6%. However, since May and through the December 2020 quarter, entitlement prices have stabilised and appreciated. This is particularly the case across a number of NSW general security entitlements which have seen a 10-15% increase in value since early 2020.

The appreciation of water entitlements over the last few years reflects long-term drivers rather than climatic variability. Irrigators have over the last 10 years significantly enhanced their marginal return per megalitre through both more efficient use of water and conversion to higher value commodities. At the same time, we have seen significant steps taken to return water to the environment with Government purchases of between 20-22% of entitlements that were previously available to the consumptive pool. The combined impact has seen stronger demand for a reducing available water supply and subsequent increased asset prices. Irrigators themselves have been the greatest beneficiaries from this capital appreciation as they collectively own the majority of water entitlements on issue in the market.

ALLOCATION MARKET

Allocation prices have fluctuated throughout the December quarter. Prices softened at the beginning of the quarter as a reaction to above average rainfalls which led to improved resource availability and issuance of greater allocation to entitlements.

As we approached the summer months and the peak irrigation period, demand for allocation shifted prices upward from \$180-\$200/ML (October) to \$225-\$230/ML (November) in the Lower Murray.

Allocation prices softened in December back to \$200-\$210 in the Lower Murray with some opening of Murrumbidgee Inter Valley Trade.

The Goulburn and above choke Murray increased to \$160/ML before retracing to \$130/ML by quarters end.

LEASES

The leased portion of the portfolio remained stable at 64% between 30 September 2020 and 31 December 2020.

The Board maintains its view to have 70-80% of the Company's permanent water portfolio under lease. This approach delivers a visible and stable revenue stream across the climatic cycle.

FINANCIAL UPDATE

NAV

The Company's NAV fluctuated between \$1.58 to \$1.62 during the December quarter with the payment of the 2020 interim dividend and movement across the Water asset portfolio. High security entitlement values have stabilised after a small retracement in values across in first half of 2020, however renewed interest in general security entitlements have seen pricing continue to strengthen.

The Company holds significant fair value revaluation uplift (>\$69 million) based on a fair value market assessment of the held water portfolio. This uplift remains excluded from the statutory balance sheet and earnings position of the Company in line with the accounting treatment of water assets (AASB 138 – Intangible Assets). The Company's NAV per share excluding tax provisions for unrealised capital gain has increased during the December quarter from \$1.74 at to \$1.80 at 31 December 2020.

DEBT

At 31 December 2020, the Company had drawn debt of \$109.3 million. The Company's facilities have now been extended with NAB for a further term and as of 29 January 2021, the Company has paid down and reduced its facilities to a limit of \$106 million. Throughout 2020, the Company has locked in a portion of its debt facility into a combination of 5-10 year interest rate swap arrangements with NAB to take advantage of historically low interest rates. At 31 December 2020, the Company's LVR (Debt to Water Assets) is ~32%.

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DIVIDENDS

The Board maintains its commitment to providing shareholders with a bi-annual dividend franked to the maximum extent possible. The Company was pleased to pay its latest interim dividend of 2.9 cents fully franked on 30 October 2020.

With the Company's visibility to its leasing revenue and structured returns from the balance of its unleased entitlement, the Company is able to continue to provide its Shareholders with a degree of forward looking dividend targets:

- 3.0 cents (\$0.030) as the final 2020 dividend;
- 3.1 cents (\$0.031) as the interim 2021 dividend;
- 3.2 cents (\$0.032) as the final 2021 dividend;
- and
- 3.3 cents (\$0.033) as the interim 2022 dividend.

Dividend targets are to be paid in the following reporting periods and are expected to be fully franked.

PAYMENTS TO ASSOCIATES/RELATED PARTIES

During the December 2020 quarter, the following payments to associates/related parties occurred (GST Inclusive):

Duxton Capital (Australia) Pty Ltd or ('DCA'):

Administration Fees (\$46k) - fees paid for the provision of administration and finance related services.

Management Fees (\$667k) - management fees paid as per the Company's Investment Management Agreement.

Reimbursements (\$8k) - on-charge reimbursements for D20 expenses incurred by DCA.

ACCC

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

The ACCC has spent almost a year reviewing the markets operation and engaging with key stakeholders. The Commission has had an ongoing role in monitoring the Australian Water Markets, having issued reports on its operation since 2012.

The Company believes it is a thorough and well-balanced report.

We note the ACCC has stated that:

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

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

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

The final report is due to be presented to the Treasurer on 26 February 2021.

The interim report can be found at:

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

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Duxton Water Limited

ABN

53 611 976 517

Quarter ended ("current quarter")

31 December 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	8,482	37,139
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(5,609)	(27,506)
(c) advertising and marketing	-	-
(d) leased assets	-	-
(e) staff costs	-	-
(f) administration and corporate costs	(501)	(1,546)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(623)	(2,578)
1.6 Income taxes paid	(1,696)	(3,979)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
- Management Fees	(452)	(1,899)
- Performance Fee	-	(5,060)
1.9 Net cash from / (used in) operating activities	(399)	(5,429)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	(3,941)	(11,016)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	10,001	10,300
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)		
	- Net Deposits (Paid)/Received	277	339
2.6	Net cash from / (used in) investing activities	6,337	(377)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	(1,071)
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(5)
3.5	Proceeds from borrowings	(2,079)	15,100
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid (Cancellation of Cheque)	(3,164)	(6,209)
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	(5,243)	7,815

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,065	751
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(399)	(5,429)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	6,337	(377)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(5,243)	7,815
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	2,760	2,760

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	2,760	2,065
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,760	2,065

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter
\$A'000**

713

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	112,000	109,300
7.2 Credit standby arrangements		
7.3 Other (please specify)		
7.4 Total financing facilities	112,000	109,300

7.5 Unused financing facilities available at quarter end

2,700

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

On 31 December 2020, the Company finalised the annual facility review process with NAB. The two existing facilities (\$100m & \$12m) were rolled into two new facilities (\$106m & \$6m). Details of new Facility A & B can be found below:

Debt Facility A (NEW)

Lender: National Australia Bank

Max Debt: \$106,000,000

Variable Interest Rate: BBSY plus 0.775% p.a. + Facility Fee of 0.775%

Maturity Date: 31 December 2022

Secured: Yes

Debt Facility B (NEW)

Lender: National Australia Bank

Max Debt: \$6,000,000

Variable Interest Rate: BBSY plus 0.775% p.a. + Facility Fee of 0.775%

Maturity Date: 31 January 2021

Secured: Yes

As of 29 January 2021, facility B has been paid down with the Company reducing its debt facilities to a limit of \$106 million.

While the maturity date for each of the Company's debt facilities is set out above, the Company's interest rate swap arrangements remain unchanged. The Company has locked a portion of its debt into 5-year and 10-year interest rate swap arrangements, providing a level of hedging against future interest rate movements.

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (Item 1.9)	(399)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	2,760
8.3	Unused finance facilities available at quarter end (Item 7.5)	2,700
8.4	Total available funding (Item 8.2 + Item 8.3)	5,460
8.5	Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	13.7

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

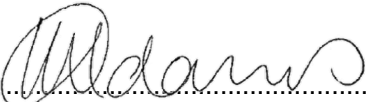
3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

Compliance statement

- This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- This statement gives a true and fair view of the matters disclosed.

Date: 31/01/2020

Authorised by: 
(Name of body or officer authorising release – see note 4)

Notes

- This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
- If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
- Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
- If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
- If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and*

Recommendations, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.