

Duxton Water Limited (ASX: D20) ("Duxton Water" or "the Company") is pleased to provide the Quarterly Activities Report for the period ended 30 June 2021. The purpose of this report is to provide an update on key areas of business activity during the quarter ended 30 June 2021. 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 its Australian farming partners. At 30 June 2021, the Company held approximately 78.7GL of permanent water entitlements across 18 different asset types and classes. Duxton Water has settled a number of permanent water transactions this year which has enabled the Company to strategically re-deploy capital into regions where the Company sees intrinsic value or future strategic benefits. This also unlocks statutory retained earnings which can be used to pay dividends to shareholders. Since 2014, water entitlements in the SMDB have seen price increases of approximately 250% to its peak in January/February 2020. Permanent pricing across the portfolio has continued to strengthen throughout the June 2021 quarter. These value increases will be reflected in the Company's independent valuations when evidence of these higher prices are reflected in the public water registers, usually 4-6 weeks later. This is particularly the case across some NSW general security and groundwater entitlements.

The appreciation of water entitlements over the last 2-3 years is reflective of long-term drivers rather than short-term climatic conditions. Irrigators have over the last 10 years significantly enhanced their marginal return per megalitre through both more efficient use of water and conversion to higher value commodities. At the same time, 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

Since the beginning of 2021, allocation prices have continued to ease from their annual highs that were experienced in July 2020 of \$300-\$335/ML. Above average rainfall, improved soil moistures and a wetter than average outlook saw allocation prices fall to \$60-\$100 by the end of the 20/21 water year. There were also a number of Murrumbidgee-Murray IVT openings that increased the supply of water to the lower Murray. March to June is typically quieter than usual as irrigators balance accounts and settle any over-usage that may have occurred during the year. As a result, less demand and an increase in supply of available water saw allocation pricings soften throughout the June quarter.

Lower Murray allocation sold for between \$50-\$100/ML throughout April-June. Pricing in the Goulburn followed a similar pattern, trading at \$40-\$100/ML throughout the same period. Pricing in the Goulburn fell to as low as \$40/ML towards the end of June. The Murrumbidgee market traded between \$65-\$80/ML for most of the June quarter however trades as low as \$20/ML were seen towards the end of the water year.

Duxton Water locked-in six forward allocation sale contracts during the June quarter. These contracts provide a level of hedging against future allocation pricing movements. This delivers Duxton Water with another visible and reliable revenue stream.

LEASES

The leased portion of the portfolio increased from 64% (April) to 66% (June). A number of negotiations around new leases are currently in the pipeline. 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 both wet and dry years.

FINANCIAL UPDATE

NAV

During the June 2021 quarter, the Company's Net Asset Value ("NAV") increased from \$1.62 per share in March to \$1.63 per share in June, after the Company's 8th successive dividend was paid in April 2021. The portfolio has seen both high and general security asset values appreciate over the last 2-3 months. High security values have been supported as permanent irrigators look for long term water security ahead of the next dry period. Demand for general security assets has returned as these assets will attract a yield this year as we return to a wetter part of the climatic cycle.

Total water assets reduced by 1% between March 2021 (\$314 million) and June 2021 (\$310 million) due to a softening in allocation pricing, and the Company entering into three permanent water sales. Proceeds from these permanent water sales have been earmarked for deployment into both high and general security assets in areas where the Duxton Water currently sees strong demand for long-term leases moving forward.

DEBT

At 30 June 2021, the Company had drawn debt of \$106 million. The Company's interest rate swap position remained unchanged during the June 2021 quarter, however Management will continue to monitor long term interest rates and may continue to use Interest Rate Swaps as a tool to hedge against future interest rate changes.

At 30 June 2021, the Company's LVR (Debt to Water Assets) is 30%.

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DIVIDENDS

The Company was pleased to have paid a final 2020 dividend of 3.0 cents per share (franked to 100%) on 30 April 2021. The DRP continued to operate for this dividend.

The Board maintains its commitment to providing shareholders with a bi-annual dividend, franked to the greatest extent possible. With the Company's high percentage of leased entitlements and visible revenue stream, the Directors are pleased to reaffirm the next four dividend targets:

The Company has targeted fully franked dividend payments of:

- 3.1 cents (\$0.031) as the interim 2021 dividend;
- 3.2 cents (\$0.032) as the final 2021 dividend;
- 3.3 cents (\$0.033) as the interim 2022 dividend; and
- 3.4 cents (\$0.034) as the final 2022 dividend.

Dividend targets are to be paid in the following reporting periods.

PAYMENTS TO ASSOCIATES/RELATED PARTIES

During the June 2021 quarter, the following payments to associates/related parties occurred (GST Inclusive):

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

Administration Fees (\$87k) - fees paid for the provision of admin and finance related services.

Management Fees (\$508k) - management fees paid as per the Company's Investment Management Agreement.

Reimbursements (\$29k) - on-charge reimbursements for D20 expenses incurred by DCA.

ACCC

On 26 March 2021, the ACCC released the final 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.

Duxton Water actively participated in the ACCC inquiry and supports any efforts to provide further transparency and benefits to participants of the Australian water market. Duxton Water believes the report is a thorough and well-balanced report.

The Final Report has identified opportunities to improve the governance, regulatory and operational frameworks that support the Australian water market. We believe that a consistent and committed focus in these areas will benefit all stakeholders.

We note the ACCC has stated that:

"Investors provide benefits to water markets. They provide new sources of capital to irrigated agriculture, increase water market liquidity and provide a range of water products which help irrigators to manage water supply risks".

The ACCC also stated it does not support a return to the system where water ownership was tied to land.

Duxton Water is managed by the Australian owned Duxton Group, which actively manages farms throughout Australia, producing a variety of agricultural commodities including wine grapes, dairy, walnuts, dried fruit, apples and grain. As an agricultural producer, irrigator and water product supplier, the Duxton Group understands the importance of water in the development of the Australian agricultural sector. 100% of the Company's water is actively used by farmers.

The Final Report can be found on the ACCC website via the URL below.

<https://www.accc.gov.au/focus-areas/inquiries-finalised/murray-darling-basin-water-markets-inquiry/final-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")

30 June 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	3,627	13,112
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(365)	(2,426)
(c) advertising and marketing	-	-
(d) leased assets	-	-
(e) staff costs	-	-
(f) administration and corporate costs	(637)	(830)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(786)	(1,080)
1.6 Income taxes paid	(1,495)	(1,935)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
- Management Fees	(448)	(1,073)
- Performance Fee	-	-
1.9 Net cash from / (used in) operating activities	(104)	5,768

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	(1,325)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 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	6,594	7,507
	(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	(4,550)	(4,449)
2.6	Net cash from / (used in) investing activities	2,044	1,733

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
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	-	-
3.5	Proceeds from borrowings	-	(3,300)
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid (Cancellation of Cheque)	(3,267)	(3,267)
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	(3,267)	(6,567)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	5,021	2,760
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(104)	5,768

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	2,044	1,733
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(3,267)	(6,567)
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	3,694	3,694

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	3,694	5,021
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)	3,694	5,021

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**

624

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	106,000	106,000
7.2 Credit standby arrangements		
7.3 Other (please specify)		
7.4 Total financing facilities	106,000	106,000

7.5 Unused financing facilities available at quarter end

nil

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 January 2021, the Company's \$6 million Debt Facility (B) was repaid in full. On 30 June 2021, the Company has one outstanding Debt Facility with NAB of \$106 million, which is fully drawn.

Debt Facility A

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

While the maturity date of the Company's debt facility 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)	(104)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	3,694
8.3 Unused finance facilities available at quarter end (Item 7.5)	Nil
8.4 Total available funding (Item 8.2 + Item 8.3)	3,694
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	(35.5)

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

- 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: No. Due to the cyclical nature of the water market and the beginning of the new water year commencing 1 July each year, the Company has an increased revenue generating capability for the Company's second half of the financial year (July-December), due to new seasonal allocations and increased demand for water supply products. Combined with the Company's forward allocation sale contracts which are primarily due for settlement between 1 July and 31 December, the Board has confidence in the Company's ability to manage future operational cashflows.

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: The Company is able to generate cash to funds its operations through:

- Leasing revenue
- Sale of water allocations
- Forward allocation sale contracts
- Realising gains on permanent water entitlements

The Board is comfortable of the Company's existing financing facilities and ability to generate sufficient cashflow using the instruments listed above to meet future expected operational cash outflows.

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: Yes. The Nature of the Company's revenue streams provide the Board with a high degree of revenue visibility through long term leasing arrangements and forward allocation sale contracts. This increased visibility to a recurring revenue stream, gives the Board foresight and confidence that the Company is able to continue its operations and meet its business objectives as and when they fall due.

Compliance statement

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

Date: 30 July 2021

Authorised by: Katelyn Adams - Company Secretary
(Name of body or officer authorising release – see note 4)

Notes

1. 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.
2. 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.

3. 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.
4. 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".
5. 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.