



**DUXTON**  
WATER LTD

# Duxton Water Limited Monthly Update

31 December 2016

Net Asset Value per Share

\$1.08

Duxton Water	
ASX Code (Shares)	D2O
ASX Code (Options)	D200
Shares on Issue	63,965,406
Options Outstanding	63,965,406
Options Exercise Price	\$1.10
Options Expiry	31 May 2018

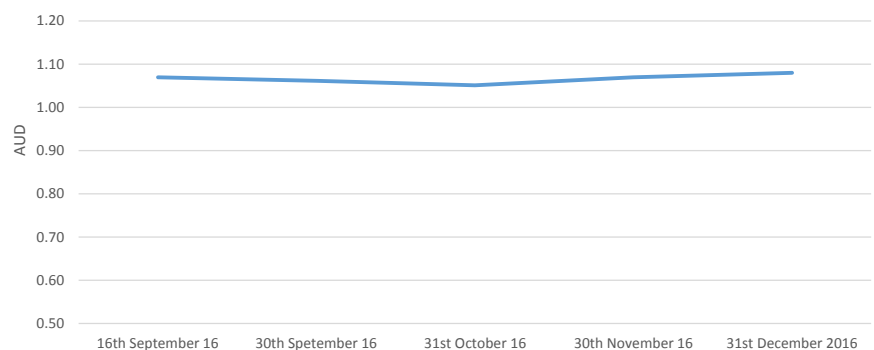
The primary investment objective of Duxton Water is to generate annual income through capitalising on the increasing demand for scarce water resources. Duxton Water derives its income from a diversified portfolio of Australian Water Allocations and Water Entitlements.

## Net Asset Value per Share

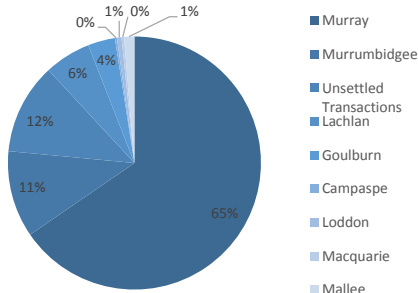
Duxton Water's NAV as at 31 December 2016 was \$1.08 per share.

These figures are not adjusted for any dilution due to the outstanding options which are exercisable at \$1.10. The after tax figure takes into account the provision for deferred tax on set-up costs and estimates of net tax provisions that may arise should the entire portfolio be disposed of on the above date.

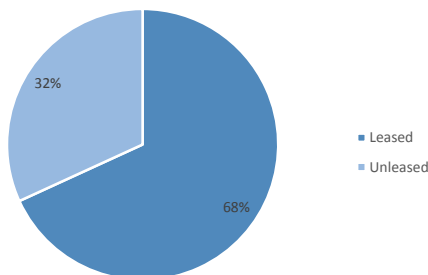
## Net Asset Value per Share - Since Inception



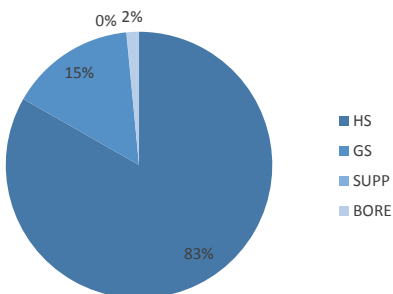
## Entitlement Portfolio Value by Region



## Water Portfolio Diversification



## Water Security Breakdown



Performance	Gain/Loss
1 Month	0.93%
3 Months	1.75%
6 Months	N/A
12 Months	N/A
Inception	0.93%

## Market Update

### Market Summary

Early December saw small volumes of isolated rainfall (below 10mm) recorded across the key southern irrigation areas. Drier and warmer weather by mid-December across the southern Murray Darling Basin has seen tributary inflows and soil moisture decrease and summer irrigation demand increase. This resulted in the Hume Reservoir storage declining 8% in December.

Although all carryover water from the 2015/16 financial year held against Victorian Murray High Reliability Water Shares has been lost due to the risk of the dams spilling on the 3rd of October 2016, the authorities announced a 37% risk of spill in the Victorian Murray which eased restrictions for NSW Murray allocation entering northern Victoria. The easing of trade restrictions are implemented once the spill risk is below 50%. This equates to an extra 50GL of potential market supply. In theory, the allowance of extra water into Victoria, where there is currently higher demand and market prices, may result in more equalised prices across both markets (lowering VIC and increasing NSW Murray prices).

### Murray System

Total inflows into the Murray system were 570ML, compared to the 10 year average of 469ML. The Hume and Dartmouth reservoirs remain at high storage levels of 90.7% and 77.2%, respectively. The Hume Reservoir received total rainfall of 25.8mm, compared to the long-term average of 50.6mm. The Hume Dam received 796mm in 2016 which exceeded the 10 year average of 587mm.

Although drier and warmer weather positively impacted temporary water prices, the easing of the trade embargo between Victoria and New South Wales pushed prices down in zone 6 and 7. Prices in the Goulburn system slightly increased in December.

Entitlement prices in the Murray system remained broadly stable throughout December. In NSW, zone 10 General Security prices increased 3.8%, however zone 11 General Security prices decreased 3.4%. In Victoria, zone 6 prices were the only notable movement for the month, increasing 5.4%.

### Central and Northern NSW (Murrumbidgee and Lachlan Valley)

The central and northern NSW water assets held firm in December, mainly due to the illiquidity of the assets. As noted last month, there still remains significant demand for Lachlan Valley entitlements at a 20% premium to our weighted average price. These transactions will eventually be filled and reflected in our Lachlan Valley valuations.



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## Investment Update

### Permanent Water Acquisitions and Divestments

As at 31 December 2016, Duxton Water is invested in approximately \$50.9 million of water entitlements, equating to 73.8% of the portfolio, with the remainder of the portfolio held in cash and net current assets. Duxton Water has additionally entered into contracts, agreed terms for contracts or has pending offers for contracts on an additional \$14.7 million worth of water entitlements. Excluding pending offers these additional contracts will lead to 85% of the portfolio being invested. If successful with pending offers, Duxton Water's portfolio will be 95% deployed.

### Temporary Water Acquisitions and Divestments

In December, 1,330ML of allocations were sold at a weighted average yield of 5.4%. This comprised of water allocations in zone 6, 7 and 10. Once more allocations become available in January, the Company will increase temporary water sales.

### Lease Yield

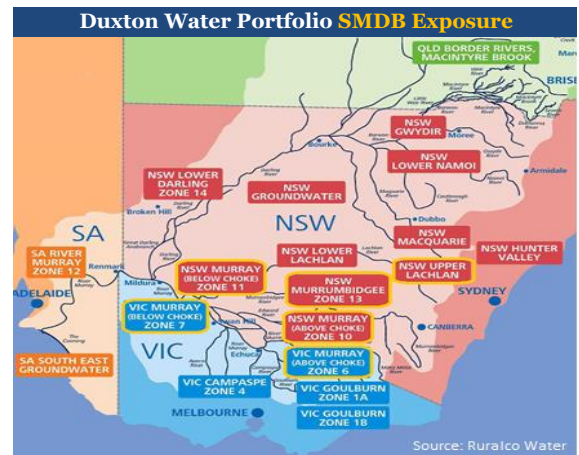
No new leases were entered into in December. The weighted average yield for long-term leases remains at 6.0%.

### Dividends

The Company intends to pay dividends twice yearly. We currently anticipate the first dividend will be paid to Shareholders in August 2017.

### Valuation Methodology

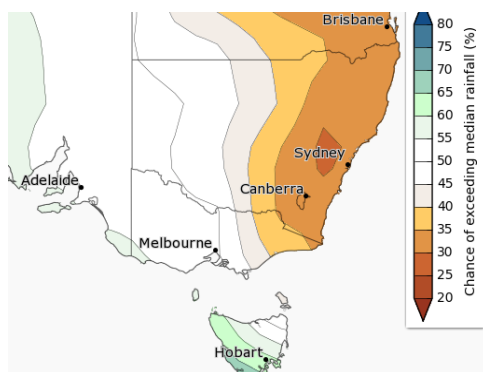
Total assets of the Company are valued at fair market value based upon independent valuation, or the weighted average price of the last three applicable trades on or prior to the relevant Valuation Day, received from the respective state register, excluding outliers. Outliers are defined as a trade with greater than 10.0% variance from the last weighted average price and transactions that are less than 10ML (unless there are no applicable transactions greater than 10ML) less the total liabilities of the Company excluding provisions for tax payable and Performance Fee.



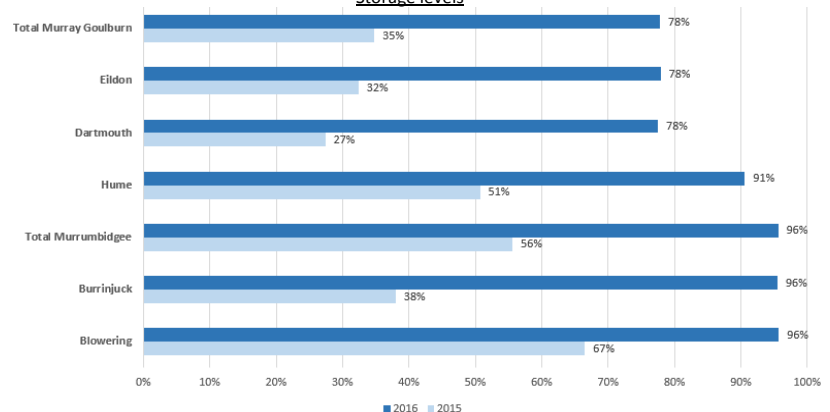
## Market Outlook

The latest Bureau of Meteorology outlooks are suggestive of further hot and dry conditions for the Murray Darling Basin over the next three months. Models are forecasting a 50%-75% chance of below average rainfall across the Basin (see chart below). Current consensus suggests a La Nina is now unlikely to develop during the first half of 2017, although conditions will remain on the La Nina-side of neutral. The continued drier and warmer weather may be a catalyst for temporary water price increases due to higher rates of crop water usage over the summer.

The chance of above median rainfall for January



Storage levels



### Disclaimer

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