<u>CHAIRMAN'S ADDRESS</u>

Annual General Meeting

10:00am (Adelaide), 3 May 2018, The Stirling Hotel, Stirling

Before I consider the matters before the meeting today, I refer you to my Chairman's Report in the Company's Annual Report.

There are three things I'd like to address today.

1. The highlights of our 2017 Financial Year including a comparison of our expectations to what was achieved;
2. Future expectations for the Company in 2018 and beyond; and;
3. Duxton Water as an investment in the current environment.

2017 saw our first full financial year, ending 31 December. In 2016 we recognised a loss of $230,000. I note that this accounting loss was mostly a result of writing off listing costs, as well as recognising impairment per the Australian Accounting standards which require us to show our water entitlement assets at the lower of cost or net realisable value. This year we achieved a net profit of $2.07 million and we successfully deployed 100% of the IPO proceeds. We have seen the NAV per share move up from $1.06 at inception, to $1.08 at December 2016, and up again to $1.18 at December 2017. As at the end of April 2018 NAV per share is now $1.24, after paying two dividends of 2.3 and 2.4 cents.

We have continued to lease a portion of our portfolio; the % fluctuated month to month as we deployed funds and negotiated new leases. I note that while the Board targets 70-80% of the portfolio be leased, this target has not yet been met as we have been growing the total portfolio. In 2017 we entered 3 new lease arrangements. At 31 December 2017 we had 62% of the portfolio leased. At the end of April this year it now sits at 55%. The change is due to further acquisitions of Water Entitlements increasing the overall portfolio value.

While the Board maintains the target of no long-term debt, a facility was approved in 2017 allowing up to 20% debt-to-equity based on NAV at the time. The purpose of this was to allow opportunistically timed acquisitions while Entitlements were 'wet', meaning they came with Allocation that could generate immediate yields above the cost of the debt. The facility also allowed us to get ahead of the potential capital inflow following any take-up of the Options.

We have said that we expect to generate an annual yield of at least 5-7% in a normal year, plus exposure to capital appreciation. At December 2017 we had achieved a result for shareholders of 12.5%, comprising both the November dividend paid and appreciation of the underlying assets. We have now entered a more normalised period and for the twelve months to April 2018 we have returned a gross cash yield of 5.14% inclusive of franking. If capital appreciation were to be included, the result would be 13.36% from April 2017 to 2018.
In November 2017 we paid our first dividend of 2.3 cents, franked to 75%. We have since paid our second dividend, in April 2018, of 2.4 cents franked to 60%. The Board intends to continue to pay biannual dividends, allowing the after-tax returns of the business to flow through to investors.

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Following the very wet Spring of 2016, we saw temporary water prices drop. Prices have since firmed over the last twelve months as irrigators have drawn down on the available resource. Into this new calendar and financial year, we saw prices lift, and now see forward contracts for next water year at around $180-230/ML. We have also continued to see a strengthening of the value of Entitlements. We believe this pattern should continue over the next few years. Alister will discuss this in more depth.

So, what do we expect for 2018? Preliminary water allocations and weather forecasts indicate we are entering a drier period for the 2018/2019 water year. As I said, temporary water prices are recovering, and we expect to see further increase over the next 12 to 15 months. At these levels we should continue to see improvement in our yields. We believe Duxton Water is positioned well for the drier conditions expected in this new water year. We are also confident in our ability to deploy funds raised through option take-up; we expect to be able to fully deploy funds over the coming 6 to 9 months therefore minimising any dilution effect on returns. Now is an opportune time to be acquiring Entitlements and negotiating new leases as irrigators look toward the new water year and securing their water needs ahead of a drier year.

Lastly, I would like to make some observations and explanations of how we have traded as a stock in the current investment environment.

The business has grown in net asset value over the last year and since inception. Our shares listed in September of 2016 and unfortunately have since traded at a reasonable discount to NAV. The share price has reached a high of $1.17, and a low of $0.96 in that time. The share price generally sits between $1.09 to $1.12. At the end of April, the closing share price was only $1.09 whereas our NAV per share was $1.24. While it is understandable that we trade at a discount, given that we are a young business and that the options have the potential to further dilute assets, we believe that as we mature and as the market trust us more and more, that the share price should align more closely with or trade at a premium to our NAV.

Last year we discussed the broader economic environment and how we expect to perform better than traditional asset classes because of the direct link between our Water Entitlement assets an agriculture. We anticipate that over the cycle, we will be beneficiaries of inflation – especially food inflation. We are positioning the portfolio to be well diversified and risk managed ahead of a changing economic environment. With our low gearing and view to no long-term debt, backed by real underlying assets, we believe the Company overall is well positioned ahead of any economic change.

In closing I want to thank everyone, our shareholders, my other Board members and the Duxton team for their support. We as a management team will do our utmost to continue to deliver the best, prudent, results we can.

Ed Peter
Chairman