



Duxton Water Limited (ASX: D20) ("Duxton Water" or "the Company") is pleased to provide the Quarterly Activities Report for the period ended 30 September 2021. The purpose of this report is to provide an update on key areas of business activity during the quarter ended 30 September 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 is engaged in building a targeted portfolio of Australian water entitlements primarily located in the southern Murray Darling Basin ('SMDB'). Duxton Water utilises this portfolio to provide water supply solutions that offer visibility and flexibility to its Australian farming partners. At 30 September 2021, the Company held approximately 80GL of permanent water entitlements across 18 different asset types and classes.

During the quarter, the Company settled a number of permanent water transactions which has enabled the Company to strategically re-deploy capital into regions where the Company sees intrinsic value or future strategic benefits. There are several transactions in the Company's acquisition pipeline.

Entitlement pricing across the SMDB has continued to strengthen throughout the year, with a weighted average increase of 7.8% since the start of 2021. Increased demand has come from an array of larger permanent crop producers entering the market with the view to improve their long-term water security. Small to medium-sized irrigators have also been active in the market to prepare for future water years. Australian irrigators continue to be the greatest beneficiaries from water entitlement price increases, as they collectively own the majority of water entitlements on issue.

Duxton Water has continued to work alongside its farming partners throughout the September quarter. With improved storages and increased in-valley rainfall, the Company has continued to provide its range of water supply products to the market. Duxton Water is committed to supporting irrigators through these conditions by offering long-term water leases, spot allocation sales, forward contracts and carry over products.

ALLOCATION MARKET

Very few allocation trades went through in the first two weeks of the 21/22 water season. This slow start to the season was influenced by the significant amount of water that was carried forward from the 20/21 water year and the above average rainfall that was experienced in June/July. Initial trades in the Lower Murry started at \$170-\$200/ML, with the Goulburn at \$90-\$110/ML and the Murrumbidgee at \$120-\$150/ML.

Allocation prices have continued to soften throughout the quarter due to improved dam storages, improved rainfall and improved allocations relative to the preceding 2-3 years. The Lower Murray is currently trading at \$110-\$120/ML in the Lower Murray, \$95-\$105/ML in the Goulburn and \$90-\$100/ML in the Murrumbidgee.

Inter Valley Trade has been limited this season as each of the respective Natural Resource Managers deal with the increased streamflows, dam storages and risk of spill.

On 15 October, the Resource Manager for northern Victoria announced that allocations for all Victorian High Reliability entitlements (Murray, Broken, Goulburn, Campaspe, Loddon and Bullarook Creek) are now at 100%. The announcement also advised that due to further spill, a further 61% of spillable account balances will be deducted from accounts.

LEASES

The leased portion of the portfolio increased from 66% (June) to 68% (September). 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.

The Company is in discussions with a number of existing lessees to renew their current leases as well as engaging with new potential lessees looking for long-term water security for their businesses.

FINANCIAL UPDATE

NAV

During the September 2021 quarter, the Company's Net Asset Value ("NAV") increased from \$1.63 per share in June to \$1.72 per share in September. The portfolio has seen both high and general security asset values continue to appreciate over the last 6-9 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 material yield this year as we return to a wetter part of the climatic cycle.

Total water assets increased by 1% between June 2021 (\$310 million) and September 2021 (\$326 million) due to purchasing more permanent water entitlements, as well as increases in permanent water prices. Surplus cash continues to be 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 September 2021, the Company had drawn debt of \$103 million. The Company increased its interest rate swap position locking in a further \$5 million of debt for 10 years. 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 September 2021, the Company's LVR (Debt to Water Assets) is 28%.



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DIVIDENDS

On 22 September 2021, Duxton Water announced its ninth successive and increasing dividend to Shareholders of 3.1 cents per share (franked to 100%), to be paid 29 October 2021. The Dividend Reinvestment Program will continue 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:

- 3.2 cents (\$0.032) as the final 2021 dividend;
- 3.3 cents (\$0.033) as the interim 2022 dividend;
- 3.4 cents (\$0.034) as the final 2022 dividend; and
- 3.5 cents (\$0.035) as the interim 2023 dividend.

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

PAYMENTS TO ASSOCIATES/RELATED PARTIES

During the September 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 administration and finance related services.

Management Fees (\$520k) - management fees paid as per the Company's Investment Management Agreement.

Reimbursements (\$10k) - 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 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 September 2021

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (9 months) \$A'000 |
|---|------------------------------------|--|
| 1. Cash flows from operating activities | | |
| 1.1 Receipts from customers | 6,011 | 14,912 |
| 1.2 Payments for | | |
| (a) research and development | - | - |
| (b) product manufacturing and operating costs | (519) | (2,945) |
| (c) advertising and marketing | - | - |
| (d) leased assets | - | - |
| (e) staff costs | - | - |
| (f) administration and corporate costs | (308) | (1,304) |
| 1.3 Dividends received (see note 3) | - | - |
| 1.4 Interest received | - | - |
| 1.5 Interest and other costs of finance paid | (567) | (1,648) |
| 1.6 Income taxes paid | (215) | (1,983) |
| 1.7 Government grants and tax incentives | - | - |
| 1.8 Other (provide details if material) | - | - |
| - Management Fees | (477) | (1,551) |
| - Performance Fee | - | - |
| 1.9 Net cash from / (used in) operating activities | 3,925 | 5,481 |

| | | |
|--|---------|---------|
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire: | | |
| (a) entities | - | - |
| (b) businesses | - | - |
| (c) property, plant and equipment | - | - |
| (d) investments | (5,368) | (6,692) |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (9 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 | 3,569 | 15,287 |
| | (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 | 4,725 | 276 |
| 2.6 | Net cash from / (used in) investing activities | 2,926 | 8,871 |
| 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 | (3,000) | (6,300) |
| 3.6 | Repayment of borrowings | - | - |
| 3.7 | Transaction costs related to loans and borrowings | - | - |
| 3.8 | Dividends paid | - | (3,267) |
| 3.9 | Other (provide details if material) | - | - |
| 3.10 | Net cash from / (used in) financing activities | (3,000) | (9,567) |
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of period | 3,694 | 2,760 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | 3,925 | 5,481 |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (9 months) \$A'000 |
|---|--|------------------------------------|--|
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | 2,926 | 8,871 |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | (3,000) | (9,567) |
| 4.5 | Effect of movement in exchange rates on cash held | - | - |
| 4.6 | Cash and cash equivalents at end of period | 7,545 | 7,545 |

| 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 | 7,545 | 3,694 |
| 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) | 7,545 | 3,694 |

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

- | | | Current quarter
\$A'000 |
|-----|---|------------------------------------|
| 6.1 | Aggregate amount of payments to related parties and their associates included in item 1 | 617 |
| 6.2 | Aggregate amount of payments to related parties and their associates included in item 2 | |

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 | 103,000 |
| 7.2 Credit standby arrangements | | |
| 7.3 Other (please specify) | | |
| 7.4 Total financing facilities | 106,000 | 103,000 |

7.5 **Unused financing facilities available at quarter end** 3,000,000

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 September 2021, the Company has one outstanding Debt Facility with NAB of \$106 million, which has \$3 million available to draw down.

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) | 3,925 |
| 8.2 Cash and cash equivalents at quarter end (Item 4.6) | 7,545 |
| 8.3 Unused finance facilities available at quarter end (Item 7.5) | 3,000 |
| 8.4 Total available funding (Item 8.2 + Item 8.3) | 10,545 |
| 8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1) | 2.7 |

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

- 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: 18 October 2021

Authorised by: 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.