



Duxton Water Limited (ASX: D20) ('Duxton Water' or 'the Company') is pleased to provide the Quarterly Activities Report for the period ended 30 June 2020. The purpose of this report is to provide an update on key areas of business activity during the quarter ended 30 June 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 30 June 2020, the Company held approximately 83.7GL of permanent water entitlements across 19 different asset types and classes. During the March 2020 quarter, the Company settled 66ML of permanent water transactions to the value of \$0.34 million.

Whilst we have seen retracement in permanent entitlement values over the last couple of months, the value uplift experienced over the last 40 months reflects long-term drivers rather than the recent drought 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

Through the 19/20 water year we saw significant pressure on available supply due to a 36-40 month period of below average rainfall and inflows. The water market facilitated the movement of available allocation between irrigators and industries to meet critical demand. Many irrigators took advantage of water supply products such as leases and forward allocation contracts to assist them in managing their water requirements. This assisted many in mitigating the impact of higher spot allocation pricing that was observed across the 19/20 water year.

Strong end of season demand for carryover saw allocation prices strengthen towards the end of June, from seasonal lows of \$165 to \$225/ML. Increased demand for carryover saw irrigators paying up to \$80/ML for space to park allocation and bring it into the 20/21 water year. With low current storage levels and a lower than originally anticipated 3 monthly rainfall outlook, allocation prices opened the 20/21 water year trading between \$350 to \$400/ML.

Duxton Water continues to actively manage its allocation portfolio to meet obligations to its farming partners through the provision of forward allocation and spot market allocation sales.

LEASES

The leased portion of the water entitlement portfolio is ~64.4%. This represents ~74.4% of the Company's high security entitlement holding. The current weighted average lease expiry (WALE) remains at 2.7 years. Inclusive of renewal options this pushes the WALE to 5.0 years. The Company continues to work towards its long-term goal of having 70-80% of the portfolio under lease.

FINANCIAL UPDATE

NAV

After several years of water entitlement values increasing, the market has spent the last 2 quarters consolidating prices as the underlying long-term demand and supply characteristics become more established and understood.

In line with the permanent entitlement value retracement, the Company's Net Asset Value (NAV) has declined over the quarter. The Company still holds significant fair value revaluation uplift (>\$72 million) across the portfolio since inception. This uplift remains excluded from the statutory retained 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 fallen from \$1.91 at 31 March 2020 to \$1.76 at 30 June 2020.

DEBT

At 30 June 2020, the Company had drawn debt of \$107 million. In January 2020, the Company locked in a portion of its debt facility into an interest rate swap arrangement with NAB to take advantage of historically low interest rates.

At 30 June 2020, the Company's LVR (Debt to Water Assets) is ~33%.



Duxton Water Limited (ASX: D20) ('Duxton Water' or 'the Company') is pleased to provide the Quarterly Activities Report for the period ended 30 June 2020. The purpose of this report is to provide an update on key areas of business activity during the quarter ended 30 June 2020. This report should be read in conjunction with the Company's respective Quarterly Cash Flow Report (Appendix 4C).

DIVIDENDS

The Board maintains its commitment to providing shareholders with a bi-annual dividend franked to the maximum extent possible. With the Company's high percentage of leased entitlements, the Directors have advised the next 4 targeted dividends out to the March 2022 distribution.

The Company has targeted fully franked dividend payments of:

- 2.9 cents (\$0.029) in September 2020;
- 3.0 cents (\$0.030) in March 2021;
- 3.1 cents (\$0.031) in September 2021; and
- 3.2 cents (\$0.032) in March 2022.

COVID 19

The Investment manager and Board of Duxton Water Ltd continue to monitor the on-going Covid-19 pandemic.

The Investment manager has put in place measures to ensure staff are able to continue to operate effectively whilst adhering to Government recommendations.

This has enabled the day to day operations of the Company to continue with little impact and while the Board will continue to monitor and advise of any change, it does not currently foresee any significant operational impact to the business.

PAYMENTS TO ASSOCIATES/RELATED PARTIES

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

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

Administration Fees (\$65k) - fees paid for the provision of admin and finance related services.

Management Fees (\$714k) - management fees paid as per the Company's Investment Management Agreement.

Reimbursements (\$43k) - on-charge reimbursements for D20 expenses incurred by DCA.

Performance Fees (\$3.87m) - part payment of FY19 performance fee of \$5.566 million (as per FY19 Annual Report).

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.

Whilst the Company will review the in-depth report, on a first read we believe 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 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")

30 June 2020

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	5,461	23,003
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(4,480)	(16,756)
(c) advertising and marketing	-	-
(d) leased assets	-	-
(e) staff costs	-	-
(f) administration and corporate costs	(261)	(748)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(658)	(1,325)
1.6 Income taxes paid	(1,605)	(1,605)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	(4,295)	(6,051)
1.9 Net cash from / (used in) operating activities	(5,838)	(3,482)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	(259)	(4,541)
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	299
	(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)		
	- Deposits paid	(87)	208
2.6	Net cash from / (used in) investing activities	(346)	(4,034)

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	7,129	12,929
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid (Cancellation of Cheque)	2	(3,045)
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	7,131	8,808

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,096	751
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(5,838)	(3,482)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(346)	(4,034)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	7,131	8,808
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	2,043	2,043

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	2,043	1,096
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)	2,043	1,096

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**

4,688

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

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

7. Financing facilities <i>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.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	112,000	107,128
7.2 Credit standby arrangements		
7.3 Other (please specify)		
7.4 Total financing facilities	112,000	107,128

7.5 **Unused financing facilities available at quarter end** 4,872

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.

Debt Facility 1**Lender:** National Australia Bank**Max Debt:** \$100,000,000**Variable Interest Rate:** BBSY plus 0.82% p.a. + Facility Fee of 0.82%**Maturity Date:** January 2022**Secured:** Yes**Debt Facility 2****Lender:** National Australia Bank**Max Debt:** \$12,000,000**Variable Interest Rate:** BBSY plus 0.82% p.a. + Facility Fee of 0.82%**Maturity Date:** January 2021**Secured:** Yes

While the maturity date for each of the Company's debt facilities is set out above, the Company has also locked a portion of its debt into 5-year and 10-year interest rate swap arrangements. This provides 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)	(5,383)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	2,043
8.3 Unused finance facilities available at quarter end (Item 7.5)	4,872
8.4 Total available funding (Item 8.2 + Item 8.3)	6,915
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	1.28

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, due to new seasonal allocations and increased demand for water supply products. Combined with the Company's forward allocation sale contracts which are 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
- Drawdown of debt facility funds

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.

In March 2020, the Board approved an additional loan facility of \$12m. The new facility will be used for working capital and further permanent water acquisition.

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: 31 July 2020

Authorised by: the Board of Duxton Water Limited
(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.