CHAIRMAN'S ADDRESS

Annual General Meeting

10:30am (Adelaide), 16 May 2019, The Uraidla Hotel, Uraidla

Before I consider the matters put before the AGM today, I would like to refer to some key points I made which are contained within my Chairman's Report in the Company's 2018 Annual Report.

1. Highlights of our 2018 Financials Reports;
2. The Company's portfolio composition and strategy;
3. Current market and climatic conditions; and
4. Our future expectations for the Company in FY19 and beyond.

Since inception, we have set out to provide Shareholders with access and exposure to water, an emerging asset class and a vital input into agriculture in Australia. I am pleased to announce that 2018 has been a successful year for the company and has delivered Shareholders with cash returns by way of dividend and capital growth through the appreciation in value of the underlying assets. 2018 marks the end of our second full year in operation, and the Board and I are pleased with the way the Company has continued to meet its strategic and financial goals.

Net profits have increased from a $2.1 million in 2017; to $7.3 million in 2018. Before tax, our profits increased from $3.0m to $10.4m over the same period. This increase in profits has primarily been driven by a larger portfolio and drier conditions which have seen the price of water allocation lift well above what we saw at the same time last year. This, in conjunction with the team's proven ability to manage the increased size and diversity of the portfolio to maximise returns, can be seen as the underlying factors behind the Company's recent success.

From a Shareholder return perspective, this continued generation of net profits has meant the Company has been able continue to provide Shareholders with a bi-annual dividend. The following cash dividends were paid to Shareholder's in 2018:

- 2.4 cents, franked to 60%, paid 18 April 2018;
- 2.5 cents, franked to 75%, paid 14 September 2018.
- A further 2.6 cent dividend, franked to 100%, was also paid to Shareholders on 27 March 2019.

In 2018, a total of 821,686 new shares were issued as a result of the Company's Dividend Reinvestment Program (DRP).

I am pleased to also reaffirm guidance around the Company's intention to continue to pay an increasing bi-annual dividend, targeting a 2.7 cent dividend in September 2019 and a 2.8 cent dividend to be paid to Shareholders in March 2020; franked to the greatest extent possible.

The weighted average earnings per share has also improved from 3.2 cents in 2017 to 8.5 cents in 2018. In addition to this, as per the April monthly update provided to the market on 9 May 2019, the Company is pleased to report a weighted EPS for the first four months of 2019 of 3.4 cents. Reporting an EPS in excess of future targeted dividend guidance should provide Shareholders with a level of confidence in the Company's ability to continue to pay future bi-annual dividends, even when weather conditions may change and have a negative impact on the profitability of the Company.

At the same time as focusing on profits and paying dividends to Shareholders, we continue to focus our investment strategy on growing the portfolio in a targeted way to ensure an optimised portfolio composition, which will enable Duxton Water to provide our irrigative partners the water supply solutions they seek.

In 2018, the portfolio grew in size, in terms of volume by 66%, from ~36.8 GL to ~61.1GL of water entitlements. This growth has continued into the 2019 financial year and as at 30 April 2019, we manage ~69.7GL of water entitlements. The fair value of the portfolio increased by 125%, from $86.4 million to $194.4 million in 2018, and is at $239.4 million at the end of April 2019. The portfolio continues to be independently valued by Aither on a monthly basis.

Water assets account for most of our reported Net Asset Value ("NAV"). The Company's adjusted NAV has moved from $1.18 per share at December 2017, to $1.37 per share at December 2018. Included in our April monthly update as referenced above, the adjusted April NAV is $1.50 per share. We also started reporting in our monthly updates, our unadjusted NAV per share figure. The unadjusted NAV represents the NAV of the Company, adjusted for capital gain tax provisions should the portfolio be liquidated today. Our unadjusted NAV at 30 April 2019 is $1.64 per share.

The Company expects to continue to see continued uplift in the value of the entitlements, even as and when conditions inevitably become wet again at some point. The value of water entitlements is largely driven by longer-term supply and demand factors, rather than shorter term conditions. The Government continues to focus on recovery of water, through direct buy-back or other efficiency initiatives and we continue to monitor the significant level of new permanent plantations of price competitive crops, which have a trajectory of inelastic demand for the resource.

Growing the size of the portfolio and continuing to diversify by entitlement type and region, means the Company can enter more leases and forward contracts with confidence of being able to deliver on these arrangements, even in unfavourable weather conditions. While the absolute volume of leased entitlements has increased, with the Company having entered into new agreements in 2018, the leased percentage has decreased as a result of continued acquisition of entitlements. At December 2017, the leased portion of the portfolio was 62%, which was diluted down to 35% by December 2018. Irrigator demand during this period was focused largely on shorter-term water solutions, however we now observe supply solutions shifting towards longer-term arrangements, including leases and forward contracts. At 30 April 2019, the leased portion of the portfolio remains at 35%, however this is likely to increase to ~50% with the commencement of potential new leasing arrangements to begin in the new water year (1 July 2019). The Board continues to target 70-80% of the portfolio being leased.

The Company is still able to derive a return from the unleased portion of the portfolio, through the sale of annual allocations on the spot market, or through forward contracts. With the dry conditions experienced in the 2018/2019 water year, many irrigators were largely uncovered and heavily reliant on the spot market. Consequently, allocation prices increased from ~$120/ML in January 2018 to ~$350/ML by December 2018. Today, allocation prices are ~$500-600/ML which is reflective of current dry conditions, low soil moisture, and the reliance of irrigators on spot market to obtain sufficient water security. As we continue to increase the leased position of the portfolio, the Company's exposure to the volatile spot market will continue to decrease.

This target composition of (70% leased/30% unleased) is designed to provide the Company and its Shareholders with a regular, visible revenue stream through leasing arrangements, and some exposure to the spot market. The portfolio is easily hedged, to protect the returns through all climatic seasons, with forward contracting of allocation water, and through the diversity of assets owned. General security rights tend to yield high allocation volumes in wetter periods when prices are lower, and they also allow for carryover of allocation from one year to the next.

Current outlooks reveal low opening allocations for the 2019/2020 water year, for even some high security entitlements in the Southern Murray Darling Basin. Allocation volumes usually increase over the course of the water year, however if the outlook/forecast allocation volumes are low and we continue to experience dry conditions, it is likely that some high security water entitlements may not receive full allocation. This is reflective of severe rainfall deficiencies experienced over the past two years which have depleted dam storages and reserves. It is critical that authorities consider a multi-year water supply management strategy which takes into account environmental and human needs first.

The Company and the portfolio have grown over the course of 2018 which has primarily been through the utilisation of debt, deployed ahead of capital injections. In addition to this, at IPO, Shareholders received an Option, to acquire a further share at the issue price of $1.10, any time before expiry on 31 May 2018. Overall, take-up of the Options was reasonably strong, and by 31 May 2018 the Company had raised ~$20 million. The next raise was managed by Bell Potter and was in the form of a 1 for 3 Rights Issue, priced at $1.30 per share. This begun with an accelerated portion for institutional clients, followed by a Rights Issue available to our existing Shareholders, including retail, wholesale and institutional alike. Collectively we raised almost $24 million in this Entitlement Offer.

In 2019 we completed a further capital raise of $15 million through a Placement which was again managed by Bell Porter. In conjunction with this Placement, $3.6 million was also raised through a Share Purchase Plan which offered shares to existing Shareholders at the 30 April 2019 NAV of $1.48. I am pleased to announce that, pending final settlement of SPP funds, on 20 May 2019 we expect to have 121,267,761 shares on offer.

The Company has pre-deployed debt prior to each capital raising, to get ahead of the significant capital injection received upon completion of each raise. This assists with minimising dilution for existing Shareholders. While we seek to attract further institutional and retail investment, we have ensured all existing Shareholders, have had an opportunity to increase their holdings too.

With a more diversified share register, and a larger portfolio of water assets, the Company has begun to see a few key factors shift in our favour:

- The share price now generally tracks at, or at a premium to NAV;
- We have seen an improvement in the free-float and liquidity of the stock; and
- Our market cap has increased, which we believe puts us on the radar for a number of different small and micro-cap funds as well as putting us on the right path towards entering the ASX300 at some point in the near future.

While the Board maintains its target of holding no long-term debt, the facility remains in place as we continue to see opportunity in a very fragmented market to acquire new assets in a targeted manner in order to provide the water supply solutions that our irrigator partners are looking for.

So, what do we expect for 2019 and beyond? Preliminary water allocations and weather forecasts indicate we are entering another dry period. It would take a significant wet event to reset the system as the soil moisture and storages are very low at present. We believe Duxton Water is positioned well for another dry year but is looking beyond this by continuing to grow the portfolio and enter new leases as opportunities present themselves.

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



Ed Peter
Chairman