DUXTON
WATER LTD

Statement in relation to the Management Agreement

Services

(a) Any performance benchmark that the Investment Manager must endeavour to meet, or will be measured against, in performing the agreed services and the consequences (if any) of that benchmark not being met.

The only performance benchmarks that the Investment Manager is required to achieve are the First Benchmark Return Hurdle and the Second Benchmark Return Hurdle, as set out and defined in sections 1 and 4 of the prospectus, in order to be entitled to a performance fee. If neither of these benchmarks are achieved, the Investment Manager is not entitled to a performance fee for the applicable period. [clause 12.3]

Term

(b) The procedures to be implemented for the renewal of the Management Agreement.

After the initial 10 year term of the Management Agreement expires, shareholders may pass a resolution to the effect that the Management Agreement be terminated. If no such resolution is passed, the Management Agreement continues for successive 5 year terms, unless a resolution is passed by shareholders to the effect that it be terminated at the end of each successive 5 year term. The Board will put such a resolution to shareholders on each occasion. [clauses 13.1 and 13.2(f)]

(c) Whether security holder approval is required, or will be sought, before the Company renews or extends the Management Agreement.

Security holder approval is not required for the Company to renew or extend the Management Agreement. As indicated in the response to (b) above, a resolution will be put to security holders to terminate the Management Agreement at the expiry of each relevant

(d) How the Company proposes to manage its assets or business after the Management Agreement expires.

After the Management Agreement expires, it is the Board's intention to consider the options available to the Company in relation to management of the Company's assets. The Board would be likely to consider appointing a new manager to manage the assets of the Company, or re-appointing the existing Investment Manger but on different terms and conditions and subject to any required or agreed security holder approvals in that event.

Exclusivity

(e) Whether the Company is precluded from appointing someone else to provide services of the kind being provided by the Investment Manager.

The Company is not precluded from appointing someone else to provide services of the kind being provided by the Investment Manager. [Appointment of the Investment Manager is non-exclusive – clause 1.1(a)).

Termination

(f) How the Company proposes to manage its assets or business if the Management Agreement is terminated before its scheduled expiry.

If the Management Agreement is terminated before its scheduled expiry, it is the present intention of the Board to seek to appoint a new manager to manage its assets. The Investment Manager may agree (but is not obliged) to continue to manage the Company's assets until a replacement manager is retained by the Company. [clause 13.4]

Amendment

(g) The procedures for making any amendment to the Management Agreement.

The Management Agreement may be amended by the Company and the Investment Manager by a document in writing signed by each party. [Clause 22.3]

(h) Whether security holder approval is required, or will be sought, for any material amendment to the Management Agreement.

Security holder approval for any material amendment to the Management Agreement is only required where the amendment would require shareholder approval under the Corporations Act (for example, to confer a financial benefit on the Investment Manager not already provided under the Management Agreement and to which an exception would not apply under Chapter 2E), or under the Listing Rules. The Company proposes to undertake to ASX, by deed, that it will obtain the approval of its ordinary security holders for any material change to the Management Agreement.

Power and discretions

(i) The powers and discretions retained by the Company under the Management Agreement (including, in particular, whether the board of the entity is required to approve any acquisition or disposal of assets proposed by the Investment Manager).

The Board has the power to specifically direct the Investment Manager in relation to the performance of the Investment Manager's duties under the Management Agreement. [clause 4.4]

The Manager is required to obtain the approval of the Board for any transaction, including any acquisition or disposal of assets, which is:

- outside the investment guidelines, the material terms of which are summarised in sections 1 and 4 of the replacement prospectus [clauses 3.1 and 6.1]
- a disposal of assets by the Investment Manager to the Company [clause 7.4]
- a purchase of assets by the Investment Manager from the Company [clause 7.4]
- required to be approved by the Company's security holders or the Board under any applicable laws, the Listing Rules and any policies adopted by the Board [clause 7.3]

Management of potential conflicts

(j) If the Investment Manager is permitted to provide management services to someone else of a similar kind to those being provide to the entity, what processes will the Investment Manager have in place to protect the confidentiality of information related to the Company and its assets under management and to manage any potential conflicts of interest that may arise between the interests of its various clients.

Under the Management Agreement, the Investment Manager must have internal documents, policies and procedures for managing conflicts of interests of the type it reasonably expects could arise in connection with the Management Agreement, including service providers engaged by the Investment Manager. [clause 10.1]

The Investment Manager is the holder of an Australian Financial Services License and, as such, has adopted and maintains a compliance plan with respect to its business, which includes managing the assets of the Company under the Management Agreement. The Investment Manager has adopted and maintains specific policies regarding confidentiality and management of conflicts of interest that may arise between the interests of its various client.

The Investment Manager is also required to maintain the confidentiality of the Company's confidential information under the Management Agreement [clause 15.1]

The Investment Manager must also comply with policies which may be adopted by the Board in relation to management of conflicts of interest. [clauses 10.3 and 10.4]

(k) If the Investment Manager is empowered to engage a related party to provide ancillary services (for example brokerage or advisory services in relation to any acquisition or disposal of assets), what processes will be in place to ensure that this power is properly exercised and that any fees charged to the entity for the provision of those ancillary services are appropriate and reasonable

The Investment Manager is empowered to engage a related party to provide ancillary services, provided that:

- No shareholder approval is required under the Corporations Act or the Listing Rules (or unless such approval is obtained)
- Any fees payable by the Company are on arms' length commercial terms and are approved by the Board as part of an annual budget or where such costs are unbudgeted and exceed $10,000 then they must be pre approved by the Board [clauses 1.6(b), 12.8 and 12.11]

(l) What processes are in place to manage the potential conflicts of interest if the Investment Manager proposes to the entity that it acquire assets from, or dispose of assets to, the Investment Manager or an associate of the Investment Manager.

See response to (i) and (j) above.

Other material terms

(m) Provisions triggered by a change of control in the Company or Investment Manager.

No provisions are triggered by a change on control in the Company or the Investment Manager. There are 'key man' requirements concerning Ed Peter (or a replacement acceptable to the Board) being available on behalf of the Investment Manager, as set out in sections 1 and 4 of the prospectus.

(n) Any option, pre-emptive right, right of first refusal or other right the Investment Manager may have to acquire any of the assets under management.

There are no such rights in favour of the Investment Manager.