DUXTON WATER

QUARTERLY ACTIVITIES REPORT

Appendix 4C • December 2021

Duxton Water Limited (ASX: D20) ("Duxton Water" or "the Company") is pleased to provide the Quarterly Activities Report for the period ended 31 December 2021. The purpose of this report is to provide an update on key areas of business activity during the quarter ended 31 December 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 31 December 2021, the Company held approximately 80GL of permanent water entitlements across 18 different asset types and classes.

The Company has continued to redeploy capital acquired from permanent water sales that settled during the quarter. These transactions have given the Company an ability to strategically redeploy 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. A weighted average price increase of 16.5% has been observed since the start of 2021. The recent surge in entitlement pricing is largely due to an array of larger permanent crop producers entering the market with the view to improving their long-term water security. Small to medium-sized irrigators have also been active in preparing for future water years. There has also been some international buying activity from entities that own and manage Australian agricultural land. 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 December quarter. With continued improvements made to 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

Allocation prices softened in October due to the above average rainfall that was seen across most of the basin. Improved dam storage levels and greater allocations awarded to irrigators throughout October and November also contributed to a softening of the market. In November, the Bureau of Meteorology ("BOM") announced a La Nina event within the Tropical Pacific Ocean. As a result, November 2021 was identified as the wettest November on record. These wetter conditions resulted in allocation trading at $90-$100/ML in the Lower Murray, $70-$80 in the Goulburn and Murrumbidgee, and $65-$75 in the Upper Murray.

As temperatures began to increase heading into summer, coupled with average rainfall for December, allocation prices increased leading into and during December. Allocation prices traded between $95-$105/ML in the Lower Murray, $70-$80/ML in the Goulburn and Murrumbidgee, and between $70-$80/ML in the Upper Murray.

On 15 December 2021, the Victorian resource minister declared a 100% spill of VIC Murray High Reliability spillable accounts. On top of this, a 12% allocation was also awarded to VIC Murray Low Reliability water shares, the first determination to this water share since 2016/17. It was stated that a low risk of spill for this valley would not be declared until early 2022.

In the Murrumbidgee, dam storages are nearing capacity, with airspace management and supplementary events taking place. Low risk of spill has been declared in the Goulburn system.

LEASES

The leased portion of the portfolio increased from 68% (September) to 72% (December). The Company is pleased to have reached its long-term goal of having 70-80% of the portfolio under lease (by value). The Company is in discussions with existing lessees to renew their current leases. Several new leases are currently in negotiation, which will commence on 1 July 2022.

FINANCIAL UPDATE

NAV

During the December quarter, the Company's post-tax Net Asset Value ("NAV") increased from $1.72 per share at 30 September 2021 to $1.79 per share at 31 December 2021. The portfolio has seen both high and general security asset values continuously appreciate over the last 6-7 months. High security values have been supported as 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 yield this year as we return to a wetter part of the climatic cycle.

Total water assets increased by 4% between September 2021 ($327 million) and December 2021 ($340 million) due to the acquisition of a number of permanent water parcels and increases in permanent water prices. Surplus cash continues to be deployed into both high and general security assets in areas where the Company currently sees strong future demand for our water supply products.

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DEBT

At 31 December 2021, the Company had total debt of $106 million. The Company has $55 million of debt locked into fixed interest rates swap arrangements with a 5-10 year expiry. 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 31 December 2021, the Company's LVR (Debt to Water Assets) is 27%.

DIVIDENDS

On 29 October 2021, Duxton Water paid its ninth successive and increasing dividend to Shareholders of 3.1 cents per share (franked to 100%). A total of $3.2 million was paid to shareholders in cash, and $0.6 million was issued as new capital to participants of the Company's dividend reinvestment program.

The Board maintains its commitment to providing shareholders with a biannual 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 December 2021 quarter, the following payments to associates/related parties occurred (GST inclusive):

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

Administration Fees ($55k) - fees paid for the provision of administration and finance related services.

Management Fees ($552k) - management fees paid as per the Company's Investment Management Agreement.

Reimbursements ($7k) - on-charge reimbursements for D20 expenses incurred by DCA.

BUYBACK

On 13 October 2021, the Company announced it would commence an on-market share buyback program. As of 31 December 2021, the Company had purchased 115k shares at an average price of $1.46 per share.

The Board believes the purchase of the Company's shares at the current discount to NAV is in the interest of all shareholders. Purchasing shares back at a discount to NAV acts as a proxy to buying water at the same discount.



This announcement has been authorised for release by the Chairman of Duxton Water Limited.

Appendix 4C

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

Name of entity	
Duxton Water Limited	
ABN	**Quarter ended ("current quarter")**
53 611 976 517	31 December 2021

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (12 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	572	19,697
1.2	Payments for		
	(a) research and development	-	-
	(b) product manufacturing and operating costs	(800)	(3,745)
	(c) advertising and marketing	-	-
	(d) leased assets	-	-
	(e) staff costs	-	-
	(f) administration and corporate costs	(697)	(1,835)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	-	-
1.5	Interest and other costs of finance paid	(384)	(2,032)
1.6	Income taxes paid	(234)	(2,384)
1.7	Government grants and tax incentives	-	-
1.8	Other (provide details if material)	-	-
	- Management Fees	(341)	(1,892)
	- Performance Fee	-	-
1.9	**Net cash from / (used in) operating activities**	**(1,884)**	**7,809**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	(3,224)	(9,917)

Consolidated statement of cash flows		Current quarter $A'000	Year to date (12 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	4,210	15,286
	(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	(100)	176
2.6	**Net cash from / (used in) investing activities**	**886**	**5,545**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	(167)	(167)
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	(3,300)
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	(3,160)	(6,427)
3.9	Other (provide details if material)	-	-
3.10	**Net cash from / (used in) financing activities**	**(327)**	**(9,894)**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	7,545	2,760
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,884)	7,809

Consolidated statement of cash flows		Current quarter $A'000	Year to date (12 months) $A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	886	5,545
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(327)	(9,894)
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	**Cash and cash equivalents at end of period**	**6,220**	**6,220**

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	6,220	7,545
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)**	**6,220**	**7,545**

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	615
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	106,000
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	**Total financing facilities**	**106,000**	**106,000**

7.5	**Unused financing facilities available at quarter end**	**0**

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 23 December 2021, the Company finalised the annual facility review process with NAB. The current $106m facility was updated as below:

Debt Facility A
Lender: National Australia Bank
Max Debt: $106,000,000
Variable Interest Rate: BBSY plus 0.65% p.a. + Facility Fee of 0.65%
Maturity Date: 31 December 2023
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)	(1,884)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	6,220
8.3	Unused finance facilities available at quarter end (Item 7.5)	0
8.4	Total available funding (Item 8.2 + Item 8.3)	6,220
8.5	**Estimated quarters of funding available (Item 8.4 divided by Item 8.1)**	**-3.3**

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: No. Due to the cyclical nature of the water market and the relationship between water prices relative to current weather conditions, there may circumstances where the Company recognises a net operating cash outflow for the quarter. This can be due to the timing of water sales relative to the current climatic conditions. The new water year commences 1 July each year, and typically 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. That being said, everchanging weather conditions can influence the timing of revenue recognition throughout the water year and the Company's financial year. The Board has confidence in the Company's ability to manage future operational cashflows due to the liquid nature of water assets.

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
- Realising gains on permanent water entitlements

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.

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 these recurring revenue streams, 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 January 2022.....

Authorised by: ....by the Board.....
(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.