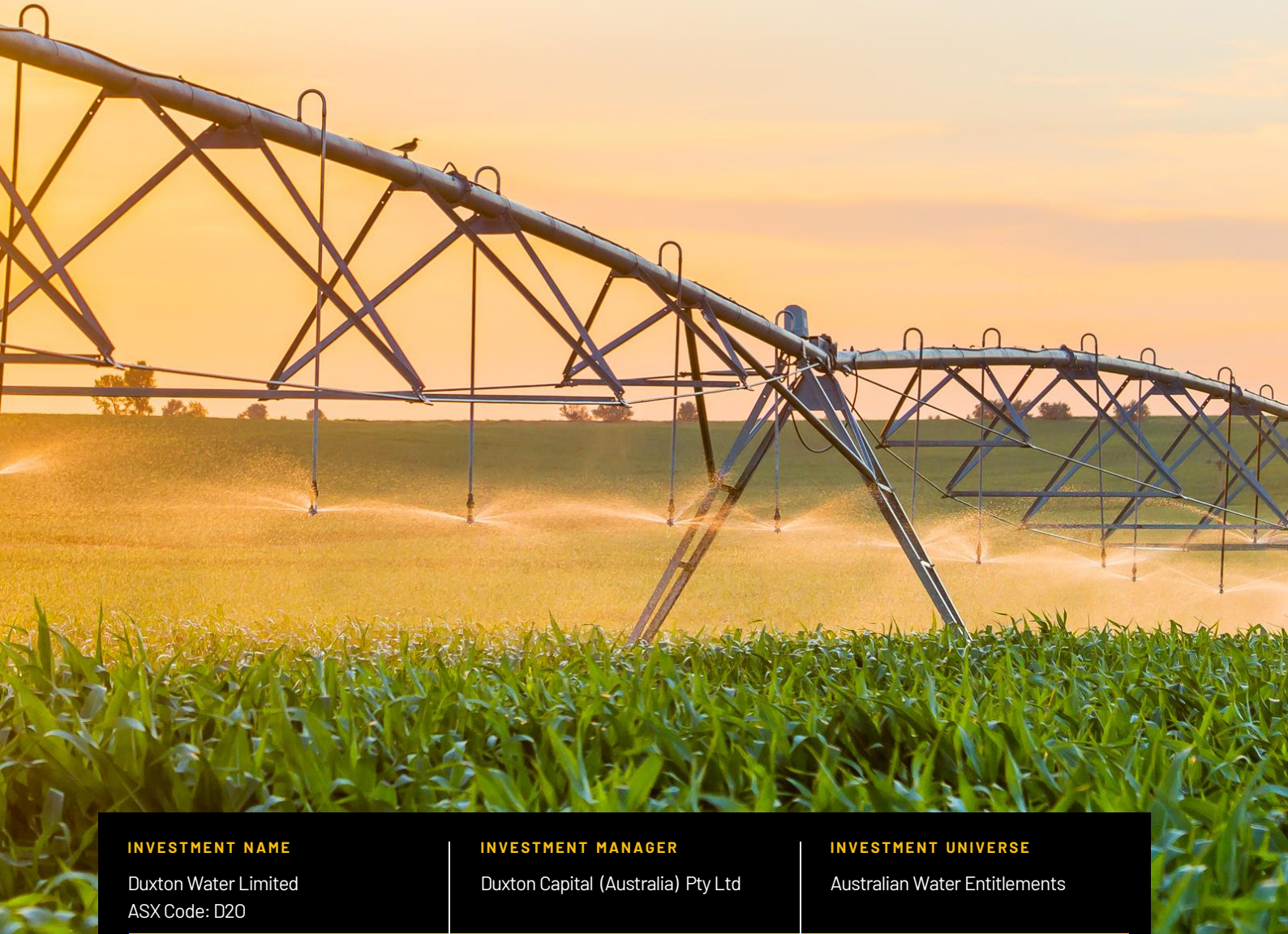
Monthly Update

DUXTON WATER

JANUARY 2023



INVESTMENT NAME	INVESTMENT MANAGER	INVESTMENT UNIVERSE
Duxton Water Limited ASX Code: D20	Duxton Capital (Australia) Pty Ltd	Australian Water Entitlements
NET ASSET VALUE (POST-TAX)	**SHARES ON ISSUE**	**WATER PORTFOLIO VALUE**
$1.91 per share	117,991,179	$377 million

The primary investment objective of Duxton Water ("the Company") is to build a portfolio of permanent water entitlements and utilise this portfolio to provide flexible water supply solutions to our Australian farming partners. The Company generates a return by offering Irrigators a range of supply solutions including long-term entitlement leases, forward allocation contracts and spot allocation supply.

Portfolio Managers' Update

Duxton Water continued to perform well for its shareholders in January. The share price appreciated by 4% during the month, taking the 12-month total return to 19% since January 2022. This return includes gross dividends paid throughout the period.

The demand for permanent water entitlements remains strong in the southern Murray Darling Basin ("sMDB"), which is a reflection of the long-term supply and demand drivers that continue to hold prices at or near all-time highs.

Spot allocation pricing remained low across multiple zones and valleys in January. A reduced demand for irrigation, a shift in irrigator focus on the next water year, and a recent announcement from several environmental holders indicating they are selling surplus water allocations have all contributed to softening spot prices. As mentioned before, we have minimal exposure to these prices based on our portfolio hedging strategies.

During the month, the Murrumbidgee High Security and General Security entitlements reached 100% allocation. With this latest announcement, all major entitlements have now received a full allocation in the 2022-2023 water year ("WY").

Looking forward, La Niña continues to ease in the tropical pacific ocean, and all climatic models are predicting a return to neutral conditions by the end of summer.

Further to this, the Bureau of Meteorology ("BOM"), as well as international climate models, are forecasting a shift to El Niño and a positive Indian Ocean Dipole ("IOD") by winter 2023. These two climate drivers typically bring drier conditions to the eastern and southern parts of the country.

On the back of this outlook, we have seen increased interest across all our water products in January. We provide a range of different lease, forward, and carry-over options to the market.

Irrigators are seeking long-term water leases and forward allocation contracts with the view to securing their water requirements ahead of changes in weather conditions. This WY, we have also received several enquiries for carry-over space, an attractive option to transfer unused water to the next year.

We have locked in new transactions relating to each of these products in recent weeks and we are currently in final negotiations with a handful of new lessees.

In other market news, the much-anticipated Murray Darling Ministerial Council meeting will take place in February 2023. The Ministerial Council consists of ministers responsible for water from each Basin jurisdiction and the Commonwealth. In this meeting, the ministers are expected to agree on actions to deliver the remaining shared Basin Plan commitments, due in 2024. We will provide an update on any outcomes from this meeting once available.



Lachlan Campbell
Portfolio Manager



Lachlan Beech
Portfolio Manager

COMPANY PERFORMANCE

1 Month	3 Months	6 Months	12 Months	Inception
0.08%	1.46%	1.25%	10.10%	118.86%

^These figures are based on NAV movements and include franked dividends for the period.

Water Lease & Forward Update

At 31 January 2023, Duxton Water had 54% of its permanent water portfolio (by value) leased to Australian farming businesses, accounting for 70% of the Company's high-security portfolio (by value). The current Weighted Average Lease Expiry ("WALE") is 1.3 years. Inclusive of renewal options, this increases the WALE to 4.3 years.

The Company continues to negotiate leases and forward contracts with brokers and irrigators for the upcoming water years. The Company has recently added 6 GL to the lease portfolio starting from 1 July 2023, and it is going through due diligence on several additional leasing opportunities.

The lease market has seen increased activity over the last 4-6 weeks, with irrigators aiming to secure their water requirements ahead of forecasted shifts in weather conditions. The latest BOM long-term outlook suggests below-average rainfall for parts of the east and south of the country from March to May.

Further to that, several climatic models are now forecasting an El Niño event and positive IOD to occur by August 2023. These two climatic drivers typically bring drier and warmer conditions in eastern and southern Australia.

Duxton Water will continue offering irrigators with a wide range of water products to manage their water requirements. Products such as long-term leases and forwards provide farmers access to water security at a fraction of the cost of owning the same water entitlements outright and act as a hedging instrument to spot price variations.



Irrigated vegetables

QUICK FACTS SUMMARY

	December 2022	January 2023
Water Entitlements	83.6GL	83.6GL
Portfolio Diversification (types)	18	18
Leased % of Portfolio	54%	54%
Weighted Average Lease Expiry (WALE)	1.4 years	1.3 years
WALE (incl. renewal options)	4.4 years	4.3 years

Entitlement Market Update

At 31 January 2023, Duxton Water holds 83.6GL of permanent water entitlements across 18 different asset types and classes.

While there were no material movements in the portfolio in January, the portfolio management team continues to actively monitor the water market looking for well-priced parcels that fit within its current target portfolio composition.

Throughout January, permanent water prices across the sMDB remained steady, with small pricing fluctuations being seen in some zones.

Overall, entitlements in the sMDB saw a weighted average price increase of 0.1% for the month of January.

Allocation Market Update

After a spike in December, reduced demand for water caused allocation prices to fall in January across all major zones in the Basin. This was due to cooler-than-average temperatures and strong water availability in the system.

Allocation water in January traded between $15-$30/ML in the Lower Murray, $15-$30/ML in the Goulburn, $10-$15/ML in the Murrumbidgee, and $10-$20/ML in the Upper Murray.

The Company continued to offer spot water to irrigators in January from the portfolio's unleased portion. With all entitlements in the portfolio receiving 100% allocation by the end of the month, there is a small volume left to sell.

WATER CARRY-OVER CONTRACT CASE STUDY: MURRAY

Duxton Water recently executed a carry-over parking contract with an almond grower. Carry-over products allow irrigators to park allocation water against D2O's entitlement holdings in any given year. This allows allocation water to be carried from one water year to the next. The risk of spill can either sit with the irrigator or the Company, depending on how the contract is structured. This transaction has allowed the counterparty to take well-priced allocation from this water year into next water year.

Through this type of partnership, Duxton Water continues to enable Australian farming businesses to take a multi-year approach to managing their annual water supply strategy.



Finance Update

In January 2023, Duxton Water's share price increased 7 cents, closing at $1.69. This represents a 19% annual return since January 2022, comprising of a 6% gross dividend yield and 13% share price growth.

The Company's post-tax NAV closed January 2023 at $1.91 per share, with no significant changes from December 2022. This is consistent with January's permanent water pricing trend, which had no substantial movements.

The Company's NAV, excluding tax provisions for unrealised capital gain, decreased by 2 cents during January 2023 to $2.20 per share.

The Company's Net Debt to Water Assets sits at 31% at the end of January, which is below the Company's maximum Net Debt covenant of 40%.

NAV (post tax)	NAV (pre tax)
$1.91 per Share	**$2.20 per Share**

Share Buyback

At 31 January 2023, Duxton Water bought back a total of 2.9 million shares (equivalent to 2.5% of the Company's shares), at an average price of $1.61 per share, since November 2021. The Board believes buying back shares at the current discount to NAV is in the interest of all shareholders.

Dividends

Duxton Water has proven its ability to pay a consistent and increasing dividend stream to shareholders over the last 5 years. The Company's most recent dividend of 3.3 cents per share (fully franked) was paid in October 2022.

The Board would like to reaffirm its intention to continue to provide shareholders with a bi-annual dividend, franked to the greatest extent possible.

Following the 24-month dividend guidance provided out to the end of FY24, the Company will return to a 12-month dividend guidance to better align with standard market practices.

The Board is pleased to reassure shareholders that the following four dividend targets remain unchanged:

DIVIDEND GUIDANCE

	Cents Per Share	Franking Target
Final 2022	3.4 cps	Fully Franked
Interim 2023	3.5 cps	Fully Franked
Final 2023	3.6 cps	Fully Franked
Interim 2024	3.7 cps	Fully Franked

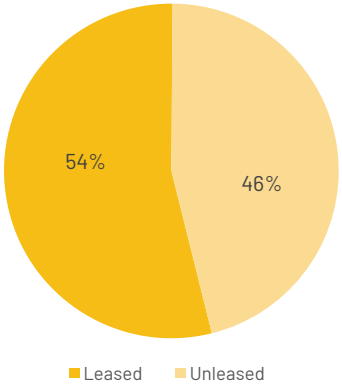
HISTORICAL PERFORMANCE – SINCE INCEPTION



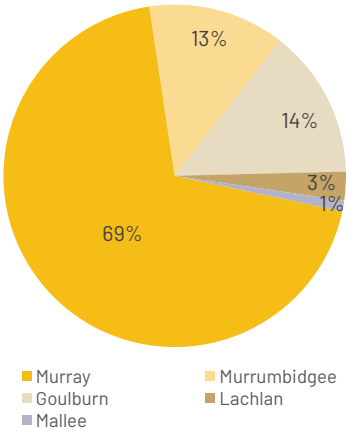
VALUATION METHODOLOGY

The Company uses an independent Fair Market Unit Value for entitlement and allocation provided by Aither Pty Ltd ('Aither') to undertake the NAV assessment. Aither's definition of fair market value is consistent with the principles of the Australian Accounting Standards Board (AASB) 13 Fair Value Measurement. It is a non IFRS measure that is not reviewed or audited by the Company's auditor. Further information can be found at www.duxtonwater.com.au

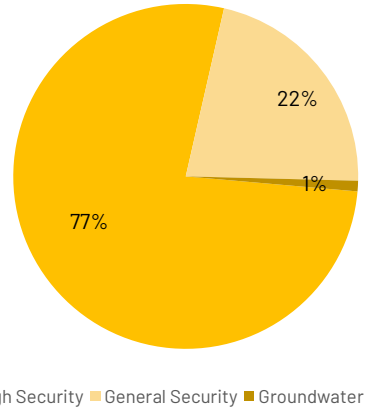
WATER PORTFOLIO DIVERSIFICATION



WATER SECURITY BREAKDOWN



ENTITLEMENT VALUE BY REGION



Weather Update

Rainfall in January was 35% above average for Australia as a whole. Northern Queensland experienced heavy rain and flooding, while the rest of Australia had varying levels of rainfall.

Rainfall was above or very much above average for most of Queensland, the southern half of the Northern Territory and several areas in South Australia, Western Australia, and southern New South Wales. Meanwhile, rainfall was below average for much of Tasmania, the southern half of Victoria, and north-eastern New South Wales.

Across the MDB, January rainfall was 24% below the long-term average. However, moderate to significant flooding continued, particularly along the Darling River.

The national mean temperature for January was equal to the long-term average. The mean maximum temperature was 0.30°C below average, while the mean minimum was above average by 0.28°C.

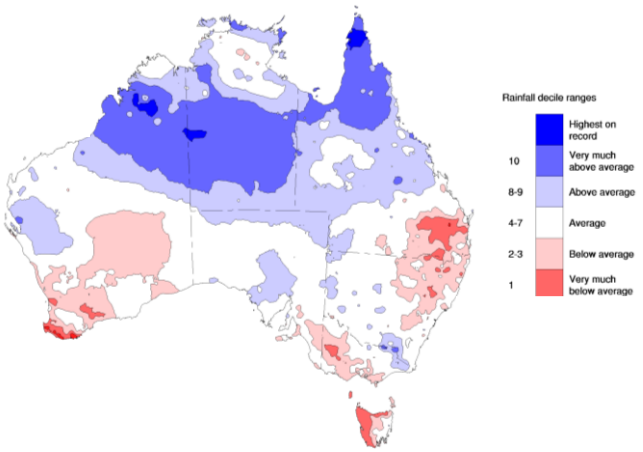
La Niña continues to ease in the Pacific Ocean, with all models anticipating a return to neutral ENSO levels in February. La Niña events increase the chances of above-average rainfall for northern and eastern Australia during spring and summer.

The IOD is currently neutral and typically has little influence on the Australian climate from December to April.

The Southern Annular Mode (SAM) index has been positive for much of January, with a brief period of neutral values being seen in mid-January. The positive phase is partly associated with the current La Niña. During summer, a positive SAM increases the chance of above-average rainfall for parts of eastern Australia and below-average rainfall for western Tasmania.

RAINFALL DECILE CHART (SUMMER)

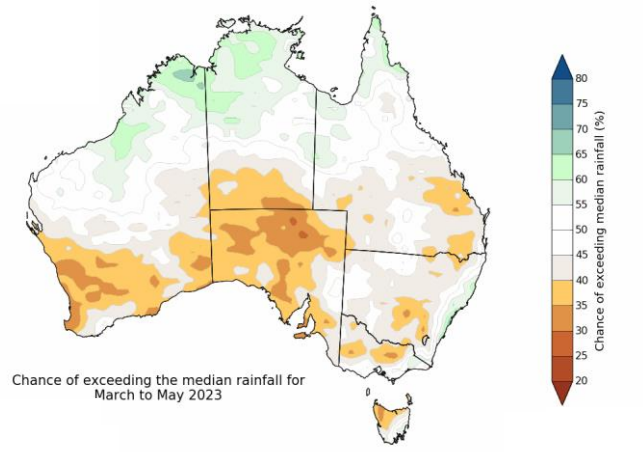
DECEMBER 2022 - JANUARY 2023



Source: Bureau of Meteorology

CHANCE OF ABOVE-AVERAGE RAINFALL

MARCH 2023 - MAY 2023



Source: Bureau of Meteorology

Outlook & Storages

The March to May outlook suggests below median rainfall for parts of the south and east of the country, and above-median rainfall for parts of the north.

Warmer than average days are likely for sub-tropical Australia for March to May, and warmer than average nights in the south-east of the country.

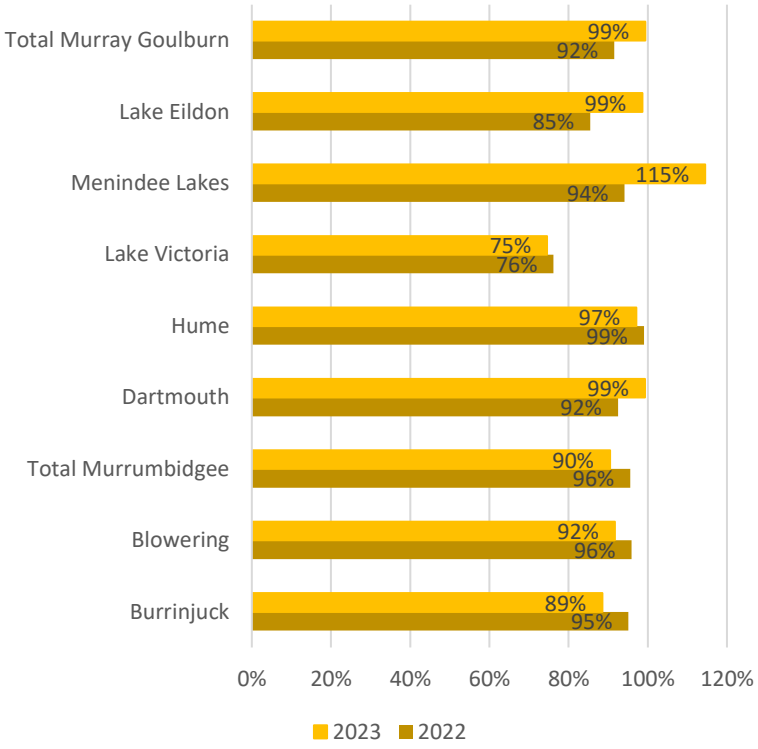
Maximum temperatures are likely to be warmer than median for sub-tropical Australia, while minimum temperatures are likely to be warmer than median across most of the country and close to average for areas of inland Australia.

The outlook is influenced by La Niña, which continues to weaken and a positive SAM that will soon return to neutral. La Niña is expected to dissipate by the end of February.

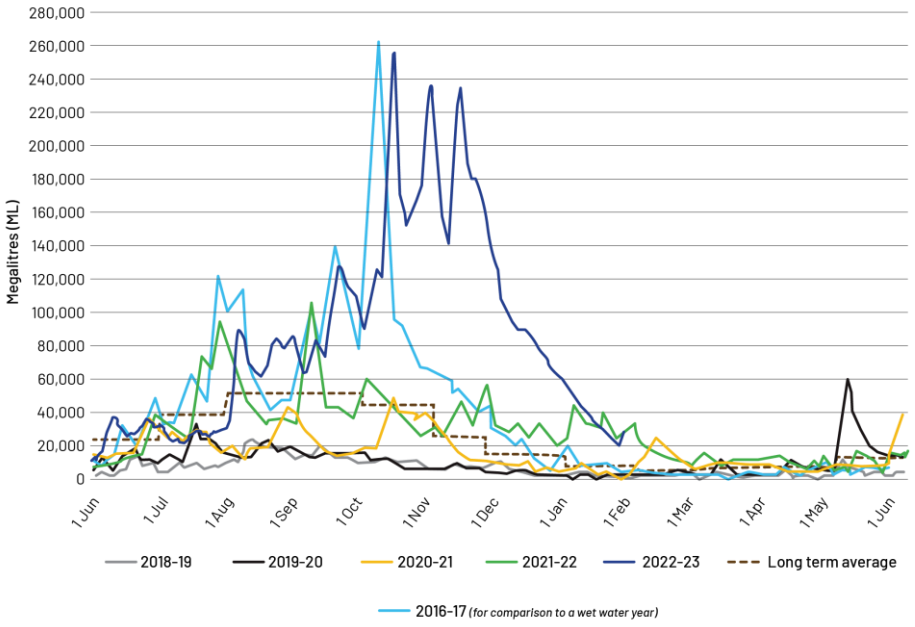
High streamflows were recorded in north, south, and south-east Australia. High streamflows are likely for February to April for northern, south-east, and north-east Australia.

In the northern and southern MDB, storages are now at 95% and 98%, respectively, compared to 97% and 91% at the same time last year

STORAGE LEVELS IN MAJOR DAMS



DAILY INFLOWS TO THE MURRAY DARLING BASIN



Murray System Daily Inflows (excl. Snowy Darling, inter-valley trade and environmental inflows) - 5 day rolling average

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

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