DUXTON WATER

# QUARTERLY ACTIVITIES REPORT

**Appendix 4C • September 2020**

Duxton Water Limited (ASX: D20)('Duxton Water' or 'the Company') is pleased to provide the Quarterly Activities Report for the period ended 30 September 2020. The purpose of this report is to provide an update on key areas of business activity during the quarter ended 30 September 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 September 2020, the Company held approximately 81.3GL of permanent water entitlements across 19 different asset types and classes. During the September 2020 quarter, the Company has undertaken a level of re-balancing of its permanent portfolio. This has unlocked statutory earnings and enabled to Company to strategically deploy capital into regions where the Company sees intrinsic value or future strategic benefit.

Since 2014, water entitlements in the SMDB have seen price increases of approximately 250% to its peak in January/February 2020. Between March to May 2020, entitlement prices consolidated and retraced by ~6. However, since May and through the September 2020 quarter, entitlement prices have stabilised and appreciated. This is particularly the case across a number of NSW general security entitlements which have seen a 10-15% increase in value since early 2020.

The appreciation of water entitlements over the last few years reflects long-term drivers rather than climatic variability. 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

Allocation prices fluctuated through the September quarter in response to the new water year resource base and forecast weather conditions. The beginning of the quarter marked the start of the 2020/21 water year with increased demand firming prices from the June close of ~$200/ML to $350-$400/ML in July.

The Bureau of Meteorology (BOM) have continued to monitor and forecast on the basis of the building signal of a La Nina event through the winter/spring of 2020, with the projections of above average rainfall conditions. While a La Nina event was confirmed in late September, October saw increased rainfall across catchments, significantly later in the year than initially expected. Received in-valley rainfall and more positive forecasts has to date tempered Irrigator demand and has seen allocation prices in the below choke Murray finish the quarter at ~$285/ML. The Goulburn and above choke Murray increased to $235/ML before retracing to $185/ML by quarters end.
Rainfall through November will be critical in determining the final 2020/21 resource availability. 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 portfolio remained stable at 64% between 30 June 2020 and 30 September 2020.

The Board maintains its view to have 70-80% of the Company's permanent water portfolio under lease. This approach delivers a visible and stable revenue stream across the climatic cycle.

## FINANCIAL UPDATE

### NAV

After several years of water entitlement value increases, the first half of 2020 saw a level of consolidation. Through the September quarter entitlement prices have stabilised and a level of price appreciation has occured.

The Company's NAV has increased from $1.58 to $1.62 during the quarter due to new season allocations and entitlement value movement. The Company still holds significant fair value revaluation uplift (>$68 million) across the portfolio even after realising $5.1 million of capital gain on the rebalancing of the permanent water portfolio through the quarter. 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 cash flow movements of this rebalancing will be recognised in the next quarter's 4C. The Company's NAV per share excluding tax provisions for unrealised capital gain has increased during the quarter from $1.76 at 30 June 2020 to $1.79 at 30 September 2020.

### DEBT

At 30 September 2020, the Company had drawn debt of $111 million. Throughout 2020, the Company has locked in a portion of its debt facility into a combination of 5-10 year interest rate swap arrangements with NAB to take advantage of historically low interest rates. The Company is currently preparing for the annual facility review process with NAB. A decision on the extension to the maturity date of each facility is expected to be finalised before 31 December 2020.
At 30 September 2020, the Company's LVR (Debt to Water Assets) is ~31%.

Lodged with the ASX without financial statements

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## DIVIDENDS

The Board maintains its commitment to providing shareholders with a bi-annual dividend franked to the maximum extent possible.

The Company was pleased to pay its latest interim dividend of 2.9 cents fully franked on 30 October 2020. With the Company's visibility to its leasing revenue and structured returns from the balance of its unleased entitlement, the Company is able to continue to provide its Shareholders with a degree of forward-looking dividend targets:

- 3.0 cents ($0.030) as the final 2020 dividend;
- 3.1 cents ($0.031) as the interim 2021 dividend;
- 3.2 cents ($0.032) as the final 2021 dividend; and
- 3.2 cents ($0.033) as the interim 2022 dividend.

*Dividend targets are to be paid in the following reporting periods and are expected to be fully franked.*

## PAYMENTS TO ASSOCIATES/RELATED PARTIES

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

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

Administration Fees ($62k) - fees paid for the provision of administration and finance related services.

Management Fees ($501k) - management fees paid as per the Company's Investment Management Agreement.

Reimbursements ($19k) - on-charge reimbursements for D20 expenses incurred by DCA.

## 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.

The Company believes it is a thorough and well-balanced report.

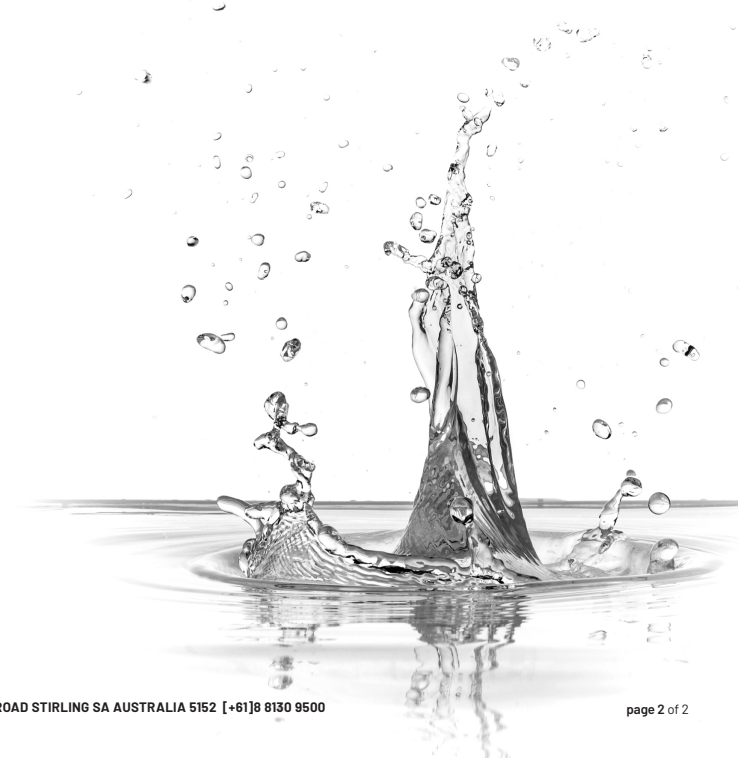
We note the ACCC has stated that:

"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



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

# Appendix 4C

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

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| **Name of entity** | |
|---|---|
| Duxton Water Limited | |
| **ABN** | **Quarter ended ("current quarter")** |
| 53 611 976 517 | 30 September 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 | 5,653 | 28,656 |
| 1.2 | Payments for | | |
| | (a) research and development | - | - |
| | (b) product manufacturing and operating costs | (5,142) | (21,898) |
| | (c) advertising and marketing | - | - |
| | (d) leased assets | - | - |
| | (e) staff costs | - | - |
| | (f) administration and corporate costs | (296) | (1,044) |
| 1.3 | Dividends received (see note 3) | - | - |
| 1.4 | Interest received | - | - |
| 1.5 | Interest and other costs of finance paid | (629) | (1,954) |
| 1.6 | Income taxes paid | (678) | (2,283) |
| 1.7 | Government grants and tax incentives | - | - |
| 1.8 | Other (provide details if material) | - | - |
| | - Management Fees | (456) | (1,447) |
| | - Performance Fee | - | (5,060) |
| **1.9** | **Net cash from / (used in) operating activities** | **(1,548)** | **(5,030)** |

| | | | |
|---|---|---|---|
| **2.** | **Cash flows from investing activities** | | |
| 2.1 | Payments to acquire: | | |
| | (a) entities | - | - |
| | (b) businesses | - | - |
| | (c) property, plant and equipment | - | - |
| | (d) investments | (2,534) | (7,075) |

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| Consolidated statement of cash flows | | Current quarter $A'000 | Year to date (6 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 | - | 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) | | |
| | - Net Deposits (Paid)/Received | (146) | 62 |
| **2.6** | **Net cash from / (used in) investing activities** | **(2,680)** | **(6,714)** |

| **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 | 4,250 | 17,179 |
| 3.6 | Repayment of borrowings | - | - |
| 3.7 | Transaction costs related to loans and borrowings | - | - |
| 3.8 | Dividends paid (Cancellation of Cheque) | - | (3,045) |
| 3.9 | Other (provide details if material) | - | - |
| **3.10** | **Net cash from / (used in) financing activities** | **4,250** | **13,058** |

| **4.** | **Net increase / (decrease) in cash and cash equivalents for the period** | | |
|---|---|---|---|
| 4.1 | Cash and cash equivalents at beginning of period | 2,043 | 751 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (1,548) | (5,030) |

| Consolidated statement of cash flows | | Current quarter $A'000 | Year to date (6 months) $A'000 |
|---|---|---|---|
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | (2,680) | (6,714) |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | 4,250 | 13,058 |
| 4.5 | Effect of movement in exchange rates on cash held | - | - |
| **4.6** | **Cash and cash equivalents at end of period** | **2,065** | **2,065** |

| 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 | 2,065 | 2,043 |
| 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)** | **2,065** | **2,043** |

| 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 | 584 |
| 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

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| 7. | **Financing facilities**<br>*Note: the term "facility' includes all forms of financing arrangements available to the entity.*<br>*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 | 112,000 | 111,379 |
| 7.2 | Credit standby arrangements | | |
| 7.3 | Other (please specify) | | |
| 7.4 | **Total financing facilities** | **112,000** | **111,379** |

| | | |
|---|---|---|
| 7.5 | **Unused financing facilities available at quarter end** | **621** |

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.

The Company is currently undertaking its annual facility review with NAB, and expects an extension to the maturity date of each facility to be finalised prior to 31 December 2020.

| 8. | **Estimated cash available for future operating activities** | **$A'000** |
|---|---|---|
| 8.1 | Net cash from / (used in) operating activities (Item 1.9) | (1,548) |
| 8.2 | Cash and cash equivalents at quarter end (Item 4.6) | 2,065 |
| 8.3 | Unused finance facilities available at quarter end (Item 7.5) | 621 |
| 8.4 | Total available funding (Item 8.2 + Item 8.3) | 2,686 |
| 8.5 | **Estimated quarters of funding available (Item 8.4 divided by Item 8.1)** | 1.74 |

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?



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Answer: No. The Company has an increased revenue generating capability for the Company's second half of the financial year. Through fulfilling forward allocation sale contracts between now and December 2020, spot market allocation sales and the collection of Q3 quarterly lease payments towards the end of December 2020, the Board has confidence in the Company's ability to manage future operational cashflows.

The Company has also undertaken a level of rebalancing in the permanent water portfolio during the quarter. This has unlocked statutory earnings which can be paid to Shareholders as dividends and enabled the Company to strategically deploy capital into rebalancing part of the permanent water portfolio.

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: Steps taken by the Company to funds its operations are already part of the operations of the business. The Company is able to generate cash to fund its operations through:

- Leasing revenue
- Sale of water allocations
- Forward allocation sale contracts
- Sale of permanent water assets
- 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.

At 30 September 2020, the Company has an accounts receivables balance of ~$9 million relating to the recent sale of permanent water assets. This amount is due for collection in October and November 2020. Turnover with the permanent water portfolio unlocks statutory earnings and enables the Company to fund strategic permanent water acquisition opportunities as they present themselves.

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.

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## 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: 30 October 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.

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