

4 April 2025

Internalisation Proposal

Highlights:

- **Internalisation of the senior management team and other business functions to Duxton Water Limited, to enhance corporate governance and shareholder alignment.**
- **Senior management to be employed directly by Duxton Water Limited, providing greater clarity around its future operating structure.**
- **Mr Edouard Peter who has been the Company's Chairman since 2016, will be stepping down on 1 June 2025, and will continue to serve on the board as a Non-Executive Director.**
- **Implementation of a transitional services agreement to assist with a smooth transition.**

Duxton Water Limited ("the Company" or "D20") is pleased to announce that the Company (led by its independent directors) has agreed with Duxton Capital Australia Pty Ltd ("the Manager" or "DCA") to give effect to an internalisation of the senior management team responsible for managing the Company as part of a broader project for the Company to internalise all operational functions ("Internalisation"). The Internalisation will be subject to shareholder approval at the Company's upcoming Annual General Meeting on 30 May 2025.

With the Investment Management Agreement ("IMA") expiring in July 2026, the Independent Directors have conducted a thorough due-diligence process over the past 12 months. This has involved meeting with and seeking feedback from several shareholders, along with seeking views and advice from investment banks, stockbrokers, legal and accounting firms. As a result of this, the Company and DCA are of the view it is in the best interest of shareholders moving forward to internalise the management of the Company.

The Board would like to reaffirm shareholders that it does not expect this transaction to have a material impact on the Company's operations. With continuity of the current senior management team, and a Transitional Services Agreement ("TSA") with DCA, the Board has confidence of a smooth transition to a fully integrated operational business.

Background

The Company listed on the ASX in September 2016, and is externally managed by DCA, under an IMA dated 25 July 2016, with an initial term of 10 years, due to expire on 25 July 2026.

With the initial term of the IMA due to expire next year, the independent directors of the Company have been working with DCA on future operational and management structures for D20, consistent with the maturity of the Company.

The IMA was approved by shareholders in 2016 as part of the Company's IPO process. Over the past 8.5 years, the Company's externally managed structure with DCA has delivered substantial advantages to shareholders, including:

- Avoiding the need to establish an internal management team during the Company's early and sub-scale phase by utilising DCA's broader team structure, providing operational efficiencies across key functions.
- Gaining access to DCA's extensive network of agricultural resources, service providers, and relationships.

Through the management of DCA, the Company has grown its asset base from \$37 million on listing to \$385 million on 28 February 2025. The Board recognises the significant benefits the externally managed structure with DCA has delivered since inception.

DCA's management of the Company's portfolio has played a key role in best managing the Company's risks during its formative years and has been instrumental in supporting its growth and success to date. While DCA as the investment manager has been pivotal in building a stable foundation for the business, the Board believes that at this stage of the Company's business cycle, an internalised management structure will deliver further benefits to the Company and its shareholders going forward.

Internalisation

The Internalisation is subject to a number of conditions being satisfied, including approval by shareholders of payments to be made, and performance rights to be issued, to DCA, by way of an ordinary resolution at the Company's upcoming AGM. Further information for shareholders relating to the Internalisation will be set out in the explanatory statement to the AGM notice of meeting, which will also be accompanied by an Independent Expert Report regarding the Internalisation.

In order for the Internalisation to occur seamlessly, the Company and DCA have entered into a deed of termination and release ("Termination Deed") and TSA on the key terms and conditions as set out in Annexure A.

The TSA has been executed to support a smooth and orderly transition. The Independent Directors are of the view that this agreement materially reduces the execution risk associated with the transaction and provides the Company with both additional resources and time to establish the necessary internal capabilities.

Under the TSA, DCA will continue overseeing all services currently provided for under the existing Investment Management Agreement, including access to DCA's IP, systems and processes and provide ongoing administration, finance, accounting, legal, human resources, office, and IT support. Further information in relation to the TSA can be found in the appendix to this announcement.

Expected benefits of Internalisation

The independent directors of the Company consider the Internalisation provides:

- Improved overall corporate governance and shareholder alignment consistent with market expectations of ASX-listed companies, to enable continued growth and investment.
- Enhanced control over the Company's operations including more direct oversight of the management team, and an ability to develop remuneration plans to retain and incentivise key management personnel.
- Removal of the need to pay on-going management fees and uncapped performance fees. Instead, the Company will employ its own management team to run the business and its operations.
- Greater certainty around the future of the Company's operating structure as the Company no longer needs to seek shareholder approval for renewal of the IMA each 5-year period.

The Independent Directors believe the Internalisation is in the best interests of the Company and its shareholders at this stage of the Company's lifecycle. The Company will seek shareholder approval for the Internalisation at its upcoming Annual General Meeting on 30 May 2025.

If shareholder approval for the matters contemplated by the Termination Deed and TSA is not obtained at the AGM, it is the Company's present intention that the IMA will continue to operate in its current form, with the Board continuing to assess its options with respect to the IMA, ahead of the Company's 2026 annual general meeting.

Chair Appointment

The Company would also like to announce that, Mr Brendan Rinaldi will step into the role of Chairman, effective from 1 June 2025. Mr Rinaldi will succeed Mr Edouard Peter who has been the Company's Chairman since 2016. Mr Rinaldi, an Independent Non-Executive Director, has served on the Board since April 2022 and brings a wealth of industry and governance experience to the role.

The Board extends its sincere gratitude to Mr Peter for his significant commitment and leadership of the Company over the past 8.5 years. Under his guidance, and through the management of DCA, the Company has grown its significantly expanded asset base, while delivering strong performance with total NAV returns of 119% since inception. The Company has benefited significantly from its association with the broader DCA platform, and the Board acknowledges the valuable role this has played in the Company's success. Mr Peter will continue his duties as a Director of the Company.

Chairman's comments

Ed Peter, Chairman of the Company says:

"Today's announcement is a significant milestone for Duxton Water Limited. D20 was born in a brainstorming session on a rainy day in 2014 in the Adelaide hills. As the first portfolio manager, the Chairman of D20, and the Chair of Investment Manager, I've had the privilege of overseeing the Company from its inception to where it is today. We've worked tirelessly over the last 8.5 years to deliver value to our shareholders, which has resulted in an almost 10-fold increase in assets under management since listing in 2016, and total returns of over 100% during this period.

I take great pleasure in knowing we have created over the past 10 years, something unique as the only public Company of its type worldwide. I remain one of D20's largest shareholders and have never sold a share in the past 8.5 years. This Internalisation is the result of forward-thinking negotiations led by our Independent Directors and it is a natural evolution of Duxton Water's structure as the business reaches critical mass. I look forward to continuing to work alongside my fellow Board members as we transition the Company into its new structure".

Senior Management Team

Subject to shareholders approving the Internalisation, Lachlan Campbell (Portfolio Manager) and Lachlan Beech (Portfolio Manager) as the senior management team currently responsible for managing D20 will be employed by Duxton Water Limited from 1 June 2025 continuing their roles as Portfolio Managers. It is expected that Lachlan Campbell and Lachlan Beech will transition to Key Management Personnel of the Company upon completion of the Internalisation.

Statement from Lachlan Campbell and Lachlan Beech:

"We are excited for what this transition means for the future of D20. Becoming direct employees of the Company is more than just a structural change, it's a reaffirmation of our long-term commitment to the business and its stakeholders. We believe that directly embedding senior management within the Company strategically positions the Company for future growth.

We would like to reiterate to shareholders that with continuity in the senior management team, we are well placed to facilitate a successful transition for the Company. We look forward to continuing our work with the Board, our team, and shareholders, as we enter this next phase of growth."

Advisers

The following advisers were engaged to assist the Independent Directors in reviewing the Company's management structure and the subsequent recommendation of Internalisation:

- Steinepreis Paganin, as legal counsel
- KordaMentha, as corporate adviser
- BDO, as independent expert

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

Contact Information

For further information or if you have any questions, you can call Duxton Water Limited on (08) 8130 9500 (within Australia) or +61 8 8130 9500 (outside Australia), from 9:00am to 5.30pm (AEST), Monday to Friday (excluding public holidays).

<https://www.duxtonwater.com.au/>

Disclaimer:

This announcement contains forward-looking statements which are identified by words such as 'may', 'could', 'believes', 'estimates', 'targets', 'expects', or 'intends' and other similar words that involve risks and uncertainties. These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this announcement, are expected to take place. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company, the Directors and the Company's management. The Company cannot and does not give any assurance that the results, performance or achievements expressed or implied by any forward-looking statements contained in this announcement will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements. The Company has no intention to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this announcement, except where required by law.

Annexure A – Termination deed and transitional service agreement key terms

- Pursuant to the Termination Deed, subject to satisfaction of the conditions as summarised below, the IMA between the Company and DCA terminates effective 1 June 2025 (“Termination Date”).
- On termination of the IMA, DCA will be paid the termination fee as prescribed in the IMA (“Termination Fee”), which requires a payment equal to 5% of the portfolio net asset value at the end of the month preceding the date of termination, reduced by one sixtieth for each calendar month elapsed after the fifth anniversary of signing the IMA. The Company currently estimates the Termination Fee payable will be approximately \$3.2 – \$3.3 million (based on the calculation being for the month of May 2025).
- Following payment of the Termination Fee and all other fees due to the Manager as at the Termination Date, the Company and the Investment Manager mutually release any obligations they have under the IMA.
- Also subject to satisfaction of the conditions as summarised below, the Company and DCA have executed the TSA under which DCA will provide the following transitional services to the Company (consistent with scope and scale of services provided by DCA to the Company under the IMA during the 12-month period immediately prior to the TSA):
 - provision of data, financial models, and information system access;
 - facilitating access to accounting, tax, legal, human resources and financial support;
 - administrative and office support, including payment of rent, and analytical support;
 - facilitating access to compliance, audit, tax and risk management support;
 - any payment of Company director fees to Edouard Peter and Stephen Duerden;
 - assistance with any fundraising support;
 - engagement of appropriate staff and preparation, review and/or negotiation of contracts to accomplish internalisation; and
 - supervision of the Company’s internal investment management team, (the Services”).
- The TSA will be for an 18-month period from 1 June 2025, unless terminated earlier if the internalisation of the Company’s operations is completed prior to the end of the transitional period, or in accordance with the termination provisions of the TSA.
- In consideration for DCA providing the Services, the Company will:
 - Pay DCA a fixed monthly fee of \$230,000 (plus GST); and
 - issue DCA with 3,000,000 performance rights.

- If internalisation has occurred prior to the end of the 18-month transitional period, the Company will pay DCA the remaining monthly service multiplied by a factor of 1.2 times in one final cash payment.
- Under the terms of the performance rights, if Internalisation has occurred by the end of the 18-month transition period, the performance rights will convert into 3,000,000 fully paid ordinary shares in the Company. The performance rights will otherwise be on market standard terms.
- During the transitional period, DCA have agreed to certain restraints in favour of the Company, including non-compete, non-poach and non-solicit obligations.
- The Company and DCA each also have termination rights for the TSA in the event of a material breach or insolvency event by the other party or takeover/control event for the Company.

The transactions contemplated by the Termination Deed and TSA are subject to the following conditions being satisfied or waived (with the approval of both parties):

- the Company obtaining all shareholder approvals required to undertake the matters set out in the Termination Deed and TSA, including approval pursuant to ASX Listing Rule 10.11 to issue the Performance Rights to DCA and section 208 of the Corporations Act to pay DCA the fees contemplated by the Termination Deed and TSA;
- the parties obtaining all necessary regulatory approvals or waivers pursuant to the ASX Listing Rules, Corporations Act 2001(Cth) or any other law to allow the parties to lawfully complete the matters set out in the Termination Deed and TSA;
- an independent expert engaged by the Company opining that the transactions contemplated by the agreements are “fair and reasonable” to unrelated shareholders;
- the parties obtaining all necessary third-party approvals, consents and waivers to lawfully undertake the matters set out in the agreements; and
- the parties consulting with each other on the form and content of notices and announcements required in respect of any the conditions set out above.