
LOWELL RESOURCES FUNDS MANAGEMENT LIMITED

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LOWELL RESOURCES FUND (“LRF”) ASX ticker ‘LRT’

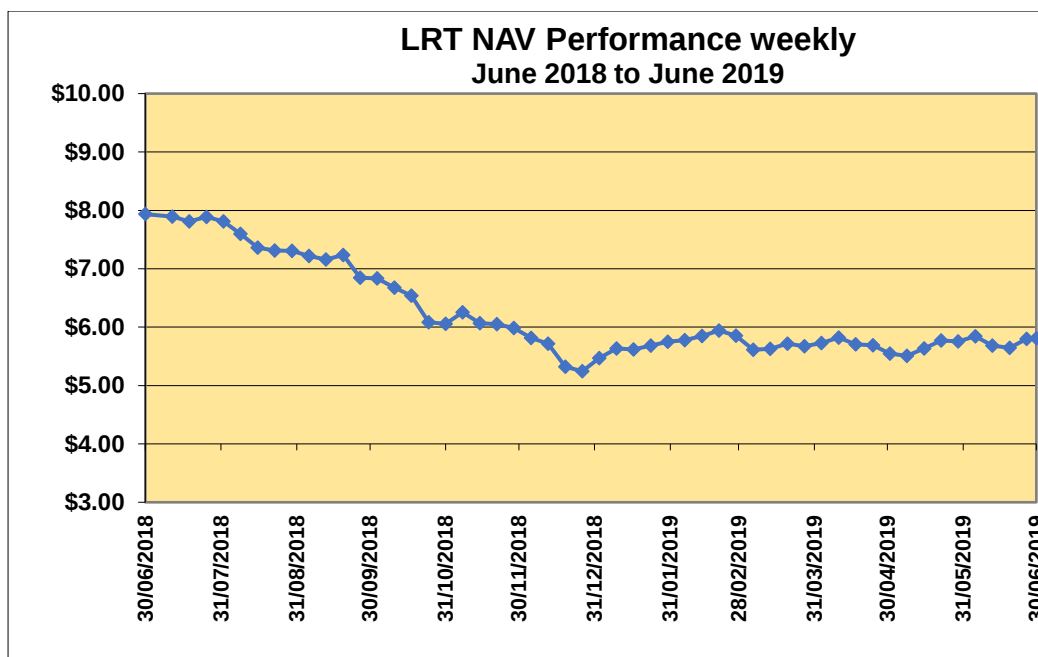
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**Report prepared for the Responsible Entity Cremorne Capital Limited (AFSL: 241175)
by the Investment Manager of the Fund (“Lowell Resources Funds Management Limited”)**

June 30, 2019 End of Financial Year Report to Unitholders

The movement of the Net Asset Value (NAV) per unit of LRF over the year to 30 June 2019 is shown in the chart below.

The Net Asset Value of LRT of 30 June 2019 was \$5.81 and its Unit price as quoted on the ASX was \$4.10, representing a 29% discount.



1. OVERVIEW

The performance of the Lowell Resources Fund during the 2018/19 financial year was a tale of two halves. The December half was disappointing for the sector in which the LRT is focused, with an exodus of risk capital from junior equities in general, while there was notable improvement in the second half.

The FY2019 saw a sharp fall in the ASX Small Resources Index which dropped 21% over the 6 months. The Fund was not immune to the fall in the small resources sector with the NAV of the Fund falling 26%, from \$7.89/unit to \$5.81/unit. Most of the fall happened in the six months to the end of December. The largest impact on the Fund's NAV was due to the write off of the Fund's investment in the unlisted Laguna Gold where management failed to take the opportunity to list the company and provide an exit for investors when market conditions were favourable. The Fund had invested A\$1m in Laguna but the write-down was larger given the Fund's policy of valuing unlisted stocks at the last meaningful arms-length share transaction usually set by a capital raising. The Fund's current exposure to unlisted stocks at 30 June 2019 is now only 4%, mainly spread across four investments. The second half of the financial year produced a better outcome, with NAV rising 10.7%, as risk capital began to return to the sector and gold prices improved.

The performance of the ASX Small Resources Index is probably the best benchmark for the Trust. Again it was a tale of two halves. In the December half, the Small Resources Index dropped 21%, but regained 8.6% in the second half of the FY, making for an overall 14% fall over the 12 months. Since 30 June 2019, the index has picked up 7.6%, or about half the increase in the NAV of the Trust. A number of factors are at play here, but perhaps the most important bullish factor has been the increase in merger and acquisition activity across the resources space.

The unit price traded a discount to the NAV during the year which at the end-June was represented a 29% discount. During the year, the Manager took steps to reduce this discount and increase the liquidity of the traded units, presenting at investor conferences both domestically and overseas, as well as conducting one on one briefings for brokers, and hosting events showcasing selected stocks in the LRF portfolio. As value managers, Lowell Resources Funds Management Limited (LRFM) itself

purchased units in the Trust when the trading window allowed, believing the discount was too steep given the market conditions and the Manager's positive views on both the assets inside the Fund and the outlook for various commodities and sectors in which the fund is invested.

The table below shows the performance of some of the commodity prices relevant to listed companies in the LRT universe. You can see that, excluding gold and iron ore, the first half of the FY saw some sluggish performance from commodities like base metals and oil. It was generally a much better second half and this is driving the better performance of small resources companies listed in Australia, the UK and North America, the major markets in which the fund is invested.

Gold was a strong performer across the entire year as investors sought out the yellow metal for a hedge or protection against financial difficulties triggered by the expanding trade imbroglio between the US and China. The gold price measured in Australian dollars was even stronger, as the A\$ dropped against the US\$. In fact, the Australian dollar gold price hit new highs across the June half and has continued its record setting run.

Commodity	FY19 open	Dec-31	H1 movement	%	End FY	H2 move	%	FY move	%
gold US\$	1325	1191	-134	-10.1	1409	218	18.3	84	6.3
gold A\$	1725	1818	93	5.4	2007	189	10.4	282	16.3
copper US\$/lb	3.04	2.64	-0.4	-13.2	2.71	0.07	2.7	-0.33	-10.9
zinc US\$/tonne	3274	2467	-807	-24.6	2494	27	1.1	-780	-23.8
WTI oil US\$/bbl	64.91	45.4	-19.51	-30.1	58.15	12.75	28.1	-6.76	-10.4
A\$/US\$	0.7686	0.7053	-0.0633	-8.2	0.7022	-0.0031	-0.4	-0.0664	-8.6
Ironore US\$/t	66	71.5	5.5	8.3	116.5	45	62.9	50.5	76.5

2. ASX-LISTED LRF

Units in the Lowell Resources Fund are listed on the ASX. The unit price under-performed the actual NAV of the Fund itself for a number possible of reasons. The unit price started the FY at \$6.75/unit and ended the year at \$4.10/unit. The NAV of the Fund at end-June was \$5.81 per unit, meaning holders were prepared to sell units at a 29% discount to the value of the investment inside the Fund. This behaviour appears to be somewhat illogical, but is not unusual in the Listed Investment Company or Trust market at the moment.

A number of reasons have been suggested as to the size of the discount, the foremost being the desire by some holders to lock in tax losses for the end of the FY. This suggestion carries credence as the unit price lifted to over \$5.00/unit after the start of the new financial year and the discount narrowed to 25%. However, buying LRT units at this level of discount is in some ways analogous to buying \$1.00 of assets for 75c!

LRFM took the opportunity to buy units on the market in the June quarter while the compliance trading window was open. As value managers, we thought the discount was too steep given the market conditions and our positive views on both the assets inside the fund and the outlook for various commodities and sectors in which the Fund is invested. The Manager has expressed this view in many public forums, including unitholder gatherings. The NAV per unit of the Fund is announced to the ASX on a weekly basis and regular disclosures are made in our monthly reports, posted on the ASX announcement service. LRFM will continue to share our views on the market and the resources sector in as many public forums as time will permit in order to build awareness of fund's investment philosophy and activities.

3. MACRO SETTINGS

Global growth has continued at a modest pace with the main focus on US GDP growth of 2.2%pa and the Chinese economy growing at around 6.2% pa in FY19.

Central banks have sought to sustain this growth by keeping interest rates as low as possible. The US most recently cut its overnight cash rate target by 25 bp to 2.25% pa in a bid to offset negative impact of the tariff increases imposed on China by President Trump. Meanwhile, the US Administration is running a stimulatory fiscal policy and a budget deficit estimated at around US\$1,000 billion in the current year.

Loose monetary and fiscal policy might usually have stimulated inflationary consequences in the US economy, but inflation in the US was announced as running at just 1.6% pa for the FY. Much of the commentary from the US and European central banks has been focused on the need to stimulate an inflation rate of 2 to 3% pa. This is extraordinary language from the perspective of the historical fights against inflation going back to the Volker years in the early 1980s. Inflation would be the “easy” solution to growing global economies. These days, the result of the 30-year fight against inflation is that victory has been achieved. However, we don’t hear central bankers cheering.

US Government Debt

Global governments and central banks have continued to issue more and more debt. It is estimated that the US Government will issue US\$800 billion in new treasury securities in the second half of 2019 after reaching a bi-partisan agreement to ignore the debt ceiling for the next two years. Perhaps the world should be grateful that the GOP and the Democrats could find an issue on which they could work together! But its unfortunate that agreement resulted in flooding the world with more US government debt. The US budget deficit is running at more than US\$1 trillion a year, an extraordinarily high level and one which might have once been called unsustainable. But these are interesting and different times.

While the mountain of US government debt is threatening, one positive aspect is that the US government is ploughing some of those funds into rebuilding American public infrastructure. The chart below shows the yield of the US 10 year bond over the past decade. Falling bond yields over the first half of CY19 are raising concerns about US growth.

USBON.IR@IR: 0.0176



The extraordinary aspect of US public debt is that while the quantum of debt is ballooning, the cost of servicing that debt is low by historic standards. Bond yields remain low despite borrowing levels being high. This appears contrary to the laws of supply and demand and one feels the heavy hand of the Federal Reserve Bank keeping it that way. In many ways, the price of borrowing those funds cannot lift much higher because it would challenge the ability of governments to service the amount of debt outstanding.

Bond Market

While the ructions of global bond markets have been supportive for the gold price, many suggest that low bond yields reflect the increased risk of global recession. Rather than being a symptom of slower growth, descending bond yields may be forecasting periods of slower economic growth portending global recession. Certain forward-looking indicators such as PMIs in the major economies have pushed lower. Real estate prices have plateaued and in some key markets have declined. However, in the US in particular, employment levels have been rising relentlessly under the influence or perhaps cheerleading of President Trump.

The major uncertainty surrounds global trade and this uncertainty has flowed through to some metal prices. Copper has been impacted to the downside as a result.

Inflation

The outlook for inflation has been turned on its head. As mentioned above, for the past generation inflation has been something to be fought and brought under control. These days central banks are looking to stimulate inflation. The success of central banks and governments with this task may be a poisoned chalice - deep scars can be inflicted if these same groups seek to try to 'put the toothpaste back in the tube'! But much of the commentary coming from the banks is that policy must be developed to achieve an inflation target, usually in the range of 2 to 3 percent. As an aside, it is debatable whether governments have the skills, or will, to properly measure inflation. One suspects that the ways and means of measuring inflation have been structured around finding less of it than more. If we did one of those 'pub tests' so beloved of our politicians, what reaction we would get from Australians facing rising utility charges, rising cost of health care and the flow through effect of the years of rising house prices on rental markets?

As governments seek to stimulate inflation around the world, mainly using the blunt weapon of interest rates, they support rising prices of raw materials and demand for renowned hedges against inflation, especially precious metals. This rising clamour about interest rates supports LRFM's positive outlook for gold and silver.

It is estimated that more than US\$12 trillion in global government issued debt is trading at negative rates of interest. Many developed world bond yields have been pushed below 0% by central bank buying. This buying has expanded the balance sheets of these central banks and pushed yields into negative nominal and real levels in the aftermath of the GFC. The banks were determined to inject vital cash into bank balance sheets by buying large swathes of the debt issued by various governments. The two-pronged effort was aimed at lowering the cost of borrowing and thereby stimulating investment in productive capacity while helping to stimulate debt-fuelled consumption. The strategy, known as quantitative easing, had limited success in stimulating growth but was very successful in pushing up asset prices such as shares, property and selective hard assets. However, while investment in productive assets has failed to fire, US consumer confidence is riding high. A recent survey of consumer confidence, by the University of Michigan, noted rising confidence and the strongest net personal financial expectations since May 2003. The US consumer is travelling nicely – for the present – and personal consumption makes up around 70% of the US economy. Wall Street may be wailing about Trump's tariff war, but the US consumer is having none of those doubts.

The current economic climate and central bank policy settings are reminiscent of the heady days post GFC. Interest rates and bond yields are being pushed lower. The Fed's rate cut was the first for more than a decade. A bond yielding a negative interest rate is a worse performing asset than cash and, more importantly, a worse returning asset than a gold bar.

China

China remains the largest consumer of many commodities which are the focus of the Fund's investments, accounting for 20% of global crude oil imports, 20% of nickel imports, 31% of copper imports, 60% of bauxite and 65% of iron ore. The Chinese government GDP growth target for 2019 is 6.0%-6.5%pa (compared to 6.6% in 2018), which, assuming this growth is achieved, in a broad sense indicates continuing growth in demand for commodities.

However, outside the interest rate environment, the most immediately visible problem for global prosperity on the horizon is the escalating trade war between the US and China. In fact, impact of the trade war was one of the reasons offered by Fed Chairman Powell for the July rate cut. Lower interest rates were required to offset the negative impact of the worsening trade dispute. In turn, in March and April the Chinese government announced measures to stimulate Chinese economic growth while protecting employment, including:

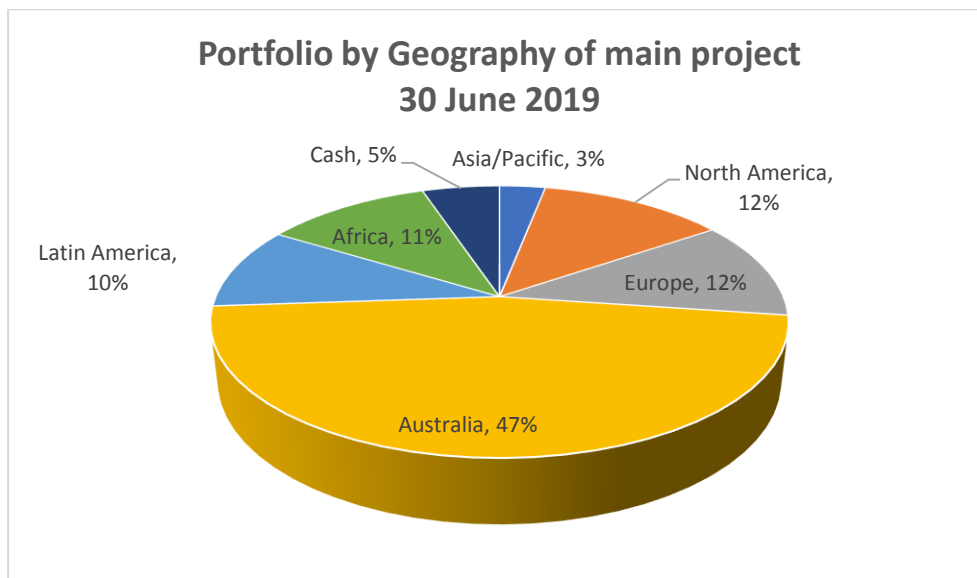
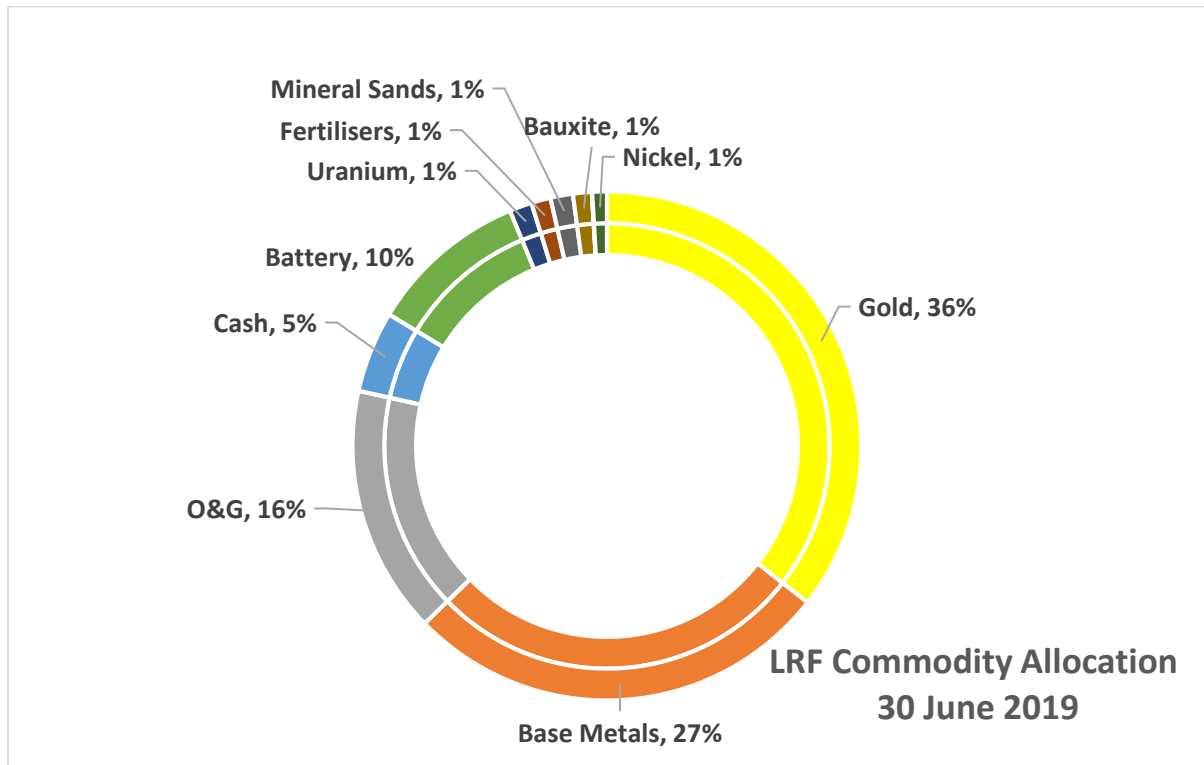
- VAT reduction for manufacturing industries from 16% to 13% and for transportation and construction industries from 10% to 9%;
- Increased budget deficit for 2019 to 2.8% of GDP, compared to 2.6% target for 2018; and
- Easing of reserve ratios for banks, including encouragement for banks to lend mid to long term loans to the manufacturing industry.

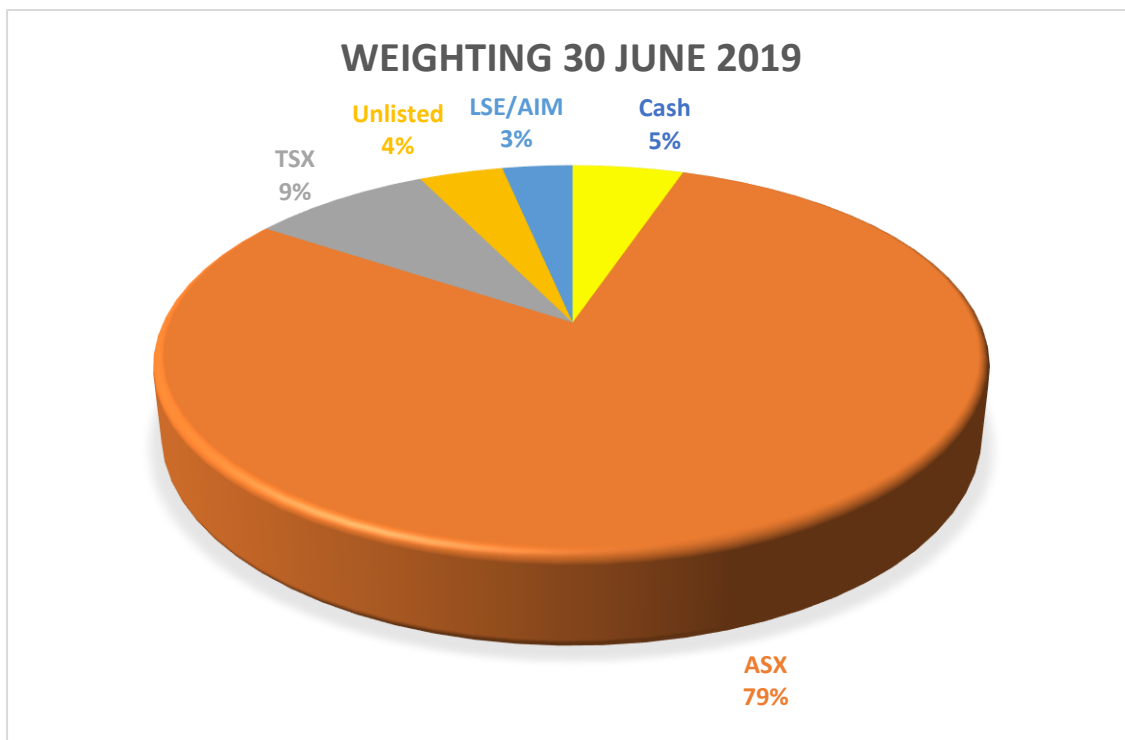
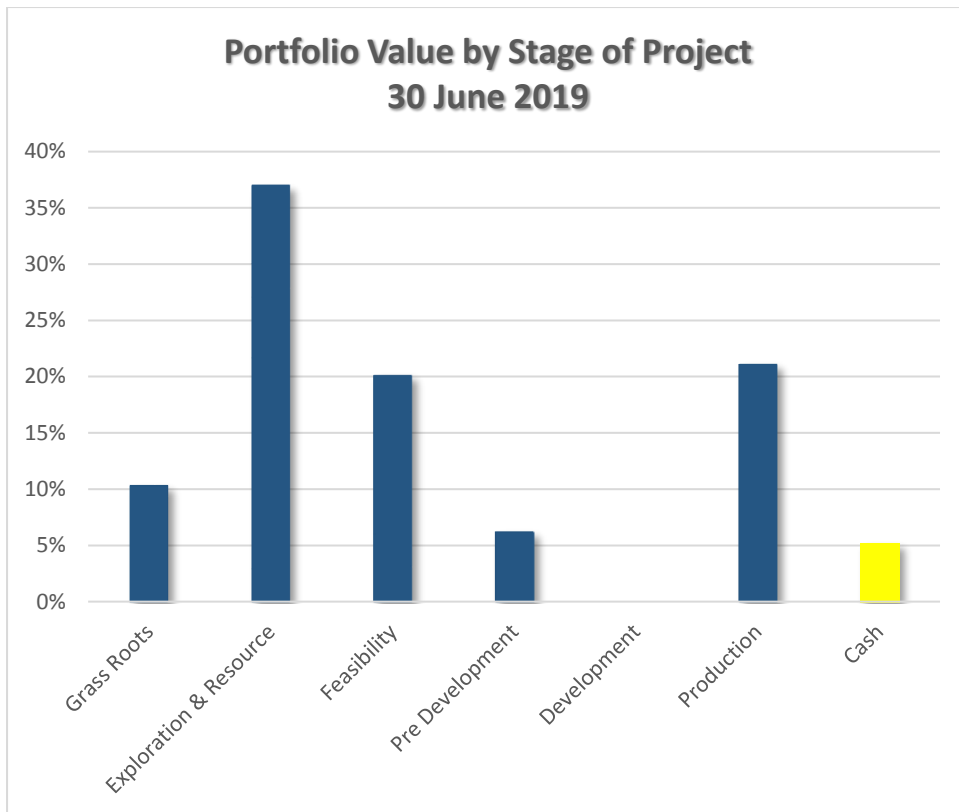
Chinese fixed asset investment, retail sales and industrial production growth in China rebounded strongly in Q1 2019. Nevertheless, in June further stimulus was announced including news that local governments in China would be allowed to use part of the proceeds from special bond sales as capital for qualified major projects such as railway and national highways.

The Manager is of the view that not only will China continue to be the major importer of most of the world's commodities, the Chinese government will ensure that the economy continues to grow. This determination was demonstrated post year-end as the Chinese renminbi was allowed to fall below 7rmb to the US\$.

4. LRF Portfolio as at 30 June 2019

LRT Portfolio Charts - based on main project of investee company, by shareholding value





5. COMMODITIES

Gold

At the time of writing, gold was trading at a record Australian dollar price of over AUD\$2,200/ounce, delivering bumper cashflows for Australian gold producers and beginning to stimulate merger and acquisition activity in the Australian gold sector. We are seeing the larger gold producers trade at premiums to their underlying project NPV estimated valuations. This is partly due to investment flows into index funds such as ETF's. It may also be due to the focus of Chinese M&A searches for large volumes of international gold production. While this optimistic and aggressive mood has generally not yet flowed through to North American gold companies, the Manager's view is that the bull market for gold shares may be only in its infancy.

We see potential for incremental increases in investment into gold on a global basis. A recent report on gold demand from the World Gold Council noted 2018 was the highest year of central bank gold buying for 50 years, a rate which further increased in the June 2019 half. The central banks of Russia and China have been notable large buyers. China's gold holdings amount to 2.8% of its total holdings, which represents China's largest percentage of gold on record. Escalating trade war tension may encourage China to further gold purchases of both physical and of underlying production. According to the World Gold Council, global gold demand increased 8% year on year in Q2 2019 to 1,123 tonnes as a result of the acceleration in central bank purchases (224.4 tonnes), as well as Exchange Traded Fund holdings, which increased by 67.2 tonnes (a 99% yoy jump). It doesn't take a big re-allocation of funds into the bullion market to significantly move the price of the yellow metal.

Low interest rates combined with a massive expansion of central bank balance sheets ('money printing') over the decade following the Global Financial Crisis, has stimulated interest once again in precious metals. Gold has hit a six-year high in US\$ terms in Q3 2019. Gold also appears to be reacting to concerns about global bond markets. Standard Chartered noted that gold follows a historical pattern that leads to gold higher prices when the US Federal Reserve terminates a tightening cycle and proceeds to cut rates. Coupled with ongoing trade war tension, this has led to the recent break out of gold prices through the 5-year resistance level of US\$1,350/oz.

"We're now going from trade wars almost into currency wars," said Whitney George, president of Sprott Inc., a precious metals-focused fund. "Gold is a currency, but it's nobody's obligation, so it will stand tallest when everyone else is trying to debase their currency to be competitive globally." US\$ gold's price break-out in the face of US dollar strength, which is traditionally inversely correlated to gold price, can be viewed particularly positively for future gold price movements.

Gold was also a winner in the first round of aggressive monetary stimulus and quantitative easing in the aftermath of the GFC, as shown in the chart of monthly closing gold prices below. The precious metal reached a high of \$1,921 in 2011, but reached a low of US\$1,046/oz just four years later.



As at 30 June 2019, the Fund was 36% invested in gold focused equities, representing the largest portion of the Fund's portfolio. LRFM remains positive on the outlook for gold and the shares of gold producers and explorers.

One of the Fund's best performing assets over the 2018/19 FY was the holding in Gold Road Resources, 50%-owner of the Gruyere Gold Mine in WA scheduled to produce 300,000oz pa. This mine is the newest of the limited number of gold mines constructed in Australia in recent years, not all of which have started successfully. Although gold mines are some of the least risky investments in the junior resource space, technical issues can arise in both the operations of a new plant and the reconciliation between the gold reserves and what comes out of the mill.

The Fund also enjoyed strong returns from gold producer Ramelius Resources, although our focus is on companies exploring for and expanding the size of an existing discovery. In this respect, the Fund has built significant investments in companies such as De Grey Mining, Musgrave Minerals and Genesis Minerals (all focused in Western Australia). The Fund has also identified deep value opportunities for gold companies active in West Africa. Although a it can be a challenging political and security environment, the Fund has made investments in Oklo Resources (Mali), Golden Rim (Burkina Faso), Cardinal Resources (Ghana) and Predictive Discovery (Burkina Faso and Cote d'Ivoire).

Silver

Since the end of the 2018/19 FY, silver has risen out of its recent trading range. The silver price fell 14% from the start of FY2019 to a low of US\$13.86/oz at its nadir. The metal has risen 17% from its low point to US\$16.22/oz in Q3 2019. Meanwhile, the much-watched gold/silver ratio has fallen from a recent high of 93 ounces of silver per ounce of gold to the current 88x, having been as low as 32x in 2011. Silver therefore looks relatively cheap based on this ratio and the Manager is identifying additional equity opportunities in this commodity.

The Fund currently is exposed to silver through a large investment in Adriatic Metals, which has the high-grade polymetallic Ag-Zn-Pb-Au-Ba deposit in Bosnia. We expect the largest revenue earner from the project to be silver. The Fund also holds investment in equities such as Hannan Resources (TSX.V), which has an exciting early stage silver-copper exploration play in Peru, and Pacifico Minerals (ASX) which is focused on the Sorby Hills Pb-Ag project in northern WA. The silver chart is show below



Base Metals

As at 30 June 2019, the Fund's portfolio was 27% invested in base metal-focused emerging resource companies.

Copper

Copper is a bellwether measure of the strength and capacity of the global economy. The copper price in the near term has been under pressure as a result of the US-China trade war and fears of global economic slowdown. However, in the long term the average demand growth for copper has been over 3% pa since 1900.

Approximately 75% of annual global copper consumption (~24Mt in 2018) is used in components for electricity generation, transfer or utilization. Royal Dutch Shell forecasts electrification as a proportion of final energy usage will increase from the current 19% to around 50% over the next 30 years. This move is amplified by the ongoing electrification of the developing world.

Rio Tinto recently stated, that to enable growth in emission-free energy, it is likely that more copper will be required in the next 25 years than was consumed in the last 500 years. This implies that the grade of the future copper mine will decrease below the current world average of 0.5% Cu, which will implies a supply side incentive price which is significantly higher than current levels of around US\$2.70/lb will required.

On the mine supply side Codelco (17% decline) and Escondida (13% decline) had weaker yoy output through the March 2019 quarter. The threat of strikes in large South American producing mines in countries such as Peru and Chile chronically looms over supply. CRU forecasts a large supply-demand gap in the middle of the 2020's as many existing mines are exhausted and new mines are more challenging to bring onstream.

In June 2019, Ashanti Capital noted that the number of days of global copper cathode stockpile coverage across the LME, Shanghai FE and CMEX dropped to 8.1% - the lowest level in 5 years. While Santiago-based CRU Consulting principal analyst, Erik Heimlich, said "The current price [of US\$2.65/lb] is not reflective of the market, which is basically in a situation of balanced supply and demand. We think there is a speculative element to these very low prices.... I would like to stress there is growth in China and the recent stimulus package is producing some good signs from end-use sectors."

CRU predicts a copper deficit in 2019 of 100,000 tonnes and in the medium-term the outlook is for supply shortages to emerge towards 2023. CRU forecasts the most important demand factor being the role of copper in reducing emissions. It estimates copper demand of 1Mt by 2025 from electric vehicles and associated infrastructure, and expects this to grow to about 5Mt by 2035, compared to total global copper demand of 23.6Mtpa in 2018.

China remains the world's largest copper consumer and planned expansions of Chinese smelters are gradually being completed. The 400,000 tpa Ningde smelter started up in 2018, while the 300,000 tpa Guangxi Nanguo Smelter and Yunnan Copper's 400,000 tpa Chifeng Smelter – were commissioned in H1 2019.

Corporately, the copper sector has seen heightened mergers and acquisitions activity amongst emerging companies. The Fund positioned itself for this through investment in MOD Resources, which completed a feasibility study on its T3 copper project in Botswana. MOD has subsequently been the target of an agreed takeover approach by Sandfire Resources at a circa 40% premium to market.

The Fund is also exposed to copper through investments in MetalsX (ASX listed Cu and tin producer), and explorers such as Antipa Minerals (which holds the dominant ground position in WA's Paterson province immediately adjacent to Rio Tinto's new Winu Cu-Au discovery), PolarX (Alaska focused Cu and Au explorer) and SolGold (Newcrest and BHP investee company with the huge Alpala Cu-Au discovery in Ecuador).

Lead and Zinc

The global zinc market during the 2018/19 financial year was dominated by the competing factors of concentrate surplus versus a deficit in refined metal. China's zinc treatment charges hit record highs for imported zinc concentrate but this did not stimulate more refined zinc production. Refined zinc production in China fell to historic recent lows in early 2019. This is attributed to limited new capacity and tightened pollution control. The financial troubles facing Nyrstar exacerbated the shortage of global smelting capacity, while worsening the glut in mine production.

However, Deutsche Bank noted in May that "...we are now at a point where the China smelting bottleneck is moderating, which, given ample concentrate stocks and high potential margins, should generate a sustained swing into refined surplus." Deutsche projected the global zinc market to be in

a 100,000t surplus this year (US\$2500/t average price in H219) then 550,000t surplus in 2020 (\$2450/t average price).

In the lead (Pb) market, July 2019 LME lead inventories were at a decade low. Nyrstar NV has halted production at the Port Pirie lead and silver plant in South Australia and declared force majeure on sales twice already in 2019. The largest sector of lead demand is automotive batteries, which account for more than 86% of refined lead (of which 64% is used in replacement batteries). EVs require a separate energy storage system to power the lithium-ion propulsion batteries that run their battery management computers and electric braking. Lead is significantly cheaper per unit of storage so it remains the core technology for this application. Meanwhile start-stop automotive technology is becoming more common and places greater power demands on lead batteries – these vehicles are estimated to require 25% more lead per battery. It is forecast that globally approximately 50% of all new vehicles will be SSVs by 2020. The Fund's primary exposure to the lead market is through ASX listed Pacifico Minerals which holds the Sorby Hills Pb-Ag feasibility stage project in WA.

Nickel

Nearly 70% of global nickel consumption, estimated at 2.4 million tonnes this year, is accounted for by stainless steel mills, a majority of which are in China. Wood Mackenzie estimates China's stainless steel output in the first half of 2019 at 14 million tonnes, up 11% year on year, and forecasts China's stainless steel production to increase by as much as 9% this year.

Increased stainless steel production means greater nickel demand. Nickel prices on LME exchanges have risen to a 12-month high in Q3 2019. Overall, nickel prices are up about 40% in 2019.

Major miner BHP has abruptly changed its view on its participation in the nickel market. Previously looking to sell out of its nickel assets, BHP Nickel West is now building a 100,000 tpa nickel sulphate plant at Kwinana, which will be the largest in the world. Chief executive of the Kwinana refinery Eddy Haegel said in August 2019, "We think [nickel's] an attractive commodity." Haegel described the growth in demand for nickel sulphate as "profound" as a result of the demand in batteries for electric vehicles. "We're going to be talking millions of tonnes of sulphate in the not-too-distant future," he said.



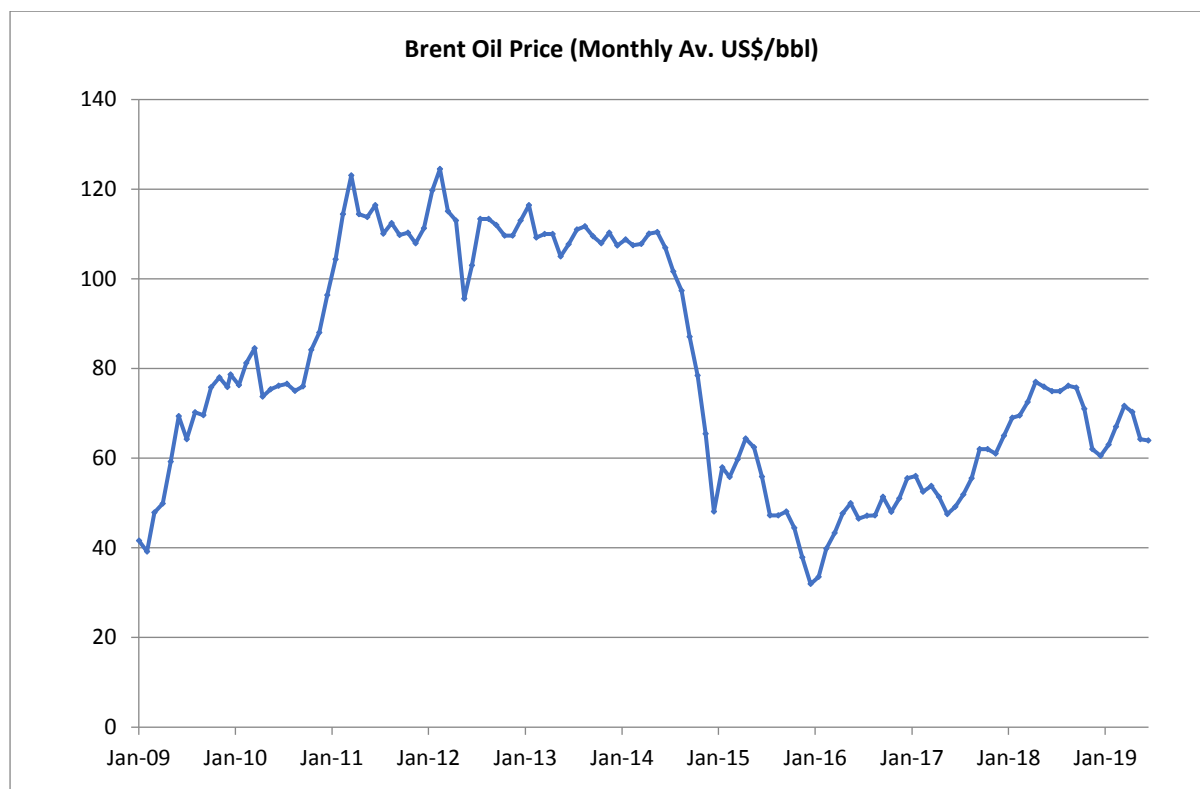
As nickel sulphide has a significant cost advantage in the production of battery grade nickel sulphate, the Manager continues to prefer companies exposed to these deposits (rather than nickel laterite ores). As such, the Fund has exposure to nickel sulphide explorers such as St George Mining, Cygnus Gold, Centaurus Metals and North American Nickel.

Oil and Gas

As at 30 June 2019, the Fund's portfolio was 17% invested in oil and gas-focused emerging resource companies.

Oil

Oil prices have been particularly volatile during first half 2019, starting the year at US\$52/bbl and rallying to US\$71/bbl in April, driven by a gradual re-balancing in the over-supplied market, and OPEC production restraint. The recent sharp sell-off to US\$60/bbl reflects renewed concerns of over-supply. Demand is softening, not helped by the threat of trade wars, and non-OPEC supply has been growing despite low oil prices. Inventories are at high levels and until recently, had been rising counter-seasonally. OPEC cuts and tension in the Middle East have been supportive, but the key risk to oil prices is the growth in US onshore production from shales. Super-major companies continue to prioritise investment into the USA because of the short lead-time to production, to the detriment of high risk frontier drilling around the world. While this continues, USA output is likely to outpace declines in the rest of the world. Unless OPEC takes additional measures to balance the market, then the outlook for oil prices is bearish.

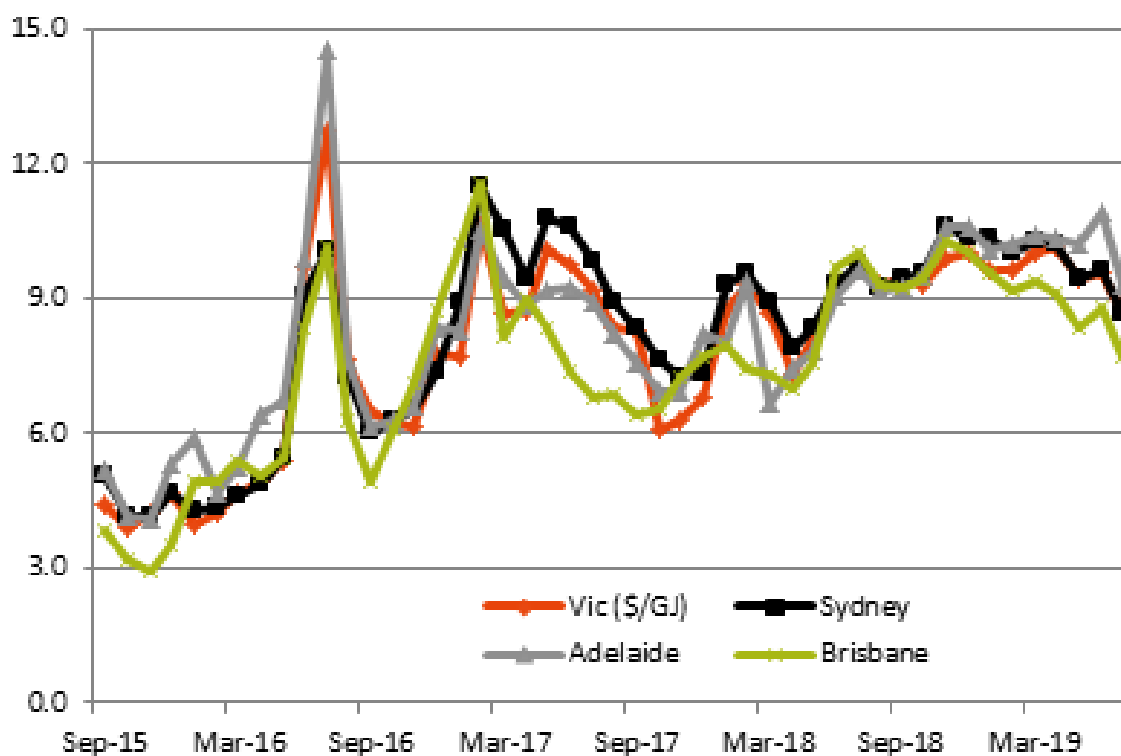


Australian Domestic Gas

Domestic gas prices continue at high average levels and show no evidence of seasonal weakness. The "gas crisis" continues unabated, being largely unaffected by peripheral factors such as regulatory interference, diversion of LNG volumes to the southern market, consumer lobbying and ineffective Government action in shaping a coherent state-federal energy policy. What is needed is

new investment to stimulate supply, but that task now rests with a handful of small companies, few of which have the balance sheet or expertise to introduce new volumes of the scale needed to bring market stability. Over-arching all of this, is the fact that domestic prices are now irrevocably linked to Asia prices via LNG exports. Asian contract prices year-to-date average US\$10/mmBtu. This is approaching twice that of Australian east coast hub prices, and this differential will continue to provide upward pressure to domestic prices.

Chart: Australian East Coast Domestic Gas Price History



Due to the volatility in global oil prices, our stock selection has favoured energy equities which either present a compelling exploration opportunity, very deep value, or both. These are rare, but in this regard, Calima Energy (CE1) stands out. Calima has a large exploration acreage position in the Montney Basin in Western Canada. It has successfully drilled three horizontal “wet-gas” discoveries, and flowed gas and liquids to surface at rate up to 2000/boepd. In particular, it is the liquids fraction that is immensely valuable and if Calima can negotiate access to, or acquire, nearby production facilities then it will have a route to market for future production. In July, CE1 announced independent reservoir estimates, based on the test results to date, of 45MMbbls of natural gas liquids (2C) and 905 Bcf of gas (2C).

In Mexico, our investment in Renaissance Oil Corporation (TSXV: ROE) exposes LRF to undervalued, but highly prospective acreage which is analogous to the Eagle Ford region across the border in the USA.

As noted above, we are bullish on domestic eastern Australia gas prices, and opportunities for small exploration companies to attract capital and successfully exploit the market shortage. We have investments in a number of small companies which are at the exploration phase and offer substantial leverage if they can develop prospects with resources and contingent reserves. All are aiming to bring gas to the domestic gas market, and all are variously active with drilling this year.

Our investments in High Peak Royalties (HPR.ASX) and Mosman Oil & Gas (MSMN.LON) provide low cost-cost exposure into high-impact frontier exploration in the vast Amadeus Basin of the NT. Santos is currently leading the exploration in this region, and post year end reported high gas pressures from its exploration well, Dukas-1. HPR has a direct royalty exposure, and MSMN has participating interests in nearby acreage. Success by Santos at Dukas would be a “game-changing” event for this region.

Our investment in Comet Ridge (COI) exposes us to this company’s active exploration for coal seam gas and conventional gas in the Bowen basin (Qld) and Galilee Basin (North Qld). The drilling of two wells (Albany 1&2) in the coming months in the Galilee region exposes COI to substantial reserves upside. In Queensland, Real Energy (RLE) has drilled 4 wells and flow tested from three at its Windorah Trough basin-centred gas project. Flow rates have been less than expected but evaluation continues. Our investment in Cue Energy (CUE) is due to its participation in the planned drilling in 2020 of the giant “Ironbark” prospect offshore WA, to be undertaken by BP at nil cost to Cue.

Battery Metals

The Fund has exposure to three main metals in the battery sector: lithium, nickel and vanadium.

Lithium

In the long term, the demand outlook for lithium requirements for EV batteries is strong, with forecast deficits from 2025. However in the short term WA's hard rock lithium sector has been struggling with lower than expected demand, due to slow development of new refineries to convert spodumene concentrate into lithium chemicals, as well as EV subsidy changes in China, and changes in cathode chemistry. This has translated to stockpiles of spodumene concentrate at companies such as Galaxy, Alita Resources and Altura Mining, and a softening of prices from US\$18,000/t Li₂O to under \$10,000/t.

Nevertheless, high quality lithium spodumene projects in favourable jurisdictions continue to attract investment. As a result of share price appreciation, Lontown Resources (ASX.LTR) was the Fund’s third largest investment by value as at 30 June. LTR owns the 75Mt Kathleen Valley spodumene deposit in WA. Much of the resource appears to be open-pittable with good metallurgy and a grade of 1.3% Li₂O.

Nickel

As mentioned above, nickel demand for EV batteries is forecast to sky-rocket as lithium ion batteries move from a Nickel:Manganese:Cobalt ratio of 1:1:1 to 8:1:1. This move could have a profound effect on the relatively small nickel market.

Vanadium

The vanadium market has been highly volatile over the year in review, spiking at over US\$30/lb before falling back to below US\$8/lb at year end. This has been attributed to the November 2018 introduction of Chinese regulations requiring higher levels of vanadium in Chinese construction rebar. Stockpiling ahead of the regulations, substitution (with niobium) and lack of enforcement of the regulations were among the reasons cited for the subsequent fall in price. However, the market has rebounded in mid-2019, with lower prices making vanadium redox batteries of more economic

interest again. The Fund holds a position in advanced feasibility stage vanadium player Technology Metals, which holds the Gabanintha vanadium project in Western Australia.

Other Battery Metals

Whilst the Fund has in the past benefitted from early movers in other battery metals (i.e. Syrah Resources Balama graphite project), it is not currently invested in either graphite or cobalt as the Manager has not identified projects in these commodities with the appropriate risk-return equation.

Uranium

The nuclear fuel market has a two-tiered structure (spot and term contracts) and involves long lead times in terms of nuclear energy utilities' supply chains. These factors make the market relatively opaque and difficult to time, which is not assisted by the largest producer being Kazatomprom in Kazakhstan. However, there is no question that many western uranium miners or developers require higher prices than the current sub-US\$30/lb U3O8 price to incentivise additional production. The build-out of new reactors in developing regions such as China and India indicates new supply will be required, whilst recent closures of mine supply point to future deficits. History indicates that tightness in the uranium market can result in a high degree of volatility.

The Fund's investment in Vimy Resources (VMY) is based on its uranium project at Mulga Rocks in WA – a fully permitted mine with highly credentialled management. Vimy has also acquired the Alligator River project in the NT, which is a very high grade resource and VMY's modest market capitalisation provides significant leverage to marketing efforts which could underpin future development.

Bulk Commodities

Bulk commodities of coal and iron ore generally require large capital investments which in many cases are outside the capacity of the junior companies which are the focus of the Fund.

The iron ore sector over the period saw benchmark prices jump to over US\$120/t due to catastrophic tailings dam failures in Brazil, coupled with Chinese stimulus strengthening demand for construction materials. However one doubts this level can be maintained once the Brazilian exporters get over their current problems. This sector is now dominated by 4 major companies (BHP, Rio, Vale and Fortescue), and opportunities for low capex developments within the purview of juniors are limited. See below the chart of the price of iron ore over the past decade.

IRONORE.FCO@ECO: 112.5



In terms of the other main bulk commodity coal, the Fund held and sold investments in two emerging metallurgical coal companies in Australia over the financial year. The annual consumption of 1 billion tonnes a year of 'met coal' is presently unavoidable because you can't make steel without it. Coal prices have been firm as steel makers still seek out quality met coal and Asian electricity generators continue to boost demand for quality steaming coals. However, coal companies, and not only thermal coal companies, are generally trading at low multiples of strong cashflows. Whilst strong Asian demand for coal has led to high seaborne prices, environmental activism resulting in sectoral divestment by both major producers (eg Rio Tinto) and institutional investors has caused coal companies to generally trade on low multiples.

Rare Earth Elements

China produces over 90% of global of rare earth elements, a group of 17 metals used in high-tech and strategic sectors such as renewable energy and defence.

Two factors impacted the price of REE's over the financial year, resulting in volatility to the upside:

- a) Continued Chinese efforts to eliminate illegal mining, production and smuggling of rare earth materials, while encouraging more high-end processing. Over the past decade in China, small private firms and/or illegal miners have been shut down and control over the industry has been put in the hands of six state-owned mining groups;
and
- b) The China -USA trade war. A recent spike in the key Nd-Pr oxide price coincided with heightened speculation that rare earths could be used as a weapon in the US-China trade war.

It is likely that both these elements will continue to impact the REE sector over the coming year.

Other Commodities

The Fund is exposed to exciting but high-risk opportunities in emerging companies focused on mineral sands (ilmenite, zircon and rutile), bauxite (the feedstock for alumina production), fertilisers (phosphate) and clay (halloysite kaolin). These commodities, while relatively niche markets, have attractive supply/demand economics and the projects selected either have the attributes of high-grade or large tonnages or both.

6. CONCLUSION

The Fund Manager has positioned the Fund to take advantage of opportunities based on a number of factors, including:

- Continued growth in commodities consumption in China;
- Strong gold prices as a result of trade and currency wars, increasing US government debt, and low, or even negative, interest rates
- The impact of the electrification and greening of the global vehicle fleet
- High domestic gas prices in the Australian east coast gas market

Leading into the 2019/20 financial year, the Manager will continue to select its investments based on these market forces, whilst rigorously vetting individual opportunities for high quality management and high margin projects.

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