

17th August 2020

Level 6
412 Collins Street
Melbourne Vic. 3000
Telephone: +61 (3) 9642 0655
Facsimile: +61 (3) 9642 5177

Address all Correspondence to:
PO Box 16059
Collins Street West, Vic. 8007
Australia
Email: contactus@lowell.net.au

Dear Unitholder,

FY 2020 UNITHOLDER REPORT

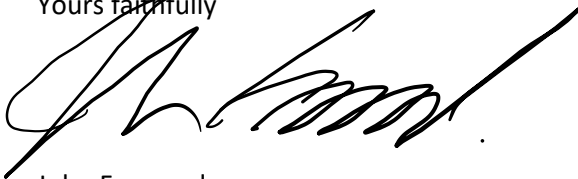
Lowell Resources Funds Management Pty Ltd (LRFM) AFS Licence No. 345674, the Investment Manager ('the Manager') of the Lowell Resources Fund (ASX:LRT), is pleased to provide the enclosed FY 2020 Report to Unitholders of LRT.

ONLINE 'ZOOM' PRESENTATION

The Manager intends to conduct an online presentation of results and outlook for LRT on Wednesday 9th September 2020.

To register your participation in the Online Zoom presentation, please email us at contactus@lowell.net.au.

Yours faithfully



John Forwood

Chief Investment Officer

WARNING The information given by Lowell Resources Funds Management Ltd "LRFM" (ACN 006 769 982, AFSL 345674) is general information only and is not intended to be advice. You should therefore consider whether the information is appropriate to your needs before acting on it, seeking advice from a financial adviser or stockbroker as necessary.

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LOWELL RESOURCES FUNDS MANAGEMENT LIMITED

A.B.N. 36 006 769 982

AFSL: 345674

LinkedIn: www.linkedin.com/company/lowell-resources-funds-management/

Website: www.lowellresourcesfundsmanagement.com.au/index.html

Twitter: [@LowellResFM](https://twitter.com/LowellResFM)

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LOWELL RESOURCES FUND ("LRF") ASX ticker 'LRT'

Report prepared for the Responsible Entity Cremorne Capital Limited (AFSL: 241175)

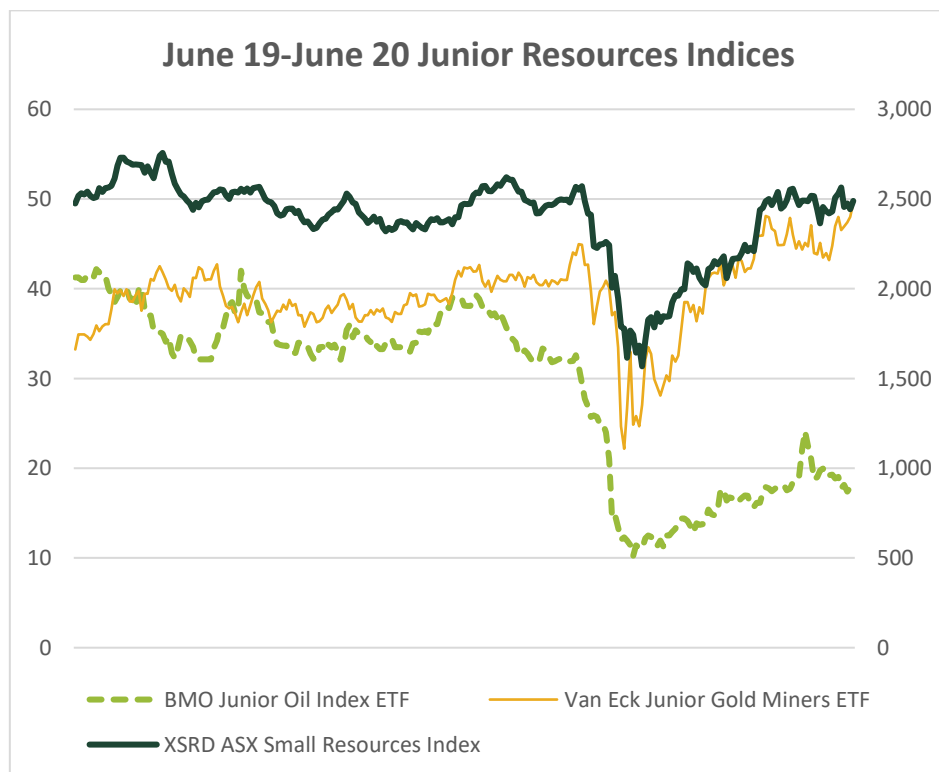
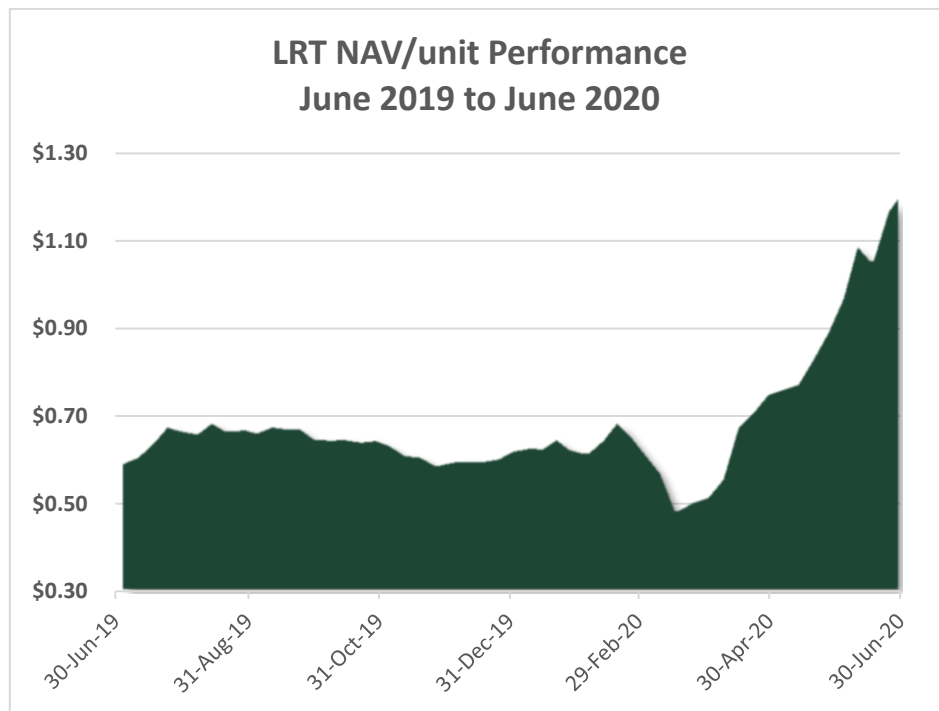
by the Investment Manager of the Fund ("Lowell Resources Funds Management Limited")

June 30, 2020 End of Financial Year Report to Unitholders

The Net Asset Value per unit (adjusted for the 10 for 1 unit split in April 2020) of the LRT over the year to 30 June 2020 is shown in the chart below.



Figure 1: LRT Unit Price Chart



1. OVERVIEW

The year to June 30th, 2020 was an exceptional one for the Lowell Resources Fund ('LRT'). The net asset value per unit of LRT's portfolio ended the year at \$1.21 (noting the 10 for 1 unit split in April 2020), compared to an equivalent \$0.58/unit (post-split equivalent) at 30 June 2019. This represents an increase of 109 percent for the year.

Equity markets in the second half of FY2020 have been tumultuous, primarily due to Covid-19, but also reflecting underlying vulnerability in global markets addressed below. Although the Fund's benchmark, the ASX junior resources index (XSRD), finished the financial year at a similar level to where it started, in the interim the index fell 36% in a savage sell off in February-March, before a whip-saw rebound from late March. The Australian junior resources sector therefore has recovered better from the Covid sell-off than the general market, the ASX All Ordinaries finishing the year down approximately 10%.

The Fund spectacularly outperformed the XSRD and the general market. Highlights of the Fund's performance over the financial year were:

- 109% increase in Net Asset Value (NAV)
- 134% increase in unit price traded on the ASX
- NAV outperformed the ASX Small Resources Index by 109%
- NAV outperformed the All Ordinaries Index by a net 122%
- Anticipated distribution of 2.4cps to unitholders

As shown in the unit price chart (Fig. 1), the bulk of this performance was realised in the June quarter of the financial year, coincident with a rebound in the gold price and renewed market interest in the junior mining sector, particularly gold explorers. The Fund was well positioned for these events, with exposure to a number of successful Australian gold exploration companies. The outperformance of the Fund against its junior resources benchmarks demonstrates the value of an actively managed portfolio, particularly in this sector.

The table below shows the performance of key commodity prices relevant to listed companies in the LRT universe. Gold's rise in both USD and AUD terms continued during FY20, up nearly 30%. The Fund Manager believes that the price of gold is reflecting the outlook for continued low to negative real interest rates, and heightened geopolitical risk. In contrast to gold, oil and gas markets were punished firstly due to a 'supply war' between OPEC and Russia, continued growth in US oil production to assume global dominance, and finally as a result of drastic demand decreases as the Covid crisis swept the world.

The rise in the gold price is driving the performance of the junior resources sector in Australia, the UK and North America, the major markets in which the fund is invested.



Table: Major Commodity Prices FY2020

	30 June 2019	30 Sep 2019	31 Dec 2019	31 Mar 2020	30 Jun 2020	FY Change %
Gold AUD/oz	2,007	2,181	2,161	2,570	2,580	28.5
Gold USD/oz	1,409	1,465	1,519	1,592	1,800	27.8
Copper US\$/lb	2.71	2.56	2.80	2.21	2.70	-0.2
USD Index	95.66	99.02	96.06	99.09	97.35	1.8
WTI Oil US\$/bbl	58.47	54.07	61.06	20.48	39.27	-32.8
Nickel US\$/t	12,675	17,110	14,052	11,470	12,797	1.0

Source FT Markets

THE YEAR UNDER REVIEW

Over the year, the LRT unit price continued to trade at a discount to NAV on the ASX, which is a situation not atypical of listed funds in Australia and abroad. To try to reduce this discount and increase the liquidity of the traded units, the Manager conducted a 10-for-1 split of units to increase the volume of units on issue and bring the price more in line with LRT peers.

Despite the difficulties due to Covid restrictions, LRFM continues to actively market the Fund and promote the merits of investment in the junior resources sector in general through numerous forums including: online interviews, Twitter, LinkedIn, LRFM website, participation in mining industry conferences as featured speakers, articles in national newspapers, and in as many public forums as the current situation will permit in order to build awareness of Fund's investment philosophy, scope and performance.

2. MACRO SETTINGS

Covid-19

In February-March 2020, Covid-19 struck global economies with arguably "the largest economic setback in modern history". However, since then equity markets have snapped back amazingly quickly to within 5% to 15% of their January 2020 levels. This rebound in stock markets, despite ongoing and increasing 'second-wave' outbreaks of the virus, has been much faster than the market recovery after the 2008 GFC, which took more than 5 years. A major factor behind this is the huge



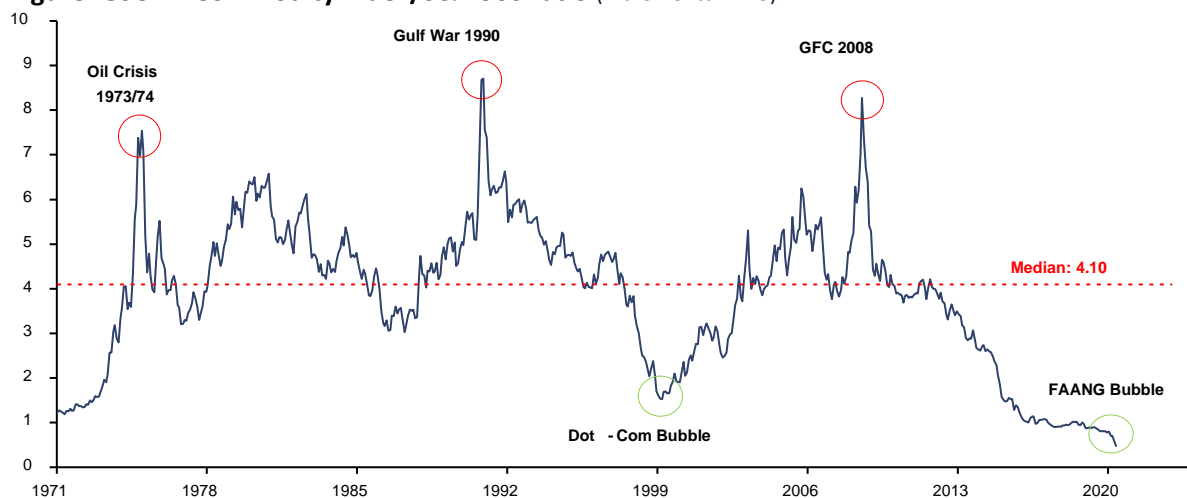
governmental monetary and fiscal initiatives to provide liquidity and economic stimulus. The motto of “don’t fight the Fed” appears to be paramount in investors’ thinking.

In the resources space, the global Covid-19 outbreak affected supply and demand for all commodities. Oil demand was the hardest hit, but nearly all commodities suffered a major price fall in February-March. Some, however, have rebounded strongly, particularly the precious metals sector, with base metals showing signs of revival toward year end.

On the supply side, metal mining operations in Australia have been the least affected of the major mining countries. Nevertheless, relative to US equities, the commodities basket remains even more undervalued than any time in the past 50 years, as demonstrated by the chart below. The “FAANG bubble” (Facebook-Amazon-Apple-Netflix-Google) reflects the total dominance of a handful of giant US technical stocks.

In a environment of heightened uncertainty, the Fund Manager continues to favour gold as its largest commodity exposure. In the longer term, base metals such as copper and nickel have positive supply-demand fundamentals, as does uranium. In oil and gas, low prices may result in reduced supply more quickly than expected, and as such the current market can present deep value opportunities.

Figure: GSCITR Commodity Index/S&P 500 ratio (Incrementum AG)



China

China is the largest part of global demand for hard commodities. It is the world’s largest importer of oil, and the world’s largest consumer of many metals including iron ore and copper. China consumes approximately half of the world’s metals and mining resources. Notably, this is more than double the proportion it consumed at the time of the SARS outbreak in 2002.

China accounts for 53% of the world total steel production, which requires iron ore, manganese, coking coal as well as vanadium, molybdenum and other specialty metals.



China appears to be rebounding from the Covid-19 crisis more quickly than other nations, which is a key supporting pillar of the current strength of a number of commodities. China reported a 3.2% rise in national GDP in Q2 2020 (yoy) vs minus-6.8% in Q1. This compares to the Eurozone, for example, where the European Commission forecasts negative GDP growth of -8.7% this year.

Chinese credit growth appears to be driving the recovery. Chinese banks lent a record US\$1.73tn in H1 2020, beating a previous peak of 9.67 trillion yuan in the first half of 2019. There are reports that Chinese provinces are subsidising companies to restock and stockpile base metals. Yunnan Province is reported to be using financing and subsidies to buy over 800,000t of metal including 110,000t of copper and 1,570t of minor and strategic metals (Reuters).

Infrastructure stimulus is an increasing focus in China. Currently there are close to 3,000km of major road projects under construction in the country. Guangdong province alone is planning 10,500km of new roads by 2035. As a result, China excavator sales were up 19.4% yoy in May.

However, during the financial year China's relationship with the Western World has deteriorated on a number of fronts, which is exacerbating geopolitical tensions and impairing world trade growth. Some of these flashpoints include:

- US inspired protectionist policies
- Globalization giving way to resurgent nationalism
- The trade war between the US and China
- Diplomatic tensions over the erosion of Hong Kong's "One Country, Two Systems"
- Chinese annexation and militarization of islands in the South China Sea
- Responses to the original outbreak of the Covid-19
- Banning of Huawei company from western telecommunications infrastructure
- Border conflict with India

Stimulus Measures

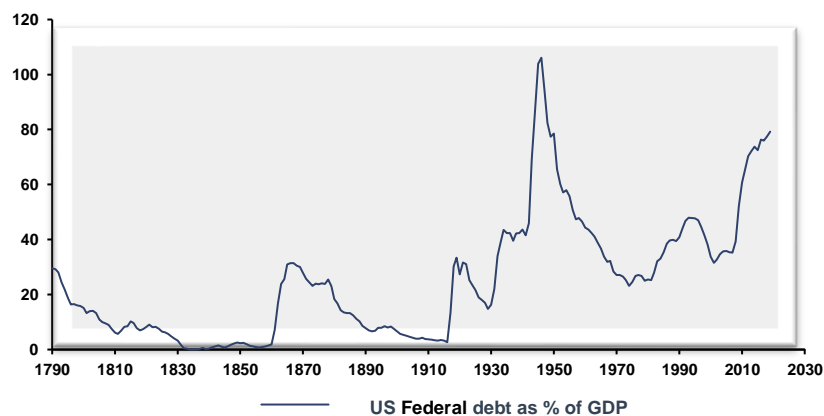
As at mid-June international stimulus in response to the Covid-19 crisis amounted to more than US\$15.3tn globally (as calculated by SP Angel). This amount is headlined by the following packages:

- US\$2tn US fiscal package approved by US Congress. US may add \$0.6tn state aid for mortgage markets and travel industries
- US\$900bn to 1.55tn – China - Bloomberg estimates a 'fiscal impulse of more than 11% of nominal GDP' which equates to US\$14.14tn
- US\$1.02tn - Japan – the Bank of Japan is injecting US\$1.02tn into the economy through a variety of programs.
- US\$825bn (€750bn) EU – the European Commission aid package aimed at supporting EU nations hit by the pandemic.
- US\$825bn (€756bn) Germany – the Bundestag approved €156bn in extra borrowing and ~€600bn in emergency funds.

The US Federal Reserve Bank is working closely with the US Treasury to keep short and long-term interest rates at record low levels while boosting available liquidity in the US banking system. US M2



money supply is growing at 24% as a result of this policy. US Federal debt as a percentage of the entire US GDP is the highest since the post-WWII period.



Source: CBO, Incrementum AG

Other global central banks continue to pump liquidity into their economies. At the time of writing, the EU had just agreed a EUR 750 billion economic rescue fund which boosts liquidity in the European economy. Global investors are cautious about unintended consequences of this rapid increase in liquidity, especially an outbreak of inflation. The current disinflationary pressures arising from negative growth in the Western World, high unemployment levels, and subdued corporate earnings are being countered by profligate currency creation leading to a reduction in purchasing power, ultimately expressed in inflation in due course.

Precious metals are traditional hedges against inflation. Gold and silver prices are at multi-year highs as investors large and small move funds into precious metals, largely through Exchange Traded Funds for the metals such as the MYSE-listed GLD. The World Gold Council reports global ETFs took in a record 734 tonnes of gold worth US\$39.5 billion in the half to end June.

Bond Market

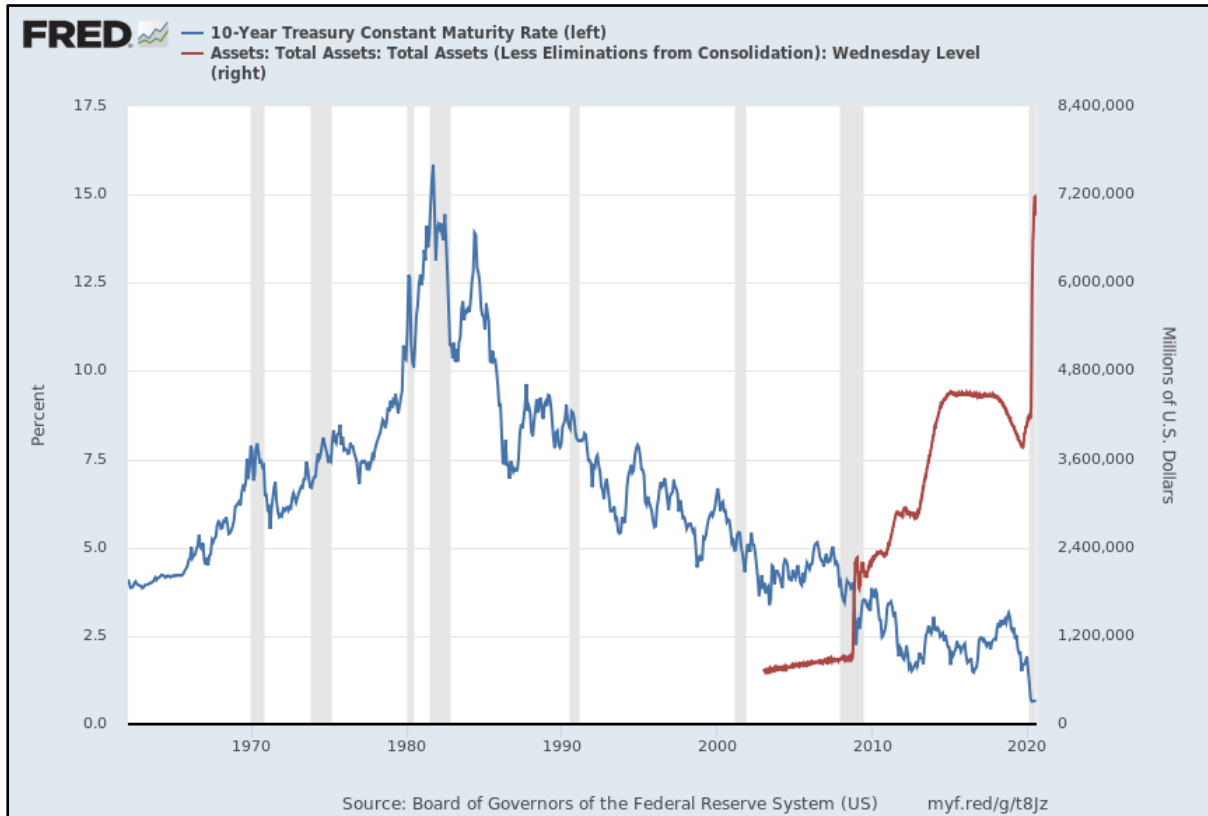
Global bond yields remain at historic lows. The benchmark US 10-year bond rate ended the FY at just 0.65% compared with 2.0% at the start of FY20. Yields hit a record-low close of 0.569% on March 9, 2020.

Central banks, especially the US Federal Reserve, were large buyers of bonds in the six months to 30 June 2020. Investment capital has also followed the Fed into the bond market, even at these low levels. The US Treasury may be issuing record amounts of debt to fund the record US budget deficit, but there is also strong investment demand for bonds across almost all maturities. The Fed has also made it clear it is comfortable with these rates and will keep interest rates at low levels to support the US economy.



The chart below shows the 10 year bond yield at record lows, contrasted with the ballooning US Federal Reserve balance sheet which has been expanded to an all-time high by buying government bonds, mortgage backed securities, and even corporate debt.

Figure: US 10-Year Treasury Bond Yield vs US Federal Reserve Balance Sheet

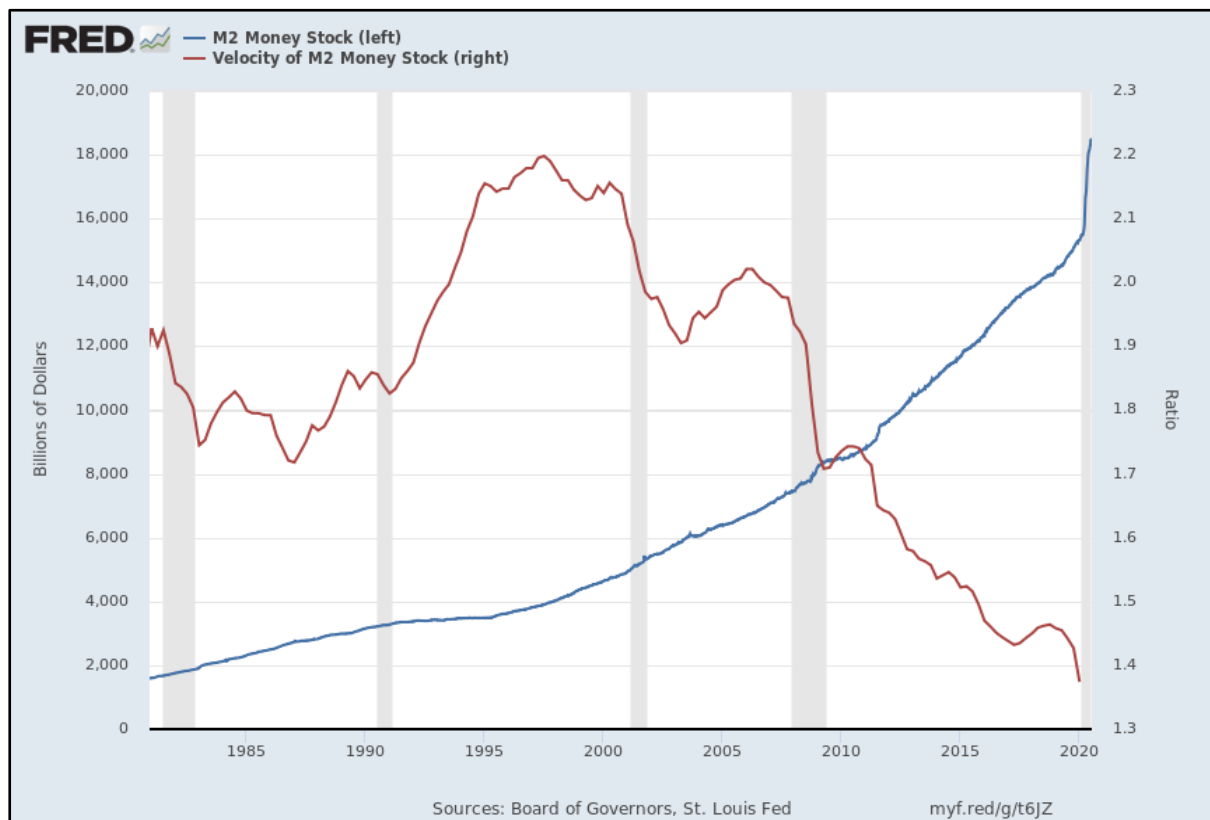


Inflation and Real Interest Rates

Since the GFC, inflation has remained ‘stubbornly’ subdued despite massive ongoing money creation. Central banks have not succeeded in spurring commercial banks to increase lending, even though new money supply has been taken to new levels in response to the Covid-19 crisis. To date the creation of new money has been largely like “pushing on a string”, demonstrated by the velocity of money which continues to record all-time lows.



Figure: US M2 Money Stock vs Velocity



Because of their huge and growing debt burdens, governments will continue to work to keep nominal interest rates at historically low levels for at least the mid-term. Further, governments are incentivised to try to inflate away their massive debt burdens.

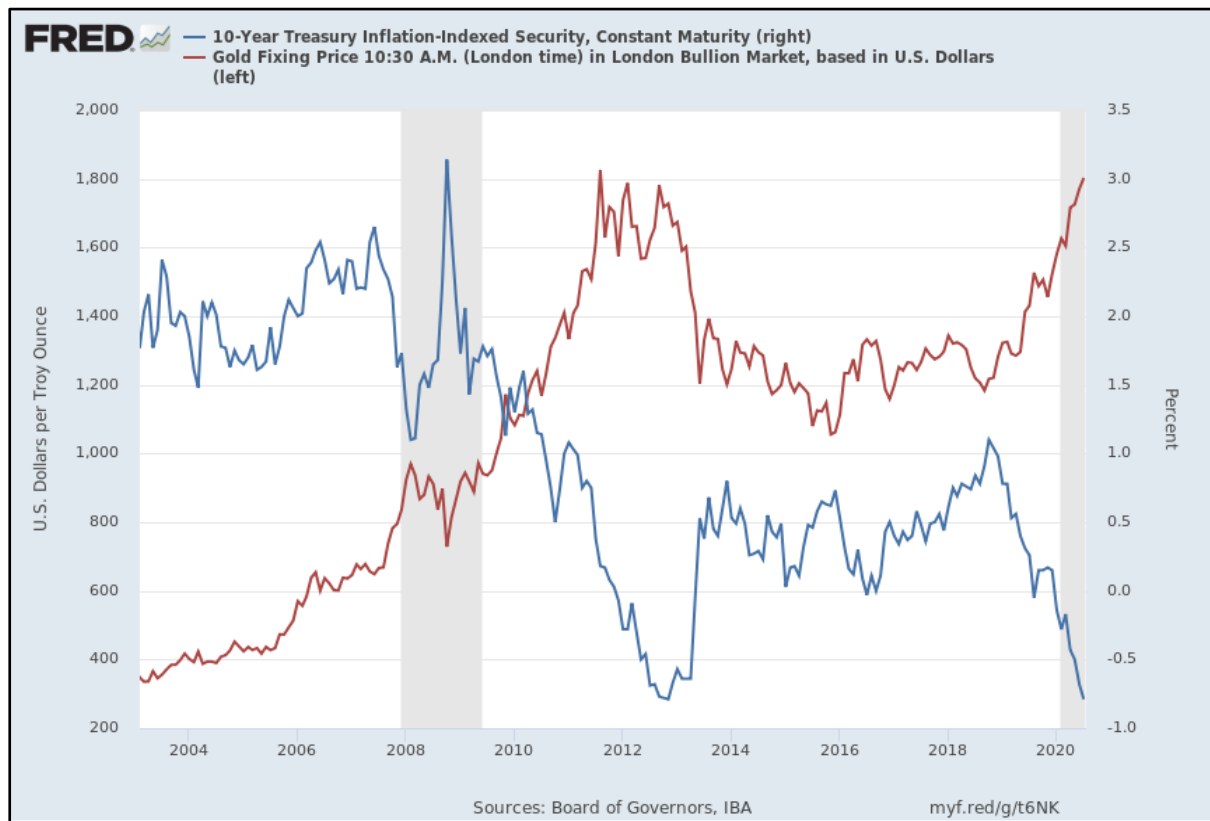
After crashing to close to 0% at the depths of the Covid crisis, the expected inflation rate derived from 5-Year Treasury Constant Maturity Securities has recovered to over 1.5% pa, which is close to the average seen in 2019. However, some commentators note that governments, in addition to central banks, are the ones now 'creating money' by guaranteeing loans to commercial enterprises. This may prove to be an important difference when it comes to increasing inflation, due to this new money making its way onto "Main Street" rather than just "Wall Street".

The return of protectionism and an increase in trade barriers is also expected to put upwards pressure on inflation.

In any case, we have already seen real interest rates (being nominal interest rates less the rate of inflation) hit all-time lows, even lower than those seen in 2011-12 when the gold price hit its last record high. Importantly for the gold price, there is a strong inverse correlation between real interest rates (represented by 10-Year Inflation Indexed Securities) and gold.

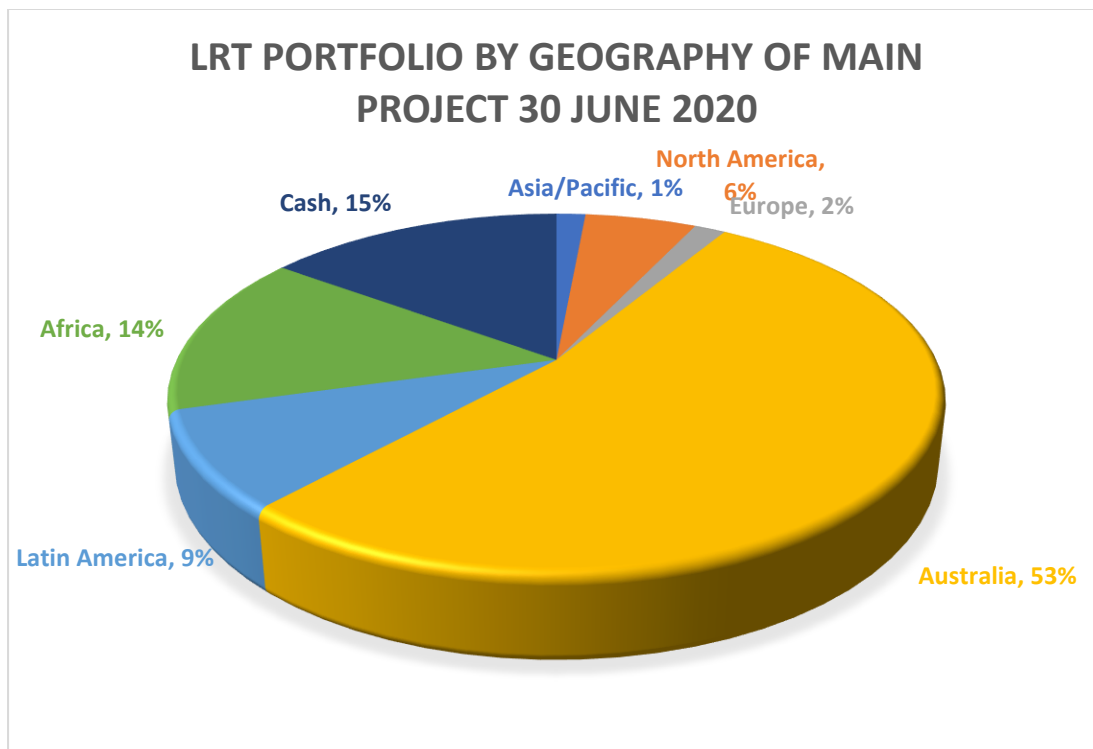
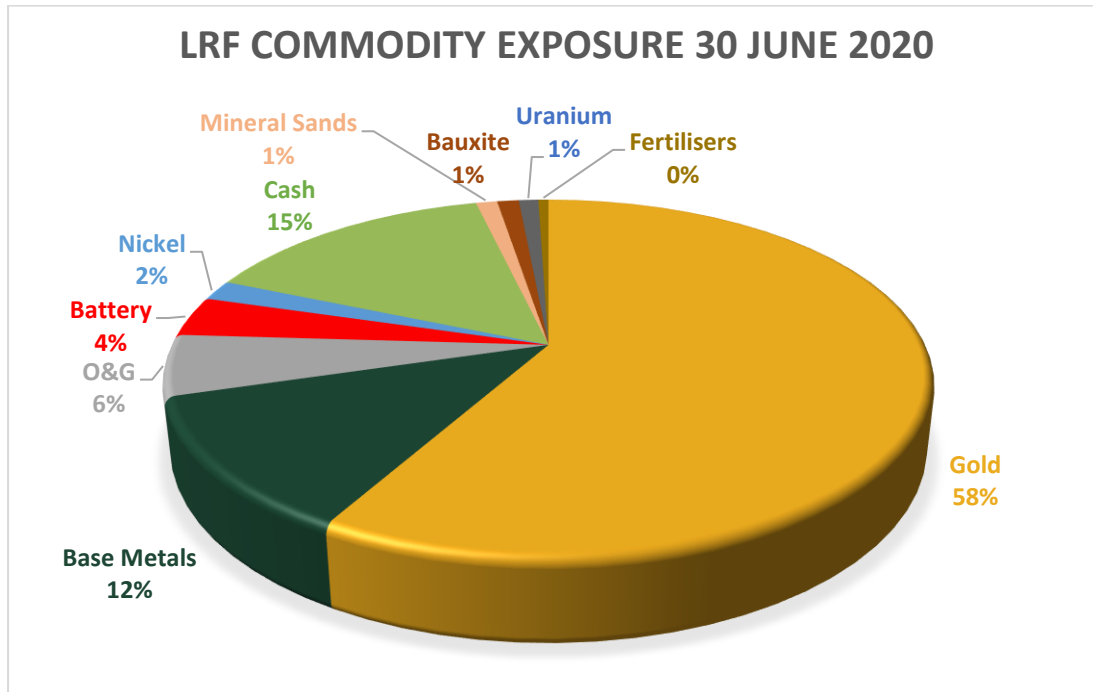


Figure: Real Interest Rates vs Gold

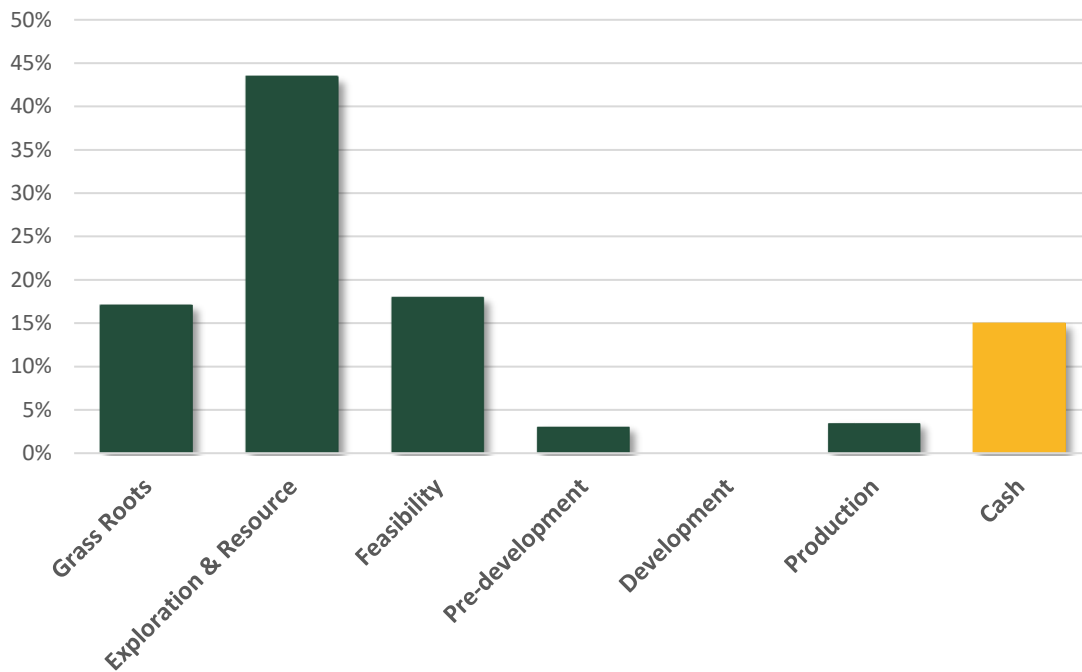


3. LRF Portfolio as at 30 June 2020

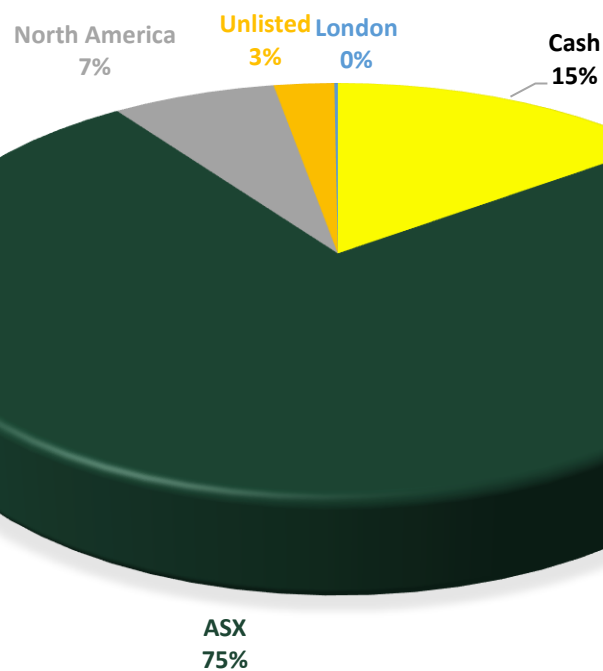
LRT Portfolio Charts - based on main project of investee company, by shareholding value



LRT Portfolio Value by Stage of Project 30 June 2020



INVESTMENT LISTING 30 JUNE 2020



COMMODITIES

Gold

The Manager's outlook for the gold price is one of continued high prices. As a result, LRF remains strongly overweight gold equities. The Fund Manager sees the potential for the junior resources sector to mirror, and very likely outstrip, the gold price surge as it did in 2008-2011.

Gold prices in major currencies are up over 20% to date in 2020CY, after rising an average of 18% in 2019CY. From 2008, in the aftermath of the GFC, gold surged in the first round of monetary stimulus and quantitative easing. The precious metal reached a high of US\$1,921/oz in 2011 after bottoming below US\$700/oz in October 2008. The run-up in gold was the basis for an even stronger period for junior resources equities, particularly in Australia, where the XSRD junior resources index increased 300% in the 3 years following the GFC. In the current Covid-19 crisis, gold is following a similar trajectory, plummeting nearly US\$200/oz in March, then recovering to current levels of around US\$1,800/oz.

Figure: Small Resources Index and Gold US\$/oz 1995-2011



In July 2020, Citigroup analysts forecast the price of gold to hit a record high, based on four key reasons:

- loose monetary policy;
- low real yields;
- record ETF inflows; and
- increased gold asset allocation.

Other leading banks have also forecast a higher gold price. In April Goldman Sachs advised clients to buy gold, while Bank of America Merrill Lynch forecast a US\$2,000/oz gold price.



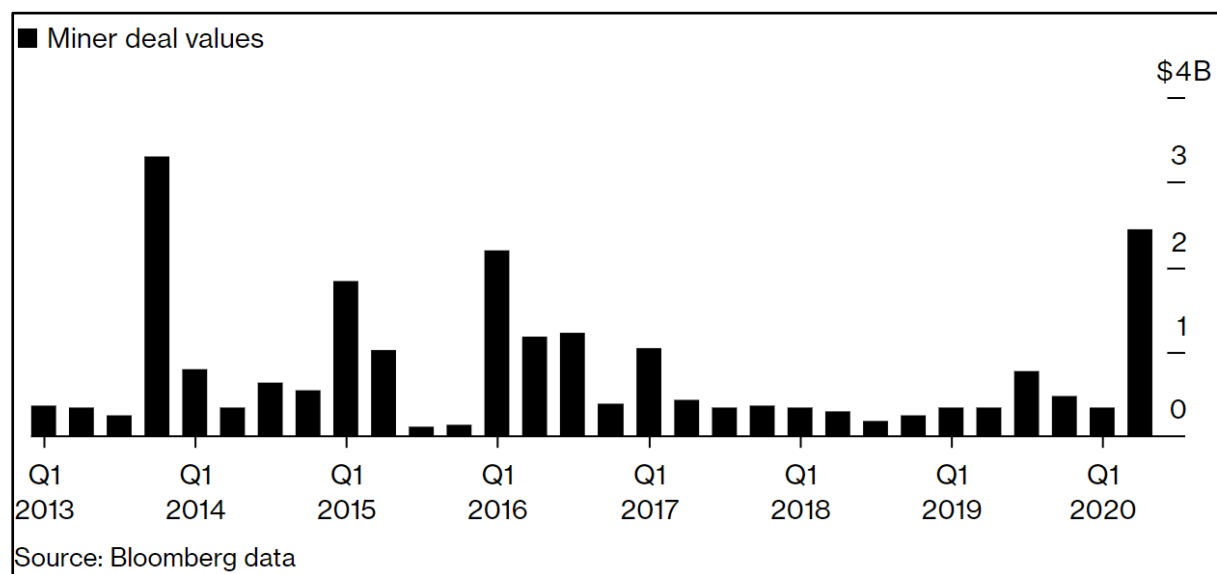
In addition to the reasons cited by Citigroup, elevated levels of geopolitical risk, particularly in relation to China and disruptions caused by the Covid crisis, are expected to support gold price strength.

As indicated previously, low real interest rates are strongly correlated to high gold prices. The Fund Manager forecasts negative real interest rates for the foreseeable future and therefore continued strong gold prices.

Notably, the gold buying behind the current price rise has been dominated by increased purchases by Exchange Traded Funds (ETF's), in record tonnages far greater than when the metal peaked at over \$1,900/oz in 2011, and to a lesser extent by Central Banks. Total gold held by ETFs has risen 27% from January to July, to 105Moz. On the other hand, purchasing by the traditional buyers of physical metal, in particular China and India, has been significantly reduced.

On the back of the gold price rise, Bloomberg data indicates that equity raisings by gold companies in Q2 2020 were the largest since 2013.

Chart: Precious Metal Equity Raisings (US\$ bn)



The majority of the Fund's best performing assets over the 2019/20 FY were gold exploration companies:

- **De Grey Mining** (DEG:ASX), which made the Hemi gold discovery in the Pilbara region of WA. DEG shares rose 1,500% in FY2020.
- **Musgrave Minerals** (MGV:ASX), which has drilled near surface bonanza grades in the Starlight lode discovery at their Cue gold project in WA, boosting its market cap to over A\$200m at the end of June 2020.
- **Predictive Discovery** (PDI:ASX) which has been reporting a flow of tremendous gold intercepts in drill results at NE Bankan in Guinea, west Africa. PDI's share price rose over 700% in a single day on the news of the discovery.



- **Cardinal Resources** (CDV:ASX) the target of a >A\$300 million takeover bidding war between Shandong Gold Mining Co Ltd and Russian headquartered Nordgold.

As at 30 June 2020, the Fund was 58% invested in gold focused equities, representing the largest portion of the Fund's portfolio.

Silver

Silver typically underperforms gold during the early phase of a bull market but subsequently catches up and even outperforms gold later in the cycle. Silver had its best quarter since 2010 in JunQ 2020. It is being boosted by followers of the gold/silver ratio which peaked at 125:1 in March and then corrected to 95:1 by 30 June, having been as low as 32x in 2011.

Silver is used in solar panels and in the important automotive sector where higher silver loadings are being used as vehicles become more sophisticated. On the supply side, Mexico, the world's largest silver producer, recently overtook Italy in the number of virus-related deaths, potentially curtailing production from that country. Similarly, the Peruvian mining industry, the second largest silver miner, has been hit hard by virus shut-downs.

The Fund currently is exposed to silver through its 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. Sorby Hills revenue is forecast to be 40% derived from silver at current prices.

During the year, the Fund also made a seed investment in unlisted South American explorer Proximo Resources Pty Ltd, whose Altiro project in southern Chile has returned surface samples of over 3.5kg/t silver (113oz/t).

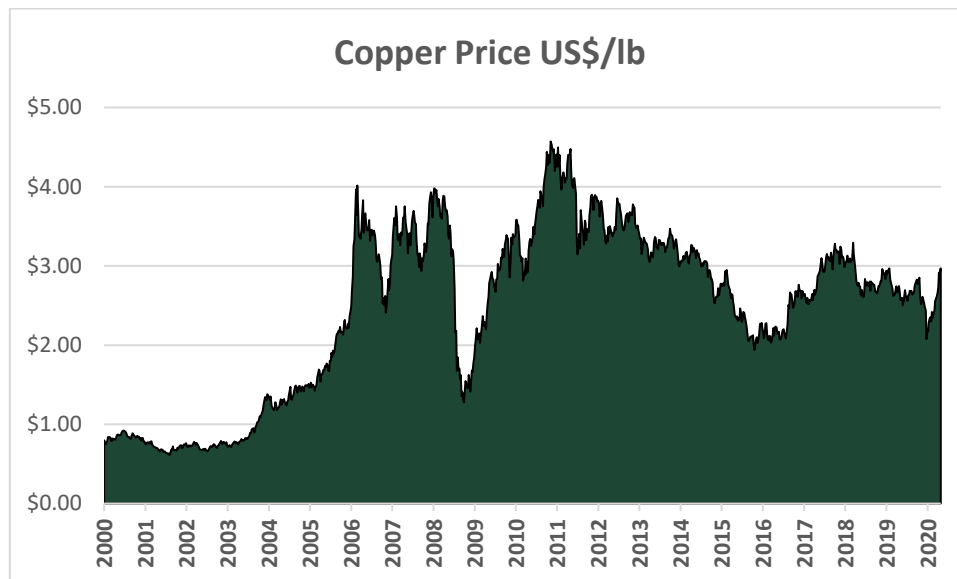
Base Metals

As at 30 June 2020, the Fund's portfolio was 14% invested in base metal-focused emerging resource companies (including nickel).

Copper

Approximately 75% of annual global copper consumption (~24Mt in 2018) is used in components for electricity generation, transfer or utilization. In the long term the average demand growth for copper has been over 3% pa since 1900, and may accelerate with the advent of electric vehicles. At the same time there may be a dearth of new supply to supplement declining copper production from existing sources. The Fund Manager has a positive view on the copper price in the medium to longer term, but expects some volatility in market as imbalances generated by the Covid pandemic are worked through.





Source FT Markets

The renewable energy thematic will drive additional demand for copper. EVs need up to 350% more copper than an internal combustion car. By 2040, Wood Mackenzie forecasts that passenger EVs will consume more than 3.7Mtpa of copper (global copper usage in 2018 was 24.5Mt). Charging stations and electrical grid infrastructure to support them will add to copper demand, as will wind and solar power generation projects.

Copper is a barometer of the global economy and we have seen refined copper production rising in China since the Covid outbreak (6.5% yoy in April). China is the world's largest copper consumer (51% in 2018) and in a sign of the Chinese economy's rebound from Covid-19, China's imports of copper surged to records in June. In addition, local governments in China have begun offering incentives to companies purchasing base metals.

Meanwhile, supplies of copper concentrates from South American mines have been impacted by Covid, and TC/RC charges levied by smelters have been cut as a result. While several leading forecasters have predicted a copper surplus in 2020 (CRU, Sonami, Fitch), this is not in evidence at the moment with LME copper stockpiles falling to around 1% of total copper market supply in July.

The Fund is exposed to copper through investments in Hot Chili (ASX listed Chile-focused pre-development company), 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 unlisted Pacific Trends Resources (private copper explorer in Chile).

Zinc

Zinc's concentrate market started the year in severe oversupply, which was steadily being transformed into surplus metal. But mine disruptions have interrupted that process, impacting the concentrate market and forcing down treatment charges for concentrate from over US\$300/t to US\$175/t.



In April 2020, up to 19% of world zinc mining capacity was halted due to Covid-19 suspensions, but by Q3 the bulk of impacted mine supply, such as in Peru, is set to restart. However, there have been some more long-term cuts to both Chinese and Western World marginal zinc production due to extended periods of low prices. This has helped rebalance the market.

The Fund's major investment in zinc is through TSXV listed Tinka Resources, which holds the 54Mt 7% Zn equivalent grade Ayawilca resource in Peru.

Lead

Lead demand grew 6.5% in 2019, with the 344kt deficit the second largest in 20 years. As with many commodities, China was the key demand driver, representing 46% of global demand and the lion's share of demand growth

85% of lead goes into making batteries, the bulk of which are destined for the automotive sector. Surprisingly, new generation electric vehicles still need large amounts of lead. Electric vehicles require 70-80% of the lead content of an ICE vehicle. Furthermore, the increasingly common "start-stop" automotive technology places greater power demands on lead batteries, and as a result these "SSV" vehicles are estimated to require 25% more lead per battery.

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

Similarly to copper, the Fund Manager has a strong positive view on the mid to long-term fundamentals for nickel. However, in the short term the outlook is particularly cloudy given impacts of Covid on both supply and demand.

Nearly 70% of global nickel consumption, estimated at around 2.5Mtpa, is accounted for by stainless steel mills, a majority of which are in China. There is widespread commentary that EV batteries will need increasing amounts of nickel relative to other metals, up to 2Mtpa by 2030. However, the battery driven demand for nickel is still a relatively small 6% of the market.

Nickel is one of the most volatile metal markets, and FY20 was no exception. After peaking at over US\$8.00/lb in the second half of 2019, the price fell to US\$5.00/lb in March 2020. News in October 2019 that Indonesia would once more ban nickel ore exports, two years ahead of the originally proposed date, drove nickel prices up by \$2,000/t in hours. More recently, nickel laterite ore deliveries from the Philippines to China were hit hard by COVID-19 earlier in the year, and SMM forecasts China's imports from the Philippines will fall by 20% in 2020. As a result, at 30 June, the nickel price had recovered to around US\$6.00/lb.

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's key exposure to nickel sulphide projects is Centaurus Metals, which holds the Jaguar nickel project in Brazil. Jaguar's maiden resource contains more than 500,000t of nickel metal, much of which is expected to be open-pittable at mined grades in excess of 1.0% Ni.

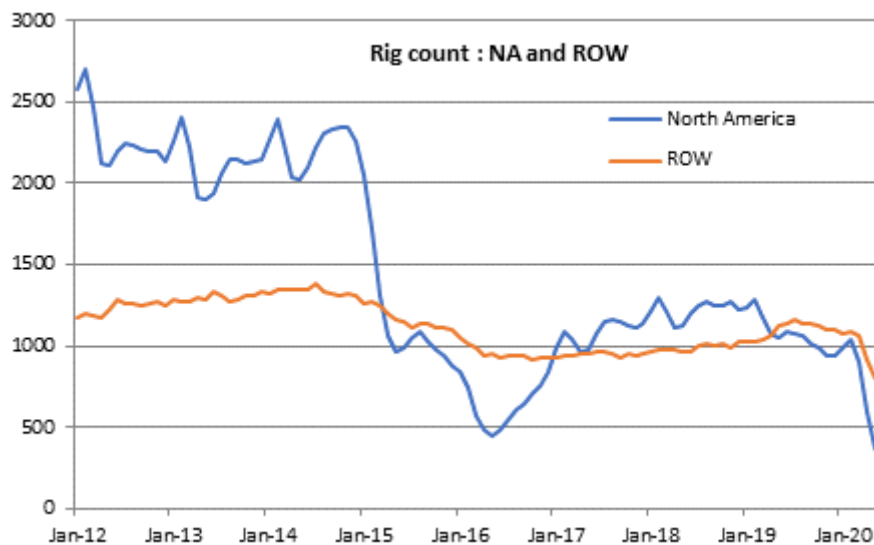


Oil and Gas

As at 30 June 2020, the Fund's portfolio was 6% invested in oil and gas-focused emerging resource companies. This is a significant reduction from 12 months earlier, when 16% of the portfolio was allocated to O&G. Nevertheless, despite the downturn in the sector, the Manager believes the sector is rich in undervalued opportunities amidst those companies which are best positioned to survive the April 2020 crash.

Oil prices were under pressure from late 2019 due to persistent North American supply growth, long before Covid19 triggered a collapse in mid-April 2020. Transportation fuels (gasoline, diesel and aviation fuels) account for 72% of final demand for crude oil. The immediate shut down of global transportation prompted market analysts to warn of a 15-20% (15-20MMbopd) drop in oil demand in 2020. Producers were forced into dumping stock and oil prices went negative on April 20. Such events are unprecedented in the oil markets.

The flow-on effects to producers was immediate. OPEC + Russia announced cuts of ~10MMb from the start of May. Many independent producers shut-in high cost production, predominantly in the USA. There have been a swathe of bankruptcies including some companies that were once considered as rock-solid industry leaders. Super-major companies have written-off billions of dollars and have slashed capital budgets. Service and contractor sectors have been ravaged too, with global rig utilisation at multi-decade lows and drilling companies going broke.



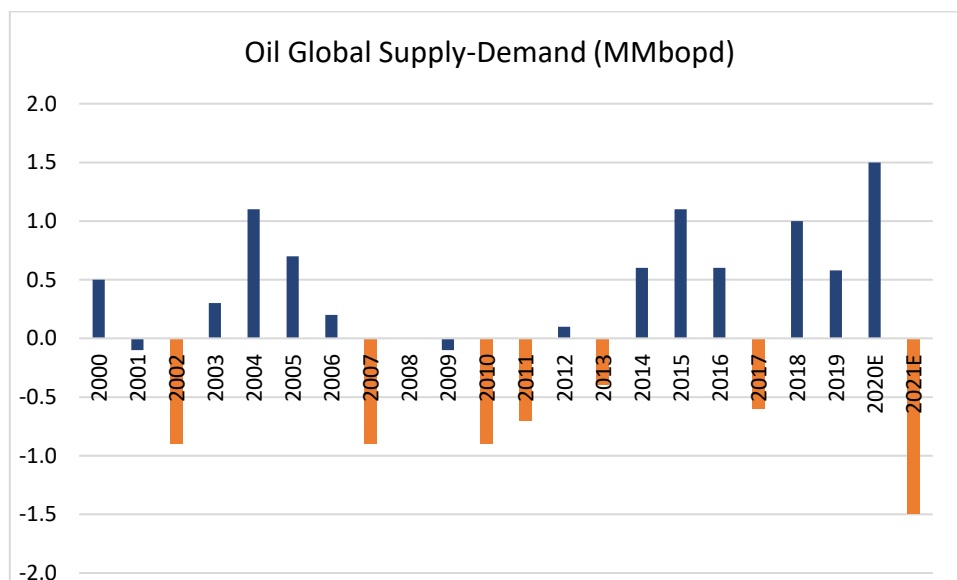
Production cuts, both voluntary and involuntary have helped stem over-supply and inventory growth and contributed to a steady recovery in Brent oil prices to US\$40-45/bbl. While encouraging, this level is not high enough for industry-wide prosperity, and not high enough for the majority of E&P companies to invest in exploration and reserves replacement. Exploration and development events are key share price drivers, and while the industry focuses on capital preservation and debt reduction, it doesn't make for a positive climate for equity investors.



At the time of this report, there is evidence building of a faster than expected recovery in oil markets. Supply and demand forecasts from the respected IEA Monthly reports indicate that the trough in demand is not as deep as originally feared, with a strong “V-shaped” recovery in gasoline and diesel fuels now observable.

Supply is forecast to rebound more slowly, because it will take time for the industry to rebuild balance sheets to the point where capital can be allocated to (risky) exploration. If current trends continue, and OPEC restrain production, then oil markets will be undersupplied in 2H 2020 and global oil inventories will begin to fall. In 2021, the markets look likely to be significantly under-supplied, by as much as 1-2MMbopd. But unconventional oil production in the Permian Basin of the USA, for example, can be rapidly reactivated once prices rise to requisite levels of around US\$50/bbl WTI, provided debt financing is still available. The US has become the swing producer and could be in a position to expand its dominance as the world’s largest oil provider. Resurgent Permian Basin supply could effectively cap a price rise.

There are still a number of uncertainties, specifically the potential for a Covid19 “second wave”, and the extent of capacity overhang predominantly within OPEC and how that is managed.



Source: IEA data. Y-axis is global demand less supply, in million bopd

During 2020, LRT’s exposure to pure oil stocks has been minimal, reflecting the weak macro environment and lack of suitable investment opportunities.

Australian Domestic Gas

In contrast to crude oil where international pricing prevails, natural gas prices are more variable and dependent on local circumstances, for example in the eastern states of Australia where prices for domestic consumption are high by world standards and where attractive investment opportunities may present themselves. Whereas LNG exports have been a major Australian focus dominated by



industry giants, there has been growing interest in domestic markets, including the West Coast where significant discoveries in the Perth Basin by junior players have attracted attention.

Domestic gas demand has weakened temporarily due to the economic impact of lock-downs on specific market segments such as SME's and power generation, while LNG exporters have diverted some of the gas otherwise destined for the Asian spot trade into the domestic market. In addition, low oil prices and oil-linked LNG prices have had a flow-on negative effect on specific domestic gas contracts, some of which are indexed to oil.

As a consequence, domestic gas spot prices have retreated to \$4-5/GJ range, the lowest in 3 years, but still very attractive by US standards. Contract prices for long term, take-or-pay gas are reported to be far higher, in the \$8-10/GJ range reflecting the lack of available long-term supply. Spot gas and spot prices represent immediate market imbalances and may not be available as needed in the future.

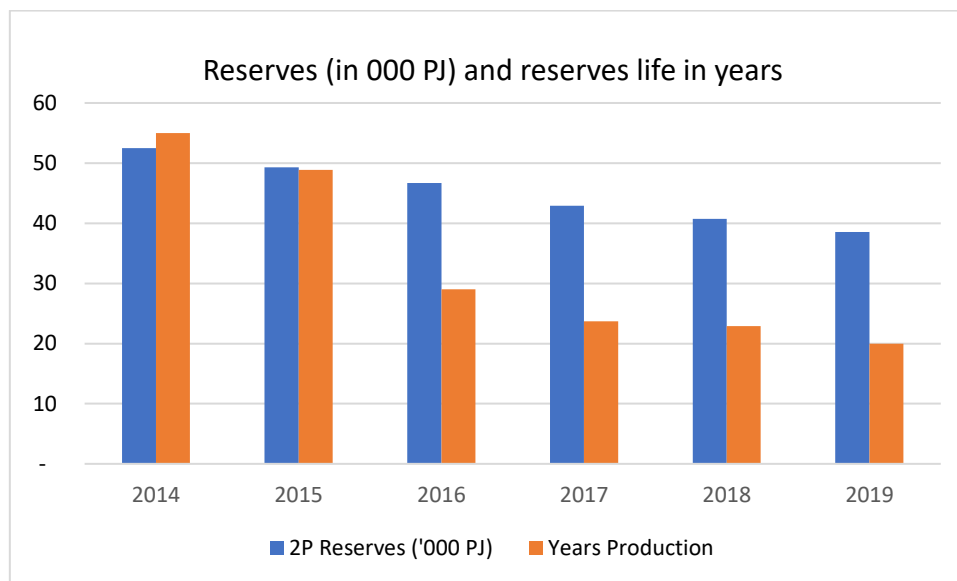
Structurally, the market faces significant supply shortfalls from as early as 2023. Production from existing fields is depleting rapidly and is not being replaced. Since mid 2014 and the advent of LNG exports, 2P gas reserves in eastern Australia have fallen 27% and reserves life has fallen from over 50 years to ~20 years. (Refer to chart).

Investment in new fields is urgently needed but is at risk given industry-wide deferral or reduction of capital budgets, as well as interference by State governments. Exploration levels remain at lows levels. Given the multi-year time-line for new projects, today's lack of investment is tomorrow's lack of supply.

In its latest "Statement of Opportunities" (SOO) released in March 2020, the Australian Energy Market Operator (AEMO) presents, as a base case, domestic market shortfalls from 2023. This is likely to be a best-case scenario because it assumes investment into new developments continues under a "business as usual" scenario, and assumes continuing diversion of spot LNG export volumes into the domestic market. Both assumptions are at risk due to current events.

The Manager believes that shortfalls will grow beyond 2023 if not addressed. This is irreversible without a substantial industry-wide effort and a higher gas prices to under-write the massive investment required. LRT has invested in several small E&P companies which are focused on early stage gas exploration in eastern and western Australia.





Battery Metals - Lithium

The Fund has exposure to two main metals in the battery sector: nickel (discussed above) and lithium. The Fund Manager continues to monitor opportunities in other battery metals in particular vanadium, graphite and cobalt. These battery metals all suffered further falls in the 2020FY and the outlook is uncertain as to the timing of potential rebounds.

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 the current depressed lithium price is expected to delay new mines and expansion projects. In June 2020, lithium prices continued to fall with the lithium hydroxide price in China trading at ~US\$7,350/t and lithium carbonate at US\$5,900/t. Spodumene prices in China were also down to US\$425/t for >5% Li₂O concentrate.

EV sectors such as China's have been hit hard due to COVID-19, with Chinese EV sales falling 33% YoY in June. Nevertheless, the Chinese government has extended policies supporting the EV market to 2022. China is targeting 25% new energy vehicles by 2025.

The European Union has introduced a €20bn, two-year purchasing facility for EVs. Germany, which is the most aggressive major western economy in supporting EV's, has doubled EV subsidies, and is to require EV charging facilities at every petrol station. It is penalising automakers for the production of petrol and diesel vehicle cars.

As a result, the Fund Manager believes that high quality lithium spodumene projects in favourable jurisdictions will continue to attract investment. Lontown Resources (ASX:LTR) is the Fund's largest investment in the lithium sector. Over the year LTR doubled the size of its Kathleen Valley spodumene deposit in WA to 156Mt at a grade of 1.4% Li₂O. This is a world class deposit and the potential for development is strong even in the current price environment.

The Fund also has a seed investment in Pan Asia Metals, which is planning to list its southeast Asian lithium and tungsten projects in the coming year.



Uranium

Uranium has been among the best performing commodities in 2020 – the spot price is up 35% to US\$32/lb, albeit from a low base.

The 2020 mine supply / reactor demand balance for uranium is forecast to be extremely out of balance due to mine shut-downs in the major producing countries of Canada and Kazakhstan. In Canada, Cameco's Cigar Lake mine (which supplied 13% of world production in 2018) has been placed on care and maintenance for an "indeterminate period". Cameco's Macarthur River, the world's largest high-grade uranium operation, has also been shuttered since 2018.

Meanwhile Kazatomprom in Kazakhstan, which is the "OPEC" of the uranium market, producing in the order of 40% of global supply, shut in all its mines in response to the Covid-19 crisis, after already reducing production by 20% in 2019. In August 2020, Kazatomprom announced it was joining Cameco is buying some product on the spot market. In a highly opaque market, this is regarded as a strongly positive signal for the uranium price.

Even though 2020 has seen some nuclear plants reduce electricity output, demand for uranium is forecast to be 185Mlbs in 2020 vs an estimated 120Mlbs of production. This shortfall is made up from inventories, but at some point power utilities will need to restock and a supply squeeze could well occur. It is estimated that an achieved price at least above US\$40/lb, and probably more like US\$50/lb would be required to incentivise mothballed mine restarts in Canada, as well as new production in jurisdictions such as Australia.

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

Bulk Commodities

The iron ore market has been remarkably strong in the current calendar year, despite Covid-19. Seaborne prices returned to over US\$100/t for 62% Fe grade. The major Australian iron ore mines BHP, Rio and Fortescue have capitalised on these high prices, caused in part by the problems encountered by Vale in Brazil, notably tailings dam issues, Covid-19 suspensions and even sinking of a Brazilian iron ore ship.

By contrast, the coal sector has particularly struggled of late, with prices for both thermal coal and coking coal back near five-year lows. Thermal coal prices have more than halved over the past two years. Coronavirus lockdowns in India and Japan have severely dented those nations' demand for coal, while extremely low oil and gas prices are causing substitution by some Asian power generators to burn gas rather than coal, further exacerbating the surplus of coal in the market.

It has been reported that Chinese power generators are paying 60% more to buy coal from Chinese mines rather than from exporters such as Australia, because of protectionism and geopolitical tensions.



The Fund currently does not have any investments in the bulk commodities of coal and iron ore, which generally require large capital investments outside the capacity of the junior companies which are the focus of the Fund.

Rare Earth Elements (REEs)

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. The western world is keen to break the Chinese stranglehold on the market and at the time of writing the US had just announced it would to proceed with grants to Australian REE producer Lynas and US company MP Materials.

Prices for key REE's neodymium and praseodymium over the 12 months were largely flat, finishing the year down around 1%.

Due to the captive and opaque market for REE's and the political factors influencing it, it is challenging to adequately assess the prospects for REE projects. In this light, many REE development companies do not currently present sufficiently attractive risk-return investment opportunities. The Fund does not currently have any exposure to REE's.

Platinum Group Metals (PGMs)

The Fund Manager is positive on the outlook for PGM's, due to increasing demand from autocatalysts and dwindling supplies from South African mines and Russian stockpiles.

With its dual industrial and jewellery uses, PGM markets are usually dominated by platinum. However, while the platinum price was subdued in FY2020, it was the year to shine for "second tier" PGM metals palladium and rhodium.

While the Palladium price fell by nearly 50% in March due to the Covid price shock, it had previously rocketed to record prices in excess of US\$2,600/oz early in CY 2020, as stricter air-quality rules increased demand in vehicle pollution-control devices. In addition, construction of more than a dozen multi-billion dollar crude-to-chemicals complexes have been announced over the past few years in China, boosting demand. Palladium is produced mainly in South Africa and Russia, and mine power shortages in South Africa put pressure on supply. While car sales have been sluggish, tighter environmental laws in Europe and China are boosting palladium consumption.

Although a much smaller market, the rhodium price followed a similar trajectory to palladium during CY2020, quadrupling in the 12 months to March 2020 to US\$11,000/oz, before falling back to around US\$6,000/oz. Like palladium, rhodium's primary use is in three-way catalytic converters. 80% of the world's rhodium production comes from South Africa, as a by-product of its Pt-Pd mines.

LRT's main exposure to the PGM sector is through its investment in Lontown Resources. While mainly a lithium company, it has some exciting early stage nickel-gold-palladium-platinum prospects in a geological belt which is being newly recognised for its Ni-Cu-PGM-Au potential, demonstrated by Chalice Gold's palladium-rich Julimar discovery.



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), tungsten, and fertilisers (phosphate). These commodities, while relatively niche markets, have potentially attractive supply/demand economics and the projects selected either have the attributes of high-grade or large tonnages or both.

4. THE WAY FORWARD

The major influences on global markets in 2020 comprised, once again, government stimulus, central bank liquidity creation and historically low interest rates. While these factors were dominant prior to 2020, the huge economic shock created by the global Covid pandemic has seen them grow by an order of magnitude.

The global economic outlook is extremely uncertain. The sanguine attitude of US investors, who dominate global equity markets, may not persist if the anticipated V-shaped recovery does not eventuate. A prolonged upturn may be on the cards, but nothing is certain. Apart from Covid, the world faces a daunting array of geopolitical and economic obstacles. The US election will exert a major impact, one way or another, for the remainder of 2020. Wealth gaps and social instability are perceived as looming threats.

Shiller, Dalio and other acknowledged experts point to gargantuan and potentially unserviceable debts amounting to over US\$200 trillion worldwide. Government deficits are unsustainable, while the demographic cycle is negative. Shiller remarks that US equity markets, bond markets and real estate may all be set for a fall. While a severe sharemarket collapse would affect all assets, including gold in the short term, precious metals would be expected to outperform as investors seek security in safe haven assets, as they did in the post 2008 period. Furthermore, gold prices can prosper under either deflationary or inflationary conditions. There is strong evidence to suggest that gold and silver are well positioned in a bull market that could persist for several more years.

Offsetting weak global growth has been the strong rebound in China's economy in Q2 2020. As the largest consumer of most hard commodities, this is positive for the resources market. An economic revival, perhaps spurred by monetary injection into infrastructure in particular, could spark a strong revival in base metals, to which the LRF has strong exposure.

The energy sector is likely to resurface strongly in the next few years, and we expect burgeoning demand for battery metals.

Looking back to the period post the 2008 GFC, there is a number of parallels to the current situation, which bode well for base and precious metals. These are the two sectors in which the Fund is most invested. After an exceptional finish to the 2020 financial year, the Fund Manager therefore is optimistic for continued strong performance of the LRT.



The LRF portfolio will be adjusted to conform with emerging trends as they unfold. Market volatility is expected to persist or even increase.

As an active manager of a fund focused on one of the very few bullish sectors in the world economy, LRF management is in a position to react rapidly to factors that impact the turbulent but potentially highly profitable junior resources sector. We are optimistic that the upward momentum can be maintained, but it will be a bumpy ride!

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