# LOWELL CAPITAL LIMITED

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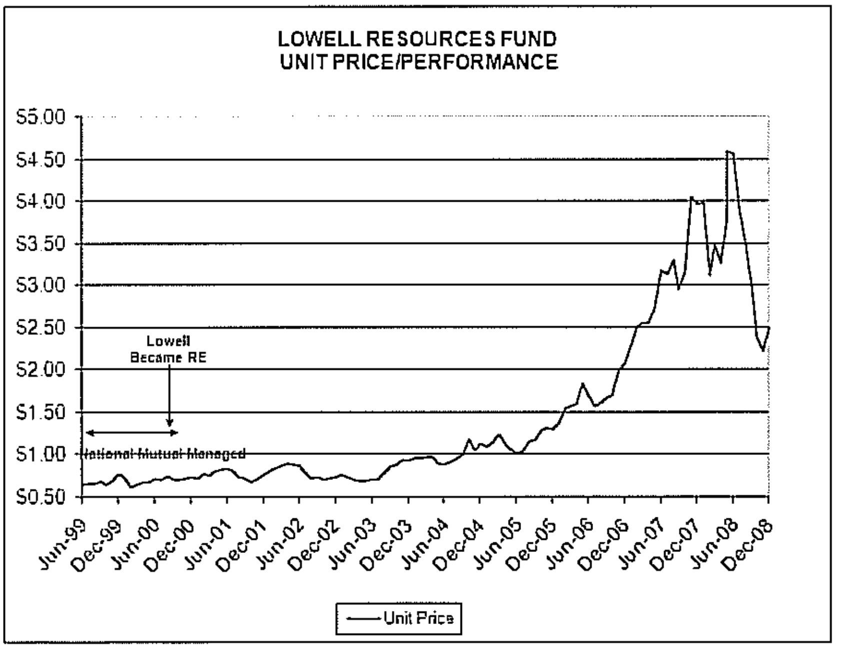
**LOWELL RESOURCES FUND**
**APIR code: NML0005AU**

## December 31st 2008, Half-Yearly Report to Unitholders

**Dear Unitholder,**

Late 2008 witnessed unprecedented erosion of values across a broad range of asset classes from property to equities, with resource prices declining 70% from their all-time highs. This flowed through to company share prices and as a result, the Fund's unit price decreased from $4.56 to $2.07. Nevertheless, at the low point of $2.07 on 10 December 2008, the units in the Resources Fund had still appreciated by 300 percent since the current Manager took over in September 2000, when units were valued at 0.69 cents.




The fund recorded a loss for the year of $6,185,475.

Rapid monetary growth, low interest rates, easy credit, and a lax regulatory environment in the US had created an inherently unstable economic situation. The collapse in financial markets originated in the US housing industry, but spread globally as sub-prime loan risks were packaged in collateralised debt obligations (CDOs) and credit default swaps (CDSs). Gaining momentum in early October 2008, plummeting stock markets were followed by the collapse of financial institutions, including broking houses, investment banks, commercial banks and some hedge funds.

Very few analysts correctly predicted the timing, severity and breakneck speed of these events. The Manager was no exception.

Redemptions in the Fund have remained very low, with most of the Fund's investors recognising that the resources sector is inherently volatile, and that severe reversals will occur from time to time. The junior mining and energy sector is particularly vulnerable, but has also demonstrated the ability to appreciate rapidly during the upturns that inevitably follow.

During the period, exposure to frontier explorers was reduced as emphasis was switched to producers, both current and emerging. At the same time the cash position was increased and currently stands at around $2 million, thereby allowing the fund to take advantage of investment opportunities at relatively low prices at the appropriate time.

As has always been the practice, the portfolio will be constantly reviewed and adjusted to accommodate or capitalise on changing events. The Manager use a probabilistic approach in sector weighting (e.g. gold stocks vs. other metals or energy) and in stock selection.

In early 2009 the Fund will focus on commodities that are considered most likely to benefit from an early rebound in price – initially gold, silver and uranium, then natural gas late in the northern hemisphere summer. Copper, nickel, iron ore and coal are also expected to recover ahead of most other commodities, and we will maintain a watching brief for changes in market signals, both technical and fundamental, and will move fast as opportunities arise.

The Fund will continue to build a core position in stocks that will be held for the long term, ideally more than 2-3 years. Such stocks would meet the following requirements:

1. Proven reserves, already in production or moving towards production
2. Low sovereign risk
3. Good infrastructure and markets
4. Low operating costs
5. Sufficient cash to meet requirements
6. Excellent management and technical capabilities
7. Project operatorship, or substantial working interest in a well-operated project

A smaller "trading portfolio" will comprise stocks to be bought and sold over periods of 3-6 months typically. These companies would have the following characteristics:

1. Good quality assets and company management
2. Stock market liquidity, indicated by high trading volumes
3. High beta, with wide trading ranges
4. Optimal chart patterns or technical indicators
5. Open registers and takeover potential would be another desirable attribute.

Importantly, quite unlike previous commodity price downturns, companies have acted rapidly in closing mines, scaling back production and deferring or cancelling new project developments and expansions. These actions are expected to restore supply/demand equilibrium much faster than in the past, and create greater investment opportunities for the Fund.

We continue to remind unitholders, however, that investing in small resources companies involves a high level of risk.

## Market Commentary from the Investment Manager

### Overview

Following the precipitous collapse of world markets over the past few months, the Fund is positioning itself for 2009. We have no firm predictions for the year ahead, but have adopted a relatively conservative and cautious approach and prefer to adjust our stance as events unfold.

Despite the ominous signs of a long-lived recession, the Manager hopes that the Fund will be able to profit from the turbulent market conditions that await us in 2009 and beyond. Technical indicators in January 2009 suggest that the US share market (which remains the major driver of global markets) is in better condition than the broad market indices suggest. For example, apart from the poorly performing banking sector, the near-term technical and sentiment indicators for the remainder of the equity market are generally positive. A drop of 40% or more in equity markets has always been followed by a recovery before the onset of further large declines.

Bolstered by massive injections of cash from government stimulus packages, share markets may lift for several months. If this transpires, the resources sector is expected to benefit from this accretion in market values. This broad market recovery would not last long, as some valuations (price/earnings ratios) remain relatively high and could be expected to fall further before a sustained upturn.

Furthermore, debt defaults and other threats remain. A raft of negatives could once again bear down on the market, creating the second leg of a "double-dip recession" such as was seen in the early 1930's. As before, most sectors of the market, including resources, would be carried downward. Fearing deflation (not a realistic expectation in our view), even gold bullion may be sold down temporarily. Nevertheless, we would expect gold to emerge soon thereafter as the major store of value, against which the value of practically all other assets might decline.

This further emergence of gold as a store of value is likely in our view because of the massive amounts of new money being minted in the US and around the world which is expected to dilute and degrade the value of most currencies, especially the US dollar. The liquidity created by this monetary influx is likely to result in a new bubble – possibly gold.

**Background**

Before the current downturn, resource commodities were in high demand, spurred by global expansion, particularly in Asia. These conditions changed virtually overnight in October – a month notoriously fraught with notable market downturns. The current bear market may prove to be one of the worst in many decades, but notwithstanding the prevailing gloom, we anticipate opportunities in the resource sector. We believe that the present situation provides an occasion for the Fund to accumulate carefully selected high-quality junior resource stocks at low prices.

We believe that we are approximately half way through a secular (15-20 year) bull market for commodities that commenced in 2000. Superimposed on these secular trends are more volatile up and down cycles such as we are experiencing. Painful as these are' they should not detract from the longer term expectations.

In our report to unitholders for the year ending 30 June 2008 we wrote *"some commodities, notably crude oil, remain heavily overbought at what are believed to be unsustainably high price levels, and several others appear to have topped out temporarily"* This proved to be the case. Oil prices dropped precipitously to what we now regard in an unsustainably low level. The same applies to most all other commodities.

Prior to the current bear market, commodity prices had been boosted by a relatively weak US dollar. But with the onset of the crisis, the first response of panicking investors, many heavily leveraged, was to sell everything with liquidity, including gold bullion and shares, and to buy US Treasuries. The volume of treasuries purchased pushed the US$ higher. Dollar strength was also reinforced by unwinding of carry trades priced in foreign currencies, heavy purchases of US Treasuries by foreign entities, and the security attached to its status as the world's reserve currency. This surge in the US$ placed downward pressure on commodities - a 25% rise in the dollar was matched by a commensurate fall in gold bullion, while most other dollar-denominated commodities fell even more. We anticipate that this burst of strength will eventually give way to prolonged weakening in the US$, and that this would flow through to stronger resource prices across the board. Certain other currencies may weaken even more than the US$. For example, given looming monetary problems in the European Union, the US$ may rise against the basket of currencies but still fall relative to gold.

A fear expressed in the mainstream media, and fanned by central banks, is deflation as manifest in lower consumer prices. We do not believe that this is true deflation at all, but rather an outcome of "deleveraging" - the forced sale of assets by large-scale speculators and investor liquidation. We view this downward price pressure to be potentially short lived, and expect commodity prices in a year or two to be higher than prevailing levels. Instead of deflation, we sense the makings of a new inflationary era which will seriously erode the value of currencies and most financial assets, but which will ultimately benefit the resource sector. The full inflationary effects will take time to emerge. In the meantime, the spectre of deflation is likely to be revived with every market downturn.

The Manager believes that excessive newly minted currencies being injected in the global financial system not only sets the stage for inflation, but will generate a growing distrust of central banks and the fiat (unbacked paper) currencies that they issue. Unlike the 1920's and 1930's, most currencies today are not backed by gold or any other tangible asset. The only presently available alternative to fiat currency is gold, which is true money that retains its value over the ages, and has appreciated by some 4,500% over the past century in US$ terms as the purchasing power of currencies has been decimated. Gold even performed well during the Great Depression. The flow through of inflation to gold and other resources is not immediate however, as there is typically lag before the full inflationary impact is felt.

In summary, the junior resource sector offers a bumpy ride but potentially exceptional rewards. We expect that well-managed resource companies will do well during the inevitable upturn in the market.

Yours faithfully,

**Stephen Mitchell**
Chairman

# *Lowell Resources Fund*

## *ARSN 093 363 896*

*Interim Financial Report for the Half Year Ended 31 December 2008*

# Interim Financial Report

## For the Half Year Ended 31 December 2008

# DIRECTORS' REPORT

The directors of Lowell Capital Limited ('the Responsible Entity') submit herewith the interim financial report for the Lowell Resources Fund for the half year ended 31 December 2008.

## Directors

The names of the directors of the Responsible Entity during or since the end of the half year are:

- Mr S.P. Mitchell
- Mr M.A. Ramsden
- Mr D.B. Worth

Directors were in office for this entire period unless otherwise stated.

## Review of Operations

***Results***

The financial results of the operations of the Fund are disclosed in the income statement. The net loss for the Fund for the half-year ended 31 December 2008 was $6,185,474. This compares to a net profit of $2,653,096 for the half year ended 31 December 2007. The financial crisis towards the end of 2008 resulted in unprecedented erosion of values across a broad range of asset classes including resource prices and this has had a major impact on the fund's results.

In respect of the half-year ended 31 December 2008, no distributions are paid and payable (2007: Nil.)

## Independence Declaration by Auditor

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

Signed in accordance with a resolution of the directors of the Responsible Entity made pursuant to s.306 (3) of the *Corporations Act 2001*.

On behalf of the Directors

..............................

Stephen P. Mitchell
Director

MELBOURNE

Dated: 23 Feb 2009

Hayes Knight Audit
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Registered Audit Company 291969

**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF LOWELL CAPITAL LIMITED (THE RESPONSIBLE ENTITY)**

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2008 there have been:

a. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review, and

b. no contraventions of any applicable code of professional conduct in relation to the review.

**Hayes Knight Audit Pty Ltd**
Melbourne

**G. S. Parker**
Director

Dated this 23 day of February 2009

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**INDEPENDENT AUDITOR'S REVIEW REPORT**
**TO THE UNIT HOLDERS OF LOWELL RESOURCES FUND**

**Report on the Half-year Financial Report**

We have reviewed the accompanying half-year financial report of Lowell Resources Fund (the Fund) which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in net assets attributable to unit holders and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the Lowell Capital Limited ("the Responsible Entity") are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Fund's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Lowell Resources Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Independence*

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001 has been provided to the directors of Lowell Capital Limited.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Lowell Resources Fund is not in accordance with the *Corporations Act 2001* including:

A. giving a true and fair view of the Fund's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and

B. complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

Hayes Knight Audit

**Hayes Knight Audit Pty Ltd**
Melbourne

**G. S. Parker**
Director

Dated this 23 day of February 2009

# DIRECTORS' DECLARATION

The financial statements and notes thereto of the Lowell Resources Fund for the half year ended 31 December 2008 as set out on pages 6 – 12 have been prepared by Lowell Capital Limited ('the Responsible Entity') in accordance with the Corporations Act 2001.

The directors of the Responsible Entity declare that:

a) In the directors' opinion, there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and

b) In the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Fund.

Signed in accordance with a resolution of the Directors of the Responsible Entity made pursuant to s.303 (5) of the Corporations Act 2001.

On behalf of the Directors

...............................

Stephen P. Mitchell
Director

MELBOURNE

Dated: 23 Feb 2009

# INTERIM INCOME STATEMENT

For the Half Year ended 31 December 2008

| | Note | Half Year Ended 31 Dec 2008 $ | Half Year Ended 31 Dec 2007 $ |
|---|---|---|---|
| Interest revenue | | 71,670 | 61,519 |
| Dividend revenue | | 30,830 | 31,736 |
| Changes in the fair value of investments through profit or loss | | (6,150,699) | 3,138,331 |
| | | (6,048,199) | 3,231,586 |
| Performance Incentive Fees | | - | (392,146) |
| Management Fee | | (91,824) | (116,073) |
| Custodian's Fee | | (33,240) | (32,390) |
| Administration expenses | | (8,278) | (28,118) |
| Auditor's Remuneration | | (3,934) | (9,763) |
| **Net Profit (Loss) Attributable to Unitholders** | | (6,185,475) | 2,653,096 |
| Distribution to unitholders | | - | - |
| **Change in Net Assets Attributed to Unitholders** | | (6,185,475) | 2,653,096 |

The above income statement should be read in accordance with the condensed notes to the interim financial statements, which are included on pages 10 to 12.

# INTERIM BALANCE SHEET

As at 31 December 2008

| | Note | 31 Dec 2008<br>$ | 30 Jun 2008<br>$ |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 3 | 1,967,996 | 2,694,992 |
| Receivables | | 2,877 | 125,308 |
| Listed securities | | 5,361,972 | 11,134,977 |
| **Total Assets** | | **7,332,845** | **13,955,277** |
| **LIABILITIES** | | | |
| Performance Incentive Fees Payable | | - | 239,031 |
| Accounts Payable | | 24,191 | 65,810 |
| **Total Liabilities (excluding net assets attributable to unitholders)** | | **24,191** | **304,841** |
| **Net assets attributable to unitholders (liability)** | **2** | **7,308,654** | **13,650,436** |

The above balance sheet should be read in accordance with the condensed notes to the interim financial statements which are included on pages 10 to 12

In accordance with AASB 132 unitholders' funds are classified as a liability as at balance day and accordingly the Fund has no equity for financial statements purposes.

# INTERIM STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the Half Year ended 31 December 2008

| | 31 Dec 2008<br>$ | 31 Dec 2007<br>$ |
|---|---|---|
| **Opening net assets attributable to unitholders** | 13,650,436 | 9,960,009 |
| Net Profit attributable to unitholders | (6,185,475) | 2,653,096 |
| Distribution to unitholders | - | - |
| Applications for units | - | - |
| Redemption of units | (156,307) | (420,940) |
| **Closing net assets attributable to unitholders** | 7,308,654 | 12,192,165 |

The above statement should be read in accordance with the condensed notes to the interim financial statements which are included on pages 10 to 12

# INTERIM CASH FLOW STATEMENT

For the Half Year ended 31 December 2008

| | Half Year Ended 31 Dec 2008 $ Inflows (Outflows) | Half Year Ended 31 Dec 2007 $ Inflows (Outflows) |
|---|---|---|
| **Cash flows from Operating Activities** | | |
| Distributions and dividends received | 30,830 | 31,736 |
| Interest received | 76,779 | 61,492 |
| Management fee paid | (104,992) | (162,812) |
| Payments for expenses | (275,037) | (596,827) |
| **Net Cash used in operating activities** | **(272,420)** | **(666,411)** |
| **Cash flows from Investing Activities** | | |
| Proceeds from sale of securities | 427,809 | 4,398,184 |
| Payment for securities | (705,964) | (2,469,515) |
| **Net Cash used in/provided by investing activities** | **(278,155)** | **1,928,669** |
| **Cash flows from Financing Activities** | | |
| Payments for redemption of units | (176,421) | (420,940) |
| Receipts for application of units | - | - |
| **Net cash used in financing activities** | **(176,421)** | **(420,940)** |
| Net increase(decrease) in cash and cash equivalents held | (726,996) | 841,318 |
| Cash and cash equivalents at beginning of the half year | 2,694,992 | 1,734,682 |
| **Cash and cash equivalents at end of the half year** | **1,967,996** | **2,576,000** |

The above cash flow statement should be read in accordance with the condensed notes to the interim financial statements which are included on pages 10 to 12

## 1 Summary of Significant Accounting Policies

### *(a) Basis of preparation*

This general purpose condensed financial report for the half year ended 31 December 2008 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the entity as the full financial report.

It is recommended that the half year financial report be read in conjunction with the annual report for the year ended 30 June 2008.

### *(b) Statement of compliance*

The half year financial report complies with Australian Accounting Standards applicable to interim reporting as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) applicable to interim reporting as issued by the International Accounting Standards Board.

### *(c) Changes in Accounting Policies*

The accounting policies and methods of computation are consistent with those of the most recent annual financial report. Since 30 June 2008 there have been no new accounting standards or interpretations issued that will affect the Fund.

### *(d) Distributions*

In accordance with the Fund's constitution, the Fund fully distributes its distributable income to unit holders by way of cash or reinvestment into the Fund. Distributions to unit holders comprise the taxable income of the Scheme to which the unit holders are presently entitled.

### *e) Income tax*

Under current income tax legislation the Fund is not liable to pay income tax as the net income of the Fund is assessable in the hands of the beneficiaries (the unit holders) who are 'presently entitled' to the income of the Fund. There is no income of the Fund to which the unit holders are not presently entitled and additionally, the Fund Constitution requires the distribution of the full amount of the net distributable income of the Fund to the unit holders each period.

As a result, deferred taxes have not been recognised in the financial statements in relation to differences between the carrying amounts of assets and liabilities and their respective tax bases, including taxes on capital gains which could arise in the event of a sale of investments for the amount at which they are stated in the financial statements. In the event that taxable gains are realised by the Fund, these gains would be included in the taxable income that is assessable in the hands of the unit holders as noted above.

Realised capital losses are not distributed to unit holders but are retained within the Fund to be offset against any realised capital gains. The benefit of any carried forward capital losses are also not recognised in the financial statements. If in any period realised capital gains exceed realised capital losses, including those carried forward from earlier periods and eligible for offset, the excess is included in taxable income that is assessable in the hands of unit holders in that period and is distributed to unit holders in accordance with the requirements of the Fund Constitution.

## 2 Net assets attributable to unitholders

| *(a) Movements in net assets attributable to unitholders* | 31 Dec 2008 | 30 Jun 2008 |
|---|---|---|
| | $ | $ |
| Units on issue at beginning of the half year | 13,650,436 | 9,960,009 |
| Units issued during the half year | - | - |
| Units redeemed during the half year | (156,307) | (636,149) |
| Units on issue at year end | 13,494,129 | 9,323,860 |
| Transfer of the net undistributed income from the income statement | (6,185,475) | 4,326,576 |
| Closing balance of net assets attributable to unit holders | **7,308,654** | **13,650,436** |

| *(b) Movements in number of units* | | |
|---|---|---|
| On issue at beginning of the half year | 2,993,123 | 3,179,504 |
| Units issued during the half year | - | - |
| Units redeemed during the half year | (50,319) | (186,381) |
| On issue at year end | **2,942,804** | **2,993,123** |

## 3 Cash and cash equivalents

| | | |
|---|---|---|
| Cash | 431,462 | 2,107,756 |
| Deposits at call | 1,536,534 | 587,236 |
| **Total cash and cash equivalents** | **1,967,996** | **2,649,992** |

## 4 Commitments and contingencies

There are no commitments or contingencies

## 5 After balance date events

Between the balance date and the date of approval of this financial report, certain markets to which the Fund has investment exposure moved significantly. Movements in markets are reflected on a daily basis in the unit price.

Since 31 December 2008 there have been no other matters or circumstances not otherwise dealt with in the financial report that have significant affect on may significantly affect the Fund

## 6 Segment Information

Business Segments
The Fund operates solely in the business of investment management.

Geographical Segments
The Fund operates solely from Australia. Whilst the Fund has only one business and geographical segment, it does have exposure to different geographical markets. The Fund has exposure to various resources' sectors as follows:

| | INCOME | | ASSETS | |
|---|---|---|---|---|
| COUNTRY | Half Year Ended Dec 2008 $ | Half Year Ended Dec 2007 $ | Half Year Ended Dec 2008 | Half Year Ended Dec 2007 $ |
| Australia | (5,981,448) | 3,076,858 | 7,194,095 | 12,346,202 |
| Canada | (169,250) | 61,473 | 141,750 | 311,000 |
| | (6,150,698) | 3,138,331 | 7,332,845 | 12,657,202 |

## Additional company information

Lowell Capital Limited (A.C.N. 006 844 558) a company incorporated and operating in Australia is the Responsible Entity of the Lowell Resources Fund.

Principal Registered Office and Principal Place of Business
14th Floor
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