PURE RESOURCES

Investor Newsletter

Period to: 31 December 2022

PURE Resources Fund

Dear Investor,

We enclose the December 2022 update for the PURE Resources Fund.

The PURE Resources Fund is open for investment.

Foundation Class Portfolio Returns (After Fees)

The PURE Resources Fund returned -1.1% in December 2022, and declared a 2.6 CPU distribution (Foundation Class) for the quarter, bringing the trailing 12m yield to 4.0%.

	1 Month	3 Month	6 Month	9 Month	1 Year	Since inception (Annualised)*
Returns (%)	-1.1%	+0.7%	+1.7%	+4.3%	+10.8%	+9.1%
St Dev (Annualised %)					8.1%	6.8%

After fees and assuming reinvestment of all income distributions. Fund inception 30 April 2021.

Fund overview as of 31 December 2022	
Funds Under Management	$81.3m
Since Inception Annualised Return After Fees (Foundation Class, Dist. Re-Invest)	+9.1%
Foundation Class Current Unit Price (Ex-Distribution)	$1.1011
Total Distributions Paid After All Fees	4.1cpu
Number of Investments	9
Average Loan Size	$7.3m
Weighted Average Portfolio Interest Rate	10.7%
Total Establishment and Arrangement Fees Paid to Investors (Gross)	$1.2m

Current Portfolio Exposure	
Fixed Income	62.8%
Equity/Warrants	7.6%
Cash	29.6%
Total	100.0%

PURE online application form

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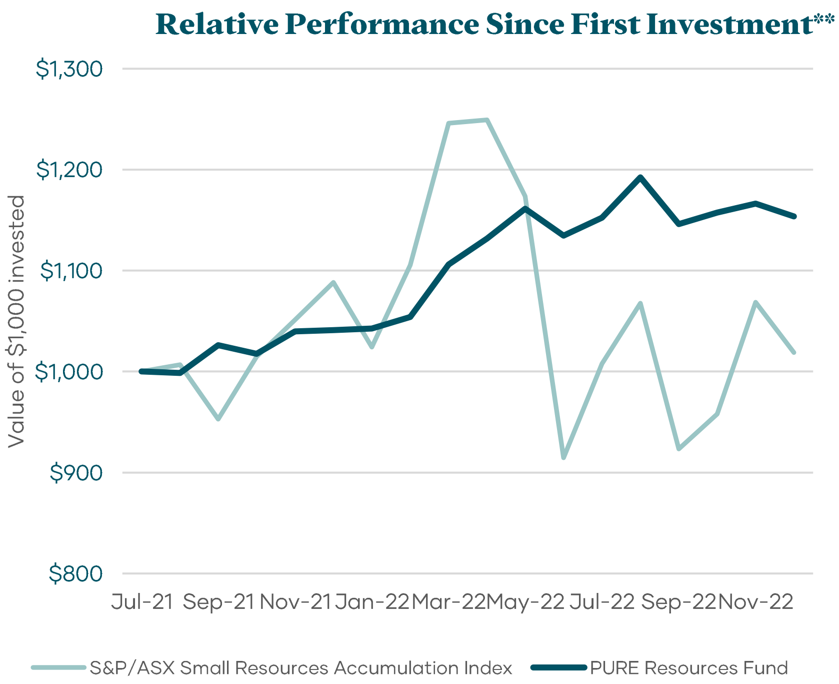
Portfolio Summary

The Resources Fund delivered a down month for December, falling 1.1%, primarily driven by the gas price cap policy introduced by the Federal Government. With c30% of the Fund being exposed to East Coast gas, the equity took a hit.

The production pathways for both Comet Ridge (COI.ASX) and Vintage Energy (VEN.ASX) remain unchanged, and indeed the impact on near term pricing (12c/Gj) do not apply to new production, however, the uncertainty introduced by the Government's market intervention are a cause for market trepidation. Ultimately we think there will be a solution to what is a populist policy.

Nonetheless, we are very pleased with our performance over the course of 2022. The fund remained in positive territory over the year, rising +10.8% soundly outperforming all benchmarks and the small resources market itself (-6.4%). We have declared a 2.6cps distribution in light of this performance, up +73% from last half (1.5cpu) and look forward to moving to quarterly distributions over the course of 2023.



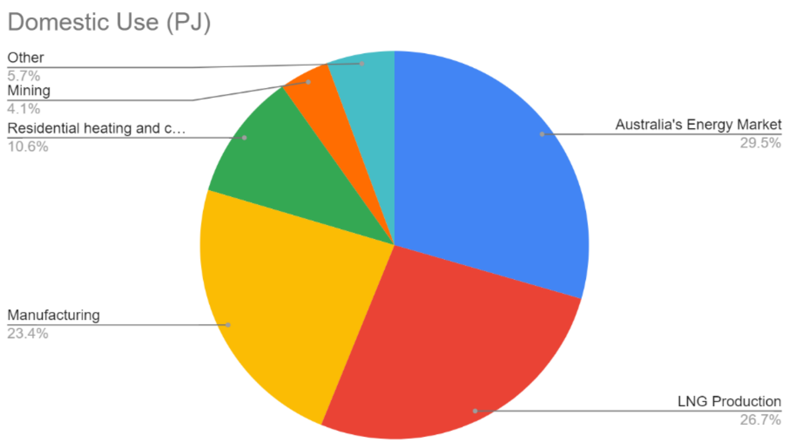
**Fund inception April 2021, first investment made in July 2021

Charts of the month

Let's talk about Gas – and why not, everyone else is!

Here is a reminder of where we use gas. About 30% is used in supplying electricity generators in Australia. It's also used in the glasses you may be using to read this and the clothes you are wearing (not the energy requirement, but within the fabric itself).

Uses of Gas in Australia



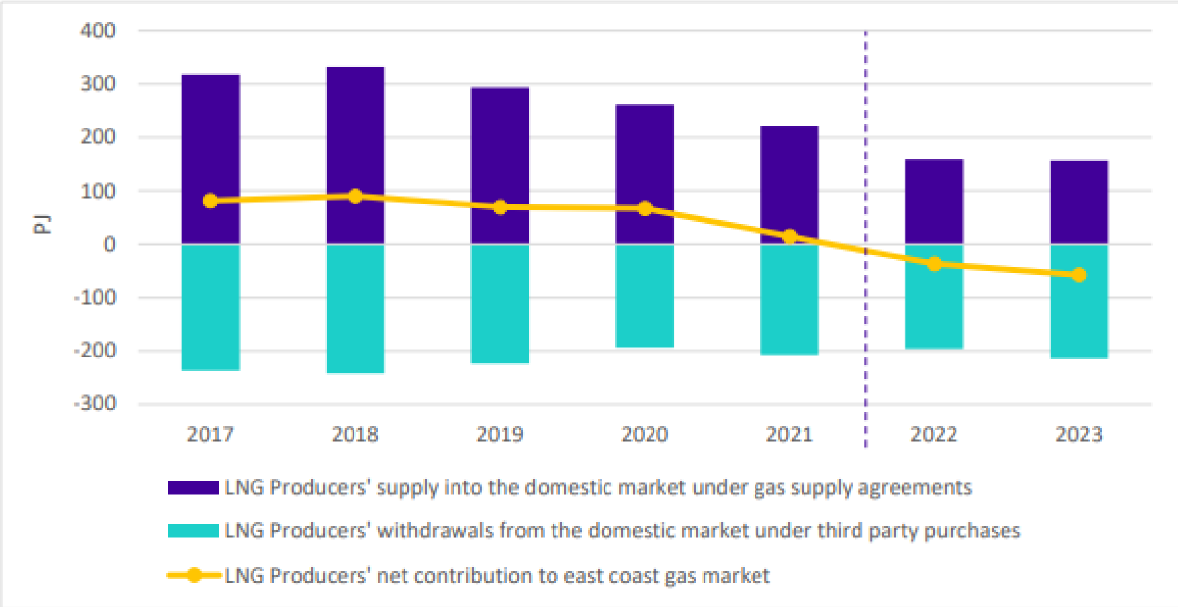
Source: ACCC

For over a decade now, it's been obvious that investment into Australia's east coast domestic gas production was insufficient. Though it's not the industry that is entirely to blame. Due to QLD State Government policy in the period 2005-2010, three separate LNG export facilities were approved for construction at Gladstone. It became an arms race as to who could finish first (Origin was the winner in 2015)

The race was driven from the potential uplift in volumes from QLD Coal Seam Gas fields that were drilled out, and then subsequently merged with one another. Think of older names like Sunshine Gas, QGC, and Arrow.

All good ideas – except the fields never produced enough gas to warrant three facilities and all estimates of production well pressures were overblown. Sure, there are some very large fields; Santos has Fairview and Origin (APLNG) has Spring Gully both in the Surat Basin (near Roma). Nonetheless, the policy mistake has left those LNG trains seriously short of gas, to the point where Santos and Origin are losing money on their investment. Understandably, any molecule that came close to transmission pipes in QLD, SA and Northern NSW went to Gladstone and out through the trains to Asia.

East Coast Domestic supply 2017 – 2023E



Source: ACCC

That's left us in a bit of a pickle. Any industry watcher has been aware of this for nigh on 10 years but it seems like Government has only just caught up. A domestic Reservation scheme for the East Coast has been mentioned since 2018, but never enacted.

The policy recently ratified by the Federal Government is somewhat akin to arresting the ambulance officer who turned up at a car crash. A 12c/GJ price cap doesn't apply to new production – and our investments in Vintage and Comet Ridge are spared this – however given many long term supply contracts were in the range of 8-9c/Gj, it will have the perverse impact of pushing these prices higher.

Given the legislation also contains elements of potential future margin management (i.e. you supply and the Government tells you what you can earn) this intervention could have a further detrimental impact to future investment.

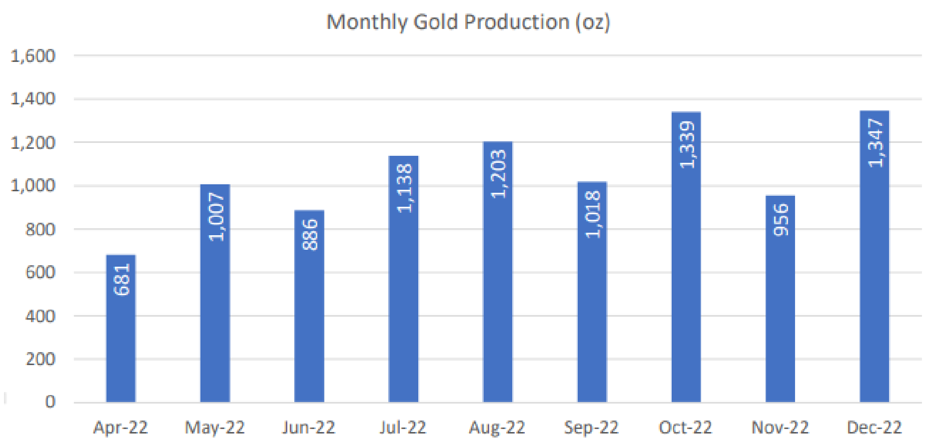
To our mind all this has done is ensure that domestic gas supply will fall materially over the next few years.

Why would the international owners of the uncontracted gas at APLNG and QCLNG spend more capital in Australia to sell at 12c/GJ (or for comparison a ~US$8/mmbtu gas price)? Leave it in the ground and you can either probably sell it for A$30/GJ when Rome (or Roma) is burning in 2-3 years' time, or leave it in the ground for 10 years and sell it to the international market. Maybe the plan is to end gas use in Australia over the next 7-8 years, but this approach won't end well.

Kingston Resources (KSN.ASX)

Gold production from the Tailings Storage Facility (TSF) hit a record over the month of December at 1,347oz. All-In Sustaining Costs fell to A$1,607oz, while the sales price achieved was A$2,678.

This shows a strong turnaround from November, which was impacted by wet weather. With weather conditions improving again in January, we are hopeful that this trend can continue. A resurgent gold price, hitting US$1,925 on 19th January, +17% over the past 2 months provides a tailwind for what we see as a highly undervalued but favourably placed producer.



Source: Company data

The Company closed out December with cash of $6.84m, helped along by solid cashflows from the TSF, and a $1.5m milestone payment from the sale of Livingstone project (10 December 2021). Management will report quarterly performance before January end.

Looking ahead over 2023, we expect a year of exciting developments at Mineral Hill. With Pearse Pits expected to be mined over the year, which could add c40koz of gold to production. Further development drilling and engineering work should see a mine plan, upgraded reserves and lengthening of mine life at the SOZ Underground project. In addition, exploration drilling should uncover more copper/gold at Jack's Hut site, which is shaping up very favourably already. All of these sites sit within the Mining Lease at Mineral Hill, which also has the benefit of a centralised Mill.

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Group 6 Metals (G6M.ASX)

On 16 January, G6M updated the market citing further cost increases of c$7.5m at the Dolphin Tungsten project. Whilst timing of the project itself is not impacted, high inflation on key project components, and cost overruns by lead contractor Gekko Systems are again to blame. This was above the $2.3m contingency from the previous construction spend update, with total start-up capital now c$97.9m. This is c28% above the original estimate, however reflects the nature of inflation in the mining industry, slowdowns in parts delivery due to COVID, but it is also a credit to Management that timing of first product has not shifted.

Management confirmed that construction is on track and elsewhere items remain on budget at the Dolphin Tungsten mine. The Company still expects first production in the March 2023 quarter, despite the impacts from COVID on labour availability, and sourcing equipment and materials. This is a great achievement given the myriad of delays we have seen at other projects.

Pleasingly, Tungsten prices remain strong at around US$340/350/t, despite a recent reduction in buying out of China as COVID restrictions impacted end user demand. With restrictions easing over the second half of the year and downstream process industries recovering, we expect to see demand picking up again. Demand from Europe and North America remains very strong, with producers currently looking for more supply of concentrate than is currently available.

Dolphin Tungsten Mine update – January 2023

Source: Company data

Vintage Energy (VEN.ASX)

Vintage continues to progress it's Vali gas fields in the Cooper Basin towards production. Unfortunately, wet weather through November pushed back first gas from December 2022 to February 2023, however this revised date remains on track. All well heads are installed and final testing is being carried out. Vali 1 will be turned on for production in just 2 weeks, with Vali 2 and 3 to follow as pipe pressure allows. It's been a while coming, now some 7 months later than anticipated, but we are at the finish line and excited for what comes next for Vintage.

Vali 1 Well Head (16 January 2023)

Source: Company data

The Fund is open for investment

Market conditions have become extremely conducive to PURE's hybrid investment strategy. As such, and with cash near fully deployed, the PURE Resources Fund is actively undertaking a fundraising campaign to capitalise on the opportunity being presented. If you would like to invest with the PURE team, please access the online application form via the Olivia123 link below:

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The greatest compliment our investors can give is the referral of friends, family and associates. If you know of other investors who are seeking additional investment opportunities, please feel free to contact us at any time.

We thank you for your support.

Dan, Nick, Mike, Tim, Jonathan and Jean-Luc

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Monthly Returns – After Fees

Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Fin YTD
PURE Resources Fund – Foundation Class													
FY21											0.0%	0.0%	0.0%
FY22	0.2%	-0.1%	2.8%	-0.8%	2.2%	0.1%	0.1%	1.1%	4.9%	2.3%	2.6%	-2.3%	13.7%
FY23	1.6%	3.5%	-3.9%	1.0%	0.8%	-1.1%							1.7%

Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Fin YTD
PURE Resources Fund – Platform Class (APIR: PUA1097AU)													
FY22		-0.1%	2.7%	-0.8%	2.2%	0.1%	0.2%	1.1%	4.9%	2.3%	2.6%	-2.3%	13.4%
FY23	1.6%	3.5%	-3.9%	1.0%	0.8%	-1.1%							1.7%

Unit Price Data Download

Please click on the link below to download the updated unit price data for each unit class.

PURE Resources Fund – unit price data to 31 December 2022