RNS Number : 4510A
Golden Prospect Precious Metals Ltd
13 March 2025

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Golden Prospect Precious Metals Limited
(the "Company")

Annual Report and Audited Financial Statements

The Company is pleased to announce its final results for the year ended 31 December 2024.

For the full report, please click the link below:

http://www.rns-pdf.londonstockexchange.com/rns/4510A_1-2025-3-12.pdf

Chairman's Statement

A few thoughts on important recent market developments
Before reviewing the Company's 2024 financial year, I'd like to first highlight recent market developments which I believe are of great significance. We are at a pivotal point for precious metals and their related mining stocks. A trend has been brewing that can no longer be seen as a one-off or statistical quirk. Over several decades the gold price has moved in step with the US bond market. This changed in 2022 when gold broke out to the upside as interest rates rose; and bond prices crashed, which would normally derail any such rally. This decoupling has not been witnessed since gold's major upsurge in the 1970's.

The circumstances may be different but there are clues that something seismic is underway. First, despite prolonged outflows from gold-based Exchange Traded Funds (ETFs) since 2021, the price has continued to rise. Second, central banks have been accumulating precious metals in a manner that echoes the Mercantilism era of the 18th Century. Then it was an episode of economic nationalism to support domestic employment, maximise exports and amass state ownership of silver and gold. Third, the threat of tariffs has led to a scramble to repatriate precious metals. Traders are pulling billions of dollars' worth of bullion from the Bank of England's vaults to be shipped to New York. This has led to an extraordinary shortage with delivery times delayed by 4-8 weeks.

One could argue that this is already factored into the gold price, which is heading steadily toward record highs of 3,000 in early 2025 as I write. We are also witnessing a substantial outperformance of miners versus the metal, which has been long overdue, and with your Company leading the charge - the NAV is up nearly 30% at the time of writing. Time will tell in the next Interim Statement whether such developments escalate, but for now the purpose of this report is to look back before looking forward.

Performance
I am pleased to report on a positive year for the Company. Over the course of 2024 the NAV rose by 20.4% from 35.81p to 43.10p with a peak value of 55.87p in October. In the meantime, the share price rose from 29.50p to 35.50p, likewise gaining 20.3%, with highs in October at 46.0p. Overall, the performance was pleasing but it was frustrating to witness a retrenchment in Q4 which coincided with a general market decline after the US election.

Compared with equivalent ETFs, performance was well ahead of the VanEck Gold Miners ETF (GDX) which rose 12.8% and the VanEck Junior Gold Miners ETF (GDXJ) which rose 17.9% in Sterling terms. The returns also ranked well against open-ended funds in the precious metals sector. However, 2024 proved to be yet another year where performance of the miners lagged the returns of gold itself, which rose by 27.2% in US Dollars and 29.7% in Sterling.

The break-out in March was decisive as the gold price punched through its previous record above2,000. Gains were consolidated over the summer, hitting further record highs by the end of October, trading at peak levels above 2,700. The price retrenched a little towards the end of the year, but was well supported. At the time of writing, gold is trading around the 2,950 level.

Subscription Rights
In November, under the Company's annual subscription rights programme, shareholders had the right to subscribe for 1 new share for every 5 shares held at a price of 35.94p. Having been at 46p and therefore well 'in the money' in the weeks approaching the subscription date, it was frustrating to witness a share price reversal which made it less attractive for investors to participate and meant the full allotment was not taken up and the shares related to the unexercised rights could not be placed.

Nevertheless, the exercise raised an additional £2.78m from 7,745,478 shares issued at 35.94p. In November 2025 the subscription price will be 48.00p (being the NAV of the Company on the 2024 subscription date) which is not far off the current share price of 45.00p at the time of writing.

Discount and Marketing
Over the course of 2024 the discount averaged 19.6% (range 11.2% to 25.9%), compared to a 16.8% average (range 5.4% to 28.3%) in 2023, and ended the year at 17.6%. While it was disappointing that, on average, the discount widened over the period, many investors have taken advantage of it on initial purchase and have participated in proportion during the upturn.

With the aim of increasing demand for the Company's shares, over the past year we have approved new marketing initiatives to reach an extended audience outside of traditional wealth managers.

Tavistock, a leading London-based press and investor relations firm, were appointed to help promote the Company. They are well known for their role in financial public relations for the mining and mineral exploration sectors. As a direct result of their involvement, the Company and its investment manager have already featured in several articles including the Financial Times, Wall Street Journal and Daily Mail among others.

Additionally, Kepler, a leading sponsored research provider in the investment trust space, who has a strong readership and distribution into both institutional and self-advised retail investors, was commissioned to publish research and regular articles on the Company.

Shareholder register
Investors may be aware of activist investors targeting the UK closed-end fund market in recent months. We are not aware of any of these investors being or having been on the Company's share register and, with the help of our broker and other advisers, we continue to closely monitor any changes to our register and any developments in the sector.

Gearing
Given the strong portfolio return over the period, gearing has served its purpose and contributed 3.5% to the NAV return. The Company's investment manager (Manulife | CQS Investment Management ("MCQS" or "CQS")) has proved to be prudent over many years in their use of leverage, by reducing borrowings, and therefore risk, when the market outlook is uncertain. At the close of the year, the gearing level stood at 7.2% of NAV, while the maximum permissible is 20%. The highest proportion deployed in 2024 was 14.9%.

Ongoing Charges Ratio (OCR)
The Company uses the AIC's methodology for calculating the Ongoing Charges Ratio (OCR). In 2023 this was 2.21% and in 2024 it was 2.20%, so little changed. While the annual subscription rights did not raise as much equity as hoped, we are grateful for the extra funds, which the managers have subsequently invested.

Board Changes
In May 2024 we strengthened the Board with the appointment of Monica Tepes, who brings a wealth of experience and expertise in closed-end funds. Over the past 20 years she has worked with investment trusts in a variety of roles, both on the buy-side and sell-side, which included research, portfolio management, marketing, investor relations, business and product development and advising investment trust boards.

Succession is a key component of balancing appropriate levels of skill and experience on boards. Having been with the Company since the launch, Robert King has indicated that he will not be seeking re-election at the 2025 Annual General Meeting. We would like to express our deepfelt thanks to him for his great contribution over the years. His wise counsel and depth of knowledge in the sector will be greatly missed.

Graeme Ross, having joined the Board in 2018, has also decided to step down on or before the date of the 2025 Annual General Meeting. We thank him for his great contribution, diligence and attention to detail, especially as Chair of the Audit Committee.

We are currently in the process of finding suitable replacements and announcements will be made in due course. With regards to my role, having been appointed in 2014 and becoming Chairman in 2024, I am mindful of exceeding the recommended tenure as a director. My intention is to remain in place until the new directors have established themselves and have built up sufficient knowledge of the Company's affairs.

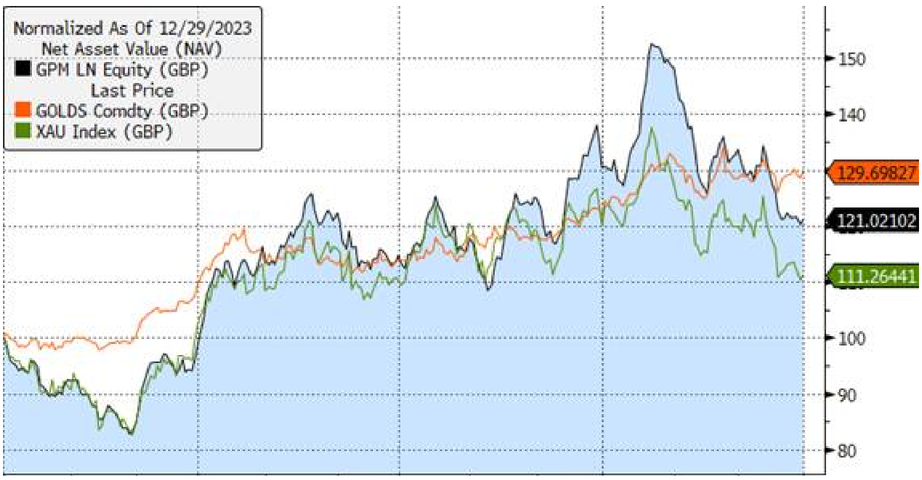
Outlook and Closing Remarks
Western economies appear to be polarizing economically with the USA on a determined growth path, while Britain and Europe slowly descend into stagflation. While not wishing for this scenario, with all the political and social implications entailed, it should be noted that mining shares have historically performed very well in this environment. With gold prices once more challenging all-time highs, I believe the stage is set for a surge in related mining stocks, which has been some time in the making. The outperformance of the Company against comparable ETFs in 2024 also underlines the benefits of active versus passive management.

In closing, we thank shareholders for their continued support and invite them to study the Investment Manager's report for their economic assessment and further detail on our portfolio holdings.

Toby Birch
Chairman
12 March 2025

Investment Manager's Report

Performance



GPM LN Equity (Golden Prospect Precious Metals Ltd) GPM vs GDXJ etc Daily 29DEC2023-31DEC2024 Copyright© 2025 Bloomberg Finance L.P. 03-Mar-2025 10:51:14

- Black = GPM NAV (GPM LN, +21.0% GBP)*
- Green = Philadelphia Gold and Silver index (XAU Index, +11.3% GBP)
- Orange = Gold price Spot /Oz (GOLDS Comdty, +29.7% GBP)

*The chart above is based on the unaudited daily NAVs, which value the underlying portfolio securities at mid prices, while the NAV total return reported in these accounts is based on the year end audited NAV which value the underlying portfolio securities at bid prices.

2024 Key metrics	GBP total return	Notes
GPM NAV	+20.4%	The NAV rose from 35.81p to 43.10p
GPM share price	+20.3%	The price rose from 29.50p to 35.50p
NYSE Arca Gold BUGS Index (HUI index)	+15.5%	HUI and XAU are the two main gold mining indices on the market. The main difference between them is that HUI includes only gold mining stocks whereas XAU includes both gold and silver mining stocks. BUGS stands for Basket of Unhedged Gold Stocks.
Philadelphia Stock Exchange Gold and Silver index (XAU index)	+11.3%	
VanEck GDXJ Junior Gold Miners ETF	+17.9%	
VanEck GDX Gold Miners ETF	+12.8%	
Gold price Spot /Oz (XAU curncy)	+29.7%	From 2,063 /Oz to 2,624 /Oz (+27.2% in USD)
Silver price Spot /Oz (XAG curncy)	+23.8%	From 23.80 /Oz to 28.90 /Oz (+21.5% in USD)
USD/GBP	+1.7%	USD appreciated vs GBP from 0.785 to 0.799
AUD/GBP	-7.6%	AUD depreciated vs GBP from 0.535 to 0.495
CAD/GBP	-6.3%	CAD depreciated vs GBP from 0.593 to 0.556

The Company NAV delivered a total return of +20.4% in 2024, outperforming the NYSE ARCA Gold BUGS Index (+15.5%), the Philadelphia Gold & Silver Index (+11.3%) and the VanEck GDXJ Junior Gold Miners ETF (+17.9%), all in GBP total return terms.

It has however been frustrating that operationally geared precious metal mining equities failed to keep pace with the performance of the gold price over 2024, which rose 27.2% in USD and 29.7% in Sterling. We would however expect this to change going forward, given that miners' sector valuations are at their lowest and their cash generation at its highest (spot gold basis) that we have tracked. More detail in our market commentary below.

The main contributors to performance over the year were Ora Banda (up 144%), Calibre Mining (up 54%) and Mawson Gold (up 176%). The main detractor was Calidus Resources, which in July had its shares suspended from the Australian Stock Exchange after Macquarie Bank, Calidus' largest shareholder, pulled their credit line and shut down operations despite operations having turned profitable, Macquarie subsequently sold control of the business via the debt to an Australian mining entrepreneur and the company is currently undergoing restructuring. At portfolio level, Australian miners provided the largest proportion of gains, followed by Canadian listed miners, which is unsurprising given the weighting in the portfolio. Gold producers, developers, explorers and silver producers provided meaningful returns.

Portfolio activity over the year included taking profits on Ora Banda Mining largely due to large position sizing (the largest holding in the portfolio at 9.2% at year end) and reducing Westgold Resources (4.9% weighting at year end) after it merged with our other portfolio holding Karora Resources. We added to our holdings in New Gold and Eldorado as we believe they should see derisking through 2025 on mine life extension and a new mine start up, respectively.

Market overview

2024 saw strong gains for precious metals, as gold broke the technical resistance level of 2,000/oz in March, repeatedly making new all-time highs, ending the year at 2,624/oz. Related mining equities also gained but continue to lag gold: while the gold price gained 27.2% during 2024 the Arca Gold BUGS Index rose a lesser 15.2%, both in US terms, over the year.

Whilst steady central bank demand has continued, gold's breakout earlier in the year was driven by softening inflation expectations and to expectations of a more dovish rate outlook, which in turn saw steady physical ETF selling switch to buying in May as financial investors returned to the market. This helped drive gold's steady rally into late October when it reached 2,790/oz. Central bank buying also remained firm despite the People's Bank of China ("PBOC") stepping away from the market for seven months.

The second half of 2024 was dominated by the US election, as in the run up to the election it became increasingly likely that Donald Trump would win. The reason for such focus on this matter was not unjustified given the divergent policy intentions between Trump and Biden, which would impact almost every corner of the global economy, not least global commodity pricing and trade flows. Trump was clear on his love of import tariffs as a way of taxing imports into the US, to encourage more US domestic supply and raise additional tax receipts.

This form of trade war is unprecedented in its scope and reach, but whilst it is claimed to be a tax on the suppliers of the US consumer, ultimately this will be a tax on the US consumer, as these incremental taxes will initially be passed directly on to the consumers via higher prices to fund the tariffs. This will add to inflationary pressures in the US, which was understood by the market and saw interest rate cut expectations disappear. While consensus had viewed inflation as beaten, in reality it is proving stickier, all whilst US policy shifts such as tariffs look likely to make inflation persistent and restrict the US Federal Reserve's ability to cut rates. An environment with sticky inflation and slowing global growth have raised the fear of stagflation (inflation and negative growth) which is historically supportive for real assets, especially gold.

Gold subsequently sold-off following Donald Trump's indisputable election win on 5th November, which saw Republicans taking both the House and Senate, and which shifted assumptions about his ability to enact tariff policies. However, the sharp gold price response appeared indicative of broader market pre-election positioning rather than reflecting any potential change in stance on tariff focused policies which are understood to carry risks, adding to inflationary pressures and potentially dampening growth potential.

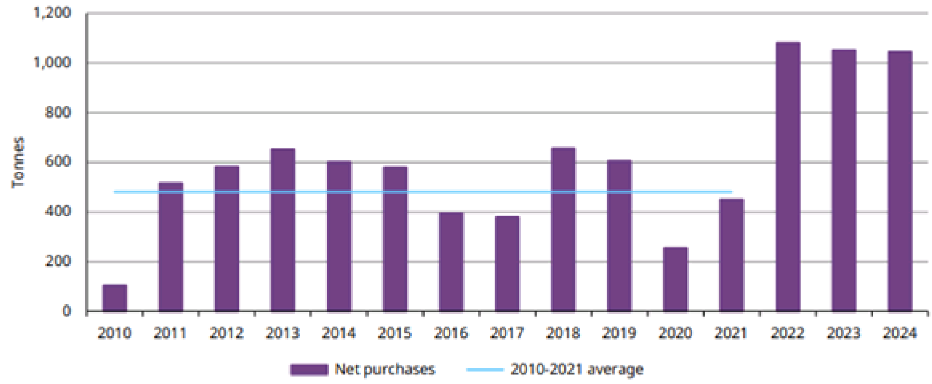
Gold's key drivers through 2024

With gold making repeated new all-time highs through 2024 it is important to break out the key drivers as the different buyer groups are driven by different fundamental motivations.

Central bank demand has been core to the positive backdrop for gold, with 2024 marking the third consecutive year when over 1,000 tonnes of gold were purchased by central banks, despite a temporary seven month hiatus by the Chinese central bank. This has been in part driven by a preference for assets that are not beholden to any external influence, following the US's weaponisation of the US dollar following Russia's invasion of Ukraine. Steady selling of US treasuries by China further reiterates that, whilst the uncertainty of a US-led global trade war, central bank demand looks well supported rather than likely to weaken. In Q4 central bank net buying recovered sharply with demand of 333 tonnes, helped by China resuming purchases.

Chart 9: Central banks have been net buyers for 15 consecutive years

Annual central bank net purchases, tonnes*



*Data to 31 December 2024.
Source: Metals Focus, Refinitiv GFMS, World Gold Council

Inflation was elevated early in 2024 before apparent easing pressures fed through to a more dovish US rate outlook, reducing the opportunity cost of holding gold. Gold then pulled-back into the US election in November 2024.

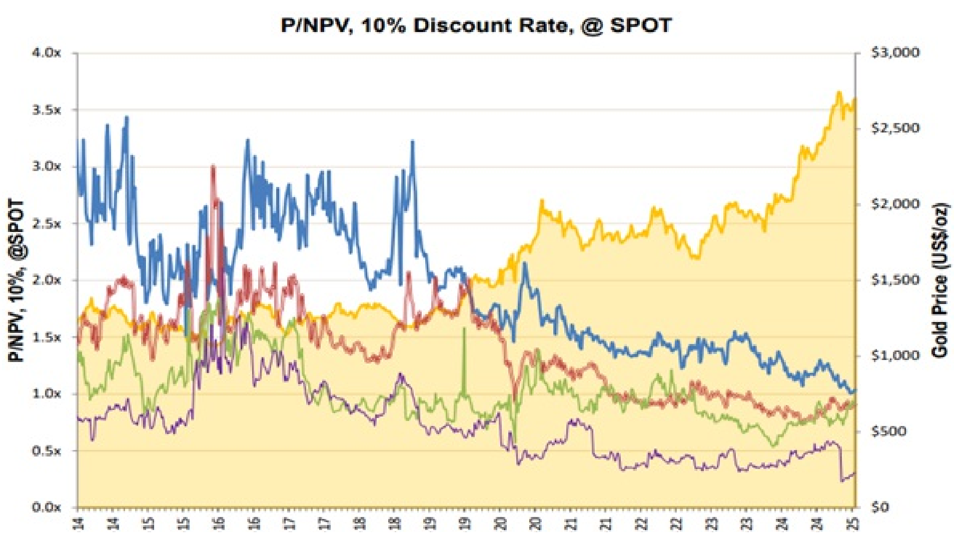
Retail demand for gold bars and coins has been strong. A primary driver of that has been China, where restrictive capital controls limit the investible universe available. Being in the cross hairs of a US trade war increased the probability of a currency devaluation, which was supportive for gold as a safe haven, especially given the country's ongoing property crisis, where declining prices have reduced the appeal for investment in real estate sector. **Jewellery** demand unsurprisingly softened as buyers adjusted to the higher prices environment. The decline in retail demand volumes has responded proportionately with the price move thus far, which is more significant when looking at gold in non-dollar currencies, given the relative strength of the US dollar. E.g. Indian rupee weakened 4% versus USD in 2024.

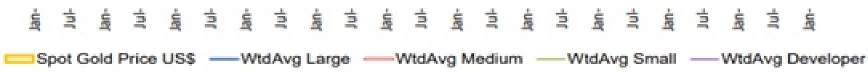
Financial market appetite can be split into different camps. When inflation expectations picked-up this prompted some initial selling from faster money investors, but financial market participation appears to have shifted to incorporate the longer-term insurance benefits that gold provides. Another core influence to this view is the elevated US government indebtedness. This was manageable in a low-rate environment, but is less so in the current more stagflationary setting. Stickier inflation and Trump's polices have left the US 10yr yield materially higher and thus the 1.67trn debt interest burden at current rates, is nearly double the 2024 881bn level, given longer term debt was previously struck at lower rates and this will continue to roll into these higher rates.

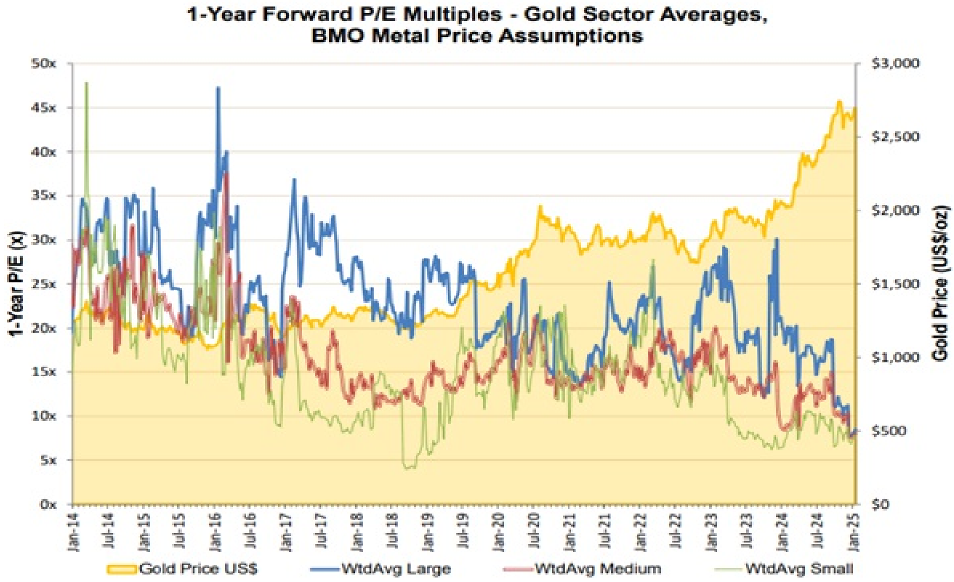
Physically backed gold ETF's can have an outsized impact on pricing. Gold holdings of these vehicles, which declined in the first half of 2024, have experienced an inflexion back to buying again. Having ended the year 2.7Moz (-3.2%) lower, ETF gold holdings are now trending higher. The fact gold made repeated new all-time highs despite ETF's being net sellers is encouraging, especially if ETF purchasing returns in a more material way. Indeed, it has been instructive to note that gold has performed well also despite a strong US dollar, recovering strongly from its post-election sell-off to reach a new high of 2,955/oz at the time of writing.

Precious metal miners - very attractive valuations

The rise in the gold price has been met with only a comparable rise in the mining equities, rather than a more geared reaction that would be expected of operationally leveraged producers. As a result, valuations are at some of the lowest NAV multiples ever seen, whilst the sector is reporting strengthening margins and generating very strong free cash flow.







Higher sector earnings considerably improve the outlook for shareholder returns via increased dividends and buybacks. In addition, attractive valuations also provide a solid foundation for increased M&A activity as increased cash piles encourage a return to growth focus against a backdrop where the discounted P/NAV valuations justify a buy over build strategy and where low earnings and cash flow multiples allow faster accretion on per share metrics.

Costs remain a key deterrent of investment in the sector. Generalist investors have been put off the sector as in prior cycles, higher gold prices did not flow through to cash generating returns due to cost inflation compressing margins. As a consequence, producers may now need to evidence margin improvements are sustainable and cost creep manageable before regaining the trust of generalist investors. This was seen most recently following gold's 2020 post-Covid rally to near 2,000/oz, when increasing costs prevented margin expansion.

In this regard, the outlook for improved cost management is encouraging; many of the pressures experienced during Covid, and exacerbated by the Russia-Ukraine war, are now easing, such as labour costs, energy and steel prices. Just as importantly many producers' currency exchange rates are also weakening, effectively reducing their cost bases when denominated in US dollars. For mining companies, whose revenues are US dollar denominated, a reduction in local non-dollar costs is material for some of the larger inputs, particularly labour and energy. The Fund currently has a large weighting of c.40% to Australian miners, as acute labour cost inflation during Covid is now easing, whilst the currency has weakened on the back of softness in major Chinese trading counterparties. Following the recent introduction of US tariffs on Mexico and Canada respective currencies have similarly softened which will likewise benefit costs and margins for producers in these regions.

Stock selection remains focused on value with catalysts. Currently that leads to a high exposure of over 50% to producers with development assets. These trade at material discounts to producing assets, but given the easing inflationary backdrop for construction, especially in regions with weaker exchange rates, we believe the risks are more favourably skewed to delivery projects on time and budget and that current heavily discounted valuations are increasingly attractive. While funding risks remain challenging across the market, we believe investment opportunities best placed to capitalise on current market conditions are cash flow positive producers with development assets and high quality management to execute on new project builds.

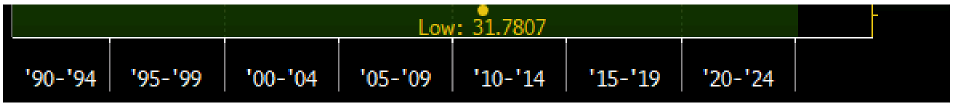
In 2025, for example, amongst the largest portfolio positions: Ora Banda will ramp-up production at its Sand King underground mine in Australia; Calibre will start production at its large Valentine Lake mine in Canada; Emerald Resources will commence building on two mines, Dingo Range in Australia & Memot in Cambodia, with production expected in 2026; and West African Resources will start the Kiaka mine in Burkina Faso. Elsewhere, Greatland Gold will restart Telfer Mine in Australia. All of these are entering a phase of derisking, and in most cases with the bulk of capex behind. For these companies time slippage represents the primary execution risk, although as cash flow positive producing assets they are better positioned to manage such risks.

Silver (10% of portfolio at year end)

Silver remains a commodity with positive thematic trends, most notably the structural growth in industrial demand, which represents 50% of annual consumption, and is driven by usage in high end electronics such as EV's, solar panels, wind turbines and AI chips. The supply side is also constrained, as silver is primarily produced as a by-product of polymetallic mines whose output may reduce should the softer economic backdrop weigh on industrial metal prices and prompt some curtailment in production. This can be a contributory factor to time lag in silver's performance versus gold.

Another consideration, however, is that silver miners typically trade at a premium to gold peers. In addition, many pure play producers are based in Mexico which has been less friendly to mining over the last four years, and this represents a prime reason we reduced the portfolio's exposure from 15.1% to 10.1%. Although Mexican policy appears to be shifting to a more mining friendly footing after the exit of the mining unfriendly former president Manuel Obrador, this also presents a risk should regional production rise.

Silver is historically relatively attractive at a gold/silver ratio of 91 or more, though in the short term there has been a significant increase in recycling, which has returned the market to balance after four years of deficit.



Outlook positive for precious metals and the miners

Despite retracing from an all-time-high of 2,790/oz, in the immediate aftermath of Trump's re-election as US President, to close the year with a gain of over 27%, gold's upward momentum has resumed and at the time of writing it has risen a further 13% in the year-to-date and currently stands at over 2,940/oz.

Trump's early days in office have been marked with geopolitical aggression through tariffs and trade war threats, and deflation expectations have shifted to inflationary pressures as these policies stoke higher prices. This is restricting the Federal Reserve's ability to cut rates and pushing up the rate on the US 10yr Treasury bond, which given their36trn debt pile is increasingly raising sustainability questions in a new higher rate environment.

This backdrop continues to support demand three-fold:

1) From Central Banks as they seek to protect against US trade aggression,

2) From retail bar and coin purchases as individuals seek to protect against currency devaluation and, increasingly,

3) From financial markets as investors seek to gain protection against market volatility and risks around government debt affordability in a higher rate environment. Financial market participation is a major swing factor, as the swings from selling to buying are far more material proportionately than say central bank demand increasing by 10%. The only pocket of apparent weakness is jewellery in response to higher prices (-11% YoY), but this is known and has already happened thus doesn't present a demand risk from the already reset lower level.

As a result, demand for physical metals remains robust and it is encouraging that healthy central bank net buying continues to more than offset weak retail demand, as consumers adjust to the new higher price environment, with the PBOC's return after a brief seven-month hiatus, also supportive.

In part this appears driven by a lack of generalist inflows to the sector, as resource sector specialists are generally overweight precious metal miners, but have seen little inflows. The key we believe to bringing more generalist and retail money back into the precious metal miners sector is 1) capital returns via dividends and buybacks, 2) cost discipline underpinning margin sustainability and also 3) general market volatility to lead investors in to search for protection.

Keith Watson and Robert Crayfourd
New City Investment Managers*
Investment Manager
12 March 2025

*New City Investment Managers is a trading name of Manulife | CQS Investment Management

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About Golden Prospect Precious Metals

Golden Prospect Precious Metals Limited is a closed-ended investment company incorporated with limited liability in Guernsey on 16 October 2006. The Company's investment objective is to provide Shareholders with capital growth from a portfolio of companies involved in the precious metals mining sector.

For the latest factsheet and other information, click here.

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