Lion Selection Group

Quarterly Report
for the 3 months ended
30 April 2024

ASX:LSX

Lion is focussed on opportunities in precious metals, base metals and strategic materials, and will consider any mineral resource situation focused in Australia for new investment.

- New investments made in Brightstar Resources and Koonenberry Gold.
- Follow on investment in Sunshine Metals.
- Lion's portfolio now contains seven companies, targeting a portfolio of 10-20 (excluding legacy investments). If these investments progress as planned Lion expects to follow its money.
- At 30 April 2024, the aggregate amount invested in the new portfolio was $10.75M and had achieved a value of $14.0M, a performance of +31%.
- Lion actively manages watchlists to maintain a vigilant awareness of situations that we would like to add to the portfolio and adjust the priority of watched opportunities as they progress.

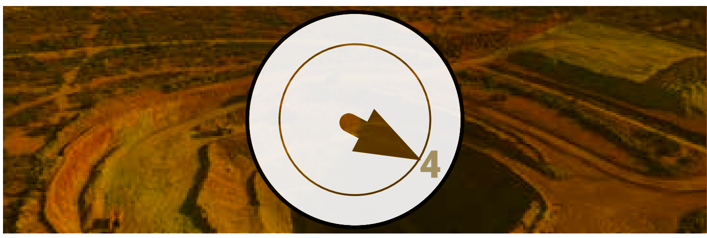
Lion continues to earn in excess of 5% pa interest on cash and finished the quarter with $66.4M cash.

Lion to directly employ its management team:

- Hedley Widdup to be appointed CEO and Craig Smyth to retain the position of CFO.
- The changes are subject to Lion shareholders approving new Long Term Incentive arrangements for Hedley Widdup and will be implemented following a General Meeting of shareholders to be held in June 2024.
- These arrangements will result in greater transparency of Lion's structure and are expected to generate a modest cost saving for Lion once implemented.

Strong performances by gold and copper in early 2024:

- The slide in micro-capitalisation resource company equity prices appears to have stabilised at circa 70% below April 2022 levels, and there has been an improvement in liquidity.
- Lion Clock moves to 4 o'clock.



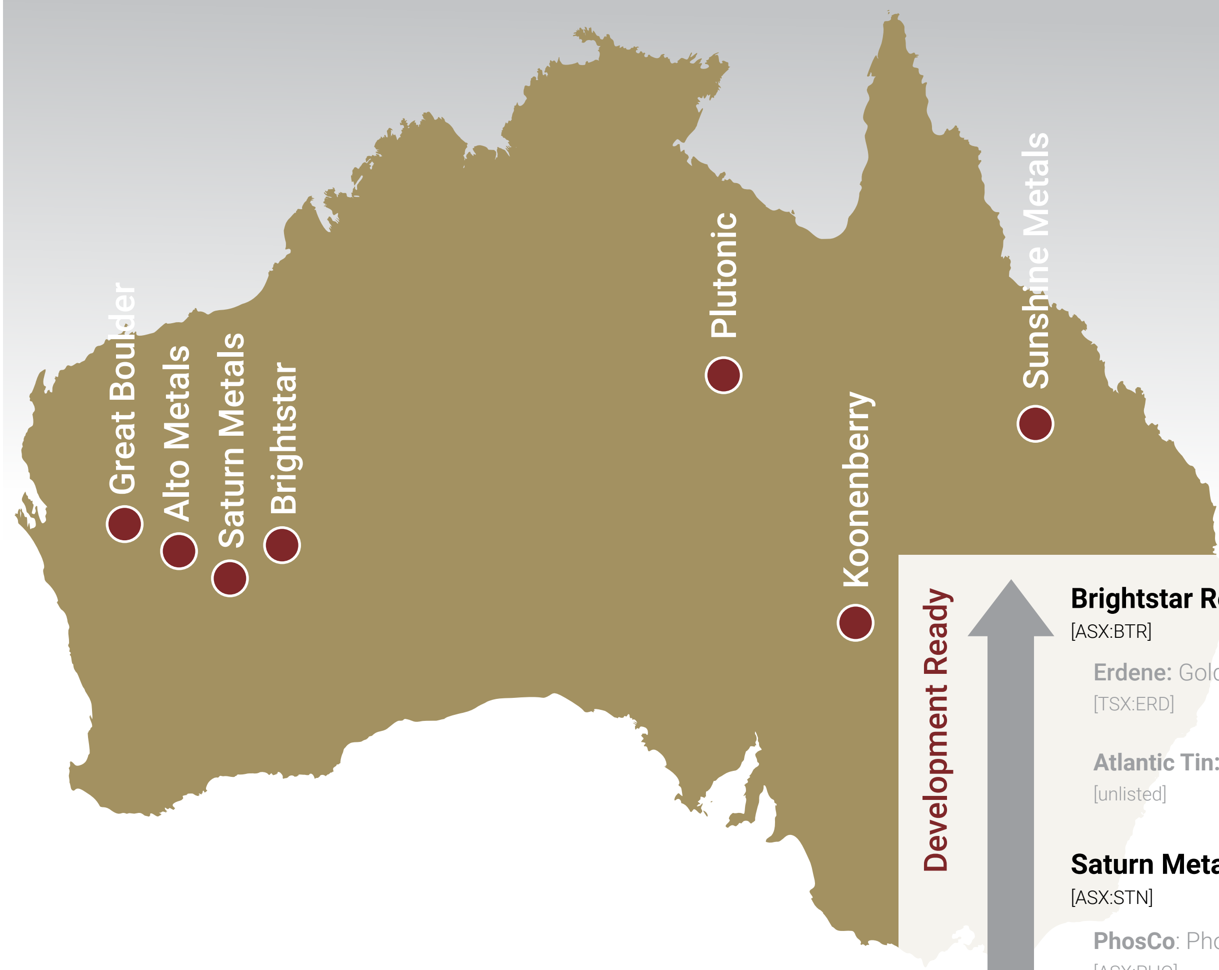
ASX : LSX Share price	NTA
43.0¢ps	Pre-Tax 64.3¢ps Post-Tax 63.8¢ps
as at 30 April 2024	as at 30 April 2024

Lion Selection Group

Assembling a portfolio of *High Growth* Australian Mineral Resource companies

$66.4M cash to invest

into a collapsed market



Development Ready

Brightstar Resources: Gold
[ASX:BTR]

Erdene: Gold/Mongolia
[TSX:ERD]

Atlantic Tin: Tin/Morocco
[unlisted]

Saturn Metals: Gold
[ASX:STN]

PhosCo: Phosphate/Tunisia
[ASX:PHO]

Sunshine Metals: Gold & Base
[ASX:SHN]

Alto Metals: Gold
[ASX:AME]

Great Boulder: Gold
[ASX:GBR]

Kin-Gin: Gold/Japan
[unlisted]

Koonenberry Gold: Gold & Copper
[ASX:KNB]

Plutonic: Gold & Copper
[unlisted]

Pre-discovery

(legacy investments shown in pale grey)

Saturn Metals

Micro-Capitalisation Mineral Resources: Opportunity

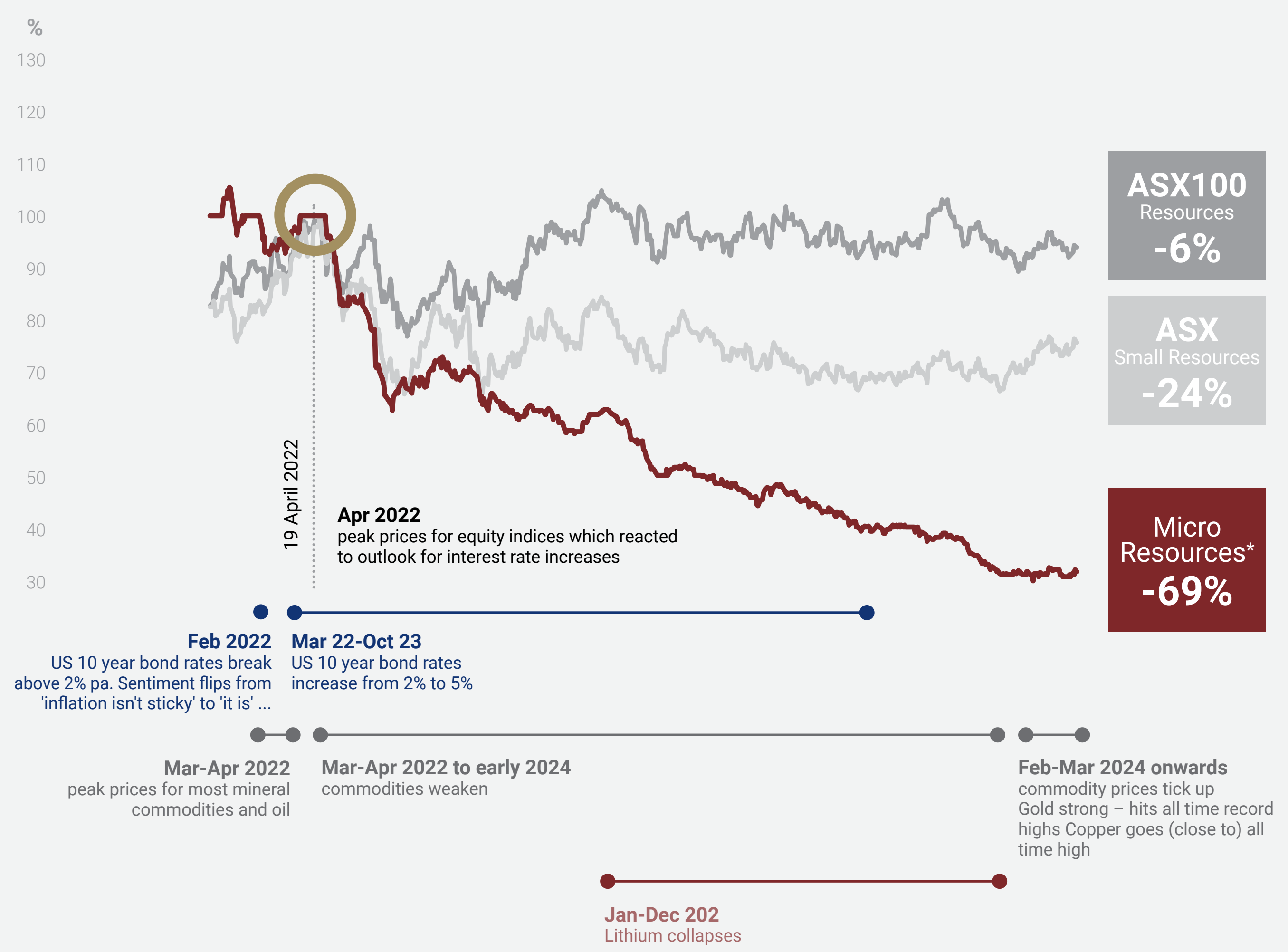
Lion targets micro-capitalisation investment opportunities in the mineral resources sector. The trend of share price performance for this investment universe isn't measured by indices, because there isn't one, but a median of share price performance of this group shows a fall of almost 70% since early 2022.

In early 2022 interest rates had increased from 0.5% to almost 2%. At that time there was a pervasive sentiment that inflation was transient and that rates wouldn't go any higher. Inflation proved to be persistent, and when interest rates began to move higher, pushing through 2%, risk appetite in the equity market deteriorated, bringing about a period of volatility and price weakness that has been most pronounced in micro-capitalisation stocks. Mineral exploration companies, which are not only micro-caps, but also exposed to volatile commodity sentiment, have seen the worst of this.

This is the fundamental that underpins the opportunity for Lion – our target universe is at heavily discounted pricing and fund raising is challenging at a time when Lion is well funded to invest.

Conditions over the last two years have provided time and opportunity flow for Lion to create a watch list and begin to construct a portfolio of the micro-capitalisation mineral resources companies according to our investing strategy, with substantial due diligence conducted across a large number of opportunities.

Lion is somewhat unique in having a strong balance sheet to invest and a technically focussed investment team that can take direct advantage of this opportunity.



* The proxy for price of Micro-capitalisation Resources companies is the Median Performance of a group of 608 ASX listed companies with GICS classification Metals & Mining, that were capitalised at less than A$100M on 1 December 2023.

Investing isn't like baseball, where you can strike out

> In investing, I'm in a no-called-strike business, which is the best business you can be in. I can look at 1,000 different companies and I don't have to be right on every one of them, or even 50 of them. So, I can pick the ball I want to hit. And the trick in investing is to sit there and watch pitch after pitch go by and watch for the one right in your sweet spot… And if people are yelling 'swing you bum' – ignore them.

Warren Buffett, 2020[4]

1. Of the circa 2,300 companies listed on ASX, over 750 companies have a GICS classification of Materials / Metals and Mining, and of those more than 85% are capitalised below $200M.
2. The sum of all investment into Alto Metals, Brightstar Resources, Great Boulder Resources, Koonenberry Gold, Plutonic Limited, Saturn Metals and Sunshine Metals by Lion between 1 January 2022 and 30 April 2024.
3. As at 30 Aoril 2024.
4. Warren Buffett's baseball analogy for investing. It would have been a far shorter analogy if he was a follower of test match cricket. https://www.youtube.com/watch?v=I0Mw8hCzQ1I

Investment strategy

The micro-capitalisation mineral resources sector is an extremely broad investment space, with a large number of potential investment targets[1] and one of the highest growth sectors of the equity market. The opportunity to leverage investment returns through the natural operation of the market cycle is considerable. Stock selection and maintaining an ongoing awareness of how technical developments will affect a company are critical.

Lion's strategy is to create a portfolio of investments with strong fundamental value, exposure to several key mineral commodities (spanning precious and base metals and strategic materials), and a level of diversity that reduces execution risk. Lion is focused on projects located in Australia, resulting in lowest possible jurisdiction risk and none of the expense and challenge of managing distant investments.

The objective for every investment made is obtaining multiples of capital growth through the mining cycle, which not only depends on a strong value proposition within the key project, but also competent and talented management to draw that out.

Lion has invested $10.75M in its new investment portfolio[2], which are all pre-production mineral assets in Australia. This portfolio has returned a performance of 31% on aggregate[3], during a period when micro-capitalisation equities have generally performed poorly, strongly validating Lion's investment strategy.

Portfolio Overview

Portfolio development

Since 2021, we have seen a huge number of investment opportunities present, including direct project opportunities and unlisted company deal flow. Micro-capitalisation mineral resource exploration companies are especially numerous on ASX, and whilst filtering for companies with an Australian focus reduces this field, the tally of opportunities runs into the hundreds, possibly over a thousand in that time.

Lion aims for a portfolio of between 10 and 20 investments, which is a very small subset of the large opportunity universe. This objective is set with consideration for Lion's available investing capital, target percentage holding, and the time consumed in maintaining diligence over individual investments. These are most likely to be vanilla equity investments, but Lion is assessing opportunities for direct project investments as well. So far, Lion has selected seven investments to cornerstone the targeted project development-oriented portfolio, which is approximately half of the number we would ideally like to have in the portfolio, acknowledging the possibility of sales in a dynamic portfolio.

We actively manage watchlists to maintain a vigilant awareness of situations that we would like to add to the portfolio and adjust the priority of watched opportunities as they progress.

If these investments progress as planned, Lion expects to follow its money. In all cases investments have been sized according to the stage of the investment, the kind of de-risking that is expected prior to the next capital raising, and the balance of risks and value assessed via our due diligence. From experience we expect that future investment will be skewed toward investments that reveal the best value and performance over time.

Selected highlights from the investment portfolio are described in the following pages.

Portfolio commentary

Lion deployed three investments during the quarter which included adding two new names to the portfolio. At 30 April 2024, the aggregate value of the new investment portfolio was $14.0M against the total amount invested of $10.75M, a performance of +31%.

Brightstar Resources

(ASX:BTR)

Potential to re-rate on gold production, and low overall capex required to achieve increased scale

Lion invested $2M in a capital raising that Brightstar conducted simultaneously with announcing the acquisition of unlisted Linden Gold[1]. The placement was raised at 1.4cps, compared with the market price on 30 April 2024 of 1.7cps (+21%). The transaction to combine Brightstar and Linden has many attractions:

- Combines gold Resources in the Laverton area of WA, which not only bolsters the production outlook that Brightstar has contemplated for its existing (care and maintenance) gold process facility[2], but also for near term revenue from ore sales or toll treatment of gold ore.
- Gold production via the Second Fortune mine, with ore processed through Genesis Minerals Gwalia processing facility.
- Combines strong project development and operation skills within the one company under a strong founder-type culture backed by a first-rate board. This skill set and mentality is ideal for the gold assets in question.

Brightstar's approach to extracting value from their gold assets in the Laverton and Menzies regions leverages existing process infrastructure to generate revenues from ore sales or toll treatment. Production can be achieved for a lower capex investment than typical new gold project developments. This is great business in gold, where production and cash flow are typically blocked by a substantial capital hurdle.

The investment in Brightstar adds a dual dynamic to the Lion portfolio which is attractive:

1. Leverage to gold price via existing gold production which is expected to be expanded near term.
2. Additional leverage of uplift from small scale toll treatment to stand alone producer of scale.

Historically Lion hasn't invested in production stage assets, however Brightstar has all the potential value uplift that is associated with moving into production ahead of it. The existing production experience and cashflow offers a far shorter timeframe than most Lion investments and with an attractive risk profile given likelihood of partial cash flow funding to their ultimate production scale.

1. Refer to Brightstar announcement to ASX on 25 March 2024, Brightstar makes recommended takeover offer for Linden Gold.
2. Refer to Brightstar announcement to ASX on 6 September 2023, Menzies and Laverton Gold Project Mine Restart Study.

Sunshine Metals
(ASX:SHN)

Pulling Liontown apart and putting it back together again

Lion first invested in Sunshine in September 2023 with an initial investment of $250k. The small-scale investment was made expecting to follow the investment to an enlarged holding level after de-risking. The Sunshine Metals team are led by geologist Damien Keys who was instrumental in the discovery of Penny West in WA. In our view the team are extremely well suited to extracting value from historic datasets especially where previous owners have not invested time in creating a robust interpretation and identifying historically missed opportunities. This is exactly what appears to be playing out at Sunshine.

Sunshine acquired the Liontown project (and surrounding exploration ground) from the administrators of Red River Resources in May 2023. Mineralisation at Liontown was originally discovered in the early 1900's, the focus of the time was gold. There are several decades of exploration data that have been collected over this ground more recently by zinc producers. Sunshine has had the comparative luxury of being able to reinterpret the dataset without production pressures or a metal bias.

Liontown consists of several stacked lodes considered to be volcanic massive sulphides which form as mineral rich fluids vent on an ocean floor, and metals precipitate as they are depressurised and encounter cooler water. Metals are zoned according to the temperature they precipitate at – in simple terms, gold and copper tend to precipitate at high temperatures and be proximal to the vent(s) and lower in the stratigraphy of the system, and zinc / lead precipitate at lower temperatures and more distal. If the entire package has been drilled with an eye for zinc, it may well be that gold / copper has been less well tested.

Within six months of Lion's first investment, Sunshine reported two separate intersections: 17m at 22.14g/t gold from 67m[1] and then 20m at 18.21g/t gold from 114m[2]. These are interpreted to be a feeder zone, where mineralisation could be thick and high grade – importantly they are from within the previously defined spatial extents of the deposit. Sunshine is drilling Liontown presently and has added a second drill rig, and whilst we shouldn't be expecting repeats of the thickness and grade referred to above, there is a gold opportunity to extrapolate that clearly has the potential to generate high tenors.

Lion invested in Sunshine seeing a base metal focus to add to the portfolio. Success so far, which has brought about more of a gold flavour, saw Lion invest a further $0.5M in Sunshine's placement at 1.1cps announced during the quarter[3].

1. Refer to Sunshine Metals announcement to ASX on 24 November 2023.
2. Refer to Sunshine Metals announcement to ASX on 13 March 2024.
3. Refer to Sunshine Metals announcement to ASX on 25 March 2024.

Koonenberry Gold
(ASX:KNB)

Stawell gold zone geology sequestered in NSW

Lion has watched the progress of Koonenberry Gold for years, having first encountered the opportunity as an unlisted company. The project area is in Northwestern NSW, over the same age and lithology geology as occurs in Western Victoria, specifically a domain known as the Stawell Zone, which contains the Stawell Gold Mine which has a production history into multi-million ounces. The Koonenberry region features extensive gold nugget patches at surface, which are reminiscent of early Victorian gold fields. There are, by comparison, very few workings.

Koonenberry presents as an extremely prospective package, both from the comparison with the Stawell region, as well as the 'smoke' which is gold nuggets at surface. Lion invested $250k at 1.4cps in the fund raising announced by Koonenberry in March[1] at a very modest valuation. At this price, there is very little downside as is appropriate for investing in early-stage exploration. Koonenberry is in a rare situation where there are targets that can be drilled immediately and a pipeline of others following.

Saturn Metals
(ASX:STN)

Strong economics available unlocking strategically sized gold development

Saturn has performed strongly since Lion invested, closing the quarter at 25cps, doubling the value of the investment made by Lion in October 2023. This performance could be partly attributed to the strong gold price, and it is also possible that the strong promotion since the release of the PEA in August 2023[2] and more recent demonstration of heap leach recoveries of up to 87.2%[3] has begun to attract market attention.

Saturn has begun describing a Pilot Project as a potential near term development which is a unique step compared with most gold development projects. In our view the Pilot Project would provide real-world confidence to project parameters such as heap leach recoveries and the way the heap performs stacked to operational height (how it compacts, leachate percolation, etc). This confidence is well beyond the level that lab-scale test work could ever provide which would be a major de-risking and could provide a substantial boost to overall bankability and corporate appeal. Furthermore, the Pilot Project could yield 24koz gold based on production parameters outlined in the Apollo Hill PEA[4], which at current spot gold prices has a value of circa A$85M[5]. Clearly this revenue figure needs to cover costs but presents a clever way to combine revenue winning with derisking and potentially step toward becoming a producer.

1. Refer to Koonenberry Gold's announcement to ASX on 4 March 2024.
2. Refer to Saturn Metal's announcement to ASX on 17 August 2023.
3. Refer to Saturn Metal's announcement to ASX on 31 January 2024.
4. Refer to Saturn Metal's announcement to ASX on 30 April 2024.
5. 24,000 oz of gold at US$2400/oz and AUDUSD 0.669.

Plutonic Limited
(unlisted)

District scale discovery potential

Plutonic began its 2024 field program at its focus Champion project in the Northern Territory toward the end of the quarter.

Plutonic is a unique investment for Lion, having only rarely and hence very selectively made investments at such an early stage historically. The Champion project contains alteration expressions that outline large hydrothermal systems which contain low-level surface anomalism for gold (up to 1.3g/t) and copper (up to 1,840ppm) in rock chips[1]. The area has never previously been considered prospective for porphyry, epithermal or orogenic gold +/- copper mineralisation. Recent work on alteration minerals by Plutonic dates the area at 400Ma-450Ma, being of a similar age to the gold and copper deposits in the Tasmanides of Eastern Australia.

A key part of Plutonic's 2024 work plan is Induced Polarisation (IP) geophysics, which measure electrical conductivity and resistivity and can provide characteristic responses over key mineralisation features such as accumulations of sulphide minerals or quartz veining. This work may well define targets for drilling.

Lion holds 48.5% interest in Plutonic. Success at Champion could mean the discovery of a new district which could hold immense value, and Lion's investment premise here is simple: a potentially very large reward on an investment that has been made for a low cost and now a high percentage exposure.

1. Refer to Lion Selection Group announcement to ASX on 30 October 2024.

Legacy Investments

Lion holds several legacy investments, which do not fit within the strategy of focussing on Australia yet are awaiting realisation of their contained value and are not yet at the stage that Lion considers sale is warranted.

The total value of the Legacy portfolio was $10.3M on 30 April 2024. This compares favourably with the aggregate amount invested in these holdings of $6.8M.

- **Erdene Resource Development Corp (TSX:ERD)**
  Gold, base metals and Molybdenum in Mongolia. Erdene currently accounts for approximately half of the total value of the legacy portfolio. Project development is in full swing at the Khundii gold project funded by a loan from project partner Mongolian Mining Corporation. Erdene is approaching maturity within Lion's portfolio and is expected to improve trading liquidity as it moves towards gold production in early 2025.
- **PhosCo Limited (ASX:PHO)**
  Rock Phosphate in Tunisia. Awaiting licence restitution and new licence granting.
- **Atlantic Tin (unlisted)**
  Tin in Morocco.
  Awaiting commercial pathway to liquidity.
- **Kin Gin (unlisted)**
  Gold in Japan.
  A licence portfolio containing defined epithermal gold deposits and historic mines has been assembled for very low cost.
  The first project approvals have now been granted, and systematic on-ground work is anticipated to follow.

Lion considers that modest follow-on investment may be required in some legacy investments, but ultimately is focused on pathways to value realisation.

Net Tangible Asset Backing as at 30 April 2024

Lion advises that the unaudited net tangible asset backing of Lion as 30 April 2024 is 64.3 cents per share (before tax) and 63.8 cents per share (after tax).

	Unaudited NTA A$M
Net Cash	66.4
Portfolio	24.3
Less Tax	(0.7)
NTA Post Tax	**$90.0M**
NTA per share (post tax)	**63.8cps**

Notes to the NTA

- The NTA laid out above excludes $1.3M in contingent liabilities relating to Lion's acquisition of investments from African Lion 3. The contingent liabilities erode over time and will become zero by 3 March 2026 if not crystallised by the sale of PhosCo or Atlantic Tin prior.
- The NTA contains the value of the component parts of Lion's assets as at the NTA date, which is a snapshot in time. The majority of this includes the value of cash at bank, and value of investments at their closing price on NTA date. The NTA is not an expression of the ultimate, realisable value of the investments, which in many cases may far exceed the value contained in the NTA.

Cash Flow and Cash Management

The principal movements in Lion's cash balance between 1 February 2024 and 30 April 2024 are described below.

Cash flow

- Opening Balance (1 February 2024): $69.7M.
- Lion received interest income of $819K during the quarter. (Note, $2.5M has been received in interest income since 1 August 2023, which is the total for the Financial Year to date).
- Management fees paid $324K.
- Investment outflows $3.25M (comprising $2.0M invested into Brightstar Resources, $0.5M invested into Sunshine Metals, $0.25M invested into Koonenberry Gold and $50K convertible note into Kin Gin Exploration).
- As at 30 April 2024 Lion held $66.4 cash (closing balance), which is available for investing.

Cash management

- Lion's cash is held between an on-call account and term deposits which roll off on a regular basis.
- This arrangement provides a higher interest income than call accounts over a majority of the cash, but ensures Lion has sufficient access to liquidity to fund investment opportunities as they arise.
- Note that the interest on term deposits that Lion had in place as at 30 April 2024 ranges between 4.85% pa and 5.44%pa.

Lion Management Arrangements

During the quarter Lion announced that it had entered into an agreement with its external manager, Lion Manager Pty Limited (Lion Manager), under which, Lion Manager's investment team will be employed directly by Lion. This move to a conventional management structure follows the appointment of Robin Widdup as Executive Chairman in February 2024.

Under this new arrangement, Hedley Widdup (taking up the position of Chief Executive Officer) and Craig Smyth (retaining the position of Chief Financial Officer) would become Lion employees and investment management fees would no longer be paid to Lion Manager.

Directly employing the investment team creates alignment between each of the key individuals, Hedley Widdup and Craig Smyth, and Lion and simplifies the corporate structure. Lion will also have better control of costs as the Company seeks to grow, as under the previous investment management contract fees would increase proportionately with invested capital under management. Eliminating the external management fees, and maintaining an internal management team, facilitates better alignment between Lion and its management; particularly in relation to recruitment, retention and remuneration.

There is no cash payable for Lion to terminate the previous contract and the new arrangements are expected to generate a modest cost saving for Lion once implemented and result in a transparent cost structure.

Lion's investment process and team will remain unchanged following the changes, with the Lion board continuing to make investment decisions based on the recommendations of the Lion executive committee. The proposed remuneration arrangements include Retention Rights vesting over the next three years to ensure continuity of key executives.

Completion of the New Agreement is subject to the following conditions:

- Lion Manager employees entering into new employment agreements with Lion (with in principle agreement already reached on the attached terms); and
- Lion shareholders approving new Long Term Incentive arrangements for Hedley Widdup, (Lion intends to seek this approval at a General Meeting of shareholders to be held on or around 26 June 2024).

Market Review

Inflation and interest rates have played havoc with micro-capitalisation companies equity prices over the last two years. Mineral resource explorers have been dealt a double blow of weakening commodity prices and lower risk appetite. Consequently, the collective performance of equities for micro-capitalisation mineral resource companies has been -70% since April 2022[1]. This has been the defining feature of the downturn in mining equities.

Combined equity market and commodity prices, headlined by gold and copper, beginning to strengthen during March and April has brought about a sense of a turning tide. The turning point from cyclical downturn into the early stages of a new boom (which would be expected to start slowly) is hard to pick. A lot of market watchers see this current upturn as the first swallow of summer, with a strong sense that its 'about time'. The glimmer of hope is that the incessant slide in micro-capitalisation equity prices appears to have levelled.

When markets are weak there are many observers alert to the first signs of a turn around, and there can be many false dawns.

The glimmer of hope is that the incessant slide in micro-capitalisation equity prices appears to have levelled.

Is it the bottom…?

The end of a bust aligns with a reversal of underlying liquidity: when investor sentiment turns positive, capital raisings become easier and more plentiful and equity prices start to appreciate.

Every boom-and-bust cycle is different, but the biggest differences are in duration and magnitude, not overall shape. The boom in the 2000's was driven by Chinese buying of commodities, which took all mineral commodities to new record highs. It resulted in all manner of exuberant behaviours – huge capital deployment and M&A, and investors pushing equity prices to ridiculous levels. The bust brought on by the Global Financial Crisis was brutal, but reasonably swift and was halted abruptly by economic stimulus. A short boom from 2009 to 2011 was more like an after party but saw new records set both in equity and commodity prices, before a long and deep bust. Arguably the severity of the Global Financial Crisis and the four-year bust between 2011 and 2015 were a direct reflection of the exuberance of the booms that preceded them. The biggest benders lead to the worst hangovers.

The boom from 2016 to 2022 was more moderate – mining equity indices and commodity price performances made lower multiples than in the 2000's, and the level of exuberance in 2022 was a far cry from those of 2008 or 2011. Capital investment deployed by the mining sector has been depressed and M&A subdued as a direct result of the intense investor frustration vented at the extremely poor returns on capital from the sector leading up to 2011. Miners in 2022 were high yielding and on low price to earnings ratios compared with many other sectors. The bust was brought about by a faltering in the equity market brought about by inflation and interest rates, and consequently a mild bust on some measures.

Each cycle has its own idiosyncrasies and investors don't turn positive all on their own. The factors that drive the change in sentiment are critical. Sometimes, this turning point is marked by capitulation, but this hasn't always been the case.

1. We've been over this. Refer to the chart on page 2.

Gold, Copper and Major Miners

Gold **and** Copper:

- Most mineral commodity prices weakened between late 2021/ early 2022 and 2024. These range in severity, iron ore fell over 60% in 2022 and then made a recovery through 2023 only to weaken again in 2024, and lithium (which is still a small market) drew the biggest headlines for its 85% collapse between late 2022 and early 2024. But gold's weakness could almost be volatility within an otherwise positive trend which gained pace in 2024, and it is now in record territory. Copper fell by 30% in 2022, but this was short and sharp and is now just below its own all-time highs.
- The appendix at the end of this quarterly report contains charts of key mineral commodities from 2016 to present.
- Gold and copper performances stand out for their gusto at a time when mineral commodities would be expected to be recovering from weakness, rather than pushing into record price territory.

Major miners' equity prices:

- Equity price falls between 2022 and 2024 have been extremely pronounced in small and micro-capitalisation resources companies.
- But weakness for the largest miners (eg BHP, Rio Tinto) was brief, insubstantial and swiftly recovered. When mineral explorers were still in free fall in early 2023 BHP rallied to a new high 5% above its 2022 peak and hasn't gone near its lows of 2022 since. Anyone watching for a train wreck might have been heard to utter "is that it?". That's certainly a mild bust if ever there was one.
- And BHP is attempting to use its well-priced shares to make large acquisitions, a behaviour more associated with the peak of the market rather than just after a bust.

These unique factors are driving the cycle. Given the lead in has been a mild boom and moderate bust, for some key commodities and companies to weather the bust in good shape this anomalism might be a 'size and duration' distortion rather than a new pricing paradigm.

Gold – setting new records as China buys

Gold is establishing new all-time highs in US$ terms, with a strong gain of 49% since its lows in late 2022. This became an aggressive rise in 2024 as gold pushed above US$2,000/oz and kept going.

Gold's performance goes against the tendency for gold to weaken in high interest rate environments. The most conspicuous support for the gold price is Chinese buying, led by the Chinese Central Bank which has historically held a low amount of gold as a proportion of foreign reserves compared to most other nations. Chinese investment and retail interest in gold has been similarly strong. Remarkably, western financial markets appear to be selling into this Chinese buying, demonstrating a clear difference of opinion between the markets about whatever fundamental is motivating buyers and sellers.

Chinese buying behaviour is taking place against a backdrop of declining global gold production, which is a factor that has aligned with historic gold bull markets. Global gold production has declined year on year since a peak in 2018.

Chinese buying of gold presents a new fundamental to consider. There is no historic precedent to guide expectations and the objectives of the Chinese Central Bank are unclear. The substantial Chinese middle class is capable of driving both investment and retail demand, and no-one has any idea what sort of demand could be mustered within this demographic, only that it is a large group with purchasing power.

Most gold that is produced becomes a financial asset rather than having an end use in which it is consumed as is the case for most other commodities. This completely alters the way that buyers feel about how much it costs. They don't buy it to use it, and at some stage fear of missing out can become a real factor in driving the price especially as gold outperforms other asset classes, which may be relevant if western financial markets become buyers or moderate selling.

The appearance of significant Chinese buying is more than enough explanation for how gold has remained robust through the broader mining market weakness, especially when set against declining global production, and introduces a total unknown to gold fundamentals into the future. It is tantalising to think that Chinese buying could drive the gold price to higher levels, and it wouldn't be the first time Chinese buying interest has moved a market for a commodity. This trend is unusual, but it is playing out so can't be denied. We can only speculate, but it's a fundamental that could see gold well supported if there were any sudden shudders in the global economy that affect markets.

Copper – green or just gold?

Copper has driven well over US$10,000/t testing all-time highs. Establishing new all-time highs would be an economic event of significance, because copper's trailing peak prices form an incrementally creeping trend extending back over 20 years. The last time this kind of breakout occurred was in the 2000's when the Chinese economy was growing at 10-14%pa.

Copper is an economic bellwether indicator – it tends to provide a sense of how strong the global economy is. For copper to push into new record territory now would be made doubly significant because it does so as the world's two largest economies are both working through challenges. Chinese economic growth has moderated from its full-steam ahead days of the 2000's and is caught up with the aftermath of a real estate boom and increasing centralised management. The US economy exhibits market factors that have preceded economic slowing historically and the constant spectre of inflation which has proven to be far more resilient than the market initially expected. The approaching US presidential election will usher in an analogy for US economic management of either 'Weekend at Bernies' or 'National Lampoons Vacation'. Neither paint the picture of copper breaking a multi-decade pricing paradigm.

There has been reporting that some recent buying in copper may be covering of short sales. If this is the case, the price would be less of an indication of economic strength and could resolve itself rapidly.

Copper does have a new fiscal tailwind – and the question is whether it is affecting the market for copper yet or not. For possibly the first time ever outside of periods of World Wars, government funding subsidies and incentives are being directed toward certain commodities that are strategic or critical, to encourage a pivot toward a greener economy. As with all governmental stimulus this is bound to distort overall investment.

Copper could be benefiting from its green tinge, but it's not gold. The positive trend in copper over the last three months has been cited by many commentators as confirmation of this long-term fundamental, but prior to that the copper price trend was negative. So which trend has the ascendancy? The price that end-users are prepared to pay is a key factor in how high it can go, and the 20-year trend of only incrementally increasing price peaks suggests this is a level that price tolerance is at. The next few months will test the willingness of the global economy to pay record prices for copper.

Major Miners

BHP and Rio Tinto's price robustness since 2022 is more the exception rather than the rule. Other major miners have experienced considerable price weakness. Anglo American is a great example (as well as being topical) and fell 60% from a high of £41.70 per share in early 2022 and had only recovered a small portion of that before the takeover approach from BHP became public. The timing of BHP's interest in acquiring Anglo American is probably not surprising in the context of these price performances.

A bid of the scale of BHP for Anglo American would be analogous to 11-12 o'clock in the mining cycle if it were hostile and carried out with a substantial premium. Small to nil premium mergers on the other hand are a feature that are more aligned with the other side of the bust, but typically between smaller counterparts.

BHP has experienced a short and mild downturn, probably associated with improved returns on capital (acquisition discipline), a high and persistent dividend yield (stable cash flows from asset portfolio) and an ESG driven portfolio pivot (sales of coal and energy divisions) which have all helped to position BHP favourably toward investors. Out of cycle events are not uncommon and in BHP's case its exceptional weathering of the bust is akin to a windfall performance – why waste a windfall?

Copper has driven well over US$10,000/t testing all-time highs. Establishing new all-time highs would be an economic event of significance, because copper's trailing peak prices form an incrementally creeping trend extending back over 20 years.

The last risk standing

The global equity market has responded to a shifting outlook for inflation and interest rates – as rates have lifted above 2%, equities became more volatile. The outlook has become subject to more considerable doubt than at any point in time over the last two years. Interest rates only need to vary by a small amount, or not at all, and these outlooks will be largely optimistic. Further volatility is highly likely, and a more significant market correction can't be ruled out – it might even be more probable than normal.

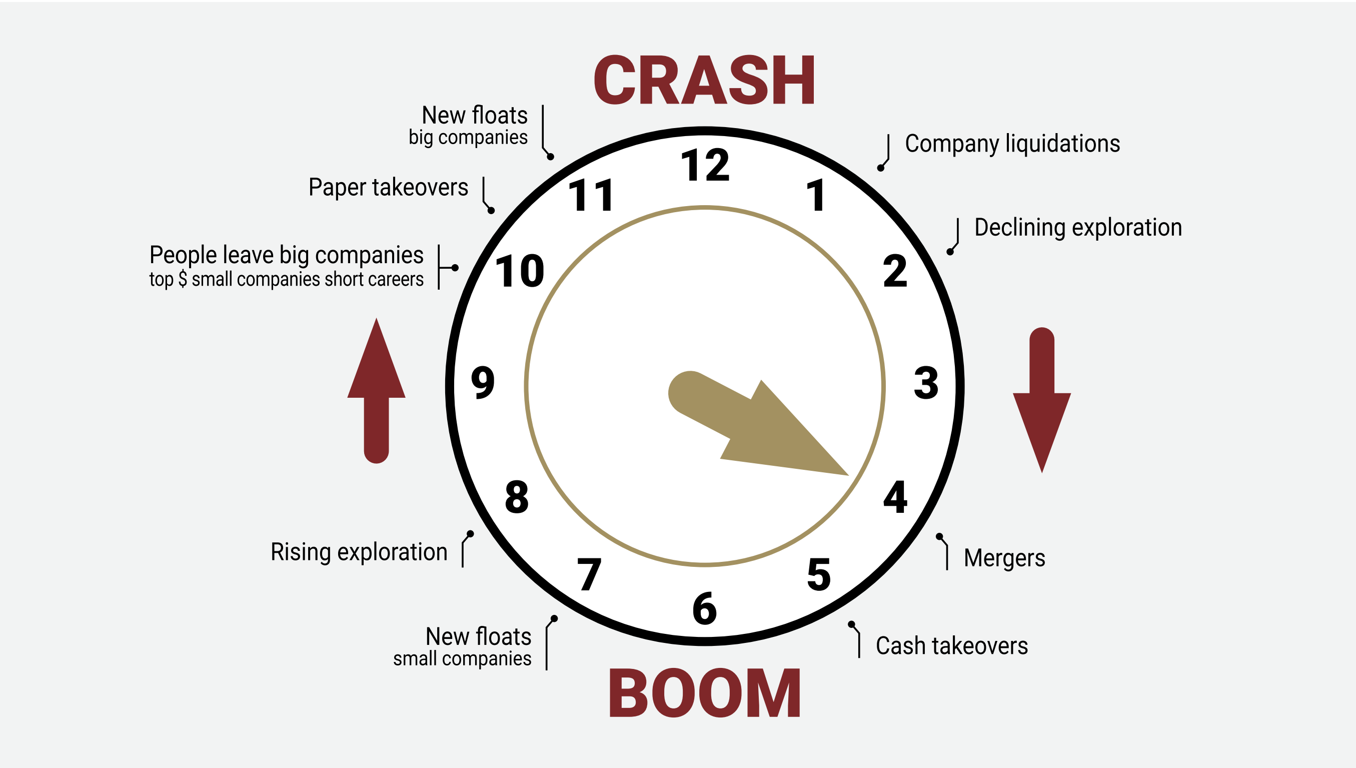
A serious equity market correction would drag the equity price of BHP and other major miners down with it and given that concern is driven by inflation, would be likely to impact copper as well as other mineral commodities. This would be detrimental to liquidity, but given the price decimation between 2022 and 2024, most other asset classes look to have further to fall than micro-capitalisation resources companies.

Gold has the best chance of being a negatively correlated wild card in such a scenario on the basis of the unusual buying behaviour behind it.

Implication for the Lion Clock

The Lion Clock is driven by liquidity, which responds to factors like commodity prices and inflation and leads investors to buy or sell. Risks like potential market meltdown don't hold the clock back unless investors withhold liquidity, and the evidence from early 2024 is that strong performances in gold and copper have provoked a boost in liquidity. Prices of micro-capitalisation resources companies also look to have levelled, but equity and liquidity trends are in their infancy and fragile. To stick, they depend on reducing risk in the global equity market and gold and copper maintaining strong prices.

This action has pushed the Lion Clock forward, it is now 4 o'clock.



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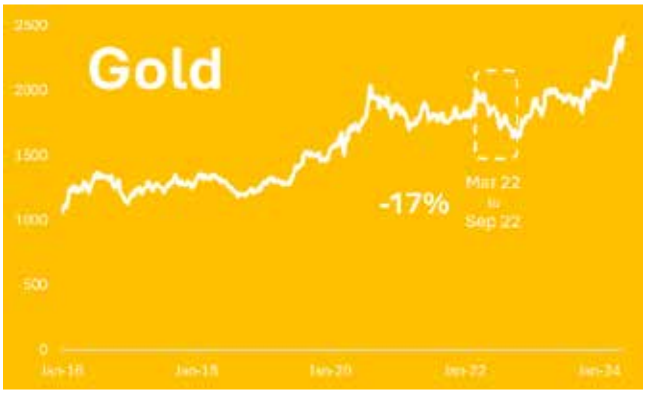
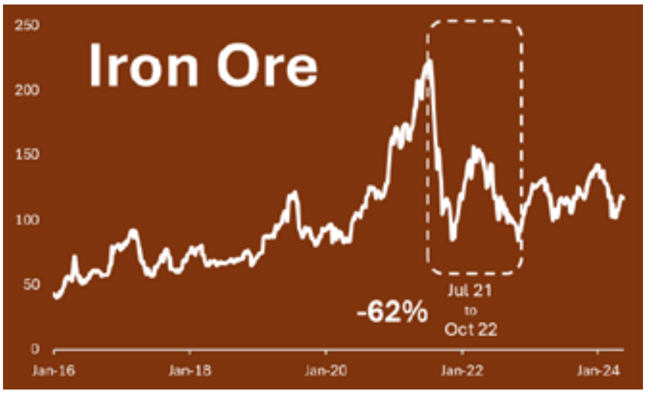
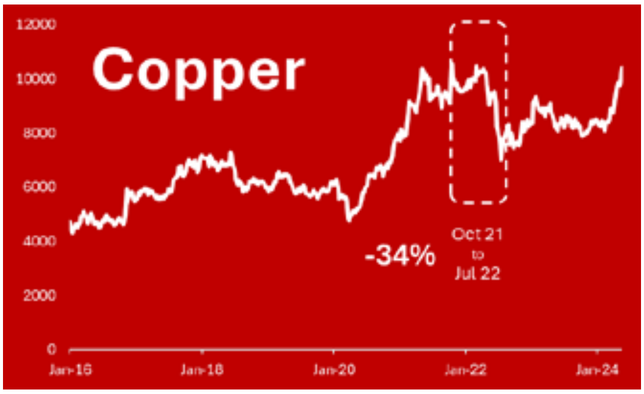
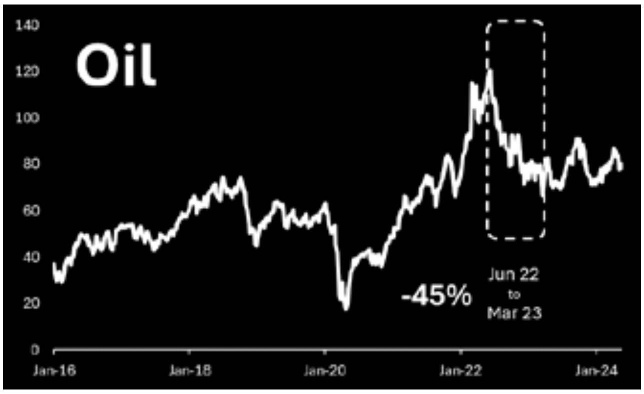
APPENDIX:
Key Mineral Commodity Charts

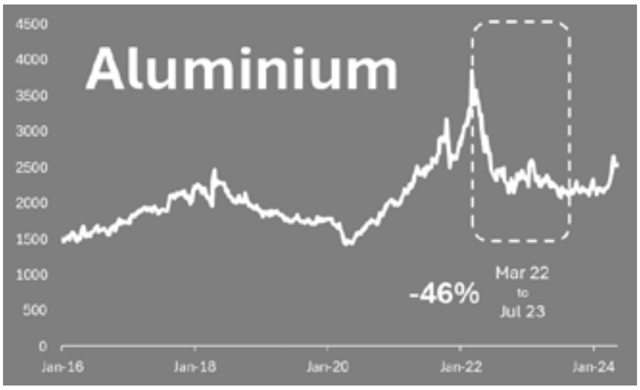
Charts cover January 2016 to May 2024, which is the time span of the last boom (2016-2022) and most recent bust (2022-2024). In each case, the magnitude of price fall is highlighted.

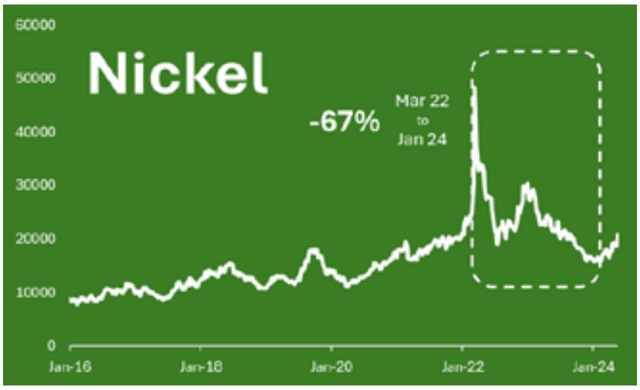


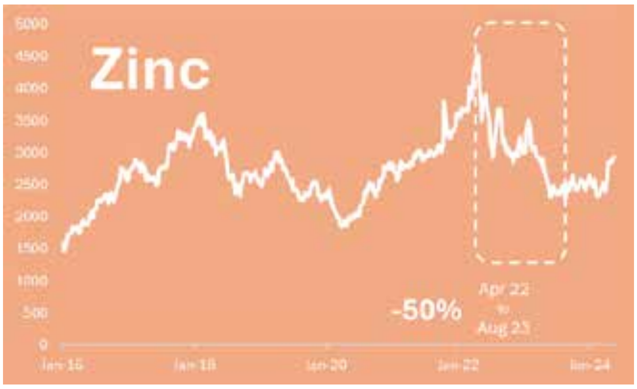


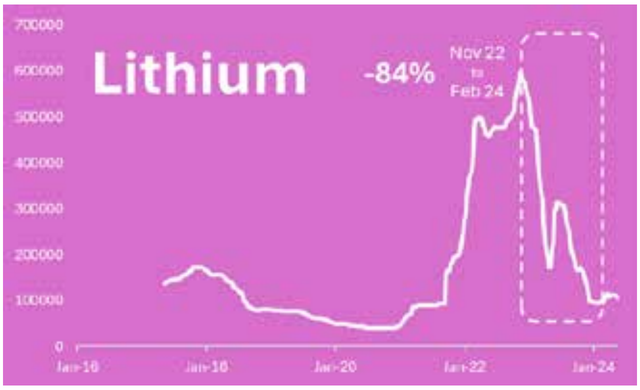












Data source: IRESS data