Lion Selection Group

QUARTERLY REPORT FOR THE 3 MONTHS ENDED 31 JANUARY 2020

SUMMARY

INVESTMENT HIGHLIGHTS

Pani Joint Venture (Lion 33.3%, Merdeka 66.7%)

- Breakthrough agreement with J Resources.
- Win-win deal combines the two adjacent gold resources to create world-class gold deposit.

Pani JV (66.6% Merdeka, 33.3% Lion) 2.37 moz[1] + Pani Contract of Work (100% J Resources) 2.30 moz[2]

- Deal will see J Resources own 40% in expanded project, and is conditional upon regulatory approvals and J Resources secured lenders.
- Once completed, deal is anticipated to materially improve Lion's Pani JV investment valuation.
- Diamond drilling commenced to test the area between the two resources.

Nusantara Resources, Awak Mas Gold Project

- Indonesian partner Indika Energy agrees to buy 40% Awak Mas Project.
- Pathway for project funding US$146M capex + US$16M pre-production estimated in 2018 DFS:
  - US$40m Indika staged investment + US$40m Deferred Payments for Engineering, Design and Construction.
  - US$110-$120m Bank Debt sought.
  - Indika deal subject to formalisation and Nusantara shareholder approval late April 2020.
- Early works accelerating including recruitment of development team.
- Exploration and gold price improvement underpin potential Reserve upgrade between existing Reserve (1.1Moz: US$1,250/ Oz) and Resource (2.0Moz: US$1,400/ Oz).

Erdene Resource Development

- Momentum builds for development of twin high-grade open pit gold projects in a new gold district:
  - Bayan Khundi – DFS underway targeting near term, low capex, high return project with rapid payback.
  - Altan Nar – Outstanding advanced exploration expands high-grade core.
  - 7m @ 45.7 g/t Au, 93.4 g/t Ag, 1.54% Pb and 3.40% Zn beginning at ~70m vertical depth, within 23m@ 17 g/t gold (TND-135).
- European Bank for Reconstruction and Development (EBRD) investment of C$6.6m potential pathfinder to project finance for Bayan Khundi.

SECTOR THEMES

Gold market from strength to strength

- Gold price breaks out above US$1,600/oz, A$ gold at record levels.
- Gold M&A – growth-oriented thought in full swing.
- Canadian market showing early signals of investor interest in explorers.

PRESENTATION TO THE MELBOURNE MINING CLUB

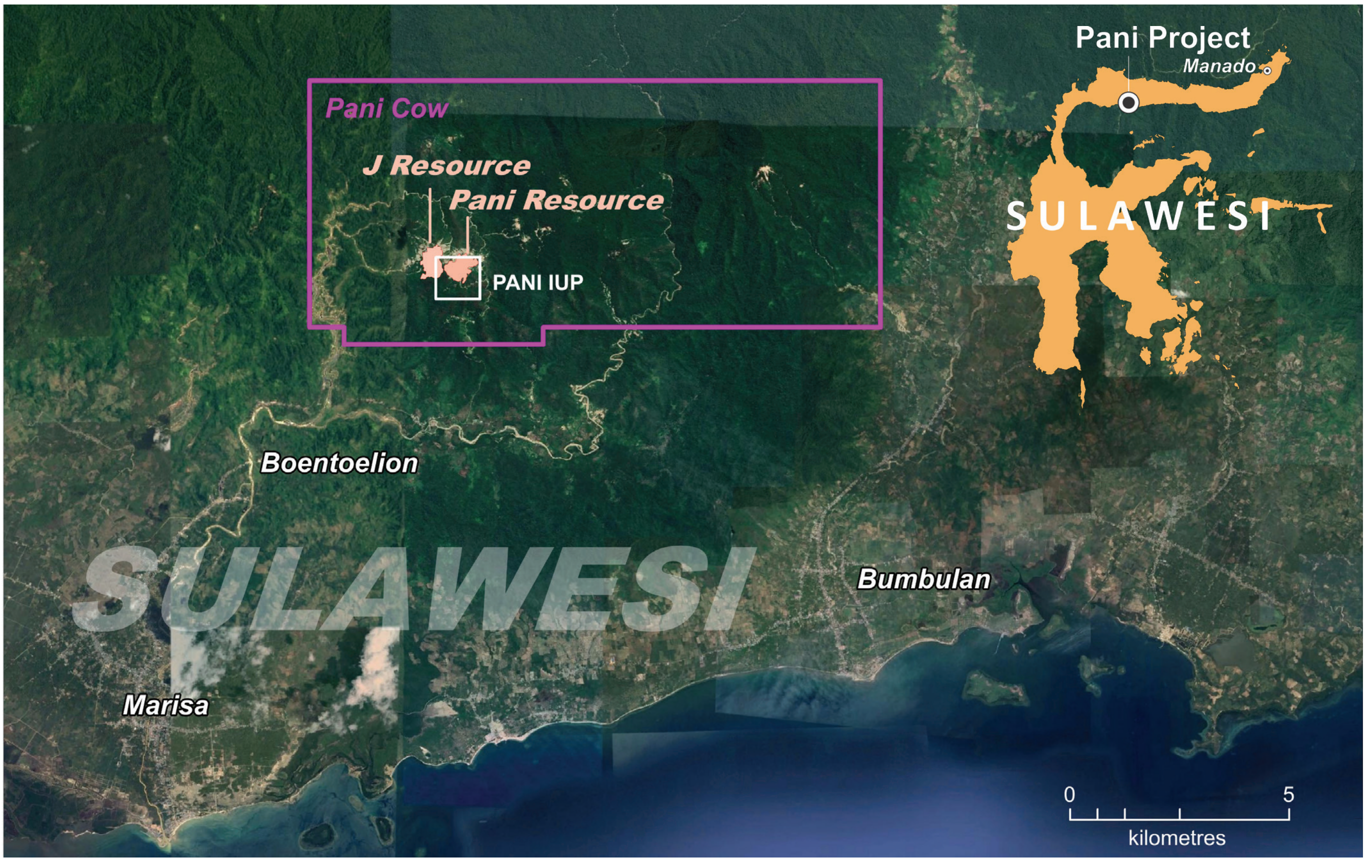
- Tuesday 17 March, 5.30pm at the Melbourne Town Hall.
- Shareholders are welcome to attend, registration is essential (http://www.melbourneminingclub.com/events/cutting-edge/).

INVESTMENT HIGHLIGHTS

Pani Joint Venture

J Resources Deal

In December 2019 Lion announced that its Pani Joint Venture had reached conditional agreement with J Resources to combine the two Pani tenements into one ownership group. The combination of resources within the joint project has the potential to be a world class gold deposit. Drilling has commenced to test the area between resources, and there are numerous extension opportunities for consideration. The agreement is subject to regulatory approvals and approval from J Resources' secured lenders.



The conditional deal combines two adjacent gold resources in Gorontalo, Sulawesi to form a single gold deposit with an approximate current footprint of 1.5km x 0.6km:

- Pani IUP JV (66.6% Merdeka, 33.3% Lion) 2.37 moz[1]
- Pani Contract of Work (100% J Resources) 2.30 moz[2]

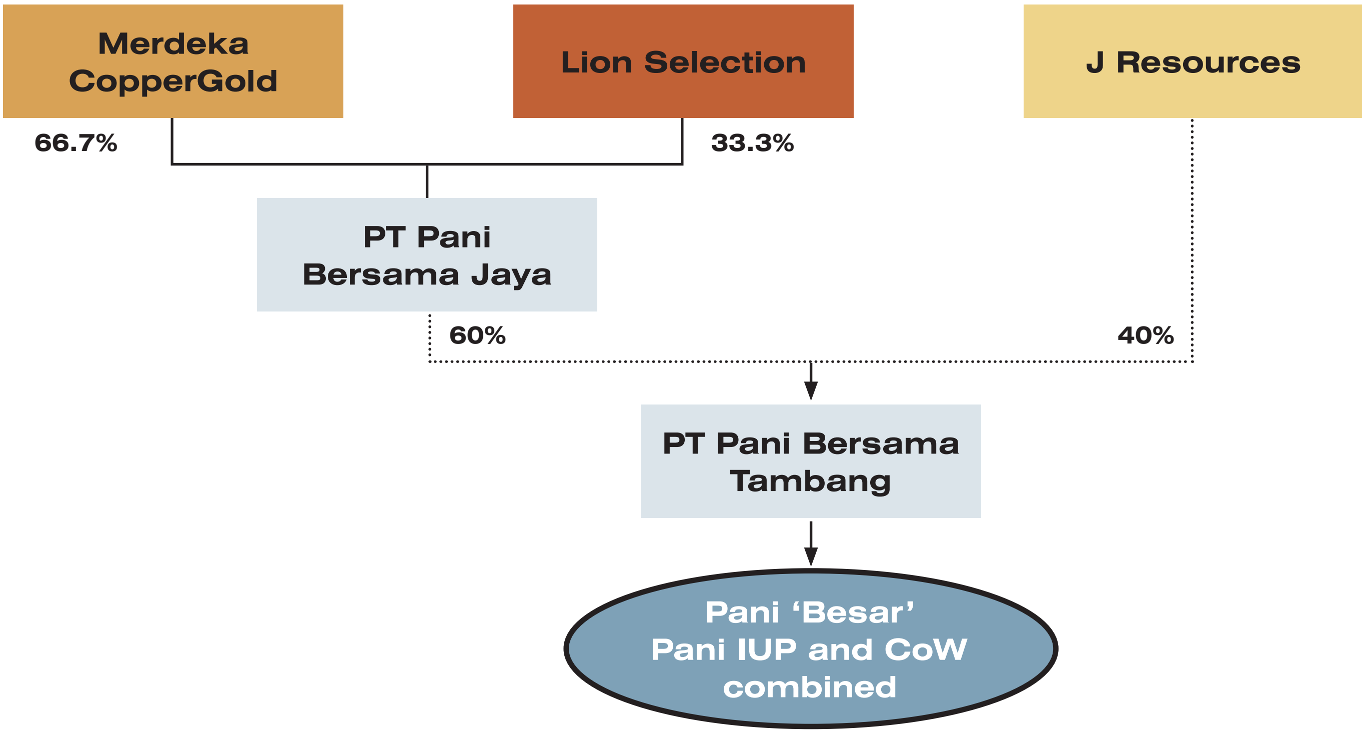
This deal is seen as a win-win for all parties:

- The common tenement boundary restricted individual open pit mine development.
- The larger resource offers scope for large scale open pit mining, improved logistics, and can consider a range of treatment methods.
- Exploration opportunities and extensional drilling potential including between the two existing resources.

The resultant structure will see J Resources transfer its interests in PT Gorontalo Sejahtera Mining (GSM) into the Pani Joint Venture in exchange for a 40% ownership interest in the combined entity.

INVESTMENT HIGHLIGHTS

Pani Joint Venture continued



The combined entity will have its own dedicated management team comprising expatriate and local personnel, including employees seconded from Merdeka and/or J Resources.

Subject to regulatory approvals and approval from J Resources' secured lenders, the transaction is anticipated to close in early 2020. In the interim, the Pani JV has access to GSM data and staff, and will undertake integration of the two datasets and teams, including a full data review and gap analysis with a view to scoping out the next steps. Drilling has commenced on the Pani IUP to test the area between existing resources delineated on the Pani IUP and J Resources CoW.

Once completed, the combination of the two tenements is anticipated to materially improve the valuation of Lion's investment in the Pani Joint Venture.

Lion's accounting policy is to apply an arms-length transaction in determining the fair value of investments where one is available. The most recent relevant arms-length transaction valuation was in November 2018 when Merdeka acquired its project interest in the Pani Joint Venture. This valuation needs to be reviewed in light of the J Resources transaction, increases in the long-term outlook for gold prices and other project milestones. Accordingly, Lion will update its carrying value for Pani as soon as the J Resources transaction completes for inclusion in its net tangible asset calculation.

Pani IUP (Lion 33.3%/Merdeka 66.7%) 0.2g/t cut off[1]

Category	Ore (Mt)	Grade (g/t Au)	Au (million oz)
Measured	10.8	1.13	0.39
Indicated	62.4	0.81	1.63
Inferred	16.2	0.67	0.35
Total	**89.5**	**0.82**	**2.37**

Pani CoW Resource (above a 0.4g/t cut off)[2]

Category	Tonne (Mt)	Grade (g/t Au)	Contained Gold (Moz)
Measured	15.5	1.03	0.51
Indicated	41.3	0.98	1.31
Inferred	15.9	0.93	0.48
Total	**72.7**	**0.98**	**2.30**

INVESTMENT HIGHLIGHTS

Nusantara Resources Limited

Awak Mas Gold Project in Sulawesi, Indonesia

Project Financing

In December 2019 Nusantara and project partner PT Indika Energy TBK (Indika) entered into a Conditional Agreement providing a pathway for project funding and development of the Awak Mas Gold Project. Following this, Nusantara raised $11.6m via a placement and Share Purchase Plan, which included a commitment of $3.57m by Indika.

In February 2020, Nusantara announced binding project equity agreements had been executed with Indika to invest US$40m in the Awak Mas Gold Project which will see Indika take up a 40% interest, plus a further US$40m in deferred payment arrangements which are subject to future contract arrangements to be negotiated with PT Petrosea Tbk (Petrosea), a 70% subsidiary of Indika. Project debt will be sought for the balance of funding the USD 146M capex plus USD 16M pre-production mining estimated in the 2018 Definitive Feasibility Study[5]. Noah's Rule has been appointed as specialist debt and hedge adviser to the Project Company to commence formal engagement of a debt financing syndicate.

Ore Reserves

- Maiden 1.1Moz announced April 2018.[3]
- Resource updated to 2.0Moz May 2018.[4]

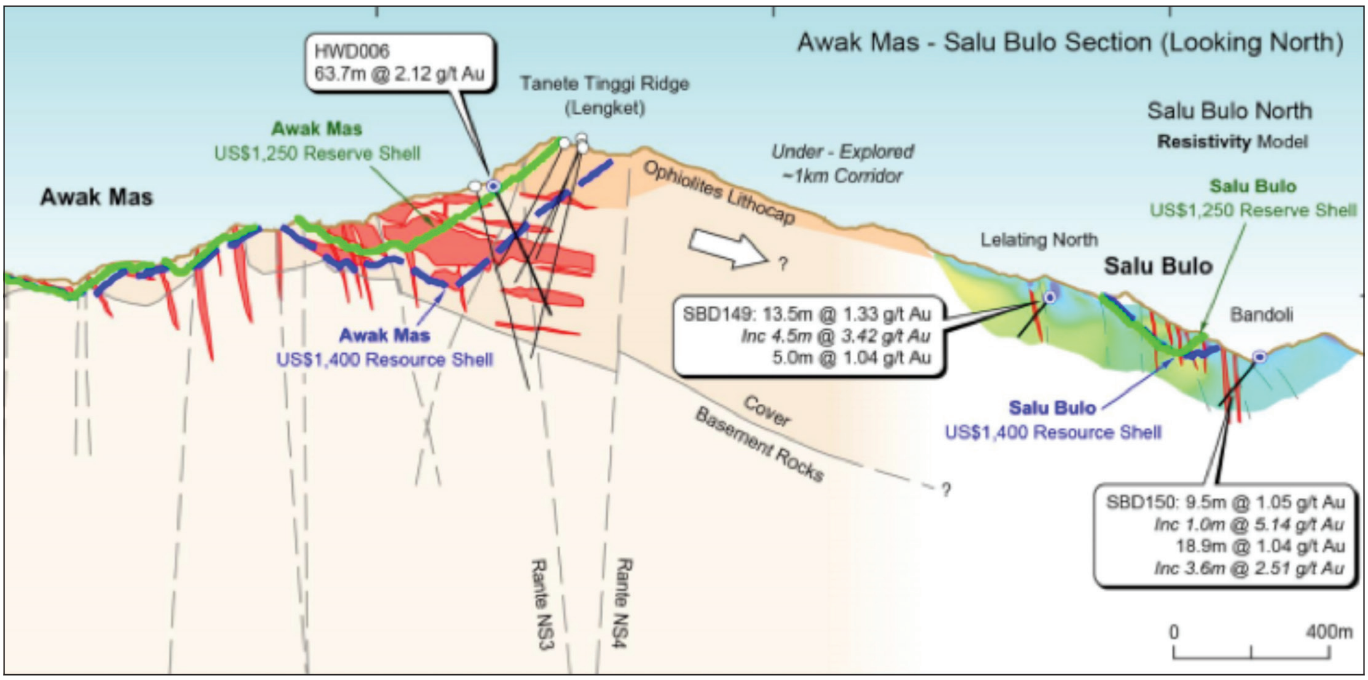
DFS

Definitive Feasibility Study released October 2018[5] based on US$1,250/oz gold price:

- 11 years x 100,000 oz gold pa
- Capex US$146m, NPV_5 US$152m
- At US$1,500/oz gold price NPV_5 US$282m based on DFS sensitivity analysis
- All in sustaining costs US$758/oz.
- 91% recovery, 3.5/1 strip ratio.
- 2.5mtpa x 1.3g/t CIL.

Exploration

An active exploration program is planned to continue throughout project development with drilling to extend the resource below Awak Mas ridge (commenced January 2020) and an updated Resource and Ore Reserve planned for April 2020.



Projected cross section through the corridor between the Awak Mas and Salu Bulo deposits showing recent significant exploration results at Tanete Tinggi and Salu Bulo; window of view is approximately 200m N-S.

INVESTMENT HIGHLIGHTS

Erdene Resource Development Corp

Khundii Gold District, Mongolia

Pre-Feasibility Study

Erdene has completed and filed its NI 43-101 Technical Report, prepared by Tetra Tech, for its 100%-owned, high-grade, open-pit, Khundii Gold Project in southwest Mongolia. The Technical report includes a Pre-Feasibility Study (PFS) for its Bayan Khundii Gold Deposit and an updated Preliminary Economic Assessment for its Altan Nar Deposit located 16 km from Bayan Khundii. Erdene has now commenced work on its Bankable Feasibility Study and Front -End Engineering and Design work which are scheduled for completion in mid-2020.

Permitting

Significant progress has been made on the permitting and licensing components of the Khundii Gold Project with the recently received conditional approval of its Mongolian Bayan Khundii Feasibility Study, registration of the water reserve supporting the Bayan Khundii plant and award of the land use permits to construct the mine support buildings.

Exploration

In December 2019, the Company completed diamond drilling on its Ulaan and Altan Nar licenses and conducted detailed surface exploration at the new high grade Khar Mori gold prospect on the Khundii license.

Drilling at Altan Nar returned multiple shallow intersections in excess of 50 g/t gold. These results expand the high-grade core of the Discovery Zone deposit and open up new areas for future drilling that should positively impact Altan Nar resources.

- 10.0m @ 12.2 g/t Au, 21.0 g/t Ag, 0.55% Pb and 1.18% Zn from 101m (TND-134) including 2.0m @ 52.9 g/t Au, 59.5 g/t Ag, 1.77% Pb and 3.80% Zn
- 23.0m @ 17.0 g/t Au, 44.7 g/t Ag, 0.75% Pb and 1.47% Zn from 97m (TND-135) including 7.0m @ 45.7 g/t Au, 93.4 g/t Ag, 1.54% Pb and 3.40% Zn

Meanwhile multiple high grade rock chip samples have been returned from the Khar Mori prospect, located 4.5km northeast of Bayan Khundii. Best results include 87.8g/t gold, 18.2g/t gold, 15.3g/t gold, 12.1g/t gold.

Corporate

In November 2019 Erdene received the final tranche under the US$5M loan from European Bank for Reconstruction and Development.

MINING MARKET REVIEW

GOLD PRICE

The last great bull market for gold peaked in 2011, achieving an all-time high closing price of US$1899.50/oz on 5 September 2011. The two-year run up to that high was underpinned by falling interest rates and the first two phases of Quantitative Easing (QE) in the wake of the Global Financial Crisis. Gold maintained a level above US$1600/oz for 18 months, before falling back to US$1200/oz by mid-2013 – despite the third phase of QE still being in full swing and interest rates at rock bottom at the time the market was being primed for the end of QE. Prospects of ‘someday’ strengthening interest rates took the heat out of gold and whilst interest rates remained extremely low, gold struggled to break away from the notion that it would soon have to compete against rising interest rates.

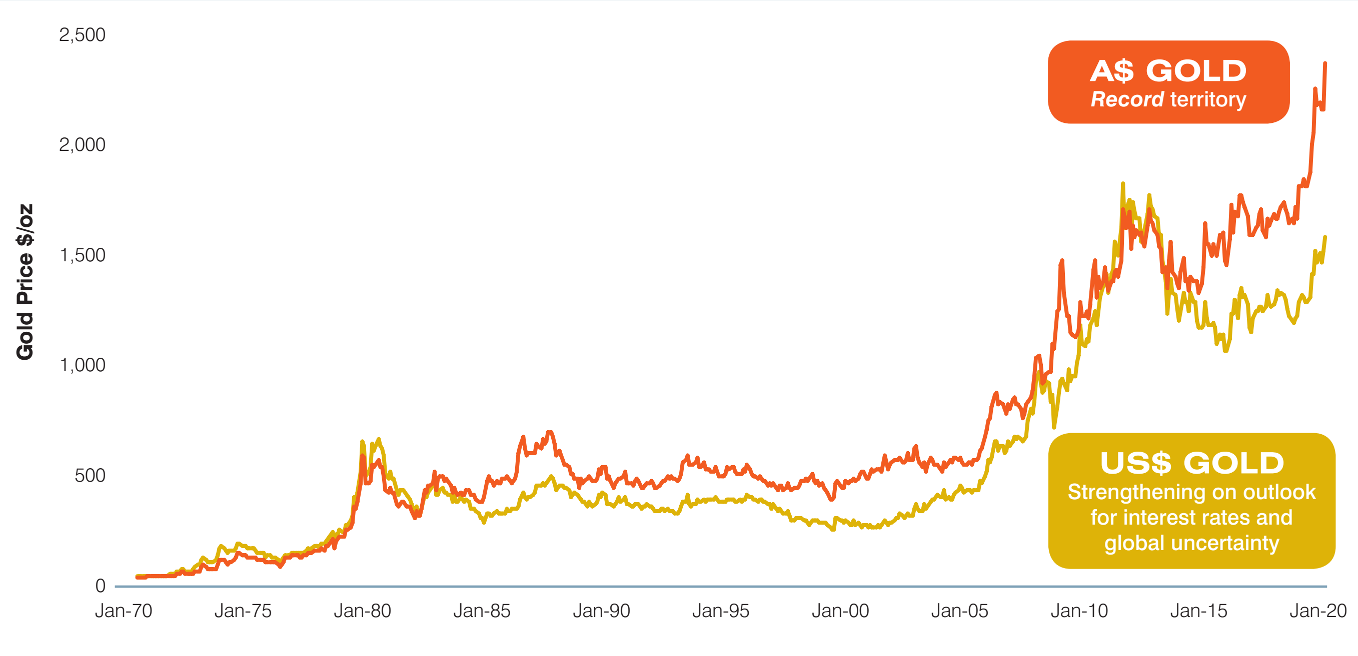
QE came to an end and interest rates began to rise in late 2015 against the backdrop that the world economy, led by the US economy was strengthening. Gold settled into a trading range of between circa US$1100/oz and US$1350/oz between 2013 and 2015, effectively range bound by the marginal cost of production at the lower end, and sentiment that interest rates were in recovery phase at the top end, preventing gold from moving much higher. Sentiment shifted in 2019 from ‘the economy is fine’ to ‘recovery will take longer’, and the outlook for interest rates was similarly adjusted from ‘going to rise’ to ‘not going to rise’, with discussion of fresh QE in some large economies. Gold has responded to this by breaking out of its trading range, pushing decisively through US$1400/oz.

As much as gold tends to resemble fundamentals much of the time, responses can be early or delayed as the market outlook on fundamental drivers like interest rates is crucial to how investors react. The extent to which investors react is also important. When gold is in what many investors perceive to be an established trading range, very little new money enters the gold market. But when gold moves out of that range, as it did during 2019, it attracts the attention of more and new investors. The weight of their money can amplify the enthusiasm of investors already buying gold, and the largest weight of money is often when generalist investors enter the gold market. In simple talk, when the largest funds in the world decide its time to hold gold again their buying is obvious in the price, and gold becomes a topic that finds headlines in mainstream media rather than just precious metals blog sites.

2019 was a very good year for gold – putting on US$235/oz, or +18% for the calendar year. 2020 has started strongly too, with gold up US$150 (+10%) already. Predictions for gold prices that would be new, all-time record highs in excess of US$1900/oz, which were only recently the realms of conspiracy theorists now look like they could be within reach.

In addition to the outlook for interest rates, gold has benefited from numerous thematics of global uncertainty. Trump vs Xi and a US / China trade war; potential for escalating conflict in the Middle East; and most recently the proliferation of COVID-19 and the potential for the infectious disease to cause lasting economic disruption.

Whilst gold has been strengthening, the Australian dollar has been weakening. So, whilst US$ gold is strong, A$ gold is well into record territory having posted the largest ever calendar year gain during 2019. The move in 2020 for A$ gold has so far been larger still, having put on A$360/oz since the start of January.



US$ GOLD PRICE VS A$ GOLD PRICE: 1970 TO 2020

A strongly performing gold price is great for gold equities. The earliest beneficiaries are gold producers, and as a gold price rally sets in, liquidity finds its way to smaller and earlier stage companies. The most leverage available in gold equities is in near development companies, where a gold price move can produce the liquidity required to transform a company from developer to producer, and magnify the value of a project by expanding the cash margin on ounces planned to be mined and making additional ounces viable.

GOLD M&A

Merger and acquisition (M&A) trends, and the character of M&A both provide a strong indication of the growth appetite of the mining industry, and what temperament the market holds towards company growth. If shareholders are worried about cash flows and expenditures, an acquisition of just about any kind will probably be a hard sell.

M&A through 2015-2019 contains many instances of established producers investing in or buying juniors. The scale of this expenditure is roughly analogous to exploration budgets, so whilst the activity indicates miners see value in juniors, it is more like buying cheap deodorant than a luxury car. On the other hand – takeovers or project acquisitions well into the $100’s of millions bring about a step change of growth for the acquirer and can catalyse a stronger trading multiple as more and larger investors either take an interest or find the company large enough to be able to buy the stock. There has been a steady increase in the tempo of deal making over the last 18 months which corresponds with increasing average deal size.

The trend for M&A in the gold sector has been strengthening. Based on numbers out of Macquarie (Macquarie Bank Gold Monthly, December 2019), aggregate M&A within the gold sector for deals over US$100m during 2015, 2016 and 2017 totaled between US$10B and US$12B per year. There were some sizeable deals, but few greater than US$250m. In 2018 the tally jumped to over US$15B – an increase year on year of circa 40%, followed by a 60% increase into 2019 which tallied over US$24B. The turning point for pace and aggregate size of announced deals was marked by the Barrick-Randgold merger (US$6B) announced in September 2018. The trend certainly appears evident at the lower end of the market too, where takeover premiums have suddenly jumped – which suggests there is competition for acquisitions, either from other growth hungry miners or the investment market.

MINING MARKET REVIEW continued

GOLD M&A continued

Drivers for growth ambitions boil down to some simple factors. Through the mining bust of 2011-2015 expenditures were slashed and anything judged non-essential to short term production was not spent at all. This occurred against a longer-term trend of a diminishing rate of exploration success globally for most mineral commodities, including gold. Growth pipelines and avenues for replacing future production have been narrowed, and with progress stalled it is no doubt simpler in many cases to buy new production than to re-start assessments of old projects. In a market where company size has become important, the ability to maintain and demonstrate the ability to grow production levels is crucial. For many years following the heady days of 2011, the market was ambivalent about growth because of the all too recent memories of highly priced acquisitions leading up to the top of the market. The re-ratings of companies that have grown into the ‘market relevant’ size bracket are the first indication that the market is now rewarding, and by implication encouraging growth. Assets with the ability to produce in excess of 100koz pa for 10 years or longer are few and far between and increasingly appetising to acquisitive gold miners.

CANADIAN MINING EQUITIES MARKET – EARLY RECOVERY?

The Australian equity market appears to have experienced an earlier recovery in liquidity for miners generally, and consequently for junior resources companies, than other significant global mining equity markets of which the largest is Canada. The bust for juniors in Canada has been deeper and longer than anywhere else.

There are probably a number of factors that account for differing performances between miners in each market. One significant factor, which is especially important for junior resources companies, is competing themes that distract investors that might otherwise invest in explorers. A widely observed phenomenon of the Canadian market through 2017 / 2018 was investor fascination with companies that were focused on commercialising production of cannabis to feed into a newly legalised market for medicinal marijuana. This phenomenon is clearly exhibited in the equity raising statistics for the Canadian market (via TMX Market Intelligence Group Reports).

Historically, miners have regularly raised multiple billions of Canadian dollars annually in new equity issuance across the two main Canadian exchanges, the TSX and TSXV. Between them, these exchanges host a large proportion of the largest mining companies in the world and the largest number of junior resources companies of any global exchange, and mining stocks make up a large proportion of the total market capitalisation. Life sciences, the sector which encompasses marijuana stocks, has historically only accounted for a very small amount of annual equity issuance and share of the total market capitalisation.

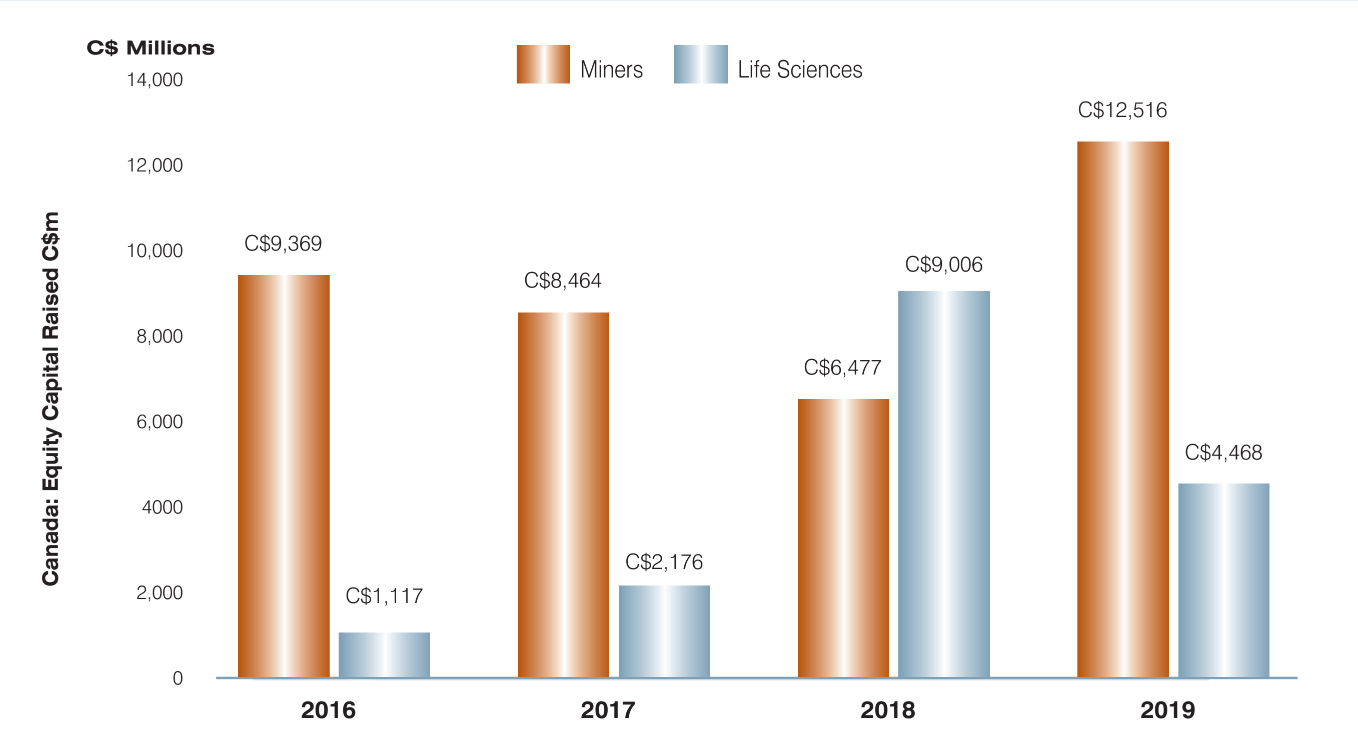
Through 2016, 2017, 2018, equity raised by Life Sciences companies increased from C$1.1B to C$2.2B to C$9.0B, in the same time that equity raised by miners decreased from C$9.4B to C$8.5B to C$6.5B – a multidecade low eclipsing the lows of 2015 which was the low point of the mining market globally. The trend has been suggestive that marijuana companies were capturing liquidity from miners: a theme strongly supported by anecdotes from brokers, investors and companies active in the Canadian market. In 2018, 22.1% of the fresh equity capital raised in Canada was by Life Sciences companies, who only accounted for 1.9% of the total market capitalisation – a large amount of liquidity forced into a small part of the market, consequently rapid equity price expansion outpaced fundamentals. During this time, despite tentative indications from markets like the ASX that explorers could raise funds selectively, Canadian explorers languished.

In 2019 these trends reversed. Canadian listed miners raised C$12.5B whilst Life Sciences totaled C$4.5B. Miners were once again the largest issuer on Canadian markets and equity prices of Canadian marijuana stocks have softened significantly (the Canadian Marijuana Index has fallen to 17% of its January 2018 peak value). This doesn’t on its own mean the Canadian market has regained its previous vibrancy for miners, nor does it mean that juniors in the Canadian market will all perform or can raise funds universally. However, it does suggest investor interest may be returning to miners in Canada, and it is a natural progression for interest to drift down over time to smaller and earlier stage companies in the space. Numerous anecdotes collected from a Vancouver visit in January 2020 and reports from the Canadian mining conference season are positive and support this theme.

MINING MARKET REVIEW continued

An increase in liquidity to Canadian resources companies, which is a reversal of a multi-year negative trend is an encouraging signal from the Canadian market. Whilst it might appear distant to Australian investors, it is nevertheless highly significant. Weakness of the Canadian market has held back global investor sentiment for the junior end of the sector, and provided an opportunity for Australian miners (especially gold miners) seeking attractively priced avenues of growth via M&A.

As the global junior resources and exploration sector recovers, miners will soon (possibly already do) face more serious competition for cheap investment in juniors from investors in the market. This has consequences for M&A – growth oriented thinking appears far too strong for miners to back away from M&A, and it appears far more likely that premiums and equity prices of likely targets would react to the competitive environment.



Total equity capital raisings for TSX and TMX listed Miners vs Life Sciences companies, 2016-2019. Data via TMX MiG reports

Lion Shareholder Presentation Opportunity

Presentation to Melbourne Mining Club Cutting Edge

Lion Selection Group is to present to the Melbourne Mining Club Cutting Edge event. All Lion shareholders are invited and would be welcome to attend.

When 5.30pm on Tuesday 17 March 2020

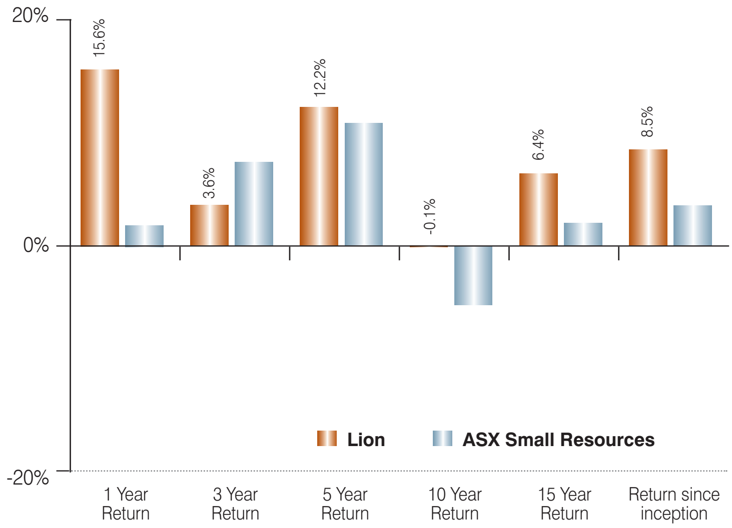
Where Melbourne Town Hall

Admission is free, however registration is essential:
http://www.melbourneminingclub.com/events/cutting-edge/

LION PERFORMANCE

Annualised Total Shareholder Return [6-11]

Annualised TSR to 1 Jan 2020	Lion	ASX Small Resources
1 Year	15.6%	1.9%
3 Years	3.6%	7.4%
5 Years	12.2%	10.8%
10 Years	-0.1%	-5.2%
15 Years	6.4%	2.0%
Inception (22 yrs)	8.5%	3.5%



NOTES

1. Refer to One Asia Resources Limited news release 3 December 2014, (https://www.lionselection.com.au/wp-content/uploads/2018/08/PANI%20JORC%20RESOURCE.pdf).
2, 0.4 g/t cut off; refer to J Resources 31 December 2018 Annual Report, (http://www.jresources.com/investors/article/final-resources-reserves-compilation-2017-to-2018)
3. Refer Nusantara Resources Limited announcement to ASX 18 April 2018.
4. Refer Nusantara Resources Limited announcement to ASX 8 May 2018.
5. Refer Nusantara ASX Announcement, 4 October 2018, Definitive Feasibility Study Confirms Robust, Long-Life, Low Cost Project.
6. Investment performance figures reflect the historic performance of Lion Selection Group Limited (ASX:LSG, 1997 – 2007), Lion Selection Limited (ASX:LST, 2007-2009), Lion Selection Group Limited (NSX:LGP, 2009-2013) and Lion Selection Group Limited (ASX:LSX, 2013-present)
7. Methodology for calculating total shareholder return is based on MorningStar (2006), which assumes reinvestment of distributions
8. Distributions made include cash dividends, shares distributed in specie as a dividend, proceeds from an off market buyback conducted in Dec 2008, and the distribution of shares in Catalpa Resources via the demerger of Lion Selection Limited in Dec 2009. Lion assume all distributions are reinvested, with all non-cash distributions sold and the proceeds reinvested on the distribution pay date.
9. Investment performance is pre-tax and ignores the potential value of franking credits on dividends that were partially or fully franked.
10. Past performance is not a guide to future performance.
11. Source: IRESS, Lion Manager

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ABOUT LION

Lion Selection Group is a mining investment company, focused on a portfolio of carefully selected and closely managed investments in listed and unlisted junior developing mining companies. Lion aims to offer diversity and a portfolio approach to the micro-cap end of mining investment, providing exposure to companies in various stages of development. Lion's investment model involves focusing investment towards the best opportunities in the portfolio, which from time to time results in concentration of Lion's portfolio towards specific investments and commodities. Lion is currently weighted towards several producing or developing gold projects, across a range of jurisdictions but in particular to the Pani gold project in Indonesia.

Lion is listed on ASX, under the ticker code LSX.

SUMMARY OF INVESTMENTS AS AT 31 JANUARY 2020

Net Tangible Asset Backing

Lion Selection Group Limited (Lion) advises that the unaudited net tangible asset backing of Lion as at 31 January 2020 is $0.50 per share (after tax).

SUMMARY OF INVESTMENTS AS AT 31 JANUARY 2020	Commodity	December 2019 A$M	January 2020 A$M	¢ps
Pani Joint Venture (33.3% Interest)	Gold	39.2	**39.7**	**26.4**
• Fair value for Pani based on Merdeka's acquisition of 66.7% interest in the Pani JV from Lion's existing JV partner in November 2018. • Conditional agreement reached with J Resources to combine Pani projects with adjacent tenement subject to approval by J Resources secured lenders and regulatory approval.* Valuation is under positive review once deal is completed.				
Portfolio				
Nusantara Resources	Gold	14.8	**14.1**	**9.4**
Erdene Resources	Gold	1.9	**2.5**	**1.7**
Celamin Holdings	Phosphate	1.7	**1.8**	**1.2**
Other		2.3	**2.5**	**1.6**
• Portfolio holdings measured at fair value • Includes investments held directly by Lion and the value to Lion of investments held by African Lion.				
Net Cash		15.1	**14.8**	**9.9**
Net Tangible Assets		**A$75.0m**	**A$75.4m**	**50¢ps**

Capital Structure

Shares on Issue:	150,134,879	
Share Price:	44.5¢ps	31 January 2020
Options on Issue:	15,720,958	$0.50 expiry 12 April 2020

* Lion Selection Group ASX Announcement 9 December 2019, Pani Gold Projects Combined

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