



## Lion Selection Group

QUARTERLY REPORT FOR THE 3 MONTHS ENDED 31 JANUARY 2021

### SUMMARY

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

- Pani Joint Venture initiates arbitration against J Resources with respect to non-compliance of the November 2019 J Resources agreement. Seeking compensation in the range of US\$500 – US\$600 million or specific performance to complete the transaction.
- Lion remains hopeful to close the deal as originally intended and avoid a drawn out arbitration process.

#### **Nusantara Resources**

- Awaiting total development costs and funding plan for the Awak Mas Gold Project.
- Close spaced drilling reported in December and February scheduled to provide a new mineral resource estimate (Q1 2021) and proven ore reserve.

#### **Erdene Resource Development**

- New, shallow, high grade gold discovery at Dark Horse: 45m at 6g/t gold from 10m.
- Mandate executed with Export Development Canada (EDC) for senior secured debt facility of up to US\$55M to develop Bayan Khundii Gold Project, subject to completion of due diligence.

#### **Sector Themes**

- Investor interest spreads across miners of many commodities in 2020, after gold producers were key performers in 2019.
- Canadian market breaks records for fund raising and capital performance by junior miners.
- Liquidity for miners and explorers is high – number of IPO deals completed and underway is growing, and large mining IPO's on the way.

### 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 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.**

# INVESTMENT HIGHLIGHTS

## Pani Joint Venture

**Lion holds 33.3% in the Pani Joint Venture alongside Merdeka Copper Gold. The Pani Gold Project is emerging as a potential world class gold project, showing signs of size, exposure, geometry and metallurgy to warrant investigation of a large scale, long-life, open pit operation.**

Pani currently consists of two Resources (2.37 Moz (33.3% Lion/ 66.7% Merdeka) and 2.30Moz (100% J Resources) on two licenses which historically have been separately held. An agreement to combine the two Pani tenements into one ownership group was signed in late 2019, but remains incomplete, and is now subject to arbitration initiated by the Pani Joint Venture (see further details below).

As reported previously, the Pani Joint Venture has been drilling a 10,500 metre drill program on the Pani IUP in the area between the Pani IUP Resource and Pani Contract of Work Resource held by J Resources.

As announced on 11 February 2021, preliminary assays have now been received for 17 holes for a total of 4,544 metres completed in August 2020. All holes have intersected, and most ended in mineralisation, but hole length was limited by the capacity of the man portable drill rigs used. This drilling has suggested the continuous presence of gold mineralisation between the two separate established resources located on the Pani IUP and surrounding Contract of Work and some higher-grade intercepts. Based on all the combined drilling between the IUP and CoW, Pani mineralisation may now span approximately 1.5km (east-west) x 0.8km (north-south).

Mineralisation in the 'link' zone (previously described as the 'gap' zone) is likely to have a consequence for strip ratio and geometry of mining shapes for the combined Pani project (although there is no guarantee that the combined project will eventuate, given that the transaction is subject to arbitration and outstanding conditions precedent). In addition, the new information from the link zone is expected to have an important bearing for the geological interpretation of Pani. Observations and preliminary results from the link zone suggest that the region is strongly mineralised including higher grade intercepts. An extensive drill campaign is being planned to in-fill the link zone and test the depth and boundaries of the deposit if the J Resources deal closes.

The Pani Joint Venture has temporarily paused its drilling program given the delays in completing the J Resources Agreement and ongoing arbitration. It is anticipated that final assay results of holes that have been drilled will become available after the recommencement of drilling.

If completed, the combination of the two tenements and Pani drilling results are anticipated to materially improve the valuation of Lion's investment in the Pani Joint Venture.

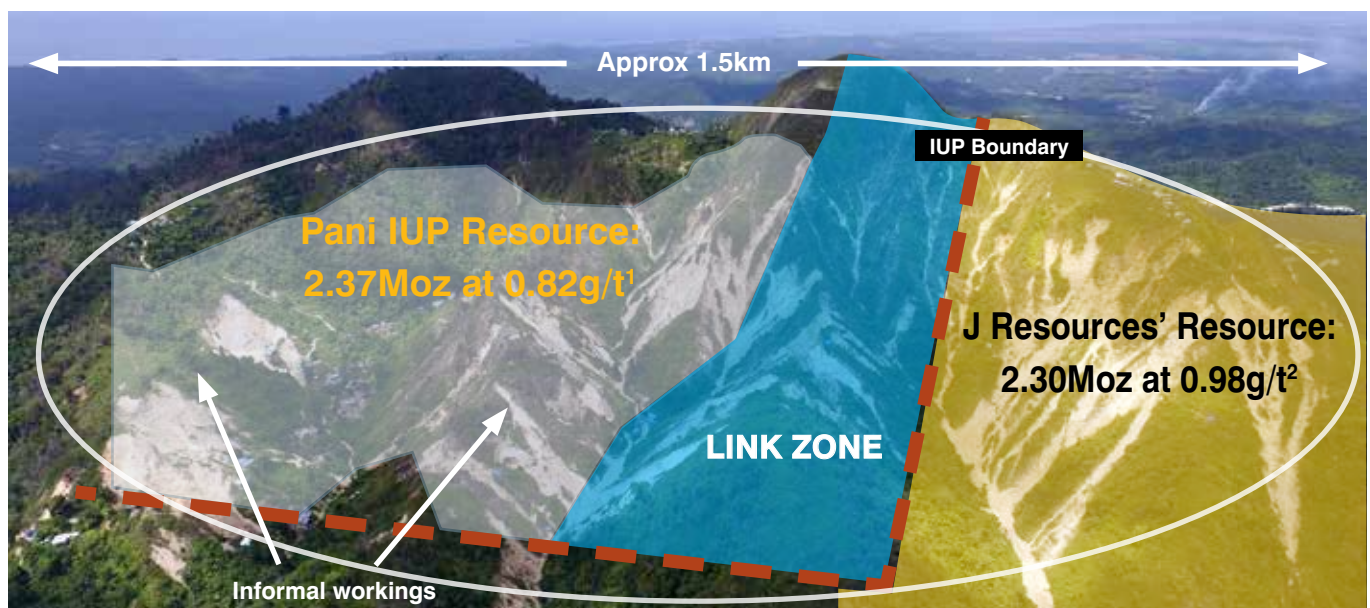


Figure 1. Pani view looking south showing informal workings

# INVESTMENT HIGHLIGHTS

## Pani Joint Venture continued

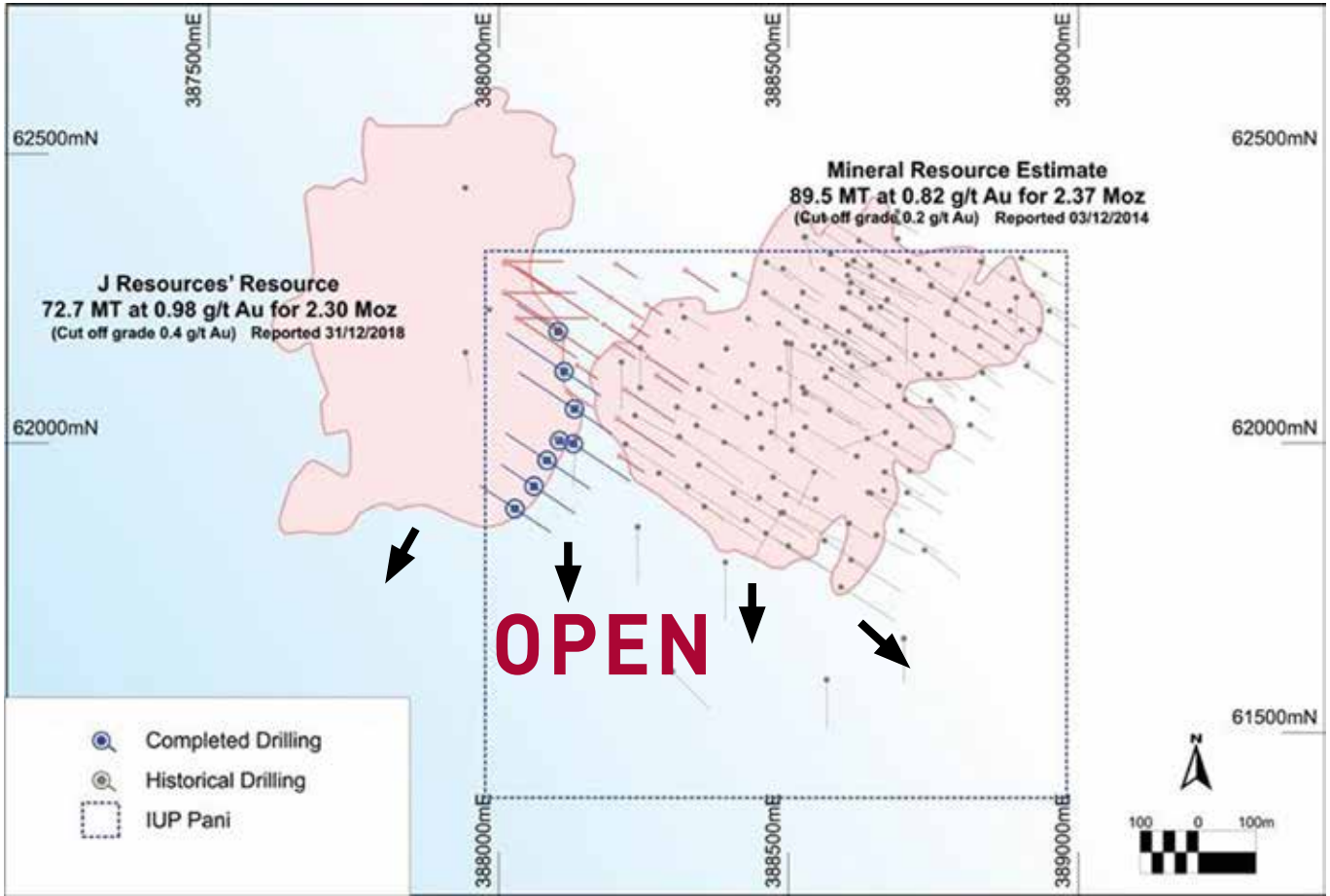


Figure 2. Pani plan view showing collars and drill traces note multiple holes from each collar

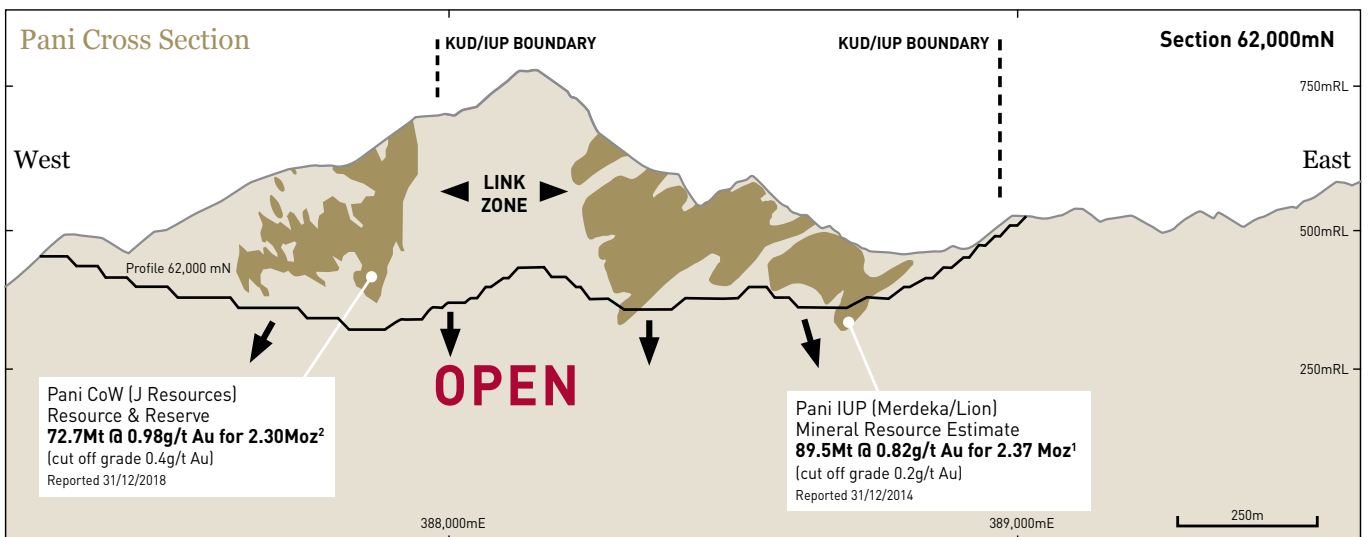


Figure 3. Pani cross section looking north

## INVESTMENT HIGHLIGHTS

### Pani Joint Venture continued

#### Arbitration

The Pani Joint Venture (Lion 33%, Merdeka Copper Gold 67%) recently initiated arbitration action against J Resources in relation to a claim of non-compliance with the terms of the November 2019 J Resources agreement to combine the two Pani tenements into one ownership group. This agreement remains incomplete due to the lack of regulatory approvals and approval from J Resources' secured lenders. The Pani Joint Venture is seeking compensation in the range of US\$500 – US\$600 million or specific performance to complete the transaction.

Neither party has terminated the J Resources Agreement, and Lion remain hopeful that the parties involved can avoid a drawn out arbitration process and close the deal as originally intended.

Further detail of the Singapore International Arbitration Center action is attached to Lion's announcement of 4 February 2021.

#### Pani Mineral Resource Estimates

Pani IUP (Lion 33.3%/Merdeka 66.7%) 0.2g/t cut off <sup>1</sup>			
Category	Tonnage (Mt)	Grade (g/t Au)	Contained Gold (Moz)
Measured	10.8	1.13	0.39
Indicated	62.4	0.81	1.63
Inferred	16.2	0.67	0.35
<b>Total</b>	<b>89.5</b>	<b>0.82</b>	<b>2.37</b>

Contract of Work (J Resources 100%) 0.4g/t cut off <sup>2</sup>			
Category	Tonnage (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
<b>Total</b>	<b>72.7</b>	<b>0.98</b>	<b>2.30</b>





# INVESTMENT HIGHLIGHTS

## Nusantara Resources Limited

### Awak Mas Gold Project in Sulawesi, Indonesia

#### Corporate

Project delivery timelines, total development costs (capex plus other costs) and funding plan are awaited for the Awak Mas Gold Project. Each of these points awaits delivery by Project Partner Indika's 70% subsidiary, Petrosea, of (FEED) Front End Engineering Design, an estimated US\$15m program.

At the point of project financing (bank debt, mezzanine and equity) Indika has the ability to invest US\$25m into the project JV vehicle to earn a further 15% project interest and transform the current 75/25 JV into 60% Nusantara, 40% Indika.

Petrosea has sole funded the FEED work and this amount is repayable mid 2021. Concurrently negotiations are expected regarding contractor services for construction and mining.

- A range of alternatives exist for what at the moment is forecast to be a minimum 15 year life gold mine.

#### Gold Project

- FEED reported to be >90% complete.
- Close spaced drilling reported in December and February is scheduled to provide a new mineral resource estimate including maiden measured material (Q1 2021) and to lead to proven ore reserve:
  - December 2020, drilling was reported that had intersected more of the narrow higher grade feeder structures;
  - Areas of low grade or waste within the existing resource can be separately identified.

#### Exploration

A combination of historic data compilation and new geophysical work (IP) is expected to generate a variety of new targets H1, 2021:

- Near mine extensions and repetitions;
- New areas of mineralisation.

Exploration target sizes are awaited.



# INVESTMENT HIGHLIGHTS

## Erdene Resource Development Corp

### Khundii Gold District, Mongolia

Erdene continues to progress the Bayan Khundii gold project toward development, with a step toward project funding executing a mandate letter with Export Development Canada (EDC) for a senior secured debt facility of up to US\$55m. Step out drilling around Bayan Khundii has successfully infilled positions adjacent to and within the planned open pit, flagging potential to expand mining inventories, with a Resource update expected in the first half of 2021.

Erdene has also reported a headline intersection of 45m at 6g/t gold from 10m at the Dark Horse prospect, which is located 3.5km north of Bayan Khundii and interpreted to be on the same, regional scale north-south structure. This result signals a possible second shallow high grade gold discovery in the region and could provide an exciting development in parallel to establishing gold production at Bayan Khundii.

#### Dark Horse Discovery

Headline intersection of 45m at 6g/t gold in rocks sharing many characteristics with the Bayan Khundii deposit 3.5km to the south.

Numerous intersections along the same north-south structure confirm a zone of at least 1km strike of gold anomalism, which will be subject to further drill testing in Q1 2021.

#### Bayan Khundii Drilling

Multiple high-grade gold intersections in areas adjacent to or within the planned Bayan Khundii economic pit<sup>9</sup>.

- Striker West, 200m west of the Bayan Khundii pit:
  - 28m of 2.5 g/t Au, including 1m of 36.9 g/t Au within 14 m of 4.5 g/t Au
  - 38m of 1.8 g/t Au, including 1m of 23.3 g/t Au within 9m of 5.5 g/t Au
  - 54m of 1.2 g/t Au, including 1m of 13.1 g/t Au
  - A deeper zone of gold mineralisation was also intersected south and below Striker West adding continuity to previous discovery: 4m of 4.7 g/t Au, including 1m of 17.0 g/t Au
- Striker South: 3m of 5.0 g/t Au from 37m, 5m of 4.7 g/t Au from 13m
- Midfield South East: 18.2m of 2.9 g/t Au from 2.8m, 7m of 5.2 g/t Au from 3m

The intersections returned from gold mineralised zones have expanded beyond the pit and resource boundaries in multiple locations, confirming the potential to expand resources at Erdene's Bayan Khundii Gold Project, most significantly in the Striker West zone. The Mineralised zone at Midfield South East is within the planned pit, and any Resource growth in that area would report immediately to mining inventory.

Independent consultants have been engaged by Erdene to incorporate the results into an updated resource estimate that is also expected to use an updated gold price to determine the resource cut-off grade in defining a revised pit constrained resource. An updated Bayan Khundii resource is expected to be announced in the first half of 2021.

#### Gold District Consolidation

Erdene has purchased the remaining 49% interest in private Mongolian company Leader Exploration LLC, thereby securing a 100% interest in the Ulaan exploration licence adjacent and to the West of the Bayan Khundii Gold deposit. As a result of the consolidation, Erdene now controls most of the alteration system that contains the Bayan Khundii, Dark Horse and Altan Arrow deposits and prospects.

The Ulaan licence, as well as the broader Khundii District show potential for significant epithermal gold and porphyry copper discoveries.

#### Corporate

During the quarter Erdene executed a mandate letter with Export Development Canada for a senior secured debt facility of up to US\$55m to develop the Bayan Khundii Gold Project. EDC's financing for the Project is conditional upon the satisfactory completion of due diligence, which is currently underway and expected to conclude in the second quarter of 2021.

## MINING MARKET REVIEW

# 2020: The Year of...

### ...Not Just Gold Miners

2020 was a year of expanding optimism as investor interest spread from the 2019 winners of gold, iron ore and nickel into miners of other commodities. The ASX Gold Index returned 7% in 2020 backing up a 25% gain in 2019, which still beat the broad market indices (All Ordinaries: 1%). The Small Resources Index had a stand-out performance of 21% in 2020, propelled by lithium, rare earth elements and base metals. Of the top 10 performers of the ASX300 Metals and Miners index only one was a gold producer, West African, which successfully transitioned into producer-status in early 2020 (the top ten were dominated by gold producers in 2019). Exploration success stories De Grey (a 20-bagger) and Bellevue held 1st and 7th places respectively, with established gold producers further down the list: Saracen (announced a merger into Northern Star) and Ramelius (also grew via acquisition). Honourable mentions went to Lithium producers benefiting as the outlook turned positive in 2020 (lithium fell 6% in 2020, arresting a fall of 38% in 2019) and iron ore producers (iron ore went up 72% in 2020).

Gold performance is not to blame – in fact, gold returned 25% in 2020 against 18% in 2019. Rather, the other miners mostly played catch up against a backdrop of stronger performances or strengthening outlooks for many other mineral commodities.

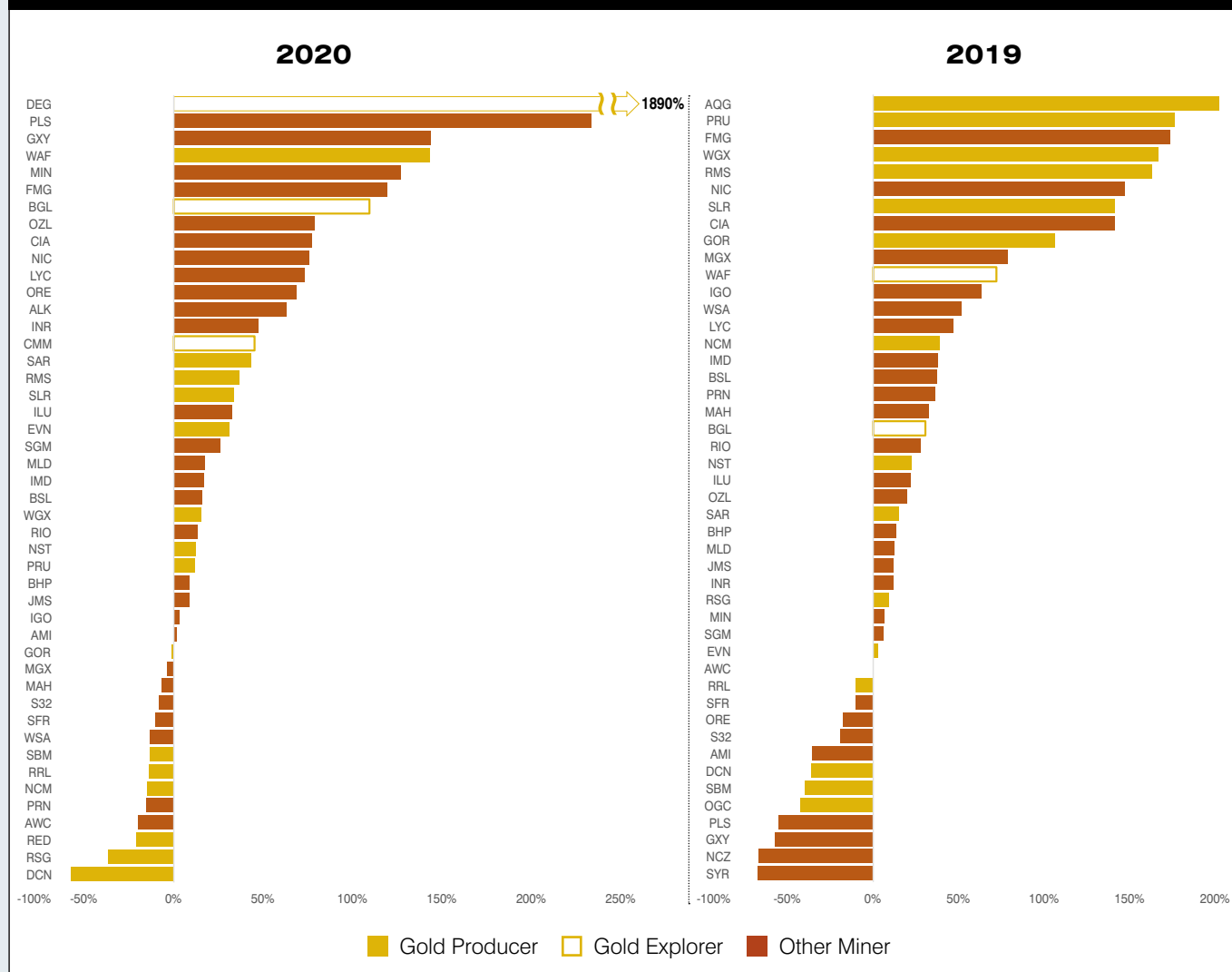
### 2019 and 2020 returns from ASX listed mining equities (using the ASX300 Metals and Mining index, gold companies vs the rest) and mineral commodities:

	2019	2020	
<b>ASX Gold Equities</b>	30%	14% (12% excluding De Grey)	Median performance of gold companies vs all others in the ASX300 Metals and Miners Index
<b>ASX Other Mining Equities</b>	14%	17%	
<b>Gold</b>	18%	25%	All-time high in August 2020. Currently ~12% below that peak
<b>Copper</b>	3%	26%	Strong performance since mid-2020, currently at 9 year high
<b>Nickel</b>	32%	18%	Best price since October 2019
<b>Tin</b>	-14%	22%	Strong performance since late 2020, currently at ten year high
<b>Lithium</b>	-38%	-6%	Lithium has performed strongly in 2021 (+45%), after outlook turned positive in 2020. This breaks negative trend where lithium fell 77% from all-time highs of December 2017

### ... Adjustment of the Pecking Order in the Gold Sector

2018/2019 saw merger and acquisition activity within the gold sector which consolidated the scale and dominance of the gold majors in a string of multi-billion-dollar deals. In September 2018 Barrick announced a merger with Randgold to create the worlds largest gold miner. Shortly after, as if not to be outdone, Newmont announced a merger with Goldcorp in January 2019 – the biggest ever gold deal to become the new world's largest gold miner. Whilst the back office teams were working away to seal those deals, public jostling continued as a Barrick-Newmont merger was publicly touted. The focal point of potential value creation in the 'mega-merger' concept was combining the adjacent gold producing assets in Nevada, and the outcome, sensibly, was formation of an operating joint venture. In November 2019 Kirkland Lake moved to acquire Detour Gold. Re-organisation within the global top ten gold companies was because of the removal of Randgold and Goldcorp, not from growth of an aspirant.

## Performance of ASX300 Metals and Miners stocks: 2019 vs 2020, highlighting gold producers and explorers



2020 saw two new faces leapfrog into the senior ranks of gold producers. In October 2020 (just in time for the delayed Diggers and Dealers), Northern Star and Saracen announced a merger that would create not only a new global senior producer but an Australian gold champion, consolidating assets within Western Australia under including the Kalgoorlie Super Pit (now called Fimiston). Then in November Endeavour and Teranga announced a merger to create a West Africa focussed gold major. Two mergers to form new top ten gold producers in two months! With combination comes increased scale and the opportunity to extract efficiencies – but also the likelihood of attracting investment from larger investors and with that a reward for scale.

Consolidation has created gold champions in most markets and jurisdictions, in addition to the genuinely global majors. The clear exception is South-East Asia, which contains ample gold projects and production, but fragmented ownership.

### ...Canada, Juniors and Fund Raising Records Broken

The Canadian market is the biggest in the world for miners and explorers, and in 2020 Canada rediscovered explorers. Decade-plus records were broken for a number of metrics. Miners listed on the small cap TSXV, many of which are explorers, raised C\$4.1B in 2020 – close to double the tally for 2019. This was the highest for the Venture Exchange since 2011 and for the first time the amount raised by miners on the TSXV was more than that raised by the large cap miners listed on the main board TSX. All this is to say that it looks very much like liquidity was enthusiastically pursuing smaller cap miners (ie explorers).



The capitalisation of miners listed on the TSXV has lingered at around C\$20B for the last four years – closing 2019 at C\$19B. This surged to close 2020 at C\$41B. Excluding the C\$4.1B raised during the year, the original capital base of year-end 2019 almost doubled – an eye-watering increase for an entire market sector, taking miners on the TSXV to a market weight of 53%, approaching the highs of 2010-2011 (59% and 58% respectively).

## Liquidity Snapshot

The surge in liquidity into juniors in the Canadian market is remarkable, but not isolated. The Australian market saw investors supporting raisings by explorers and commensurate capital gains – although the Canadian market was playing catchup, interest in explorers in the Australian market had been growing for a few years already.

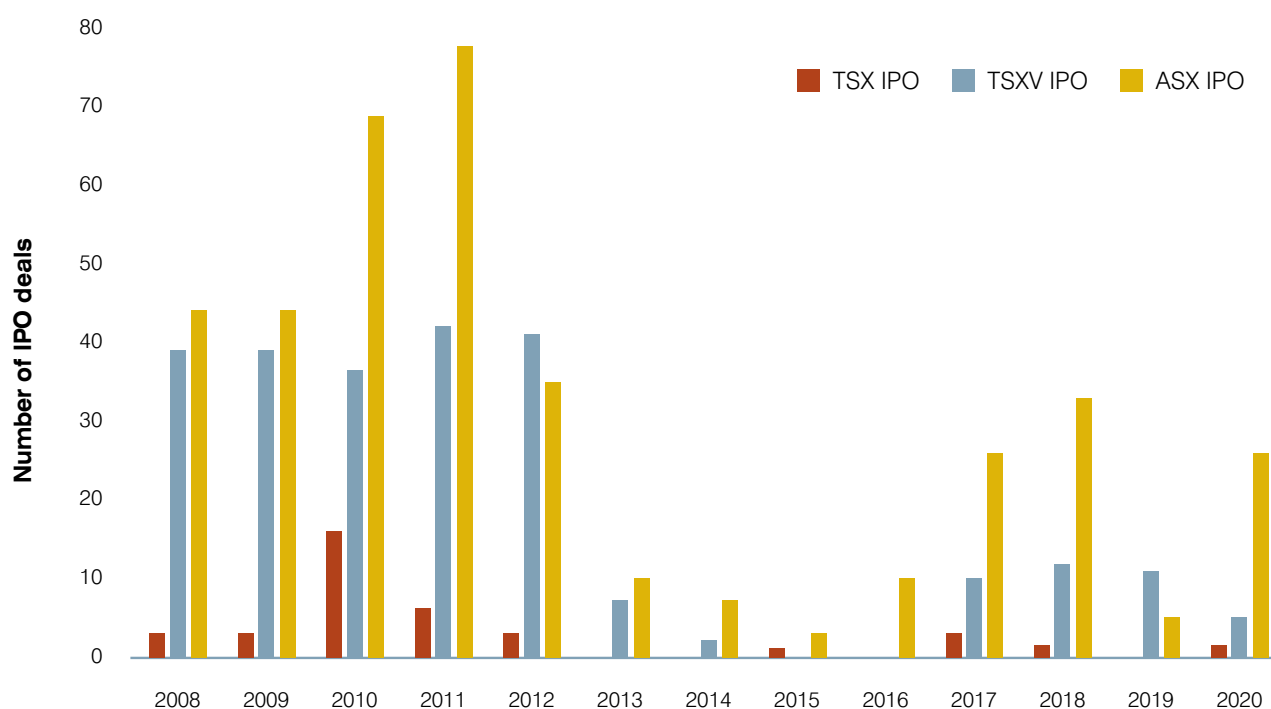
## Speculation Surging

It appears that liquidity is not just limited to explorers either. Global equities with new age and technology enabled ventures of all sizes at the forefront have found all-time record highs between late 2020 and early 2021. Crypto-currencies have made front page news by exhibited gains unbefitting of a form of currency. In February 2015, worth just over US\$200, one Bitcoin could buy a pretty decent bottle of wine – if you could find a purveyor of fine wine that would accept bitcoin! If that same bitcoin were saved it would now be worth over US\$50,000 – sufficient purchasing power to buy a car. For completeness of the example – Tesla has announced that it will accept bitcoin as a form of payment. Investors have become speculators in droves seeking risk against a backdrop of record low yields on cash and bonds, and de-basement of traditional forms of currency through central banks printing money. Risk taking behaviour – such as accepting a currency with a short but volatile history of purchasing power – is evident in the commercial market as well.

## Exploration Company IPO Trend Positive

The tempo of companies seeking a listing via an Initial Public Offering (IPO) is a useful map of liquidity – IPO's are easy when liquidity is strong and very difficult (or impossible) when its not. Unsurprisingly, IPO volumes in Australia and Canada have jumped in 2020, although are behind the volumes experienced in 2017 and 2018. The IPO pipeline is certainly well stocked with hopeful explorers, and instances of 'pure explorers' which a cynic might judge to be a thinly disguised attempt to create a cash shell, have appeared.

**Number of IPO's onto TSX, TSXV and ASX markets, per year 2008-2020**



## **Large Mining IPOs on the way**

Liquidity paves the way to list new businesses but can also provide a once-in-a-cycle opportunity to list large companies. There are several historical examples from previous cycles:

- In 1995 PNG focussed gold miner Lihir executed the largest ever gold IPO (to that time), raising A\$608M and listing on ASX
- In 2006 explosives manufacturer Dyno Nobel raised A\$1,030M, and Driller Boart Longyear raised A\$2,300M in 2007, both to list on ASX
- In 2007 Newmont tapped the public market to spin out its royalty portfolio raising C\$1.1B and listing Franco Nevada on TSX, in what at the time was the largest mining IPO in Canadian history
- Glencore executed the largest mining IPO of all time in 2011, raising US\$11B to list on LSE

All of the largest mining IPO's have occurred near, or in the years leading up to the cycle peak.

In January 2021, the Wall Street Journal mooted a possible LSE IPO of NordGold – circa 1Mozpa gold producer with a focus split between the frontiers of Russia and West Africa. No doubt this stems from informal soundings, as Nord Gold has not yet announced plans to list. Back of the envelope numbers suggest a circa US\$5B valuation and although there is no quantum nominated for an IPO raising, against that backdrop it stands to be a large deal. Closer to home, Australia's largest surface diamond and RC drilling company DDH1 has launched an IPO to raise A\$150M. Drilling and mining services companies are not miners but their fortunes are tied with those of miners and explorers and they tend to tap the same pool of liquidity. Clearly market conditions are ripe for large listings in the resources space.

## **Big People Moving to Little Companies**

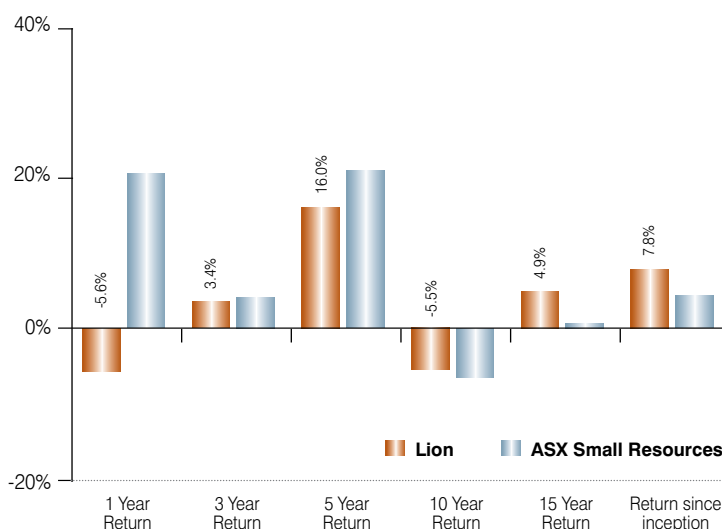
People move in and out of jobs all the time, but this is especially the case in the mining industry where talent tends to be highly mobile. Motivations for a job change are highly personal and can vary tremendously. For those who are an entrepreneur at heart, highly liquid markets provide a platform where the stock-based performance packages offered by junior companies can far outstrip those in established large miners. Options or performance shares given to executives in junior companies might never become valuable in a tough market, but when equities in explorers are running the uplifting effect takes a lot of risk out of the potential value of stock. For well-established mining executives with a profile coming out of a large company, there is a tantalising leverage effect offered by becoming Managing Director of a junior.

Isolated examples might well not fit the analogy above, and there is no public time series that can make examples more than just potentially connected anecdotes. Even so, consider the apparent frequency of fresh IPO's led by ex-Northern Star personnel, or defections from the same company popping up as senior executives in developing companies. The highest profile (to be) ex-Northern Star executive will be Bill Beament, who has announced he will leave Northern Star in July and take up a position at base metals hopeful Venturex. Former Rio Tinto exploration chief Stephen McIntosh is another high profile name, popping up as a director of PGE discoverer Chalice.

# LION PERFORMANCE

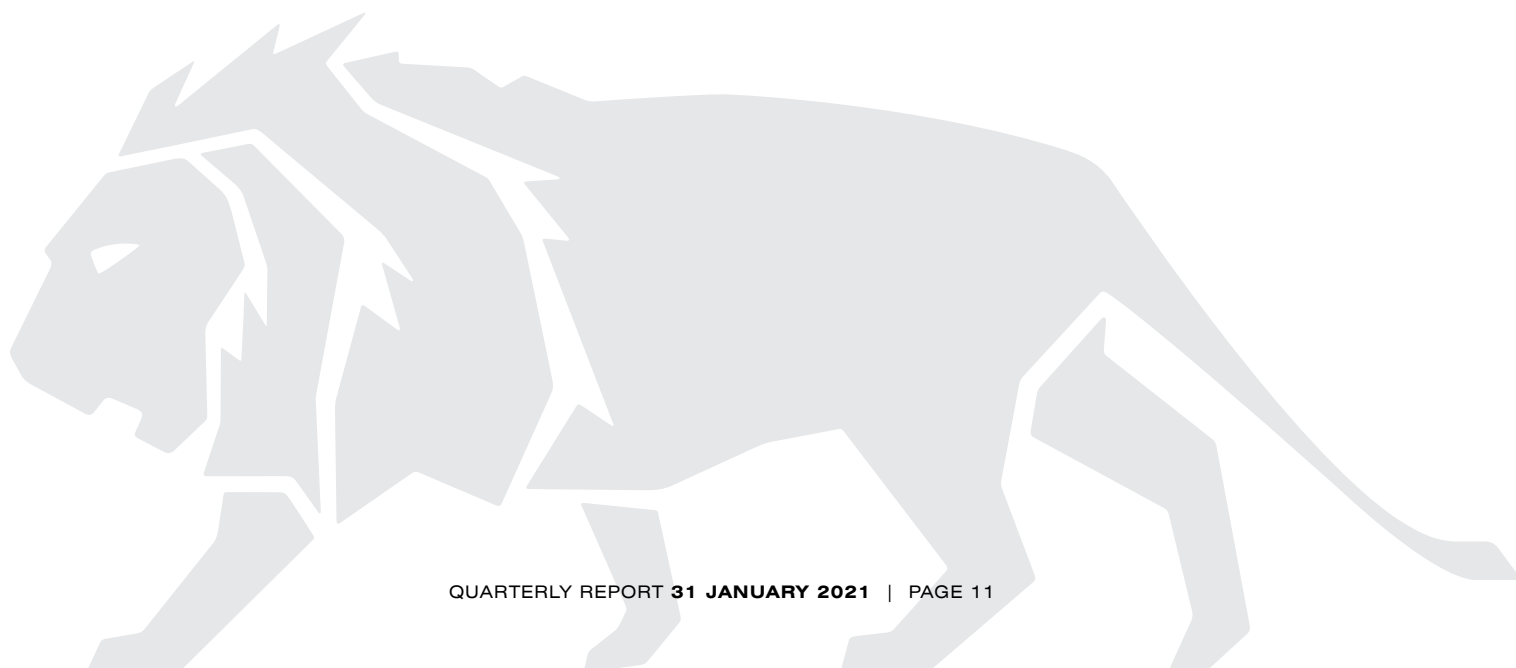
## Annualised Total Shareholder Return <sup>4-9</sup>

Annualised TSR to 31 January 2021	Lion	ASX Small Resources
1 Year	-5.6%	20.4%
3 Years	3.4%	4.0%
5 Years	16.0%	20.8%
10 Years	-5.5%	-6.6%
15 Years	4.9%	0.6%
Inception (23 yrs)	7.8%	4.2%



## 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. Refer to J Resources 31 December 2018 Annual Report, (<http://www.jresources.com/investors/article/final-resources-reserves-compilation-2017-to-2018>).
3. Refer to Erdene Resource Development Corporation news release made 17 November 2020.
4. 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).
5. Methodology for calculating total shareholder return is based on MorningStar (2006), which assumes reinvestment of distributions.
6. Distributions made include cash dividends, shares distributed in specie as a dividend, proceeds from an off market buyback conducted in December 2008, and the distribution of shares in Catalpa Resources via the demerger of Lion Selection Limited in December 2009. Lion assume all distributions are reinvested, with all non-cash distributions sold and the proceeds reinvested on the distribution pay date.
7. Investment performance is pre-tax and ignores the potential value of franking credits on dividends that were partially or fully franked.
8. Past performance is not a guide to future performance.
9. Source: IRESS, Lion Manager.



# SUMMARY OF INVESTMENTS AS AT 31 JANUARY 2021

## Net Tangible Asset Backing

Lion Selection Group Limited (Lion) advises that the unaudited net tangible asset backing of Lion as at 31 January 2021 is 61.4 cents per share (after tax).

SUMMARY OF INVESTMENTS AS AT 31 JANUARY 2021			
	Commodity	January 2021	
		A\$M	¢ps
<b>Pani Joint Venture</b>	Gold	<b>61.6</b>	<b>41.0</b>
<ul style="list-style-type: none"><li>The fair value of Lion's interest in the Pani Joint Venture increased to A\$60.7M at 31 July 2020. This increase reflects the sustained escalation in gold prices from the time of the most recent arm's length transaction in November 2018<sup>1</sup>. An additional \$0.9M has been invested subsequently.</li></ul>			
<b>Portfolio</b>			
Nusantara Resources	Gold	<b>14.0</b>	<b>9.3</b>
Erdene Resources	Gold	<b>4.7</b>	<b>3.1</b>
Sihayo Gold	Gold	<b>1.3</b>	<b>0.9</b>
Celamin Holdings	Phosphate	<b>1.1</b>	<b>0.7</b>
Other		<b>0.7</b>	<b>0.5</b>
<ul style="list-style-type: none"><li>Portfolio holdings measured at fair value</li><li>Includes investments held directly by Lion and the value to Lion of investments held by African Lion.</li></ul>			
<b>Net Cash</b>		<b>8.8</b>	<b>5.9</b>
<b>Net Tangible Assets</b>		<b>A\$92.2m</b>	<b>61.4¢ps</b>

## Capital Structure

<b>Shares on Issue:</b>	150,141,271
<b>Share Price:</b>	42¢ps      31 January 2021

\* Lion Selection Group ASX Announcement 4 August 2020, Pani Update and Valuation Revision

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