Lion Selection Group

# Quarterly Report
for the 3 months ended
31 January 2022


**The quarter ended 31 January 2022 has been a transformational quarter for Lion. It follows the successful exit from Nusantara in October 2021 and culminated in the announcement of the agreement for Lion to sell its interest in the Pani Gold Project. This positions Lion with a robust balance sheet at a time of high liquidity in the mining sector, historically an indicator of a mature mining cycle, whilst simultaneously reducing Lion's funding obligations and risk profile.**

## Sale of Pani

- Sale of Pani agreed for US$52M (A$74M) a 17.5% premium to NTA holding value[1].
- Deal value features downside protection and could improve subject to performance of Merdeka.
- US$22M cash and US$20M (72.75M) Merdeka shares to be received late February/early March, and up to US$10M cash payment due 28 January 2023 (less Indonesian withholding tax of US$2.6M).

## Lion Outlook

- The sale of Lion's interest in Pani positions Lion strongly for new investments and for the establishment of a distribution to shareholders.
- The Pani sale is scheduled to close late February/early March, following which Lion intends to announce the outline of its future investing approach, dividend policy, and the board's expectation for distributions to shareholders for later in 2022.
- Lion plans to present this outlook to shareholders at an investor briefing planned for 15 March 2022, to be followed by a broader marketing campaign.
- Lion has recommenced new opportunity assessment and is experiencing a high level of opportunity flow during 2022.
- Lion is investigating the most efficient hedging of the future US$ cashflow.

ASX : LSX
Share price
**52cps**
as at 31 January 2022

NTA
Pre-Tax **71.7cps**
Post-Tax **68.9cps**
as at 31 January 2022

# Sale of Pani for US$52M (A$74M) plus upside

**On 31 January 2022 Lion announced that it has agreed to sell its Pani Gold Project interest to Merdeka and Andalan International. The total consideration is US$52M, features downside protection and could improve subject to performance of Merdeka.**

| **Next Steps and Timetable** | |
|---|---|
| Execution of sale and purchase agreement by Lion, Merdeka and Andalan | **Completed 28 January 2022** |
| Deal closure, payment of US$22M cash and transfer of US$20M of Merdeka shares (72,753,729 shares) to Lion (less Indonesian withholding tax of US$2.6M) | **Late February / Early March 2022** |
| Calculation and payment of up to US$10M cash (subject to upside performance of the Merdeka shares held at that time) | **28 January 2023** |

The sale of Lion's Pani interest follows the exit from Nusantara in October 2021 and concludes Lion's long investment exposure to Indonesia. Lion has invested A$21M directly in Pani since 2018, after having been a shareholder in One Asia since 2012. Lion is selling its interest prior to the financing requirements of Pani becoming substantial, and prior to the top of the cycle, which simultaneously reduces Lion's funding obligations and risk profile, and significantly bolstering Lion's cash.


## Balance Sheet Strengthened

The sale of Lion's interest in Pani provides an immediate transformation of Lion's balance sheet, from a large exposure to pre-development gold in Indonesia (Pani: 65% of December 2021 NTA) with an imminent and significant funding obligation, to largely cash and Merdeka shares with downside protection provided by the buyers of Lion's Pani stake to 28 January 2023. By February 2023, if the Merdeka shareholding has been sold, Lion stands to have a very high proportion of cash within its asset base. This positions Lion strongly to establish a distribution to shareholders during 2022 and to resume assessment of new investment opportunities.

## Shareholder and Investor Briefings

Lion intends to provide an overview to shareholders on 15 March 2022 containing detail of its future investing approach, dividend policy, and the board's expectation for distributions to shareholders in 2022. This will be followed by the commencement of a broader marketing campaign.

**Shareholders are invited to a briefing https://www.trybooking.com/BXQFD planned for 15 March 2022 to be held in Melbourne at the Lion Selection Group office. Registration is essential.**

## Lion Positioned to Consider New Opportunities

Investment by Lion has been restricted in recent years from a lack of cash due to funding requirements for two gold projects in Indonesia. These restrictions have now been removed, and Lion has resumed active assessment of new opportunities of pre-production mining sector companies and projects, with a high volume of opportunities available in the market and assessments conducted during the quarter.

## Lion's Status as a Listed Investment Company

Lion has been a Listed Investment Company (LIC) since inception in 1997, which is a structure suited to provide diverse ownership of a listed and managed portfolio of equity investments. Lion's business has fit within this designation but has in the past invested outside the normal boundaries of other LICs, and these style of investments (direct partial or whole project interests, royalties, etc) are intended to be a form of investment in Lion's future. As such, Lion is investigating the alternatives to being classified as an LIC to identify what classification is considered most suitable for Lion's planned investment operations.

## Uses of Lion Cash

Lion intends to focus new investment primarily into Australian opportunities, focussed on precious metals, battery materials and base metals, and to identify strategic pathways that can generate value creation and distributions for Lion shareholders.

The exit from Nusantara and Pani investments in the last two quarters, and resultant increase in the amount of cash on the Lion balance sheet positions Lion strongly to establish a distribution to shareholders during 2022.

## Lion news expected during February–April 2022 Quarter:

- Late February / Early March: Pani sale closure
- Mid-March: Lion outlook (inc dividend policy)
- 15 March: Lion shareholder briefings (presentation)

# Lion Investment Portfolio

On completion of the Pani sale, Lion's portfolio will be transformed from 65% Indonesian gold joint venture (Pani)[2], to largely cash and a Merdeka shareholding (with downside protection providing a minimum value for that holding of US$20M until January 2023).

## Net Tangible Asset Backing at 31 January 2022

Lion Selection Group Limited (Lion) advises that the unaudited net tangible asset backing of Lion at 31 January 2022 is 71.7 cents per share (before tax) and 68.9 cents per share (after tax). This excludes $2.4M in contingent liabilities relating to Lion's acquisition of investments from African Lion 3.

| | Commodity | January 2022 | |
|---|---|---|---|
| | | A$M | ¢ps |
| **Pani Joint Venture** | Gold | **73.6** | **49.0** |
| Based on the price of US$52M agreed for Lion's interest in the Pani Joint Venture. Lion's Pani interest is being acquired by Merdeka (Lion's Pani joint venture partner) and Andalan International Pte Ltd (an entity controlled by Provident Capital)*, with the transaction due to close late February/early March. | | | |
| **Portfolio** | | | |
| Erdene Resources | Gold | **5.0** | **3.3** |
| Kasbah Resources | Tin | **2.0** | **1.3** |
| PhosCo Ltd | Phosphate | **3.6** | **2.4** |
| Other | | **1.0** | **0.7** |
| **Net Cash** | | **22.4** | **15.0** |
| **Net Tangible Assets – Pre-Tax** | | **A$107.6m** | **71.7¢ps** |
| Deferred tax liability on theoretical disposal of Lion's portfolio | | (A$4.2m) | (2.8¢ps) |
| **Net Tangible Assets – Post-Tax** | | **A$103.4m** | **68.9¢ps** |

## Capital Structure

| | | |
|---|---|---|
| Shares on Issue: | 150,141,271 | |
| Share Price: | 52¢ps | 31 January 2022 |

* Lion Selection Group ASX Announcement 31 January 2022, Sale of Pani JV Interest for A$74M plus upside.

# PT Merdeka Copper Gold Tbk

**72,753,729 Merdeka shares to be transferred to Lion at Pani deal closing, scheduled for late February / Early March 2022**

**https://merdekacoppergold.com/en/**

**Merdeka** is an Indonesian focused mid-tier producer of gold and copper, listed on the Indonesian Stock Exchange (IDX:MDKA) and capitalised at US$6 billion.

Producing Assets:
- Tujuh Bukit: 2021 full year production 124,730oz Au at US$860/oz AISC (net of silver credits).
- Wetar: 2021 full year production 19,045T Cu at US$2.33/lb AISC.

Assessment / Development Assets:
- Tujuh Bukit Copper: Major project update is expected in Q1 related to the underground development of the copper-gold porphyry at Tujuh Bukit.
- Acid Iron Metal: construction underway for a facility in Central Sulawesi to process spent ore from Wetar to produce sulphuric acid, steam, iron ore, sponge copper, gold, silver, zinc and lead hydroxides.
- Pani: expect to conduct drilling and other feasibility related activities at Pani following the completion of transactions to consolidate Pani ownership.

# Erdene Resource Development Corp

**https://erdene.com/**

**Erdene** is a Mongolia focussed gold explorer and developer, listed on the Toronto Stock Exchange (TSX:ERD) and Mongolian Stock Exchange (MSE:ERDN).

Erdene is currently uncovering two new gold discoveries in Southern Mongolia, in close proximity to the close to development Bayan Khundii deposit and is at an exciting juncture as it stands to expand mineral inventories.

## Khundii Gold Project, Mongolia

- Detailed Environmental Impact Assessment (DEIA) approved by the Ministry of Environment and Tourism of Mongolia, clearing the way for early site works to take place at Bayan Khundii deposit.
- Outstanding drilling results were received for the Dark Horse prospect 3km North of Bayan Khundii in early February[3] including 15m at 42.8g/t (from 11m, including 3m at 160.4g/t), 23m at 11.4g/t (from 1m) and 18m at 6.4g/t (from surface). These followed results received in November 2021[4] including 17m at 16.7g/t (from 15m), 24.5m at 9.4g/t (from 1.5m), 25m at 6.1g/t (from 18m).
- Drilling has also extended the Ulaan discovery, located 300m west of Bayan Khundii with drilling results received in January 2022[5] including 24m at 2.22g/t (from 97m).

# Phosco Limited

https://www.phosco.com.au/

**Phosco** (formerly Celamin Holdings) is a Tunisian focussed phosphate developer, listed on the Australian Stock Exchange (ASX:PHO).

Phosco recovered a 51% interest in the Chaketma Rock Phosphate Project in September 2020 and is pursuing damages for a further US$5M. In addition, Phosco is now the project manager and is implementing a gap analysis prior to moving into feasibility studies with the assistance and support of European and international financiers and development banks.

- Name changed from Celamin to PhosCo to mark regaining control and starting feasibility on Chaketma Phosphate Project.
- Chaketma resource upgrade underway to include substantial drilling completed since 2014.
- Country Manager, new Tunis employees and key studies consultant Enthalpy started GAP and PFS work early 2022.

# Mining Sector Update

Lion's market commentary has tracked the progress of the mining cycle and noted the mature stage that has been reached judging by liquidity indicators.  This has taken place alongside strong performances of many mineral commodities and a general equity market and occurs against the backdrop of global stimulus and record low official interest rates.

The notion that the equity market is providing rich valuations with respect to earnings (or for companies with no earnings), and that the mining sector has become highly liquid are well accepted.

Liquidity for explorers and junior resource companies hitww record levels in 2021. Research by Austex[6] shows that 5B reporters on ASX (which are overwhelmingly non-producing explorers) raised over A$9.6B against 2016-2020 annual tallies in the range of A$3-5B. TMX market intelligence shows that the miners on TSXV (the junior miners and explorers) in Canada raised over C$6B in 2021[7], eclipsing the previous record of C$5.8B set in 2011. The number of exploration company listings on ASX in 2021 was four times higher than 2020, and established the second highest number of resources listings since 2007 (2021 : 105 vs 2007 : 143).  The main beneficiaries of the flood of liquidity in 2021 have been junior miners and explorers who had previously collectively missed out on rising investor interest.

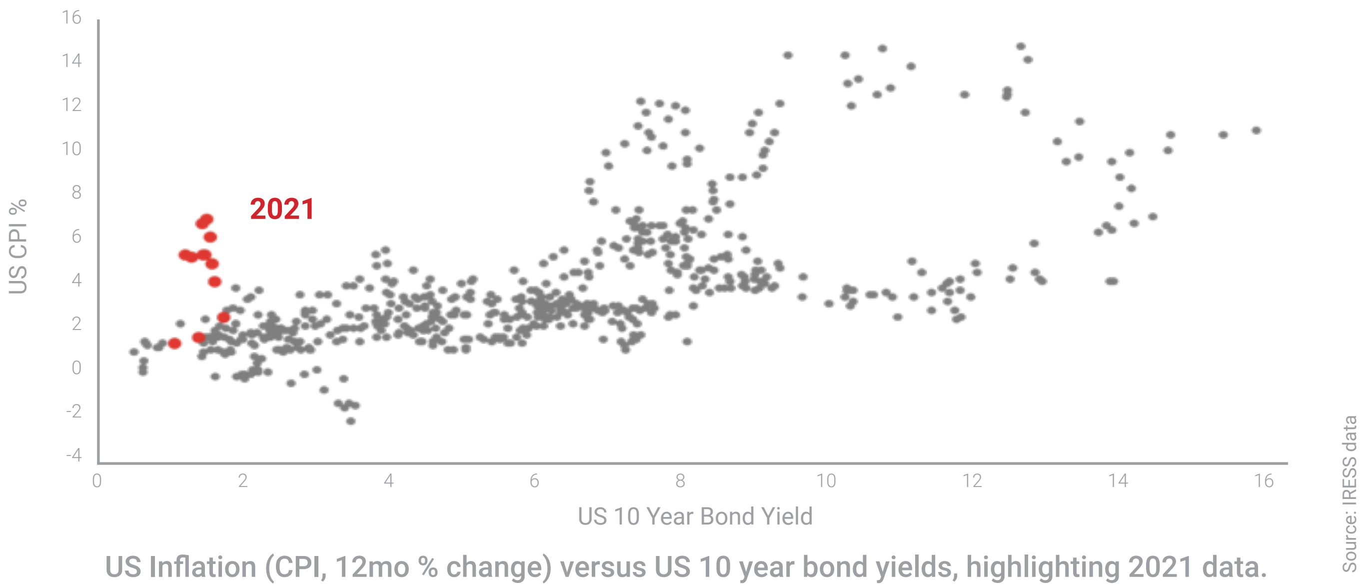
It is the outlook that is fiercely contentious. Popular opinion seems divided between:

- **Bear case:** The equity market is ripe for a correction, which is likely to affect commodities.
- **Bull case:** Either the equity market will go on far longer or (commonly blended with) even if the equity market collapses, the fundamentals for mining and commodities are so strong that the resource sector will power on ('stronger for longer'[8]).

It is impossible to predict the timing of the top of the market, only to know that boom has always turned to bust at some point, and that conditions prior to the peak in previous cycles have been strikingly similar to present, albeit with differing durations.

### Bear Case

The bear case opinion is that the equity market is at risk of correction, tied up with the global economy and including commodities. The most apparent threat is inflation which has jumped in many large economies during 2021, and is the strongest indicator there is that interest rates may need to increase. Indeed, many central banks have recently acknowledged the likelihood of official rate rises in the nearer term (that had not been anticipated as recently as 12 months ago) but face an undeniable lack of political will to see rates increase against large sovereign and private debt positions. There is a well-established linkage between interest rates / cost of capital and asset prices, so naturally increasing interest rates are expected to have an impact on the global equity market and the central banker who pops the everything bubble stands to be remarkably unpopular. The question is not if, but whether this is all at once or a death by one thousand cuts.




US Inflation (CPI, 12mo % change) versus US 10 year bond yields, highlighting 2021 data.

The cyclical nature of equity and mining markets is well known but often forgotten. At some point the music has always stopped and when it does this has taken most by surprise. We know that liquidity for junior resources companies (especially explorers) has reached record levels surpassing previous booms, and history clearly shows this liquidity dries right up as a result of a market correction. So, when the music does stop (whenever that may be) the junior resources space would be expected to suffer from a removal of funding.

## Bull Case

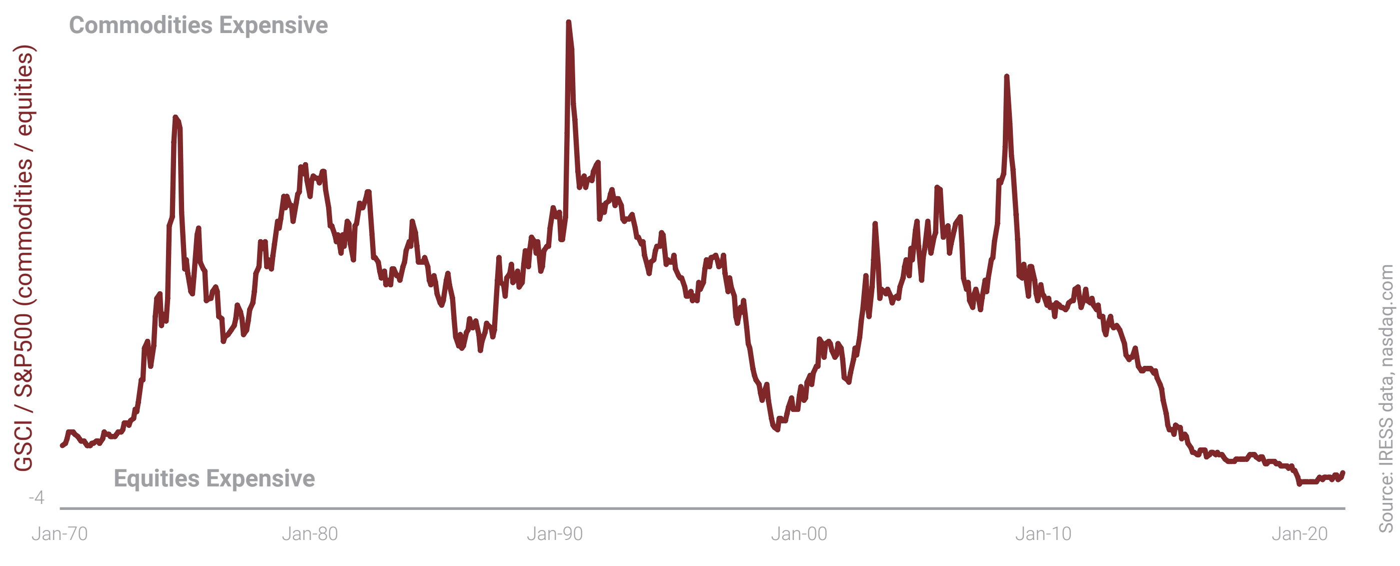
Current fundamentals for commodities are incredibly strong. On one hand, there is the 'shortage for everything' scenario connected to a global economic recovery following the COVID-19 pandemic. There is also the greening of global power consumption, which broadly encompasses generation, storage and use of non-fossil fuel power but often gets referred to as the 'battery material thematic' and has now gathered steam over a broad number of commodities.

For a much longer period than COVID-19 or the proliferation of the battery/electrification thematic, the global mining industry had been under-investing in future sources of production. This was acute in the period 2011–2015 and extremely slow in re-starting since. Increasing capital expenditure is evident from many large miners only very recently, and many commentators have pointed to a weak supply response to any demand growth being a strong driver for the current boom.  This is playing out at present and is likely to be a significant feature into the next cycle.

Market bulls also point out that there are multiple historic precedents for equity markets to provide high valuations, and that such conditions can persevere for years. Even so, such uncertainty makes betting aggressively on, or against, a likely turning point inherently risky. So, whilst the argument is correct, it does not serve as a guarantee of continued performance – it is more like a head in the sand approach.

*"It ain't what you don't know that gets you into trouble.  Its what you know for sure but just ain't so."* Mark Twain

The relative valuations of the equity market (S&P500 index) and commodities (Goldman Sachs Commodity Index) are often cited to support the bull case for commodities. Indeed, on a circa 50-year timeframe, it is showing a record low valuation of commodities versus general equities. This could well be taken to suggest that the market can afford to pay more for commodities, on the basis it is willing to pay so much for equities. In some cases, this is stretched to infer that a surge in commodity prices is yet to occur — commodities play catch-up so to speak. The last time the ratio was at an extreme minimum (ie commodities undervalued versus equities) was the late 90's/early 00's, when equities reached extreme valuations through the dot com boom. It wasn't until money flooded out of equities in the tech wreck, and investors with remaining speculative tendencies found (re-discovered) prospects in the exploration space with commodities only then starting to appreciate that the ratio moved strongly toward a high relative valuation for commodities. Perhaps shades of the same could be inferred for whatever happens next to the current market.

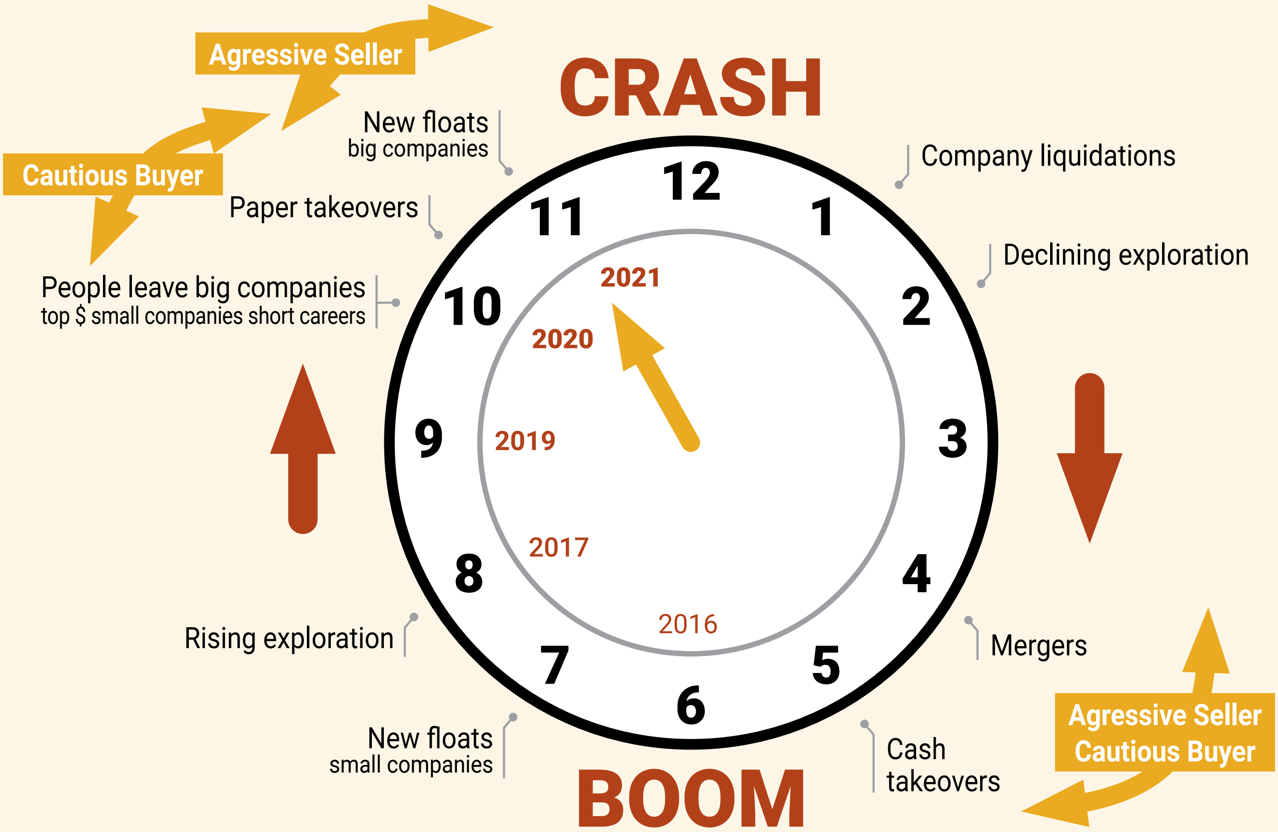



Goldman Sachs Commodity Index / S&P500 (which represents a basket of commodities divided by a basket of equities). High number infers a high valuation of commodities versus equities, and vice versa.

> It's usually more correct to attribute a bust to the excesses of the preceding boom than to the specific event that sets off the correction.
>
> Howard Marks

If commodities and mining equities were to defy a market correction this would be an historic first. Even so, the combination of a shift toward electrification and energy storage with an ongoing weak outlook for supply to match rapid demand growth is likely to re-manifest after a correction.

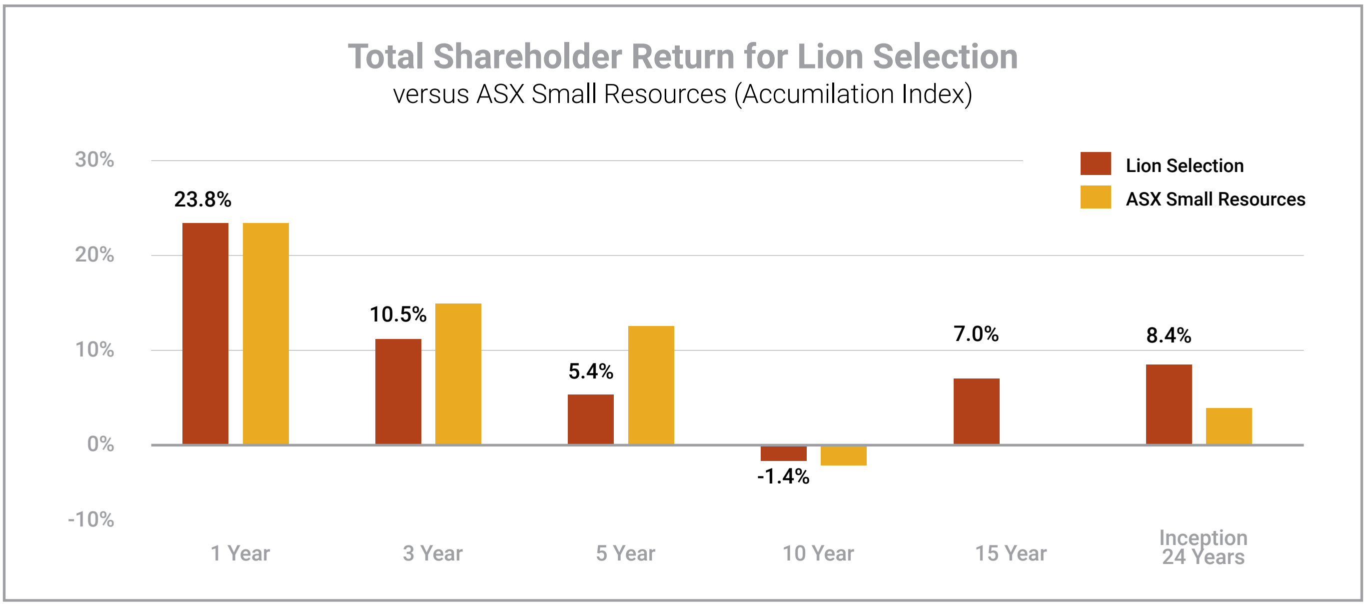
## The Lion Clock remains at 11 o'clock, unchanged since last quarter.



# Lion Performance

Annualised Total Shareholder Return [9-14]

| Annualised TSR to 31 January 2022 | Lion | ASX Small Resources Accum. Index |
|---|---|---|
| 1 Year | **23.8%** | 23.8% |
| 3 Years | **10.5%** | 15.0% |
| 5 Years | **5.4%** | 13.1% |
| 10 Years | **-1.4%** | -2.4% |
| 15 Years | **7.0%** | 0.0% |
| Inception (24 years) | **8.4%** | 4.9% |




**Notes**

1. Refer to Lion announcement 31 January 2022.
2. Based on December 2021 NTA.
3. Erdene new release 8 February 2022.
4. Erdene news release 17 November 2021.
5. Erdene news release 26 January 2022.
6. https://goldevents.b-cdn.net/wp-content/uploads/2022/02/AUSTEX-VGC0222-.pdf
7. https://www.tsx.com/resource/en/2792
8. Last heard in 2007.
9. 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).
10. Methodology for calculating total shareholder return is based on MorningStar (2006), which assumes reinvestment of distributions.
11. 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.
12. Investment performance is pre-tax and ignores the potential value of franking credits on dividends that were partially or fully franked.
13. Past performance is not a guide to future performance.
14. Source: IRESS, Lion Manager.

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