

# Quarterly Report for the 3 months ended 30 April 2022



## Transformational quarter: rebirth of Lion

### Sale of Indonesian gold assets:

- Provided strongest cash position since 2008.
- Further cash increase February 2023 at latest.

### Actively seeking and assessing direct and portfolio investments:

- Australia focus, precious and base metals, battery materials.

Lion is pleased to present the report for its activities in the quarter ended 30 April 2022, which has seen Lion close the sale of Pani, re-establish dividends with a payment of 3.5cps, commence an on-market buy-back and re-invigorate new opportunity assessment and investment.

The value of Lion's assets are well protected from market volatility being largely cash or value-protected shares in Merdeka Copper Gold, which are expected to be realised into cash in early 2023. This is a highly attractive feature against a backdrop of the current market, which has seen a weakening of global equities during 2022.

## Lion Quarter Highlights

- Closure of Pani sale agreement. Receipt of US\$22M cash and US\$20M (72.8M) Merdeka shares (an additional up to US\$10M of deferred cash to be received in January 2023, subject to performance of Merdeka shares in the interim).
- 3.5cps dividend paid on 29 April, with a further 1.5cps dividend to be paid during 2022 (following final accounts, approximately in November).
- On-market buy-back commenced.
- Lion NTA stands at 68.8cps (30 April 2022, after tax). As at 31 January 2022, NTA was 68.9cps (after tax), with 3.5cps of dividend paid out of the NTA in the intervening period. There has been a strong performance of Merdeka shares received by Lion through the quarter.
- Approx A\$860k trading profit generated from exercising and selling Lion's entitlement in Merdeka's rights issue.
- Investment made in Great Boulder Resources Ltd (ASX:GBR), which is drilling a gold discovery at Mulga Bill, located less than 20km from Meekatharra in the Northern Murchison region of WA, where Reverse Circulation drilling has delineated gold mineralisation over approx. 900m of a 6km target zone.



ASX : LSX  
Share price

**48cps**

as at 30 April 2022

NTA

Pre-Tax **69.1cps**

Post-Tax **68.8cps**

as at 30 April 2022

## Lion Outlook

- Strongly positioned as an investor, with a cash balance of A\$42.4M, in addition to the outstanding deferred settlement of Pani and Merdeka shares (which are likely to be turned into cash in early 2023).
- Lion is able to invest across the capital structure (equity, convertible debt, project interests, royalties) and actively considering a range of opportunities that have been tracked over recent years or emerged since the sale of Pani.
- Dividends: The Lion board has determined to pay a 1.5cps annual dividend later in 2022, and also intends to consider a further special dividend in the first half of calendar year 2023, following the receipt of the deferred cash consideration and determination of the value of Merdeka shareholding at that time.
- Lion is investigating the alternatives to being classified as an LIC to identify what classification is considered most suitable for Lion's investment operations, such as being classified as a mining entity.

## Quarter Activities

### Pani sale agreement completed

Lion's agreement to sell its interest in Pani to Merdeka and Andalan for US\$52M was completed as announced on 2 March 2022.

Completion of the transaction includes:

- Receipt of US\$22M cash (less Indonesian withholding tax of US\$2.6M), which has since been repatriated into Australian dollars.
- Receipt of US\$20M of Merdeka shares, which have traded strongly since.
- A deferred cash payment of up to US\$10M is due on 28 January 2023.

The final value of the transaction, in Australian dollar terms, will be finally reconciled in early February 2023 following the receipt of the deferred cash payment, a top-up payment should the value of the Merdeka holding be less than US\$20m at 28 January 2023, and sale of the Merdeka shareholding.

### Establishment of dividends for the first time since 2009

On 29 April 2022 Lion paid an unfranked special dividend of 3.5cps, marking the establishment of dividends by Lion for the first time since 2009.

As previously announced, the Lion board has also determined to pay a dividend of 1.5cps, to be paid as an annual dividend following final accounts, approximately in November 2022. This will bring the total dividend to be paid by Lion in calendar year 2022 to 5cps. The board also intends to consider a further special dividend in the first half of calendar year 2023, following the receipt of the deferred cash payment and determination of the value of Merdeka shareholding at 28 January 2023 – which will mark the finalisation of value received for the sale of Pani.

Lion aims to pay sustainable dividends, from surplus investment proceeds, whilst balancing the investment requirements of the Company with market conditions and capital growth.

### On-market buy-back

Lion announced its intention to conduct an on-market buy-back on 15 March 2022. After all relevant notices were provided, Lion commenced the buy-back in April. Under the program, up to 10% of Lion's shares can be bought back over the next 12 months. Lion will consider making purchases under the buy-back when the discount to NTA is approximately greater than 10%.

As Lion's NTA is relevant to the conduct of the buy-back, Lion will announce NTA on a weekly basis as well as the stipulated month end NTA.

# Lion Investing

The exit from Pani not only provides for distributions to shareholders, it positions Lion as a well-funded investor.

Following a review of investing strategy, Lion outlined its approach for new investment in releases made on 15 March 2022. The general objectives and focus include:

- Lion targets pre-production mining opportunities and is capable of taking a long-term view. This approach is unchanged over the 25 years of Lion's existence.
- Jurisdiction focus on Australia, which is a global mining destination of choice backed by combined world class prospectivity as well as legal / commercial frameworks that provide certainty for building and operating mining projects..
- A combined commodity focus of precious metals, base metals and battery materials encompasses a range of future facing materials that have excellent supply/demand fundamentals as the world pivots toward electrification and battery storage. In addition, there is an excellent proposition for a junior company funding greenfields development of projects within this commodity group with low to moderate processing risks and favourable infrastructure requirements.
- Lion will consider investments in either companies or directly into projects, with the aim of balancing capital protection with attractive returns.

The range of project and company opportunities that are available to Lion is far broader than are available to typical retail investors, positioning Lion as a well-funded vehicle for exposure to the pre-production mining sector.

Since exiting Pani and the resultant injection of investing capacity, Lion has seen a material increase in new opportunity flow. Many of the opportunities that have been offered fit Lion's historic model where an investment could lead to an influential equity holding within the ideal holding period for Lion of 3+ years. However, a common risk is that the outlook for many of the opportunities to a typical Lion exit point (such as completion of project development) is far greater period of time than the current mining cycle is expected to last. Whilst it is not possible to forecast a cycle peak, it is impossible to overlook the risk of taking on long term investments where value could be materially impacted by an equity market correction.

In view of this risk, Lion has established a pool of funds that is available for smaller volume investments where there is an outlook for impactful catalysts in the short term. This approach leverages Lion's well-established practice of identifying high quality investment opportunities in the pre-production mining space and will be the focus for Lion's equity investing whilst the market continues to be monitored. A significant portion of the new investing efforts are being devoted to assessment of non-equity opportunities, such as acquiring direct project interests.

Should there be a material deterioration to mining equities, Lion is strongly positioned to pursue larger equity investments with a longer-term view.

Lion expects there to be only modest follow-on requirements from its remaining portfolio of investments that existed prior to the sale of Pani, especially when compared with the magnitude of investing capacity that is available to be deployed on new opportunities.

During the quarter, Lion made an investment in ASX listed Gold Explorer Great Boulder Resources (**Great Boulder**, ASX:GBR) via a placement that was announced to the market on 31 March 2022. Great Boulder is progressing a new gold discovery at Mulga Bill, located less than 20km from Meekatharra in the Northern Murchison region of WA, where Reverse Circulation drilling has delineated gold mineralisation over approximately 900m of a 6km target zone. Additionally, early first pass metallurgical testwork has provided encouraging recoveries from standard gold processing techniques. Whilst early stage, this represents a large target with numerous high tenor gold intersections in a region with well-established infrastructure and processing facilities.

# Lion Portfolio Overview

Lion's investment portfolio currently contains three material holdings:  
Merdeka Copper Gold TBK, PhosCo Limited, and Erdene Resource Development Corp.

Lion Selection Group Limited (Lion) advises that the unaudited net tangible asset backing of Lion as at 30 April 2022 is 69.1 cents per share (before tax) and 68.8 cents per share (after tax). This excludes \$2.9M in contingent liabilities relating to Lion's acquisition of investments from African Lion 3.

Lion paid a dividend of 3.5¢ps on 29 April 2022 which reduced NTA by approximately \$5.25m.

	Commodity	April 2022	
		A\$M	¢ps
Portfolio			
Erdene Resources	Gold	5.2	3.5
Kasbah Resources	Tin	2.0	1.3
Merdeka Copper Gold	Gold/Copper/Nickel	37.6	25.1
Pani Deferred Consideration		9.8	6.5
PhosCo Ltd	Phosphate	5.8	3.9
Other		0.8	0.5
Net Cash		42.4	28.3
Net Tangible Assets – Pre-Tax		A\$103.6m	69.1¢ps
Deferred tax liability on theoretical disposal of Lion’s portfolio		(A\$0.6m)	(0.3¢ps)
Net Tangible Assets – Post-Tax		A\$103.0m	68.8¢ps

## Capital Structure

Shares on Issue:	149,830,458 <sup>1</sup>	
Share Price:	48¢ps	30 April 2022

1. Excluding 310,813 shares following on-market buy-back

## Merdeka Copper Gold TBK (MDKA:IDX)

Lion holding (shares)	72.8M
Lion entry price / sum invested	36.5 cps / A\$26.5M*
Price at 30 April / holding value	51.7 cps / A\$37.6M

\* US\$20M of Merdeka received by Lion as part consideration for sale of Pani on 25 January 2022



**Lion** received 72.8M Merdeka shares as part of the consideration for the sale of Pani. Merdeka is listed on the Indonesian Stock Exchange, Lion's shares in Merdeka are freely tradable and Merdeka typically trades between 40M and 100M shares per day so is highly liquid.

Merdeka have a portfolio of globally significant mining projects at both assessment and operations stage in Indonesia. During the quarter, Merdeka acquired an interest in nickel and cobalt resources and existing and future processing capacity in Central Sulawesi, as decisive move into the battery materials sector which complements Merdeka's existing copper, gold and acid projects.

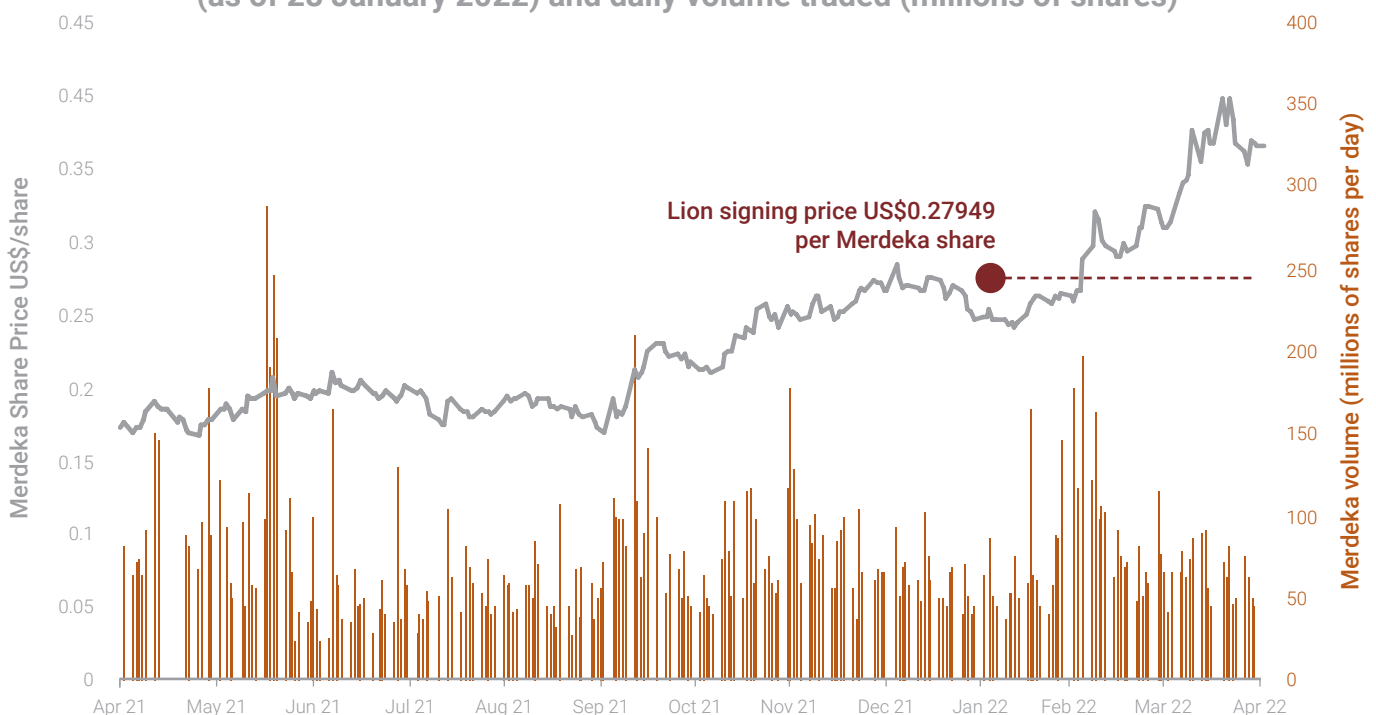
The value of Lion's Merdeka shareholding has performed strongly since the shares were received. As at 30 April, the value of Lion's Merdeka holding was A\$37.6M (versus A\$26.5M at the time of issue).

Merdeka announced on 21 December 2021 that it intended to conduct an entitlement issue of 1,206,000,000 new shares for a price of IDR 2,830 per share. At the time that Lion received its Pani consideration shares, it was unclear if Lion would be eligible to participate in the entitlement issue. Having determined that the shares were eligible, rights were not tradable and that the issue was deeply discounted (market price on 20 April 2022 was IDR 5,700 per share), Lion took up its full entitlement and sold the shares as soon as they were tradable.

Lion invested approximately A\$1,018k and extracted A\$1,878k, for a trading profit of A\$860k over a time frame of less than one week (before transaction costs).

It has not been Lion's intention to invest further in Merdeka, however the deeply discounted pricing presented a very low risk profit proposition.

**12 month Merdeka share price performance (US\$ per share), showing Lion signing price (as of 28 January 2022) and daily volume traded (millions of shares)**



Source: IRESS data



## Phosco Limited (PHO:ASX)

Lion holding (shares)	35.5M
Lion entry price / sum invested	7.6 cps / A\$2.7M
Price at 30 April / holding value	16.0 cps / A\$5.8M



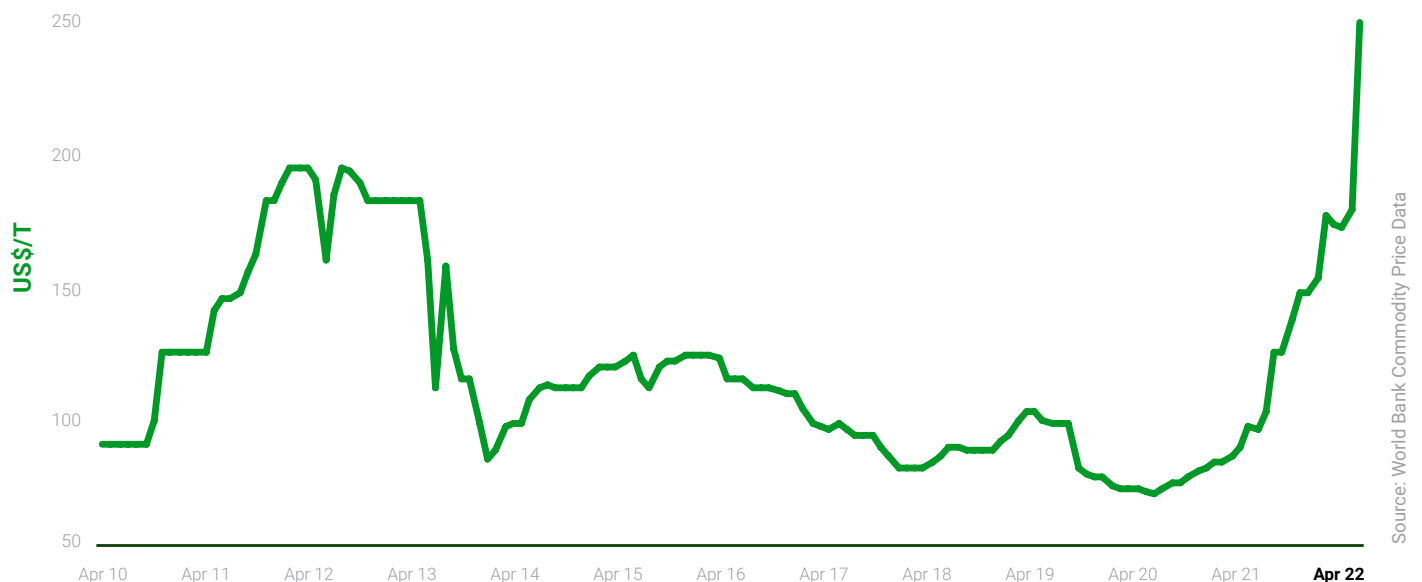
**Phosco** (formerly Celamin Holdings) is a Tunsian focussed phosphate developer, listed on the Australian Stock Exchange.

Following the restart of technical work in early 2022, on 15 March 2022 PhosCo announced a material increase to its Mineral Resource Estimate at KEL (Kef El Louz) Phosphate deposit<sup>1</sup>, that forms part of the flagship Chaketma Phosphate Project:

CHAKETMA	JORC 2012	Mt	% P <sub>2</sub> O <sub>5</sub>
<b>KEL (Kef El Louz)*</b>	Measured	49.1	21.3
(*Previous, November 2012, Estimate: Inferred 37.0Mt @ 21.0 P <sub>2</sub> O <sub>5</sub> )	Indicated	6.4	20.3
	<b>M&amp;I</b>	<b>55.5</b>	<b>21.2</b>
<b>GK (Gassaa Kebira) June 2013</b>	Inferred	93	20.3
<b>Global Resources</b>	<b>M+I &amp; Inferred</b>	<b>148.5</b>	<b>20.6</b>

1. Refer PhosCo announcement 15 March 2022.

## Rock phosphate pricing US\$/T



This represented an increase of 50% at the KEL deposit whilst maintaining a high grade and upgrading of Inferred Resources to Measured and Indicated Resources for the Chaketma Phosphate Project. KEL is now a large, shallow and high confidence resource that features simple geology, which is exposed on all sides through its Mesa-like topography. The GK deposit (93Mt at 20.3% P<sub>2</sub>O<sub>5</sub>) awaits an updated Mineral Resource Estimate to include an additional 21 holes (previously 10 holes were used).

PhosCo also announced excellent metallurgical results during the quarter from advanced bulk tonnage tests completed in 2017 showing that Chaketma phosphate ore can be upgraded to 30% P<sub>2</sub>O<sub>5</sub> with 80% or greater recovery. The results indicate the potential to produce a commercial grade concentrate capable of conversion to high quality products, Mono Ammonium Phosphate (MAP) and/or Diammonium Phosphate (DAP), using conventional methods and reagents.

Fertilizer prices continue to perform strongly, with rock phosphate prices increasing over 160% to US\$250/t compared with one year ago.

## Erdene Resource Development Corp (ERD:TSX)

Lion holding (shares)	11.3M
Lion entry price / sum invested	21.7 cps / A\$2.48M
Price at 30 April / holding value	45.7 cps / A\$5.2M



**Erdene** is a Mongolia focussed gold explorer and developer, listed on the Toronto stock exchange (ERD:TSX) and Mongolian Stock Exchange (ERDN:MSE). Erdene is currently uncovering two new gold discoveries in Southern Mongolia, in close proximity to the proposed development at Bayan Khundii. Following recent exploration news Erdene has an exciting outlook to potentially expand mineral inventories.

Following exceptional gold diamond drilling gold intercepts during 2021 and early 2022 at Dark Horse (eg 15m at 42.8g/t gold from 11m) and Ulaan (eg 77m at 3.2g/t gold, 151.7m at 1.7g/t gold), Erdene has commenced the first phase of its 2022 exploration program. This work will focus on expanding high-grade gold mineralisation at Dark Horse and Ulaan, confirming continuity at the Altan Nar Gold Project and testing multiple near-surface, high grade oxide gold targets across the district.

The first phase of the program will include 10,000m of diamond drilling and 3,000m of shallow rotary air blast drilling.



# Lion Investor Relations and LIC Status

## Recorded presentations

Since announcing the sale of Pani, Lion has seen interest from a broad range of existing shareholders, and an expansion of its register, most notably the introduction of new retail holders.

All shareholders are invited to contact the Lion office via [info@lsg.com.au](mailto:info@lsg.com.au) with specific or general enquiries.

Lion advises that it intends to provide regular quarterly updates via recorded presentation, which will be posted to the Lion website shortly following the release of quarterly reports. Shareholder questions that are received during the quarter will be addressed in the videoed updates (as well as being responded to directly).

## Public presentations

In the current quarter, Lion will be attending several junior mining investment conferences to make key-note presentations.

- **Resources Rising Stars Gold Coast:**  
7-8 June 2022, RACV Royal Pines Resort (Gold Coast, Qld).  
Keynote presentation by Hedley Widdup  
8.30am on Tuesday 7 June.  
[www.resourcesrisingstars.com.au/events/rrs-2022-gold-coast-conference](http://www.resourcesrisingstars.com.au/events/rrs-2022-gold-coast-conference)
- **Australian Gold Conference:**  
14-15 June 2022, Crown Barrangaroo (Sydney, NSW).  
Keynote presentation by Hedley Widdup  
1.30pm on Tuesday 14 June.  
[www.goldevents.com.au/australian-gold-conference/](http://www.goldevents.com.au/australian-gold-conference/)

The slide decks used, and recordings of the presentations (if they are made) will be made available via the Lion website following the events. As the commentary will not pertain to describing Lion, they will not be lodged on ASX.

## Lion ASX Listing status

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. Whilst Lion's business has fit within this designation, Lion is typically an active investor and has in the past (and will continue to do so) invested outside the normal boundaries of other LICs. Net Tangible Asset (NTA) reporting provides an indication of a liquidation value of Lion's investment portfolio but is not matched to Lion's pre-mining focus, where identification of deep value requires time and follow-on investment to unlock.

Lion is investigating the alternatives to being classified as an LIC to identify what classification is considered most suitable for Lion's investment operations, such as being classified as a mining entity.

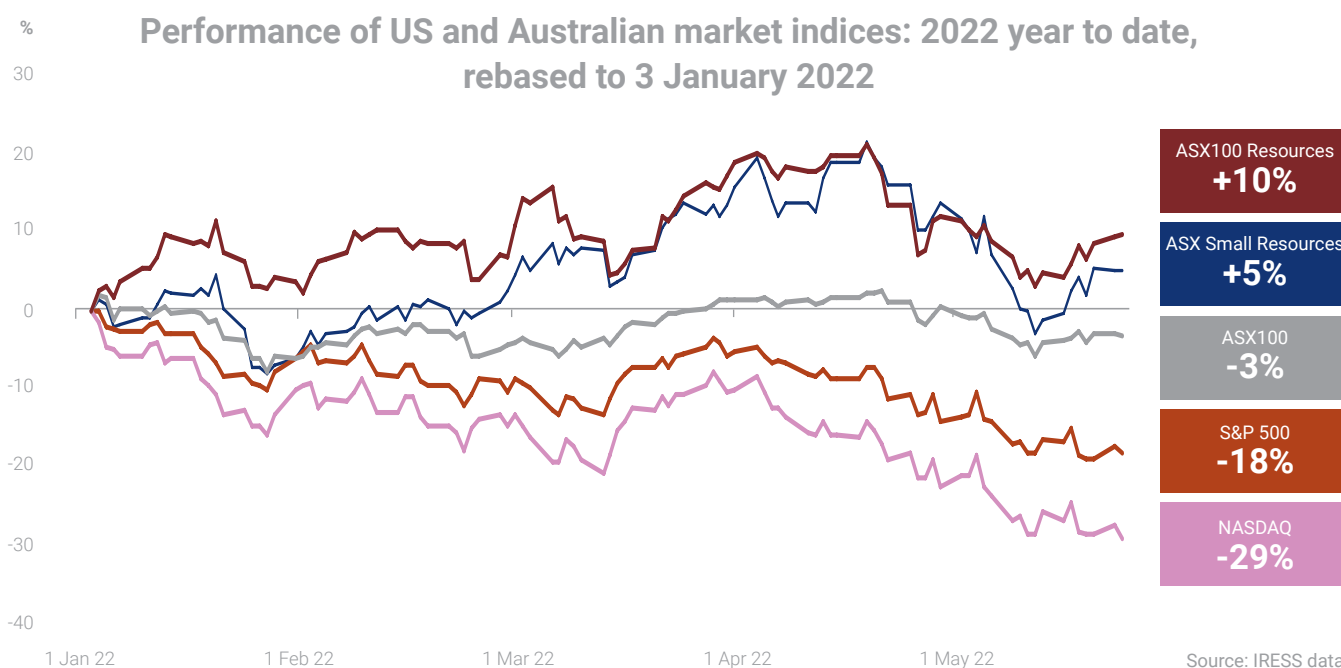
As this process may have a consequence for the most appropriate management of the company an independent committee of the board has been formed (consisting of Barry Sullivan, Peter Maloney and Chris Melloy) to have discussions with the Lion Manager regarding potential future arrangements.



# Market Review



The overwhelming market theme for 2022 so far has been volatility. The driving forces are a culmination of geopolitical and economic events that have been building up in for some cases for a decade – inflation and the flow through to interest rates, economic recovery (or otherwise) following two years of the COVID-19 pandemic, and the Russian invasion of Ukraine.



Global equity markets have softened as inflation has hit the headlines in the world's largest economies and bond rates have climbed reflecting the overwhelming shift of perception that inflation is unlikely to be transitory. Indeed, central banks have begun to adjust their overnight rates and are predicting the need for more increases as the year goes on.

The correction so far has played out most heavily in the technology sector, and this is reflected in the heaviest falls in US indices which are the listings of many of the world's largest technology enterprises. Australia's ASX100 shows a contrast, containing a far lower market weighting of technology companies and far greater banks and resources companies.

Mineral commodities have been mostly supported or in some cases spectacularly boosted (eg nickel and fertilisers) by the combination of inflation and the supply disruptions brought about by Russia's invasion of Ukraine or the resultant sanctions toward Russia, which led to record prices in some commodities in March. Since COVID lockdowns in China have had a noticeable impact on Chinese economic growth and commodity demand.

Mining equities have been some of the strongest performers across the market driven by windfall level commodity prices. Financial performance is tempered as all miners are also experiencing margin erosion due to inflation. Energy prices increases

have coincided with structural labour restrictions and supply chain disruptions brought about by local COVID restrictions. Cost inflation will be magnified by capital expenditure, just as many miners have embarked on their most significant capex deployment in over a decade.

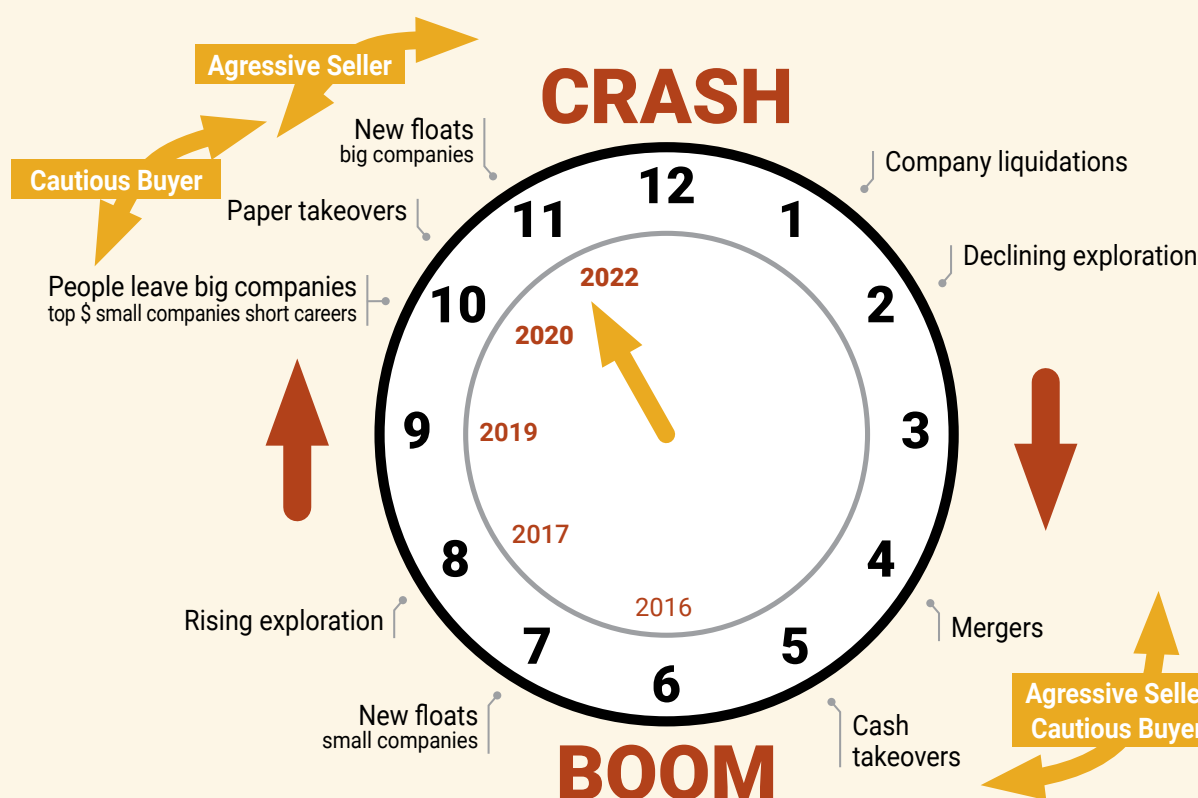
Mining investors can tend to think in terms of mining booms, as distinct from broader equity market trends. The mining boom we are in is far younger than the equity market bull market and the themes around global electrification which are propelling many mining equities are likely to play out over decades to come. The greatest threat to the mining cycle is from the general equity market, and the question which is playing out at present is just how far increases

in interest rates will impinge on equities beyond technology and across the wider market.

Times of volatility lead to great speculation around market outlook, and now is no different. Lion notes reference to or even independent interpretation of the Lion Clock in a number of recent articles. Lion has not adjusted the Lion Clock from 11 o'clock, which reflects high liquidity for miners. An event that strips away this liquidity would be destructive to equity prices, most significantly junior and non-producers.

Lion is well positioned in a market where there is uncertainty or even ongoing weakness. Lion is debt free, cash rich and its largest equity holding (Merdeka) is value protected at a minimum of US\$20M.

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



### Lion Selection Group Limited

ABN 26 077 729 572

Level 2, 175 Flinders Lane  
Melbourne Vic 3000  
T: +61 3 9614 8008  
F: +61 3 9614 8009  
[www.lsg.com.au](http://www.lsg.com.au)

#### Enquiries

**Hedley Widdup**  
[hwiddup@lsg.com.au](mailto:hwiddup@lsg.com.au)  
**Jane Rose**  
[jrose@lsg.com.au](mailto:jrose@lsg.com.au)

#### Authorised for release by

**Craig Smyth**  
[csmyth@lsg.com.au](mailto:csmyth@lsg.com.au)

