

# Quarterly Report for the 3 months ended 31 July 2022



## ASX:LSX

Lion Selection Group (Lion) is an ASX listed mining investor (ASX:LSX).

As at 31 July 2022, Lion shares closed at **44cps**, with NTA backing of **65.3cps** (consisting of 27.2cps cash, 29.7cps value for Merdeka shares and deferred settlements that are expected to become cash by February 2023, and 8.4cps of other investments).

## Lion Outlook

### Cash backing per share to increase, dividends

Dates are approximate

<b>November 2022</b>	<b>1.5cps dividend</b> (to follow full year accounts).
<b>Late January / Early February 2023</b>	<p>At least <b>US\$30m cash injection</b>, as the finalisation of Pani consideration</p> <ul style="list-style-type: none"> <li>• US\$10m deferred cash settlement</li> <li>• Sale of Merdeka shares for at least US\$20m cash</li> </ul> <p><i>By February 2023, following the receipt of deferred cash settlement and sale of Merdeka shares Lion's cash balance is expected to be at least <b>A\$80m<sup>1</sup></b> (approx. <b>54c</b> per share cash backing).</i></p>
<b>February 2023</b>	Reconciliation of full value of Pani exit, and determination of a <b>further special dividend</b> .
<b>April 2023</b>	Payment of special dividend.
<b>Ongoing</b>	Assessment of opportunities for new investments, against a backdrop of market weakness.

1. Assuming Merdeka shares sold and deferred cash received using values (share price and exchange rate) as at 31 July 2022, further expenditure on on-market buy-back, and dividend payment of 1.5cps



ASX : LSX  
Share price

**44cps**

as at 31 July 2022

NTA

Pre-Tax **65.3cps**  
Post-Tax **65.3cps**

as at 31 July 2022

# Quarter Activities

## Focussed on new opportunity assessment



Lion is exceptionally well positioned and is assessing opportunities for new investments in the pre-production mining and exploration space. The outlook for exploration and production in Australia battery materials, strategic base and precious metals looks set for considerable growth, notwithstanding the short-term outlook for inflation induced market volatility and weakness.

Investment focus:

- Jurisdiction – Australia
- Commodities – Precious metals, base metals, battery materials
- Company equity, quasi equity, project interest
- Typically, three year plus holding period

Lion's investment process is driven by assessments focussed on value and risk of opportunities and intends to align its investing activities with the mining cycle. The best time to set up long term investments is after the mining boom has ended. Recent market weakness has affected global equity markets, and particularly junior mining and exploration companies, reducing the potential entry prices for many of the companies and opportunities Lion targets. Despite increasing the attraction of some opportunities,

Lion's assessment of the equity market and the mining cycle is that there remains a material price risk for mining juniors. As noted in the Market Review below, one probable consequence of continued inflation is a vast reduction of liquidity toward the mining sector, which would affect junior miners, explorers and developers most severely.

Lion is an especially cautious investor under these volatile conditions, taking precautions to manage the likelihood of market weakness. Lion has been actively assessing many new opportunities, with a noticeable uptick in deal flow as potential investees have become more focused on where the next tranche of equity will come from. Opportunity flow in the market generally is high, aided by the ability (post COVID19 restrictions) to travel to investment conferences and make site visits for assessment or diligence. At present, Lion is placing the highest priority on considering modest investments that have short-term catalysts for rapid and substantial value growth, and unlisted companies or projects that represent excellent value and potential.

Lion has operated an on-market buy-back throughout the quarter.





# Dividends

## 5cps dividends in CY2022: Further dividends contemplated for CY2023

Lion expects to hold the its Merdeka shares until early 2023 when they will be sold in compliance with the Pani sale agreement, and at around the same time will receive a deferred cash payment, which have a combined value of US\$30m. These are both currently reflected in Lion's NTA and will be turned into cash early in 2023. This positions Lion not only strongly for new investment, but to contemplate further dividend payments.

As previously announced, the Lion board has 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.

Following receipt of the deferred cash payment and determination of the value of the Merdeka shareholding at that time, the Lion board intends to consider a special dividend in the first half of calendar year 2023.

Lion aims to pay sustainable dividends, from surplus investment proceeds, whilst balancing the investment requirements of the Company with market conditions and capital growth. Lion will consider supplementary special dividends, if a windfall that provides a cash surplus over and above supporting a sustainable dividend occurs.



# Lion Portfolio Overview

Since unwinding a previous fund partner model (African Lion and Asian Lion), Lion's new investment focus has been Australia. Three overseas legacy investments remained at the end of 2021, each with tremendous potential and a pragmatic decision was made to sell one of these, Pani, to cash Lion up before the cycle peaked and fell.

Merdeka shares were received as part of the Pani sale, and Lion expects to sell these, in line with the Pani sale agreement, in early 2023.

Modest future investment is expected in the remaining two offshore investments, where great potential is believed to remain.

**The summaries below cover investments comprising principal components of NTA.**

Lion Selection Group Limited (Lion) advises that the unaudited net tangible asset backing of Lion as at 31 July 2022 is 65.3 cents per share (before tax) and 65.3 cents per share (after tax). This excludes \$2.7M in contingent liabilities relating to Lion's acquisition of investments from African Lion 3 (see note 2 below).

	Commodity	July 2022	
		A\$M	¢ps
Portfolio			
Erdene Resources	Gold	4.1	2.8
Kasbah Resources	Tin	2.0	1.3
Merdeka Copper Gold	Gold/Copper/Nickel	28.5	19.2
Pani Deferred Consideration		15.6	10.5
PhosCo Ltd	Phosphate	5.7	3.8
Other		0.7	0.5
Net Cash		40.3	27.2
Net Tangible Assets – Pre-Tax		A\$96.9m	65.3¢ps
Deferred tax liability on theoretical disposal of Lion’s portfolio		(A\$0.0m)	(0.0¢ps)
Net Tangible Assets – Post-Tax		A\$96.9m	65.3¢ps

## Capital Structure

Shares on Issue:	148,406,526 <sup>#</sup>	
Share Price:	44¢ps	31 July 2022

<sup>#</sup> Excluding 1,734,745 shares following on-market buy-back

## Merdeka Copper Gold TBK (MDKA:IDX)

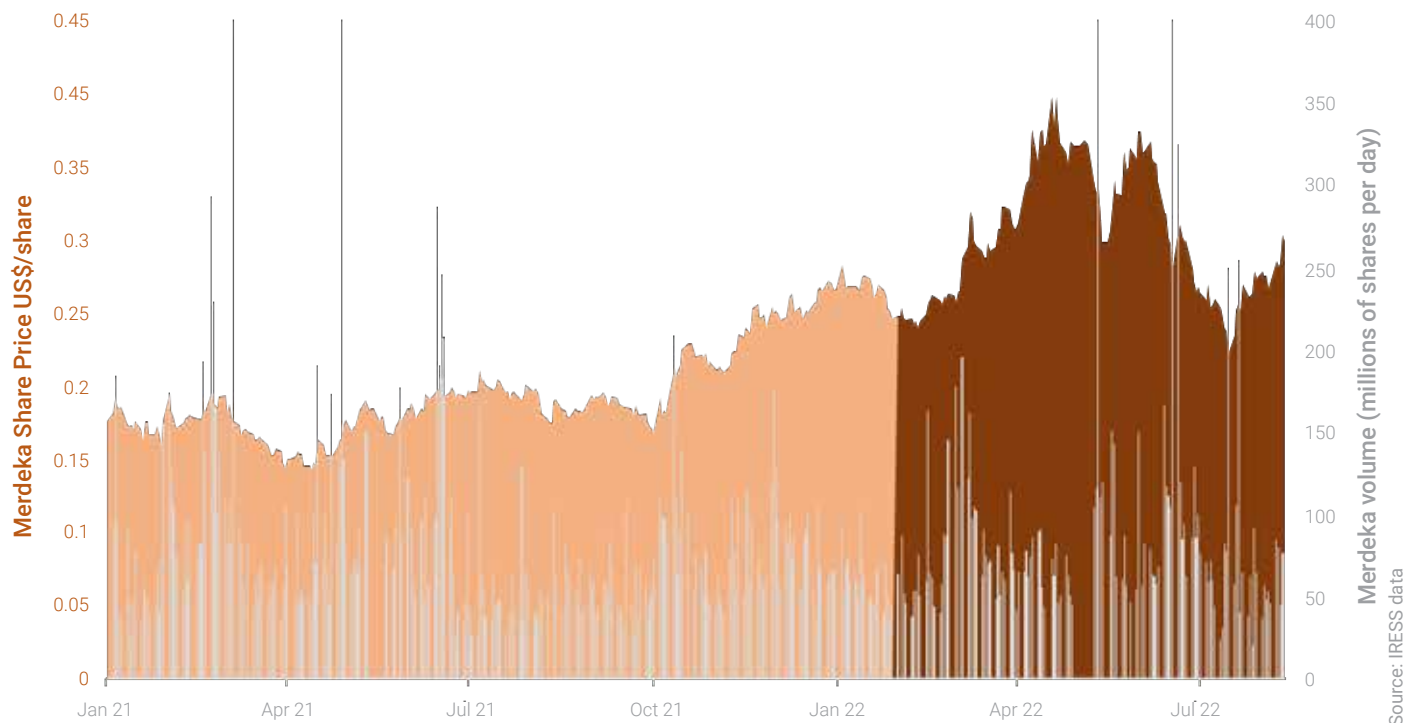
Lion holding (shares)	72,753,801
Lion entry price / sum invested	36.5 cps / A\$26.5M*
Price at 31 July / holding value	39.2 cps / A\$28.5M

\* 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 is highly liquid, typically trading between 40M and 100M shares per day.

The Merdeka share price (in US\$ terms) has performed similarly to much of the mining sector during 2022, which includes weakening in price between April and July 2022, then recovering somewhat since.



Merdeka share price (US\$ per share, LHS) and volume (millions of shares traded per day, RHS) for 2021 and 2022. The Lion holding period is shown in darker colour (31 January 2022 – present)





## Merdeka Copper Gold TBK continued

Lion expects to hold the Merdeka shares until early 2023 when they will be sold in compliance with the Pani sale agreement (which provides for an orderly on-market exit). The value Lion receives for its Merdeka holding is linked to a cash top up provision and a deferred cash payment which is due at the same time:

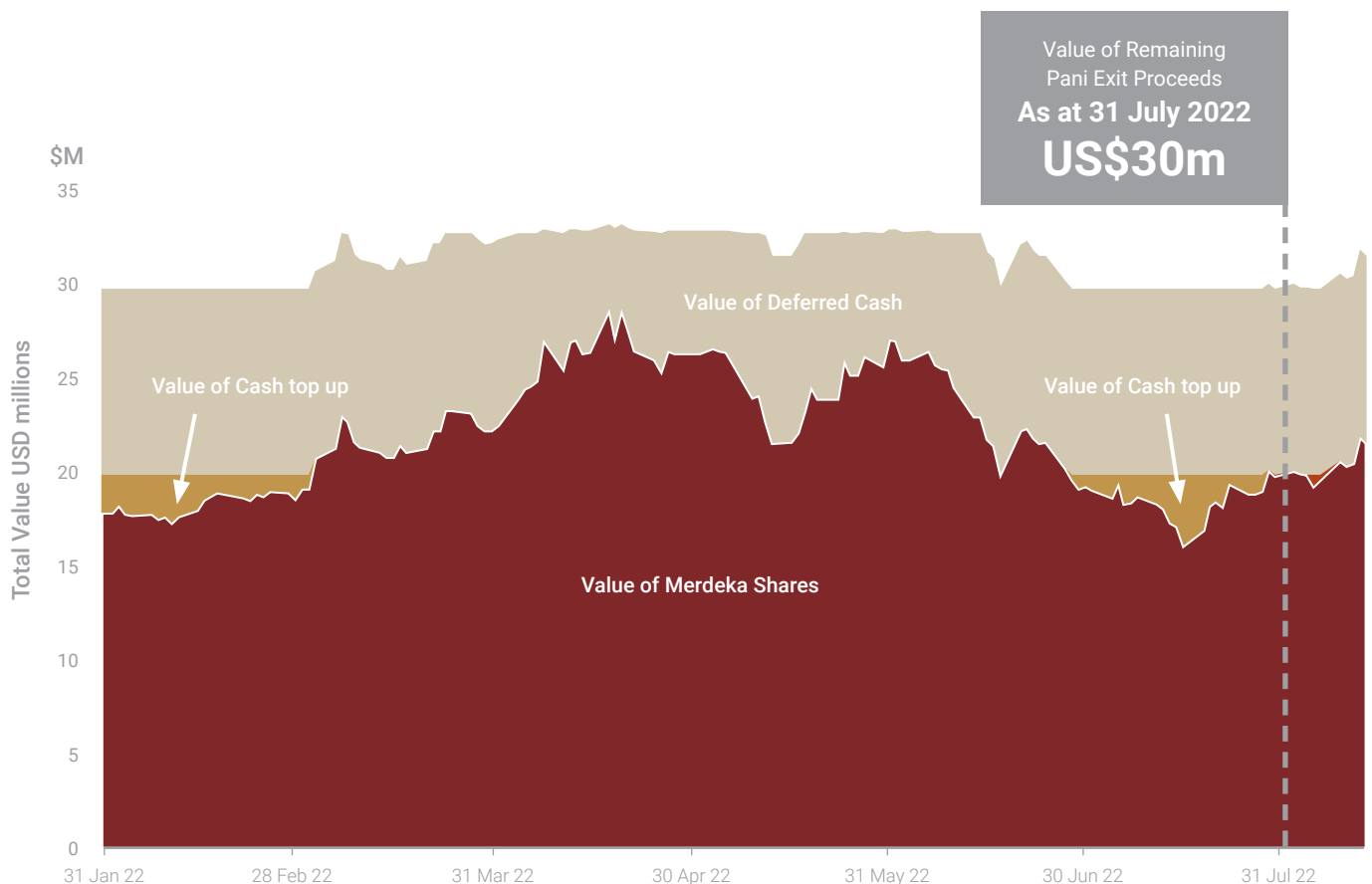
- If Lion sells its Merdeka holding (in compliance with the Pani sale agreement) for less than US\$20m, it will be entitled to a cash top up making up the difference to US\$20m. Lion intends to sell its Merdeka holding in compliance with the Pani sale agreement.
- A deferred cash payment of up to US\$10m. The final value of the deferred cash payment will be calculated with respect to the value of the Merdeka shares (whether Lion has sold them or not) at the end of January 2023.



The estimated value of the remaining Pani exit proceeds from the time that Lion agreed to sell its Pani interest (January 2022) to present is shown in the chart below. In this time, the value of the combined Merdeka shares (including top up) and deferred cash settlement have been worth up to US\$33.4m, and never less than US\$30m.

### Estimated value of the combined remaining Pani exit proceeds, including Merdeka shareholding, Top up cash payment (where relevant) and Deferred cash payment.

chart spans the time frame since Lion agreed Pani sale



## PhosCo Limited (PHO:ASX)

Lion holding (shares)	40,599,258
Lion entry price / sum invested	7.9 cps / A\$3.2M
Price at 31 July / holding value	14 cps / A\$5.7M



**PhosCo** (formerly Celamin Holdings) is a Tunisian focussed phosphate developer, listed on the ASX.

### Chaketma Development Concession and Scoping Study

PhosCo continues to advance its engagement with the Tunisian Government for the grant of a Development Concession at its flagship Chaketma Phosphate Project. As part of the application process, PhosCo has engaged HCF International Advisors to assist with a finance plan to develop Chaketma leveraging positive early engagement with a number of development and commercial banks.

PhosCo is currently preparing an Updated Scoping Study for Chaketma which will also determine the work required to complete a Bankable Feasibility Study (BFS) for Chaketma.

### GK Resource Update

PhosCo's GK Resource Update is expected shortly following a delay to incorporate additional drilling to support a new, simplified interpretation comprising a single thick, higher-grade zone. PhosCo's existing Mineral Resource Estimate is below:

CHAKETMA	JORC 2012	Mt	% P <sub>2</sub> O <sub>5</sub>
<b>KEL (Kef El Louz)*</b> <small>(*Previous, November 2012, Estimate: Inferred 37.0Mt @ 21.0 P<sub>2</sub>O<sub>5</sub>)</small>	Measured	49.1	21.3
	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.

### Appointment of Project Director

During the quarter, PhosCo announced the appointment of Jan Jansen as Project Director. Mr Jansen will lead the Chaketma Phosphate project team and is responsible for overseeing the Updated Scoping Study and to commence preparation on a BFS.

Mr Jansen has more than 30 years of technical and operational experience, he has developed and led a number of successful mining operations in various jurisdictions globally including South Africa, Tanzania, Mauritania, Oman and Eastern Europe. Mr Jansen has worked with a number of well-established companies including De Beers, Tasiast, and Maaden Phosphate Co where he was General Manager of the Al-Jalamid Phosphate Mine, a 5Mt per annum nameplate phosphate concentrate operation.

### Sekarna Application

PhosCo also announced it has applied for an Exploration Permit (to be held 100% by PhosCo) over the Sekarna Phosphate Project. The application covers over 128km<sup>2</sup> in area and is located 10km northeast of Chaketma.

While no exploration targeting phosphate has been carried out over Sekarna previously, a 2011 geological paper on lead-zinc mineralisation at Sekarna reported phosphate grades of 19.7% and 27.8% P<sub>2</sub>O<sub>5</sub> in five rock chip samples (Garnit et al 2011). Field inspection by PhosCo's Tunisian team traced the phosphate unit, which was exposed in outcrop with mapped thicknesses of between 5m to more than 20m for 2.7km along the margin of the Rohia Graben. The application process is expected to take several months.

Sekarna – Mesa – Phosphate layer at base of limestone cap



## PhosCo Limited continued

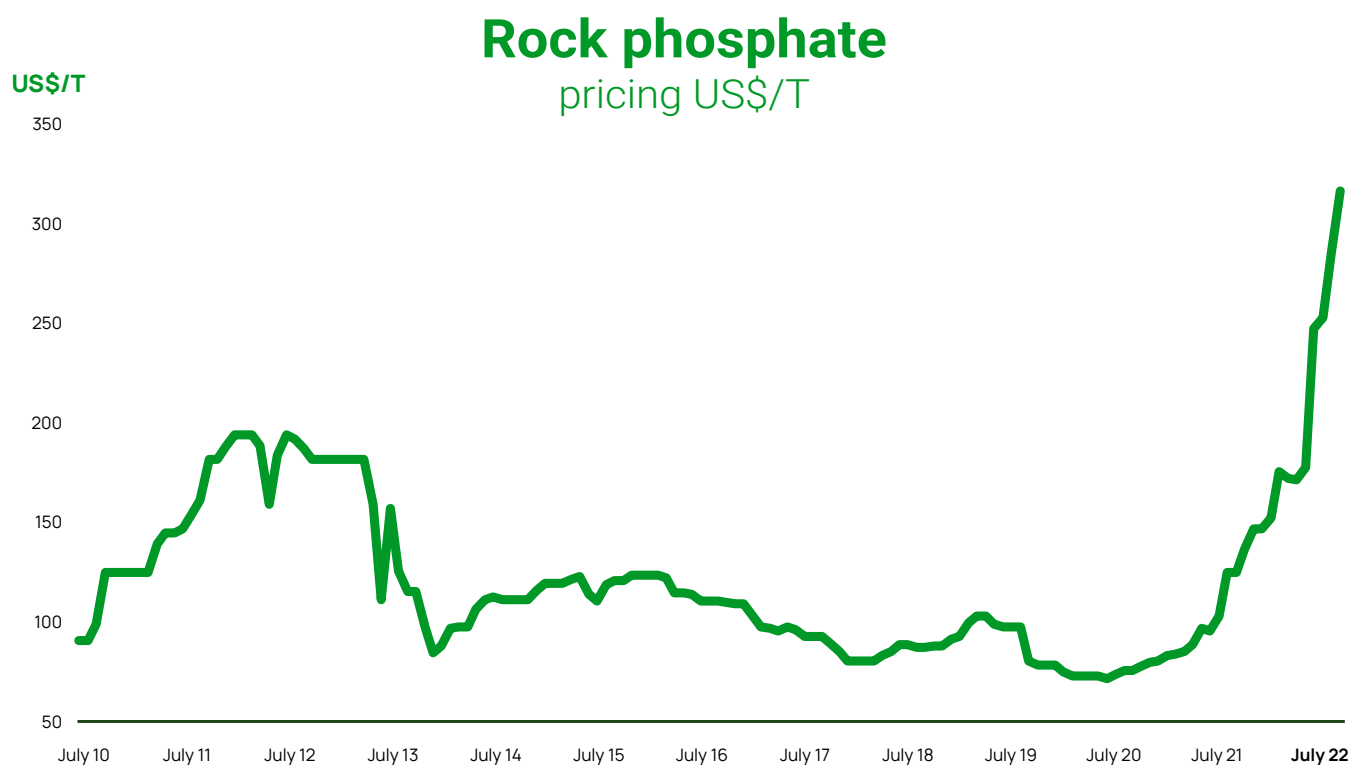
### Corporate

In July 2022, Lion and a number of other key PhosCo shareholders exercised early their 10 cent options, raising over \$2M for PhosCo. Lion invested a further A\$505,448.

A decision on the seizure case against TMS for its 48.99% interest in CPSA is now expected in the December 2022 quarter.

### Phosphate Market

Fertilizer prices continue to perform strongly, with rock phosphate prices increasing substantially, from US\$88/t in February 2021 to US\$320/t in July 2022.



Source: World Bank Commodity Price Data



## Erdene Resource Development Corp (ERD:TSX)

Lion holding (shares)	12,185,116
Lion entry price / sum invested	22.6 cps / A\$2.88M
Price at 31 July / holding value	33.0 cps / A\$4.02M



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

Erdene commenced its 2022 drilling program in April, consisting of approximately 10,000m diamond and 3,000m of percussion drilling. The program targets extensions to high grade mineralisation which has been recently discovered at Dark Horse and Ulaan and to test targets for shallow oxide gold across the district.

So far results have been returned for diamond drilling at Ulaan, located approximately 500m west of the proposed gold project development at Bayan Khundii and included a number of highly encouraging high-grade results:

- 41m at 8.1g/t gold from 187m (inc 3m at 68.3g/t gold from 208m)<sup>1</sup>
- 27m at 3.47g/t gold from 248m (inc 2m at 24.9g/t gold from 248m)<sup>2</sup>
- The high-grade results from Ulaan are interpreted by the company as a potential feeder zone to broader gold mineralisation that has been intersected in the area (eg 335m at 1.1g/t gold from 115m<sup>3</sup>).

In July Erdene completed a fund-raising totalling C\$7.2m, led by a \$2m investment from prominent mining investor Eric Sprott who is now the largest shareholder in Erdene. Lion followed its interest in Erdene, taking part approximately pro-rata with an investment of C\$268,468 (A\$302,670). This funding positions Erdene strongly to carry out 2022 exploration drilling, which has so far produced exiting results, as well as early project site establishment works for the Bayan Khundii Gold Project development.

Erdene discovered the Bayan Khundii gold deposit in 2015, and this has evolved into a high grade and near to surface gold inventory with a robust development case demonstrated by the Bankable Feasibility Study released in 2020. Erdene has progressed permitting during the global turmoil of COVID19, and Bayan Khundii is now 'shovel ready' and full construction is ready to commence once there is confidence that the logistics and pricing environments have stabilised (including anticipating full re-opening of the land border crossings between China and Mongolia later this year). Whilst preparing Bayan Khundii for development, Erdene has continued to explore the region and has made high grade gold discoveries at Dark Horse (5m at 123.5g/t from 5m<sup>4</sup>) and Ulaan (recent highlight results above) since the BFS was finalised, both discoveries have strong characteristics for potential development and stand to potentially add to the magnitude of the Bayan Khundii project when developed.

*Lion would like to acknowledge the sad passing of Chris Cowan, co-founder and former Chairman of Erdene, during the quarter on 28 April 2022. Chris made a significant contribution to Erdene as well as the international and Mongolian mining and exploration industries and was an integral member of the team Lion backed in making its original investment. Lion extends its sincere condolences to Chris' family.*



1. Refer to Erdene press release dated 6 June 2022  
 2. Refer to Erdene press release dated 26 July 2022  
 3. Refer to Erdene press release dated 26 July 2022  
 4. Refer to Erdene press release dated 29 June 2022

# Lion Investor Relations

## 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 or to arrange a briefing. 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).

Thank you to the shareholders that have contacted us during the quarter.

## Public presentations

Lion has made several keynote presentations at junior mining investment conferences that have taken place during the past quarter, with video links of the presentations below.

- **Resources Rising Stars Gold Coast:**  
7-8 June 2022  
Keynote presentation by Hedley Widdup  
[www.youtube.com/watch?v=6Np4oPsnOEO](https://www.youtube.com/watch?v=6Np4oPsnOEO)
- **Australian Gold Conference:**  
14-15 June 2022  
Keynote presentation by Hedley Widdup  
[www.youtube.com/watch?v=fnSyvwFV-XU](https://www.youtube.com/watch?v=fnSyvwFV-XU)

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June 2022

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**Lion Selection Group**

**FEATURING**

Li	Cu	Ni	Au	Pt	Pd
U	V	Co	Ti	Mn	Zn
Pb	K	REX	Ag	Fe	Al

# Market Review



## 2022 has so far seen a fascinating confluence of economic factors:

- **Breakout inflation, which is the first globally experienced severe spike since the early 1980's**
- **Consecutive quarters of negative US economic growth<sup>1</sup>**
- **Super-high US employment**

Equity and debt markets have experienced a roller coaster ride of emotions. Pre-2022 markets had grown accustomed to ultra-low yields and robust asset price growth, to which inflation is a major threat. During the first half of 2022, investor expectations swung from inflation being transitory to cyclical as bond yields and central bank reference rates increased and the equity market weakened in response. This in turn then gave way to a sentiment that perhaps central banks are approaching a peak to the tightening cycle (implying rates may normalise or indeed fall again soon), bond yields weakened, and equities rallied.

As the first half of 2022 wore on, share prices of junior miners and explorers weakened and it became more and more challenging for them to raise money. This reflects a substantial reduction in liquidity in the equity market generally, which is magnified for risky investments such as explorers. Like the rest of the market there has been something of a recovery, since approximately June but raising capital remains challenging, reflecting a cautious approach by investors to risky investments.

The recent rally in equities is not directly a bet against inflation persistency. It is really a bet that interest rates are nearing a peak, which implies either that inflation may be nearly tamed or that central banks are considering letting inflation run. Any flattening (or reduction) in interest rates would likely be akin to stimulus for the effect it might have on the equity market.

The equity market view seems to stem from the argument that interest rates are likely to have minimal effect in combatting inflation spurred by factors such as energy and food prices, especially as both have been strongly influenced by the conflict initiated by Russia in Ukraine. As much as this may be logical, central banks would make economic history by not deploying their sole policy weapon on the only thing they are mandated to manage.

Rising energy prices also feature significantly in the inflation events of the mid 1970's to early 1980's. As is the case when any commodity performs strongly, an investment response followed to find and develop more supply. The investment attitude toward fossil fuel investment today is quite different, with the world in the grip of an energy transition and a price stimulus seems quite unlikely to lead to an intense investment in supply expansion. In this context, it seems the consequence for energy price contribution to inflation may well be harder to predict for the 2020's using lessons from the 1970's and 80's.

For now, inflation remains a significant risk to equity markets, especially the riskiest sectors that depend on investor funding.

1. Known as a recession in the old-fashioned parlance of pre-2022 economics



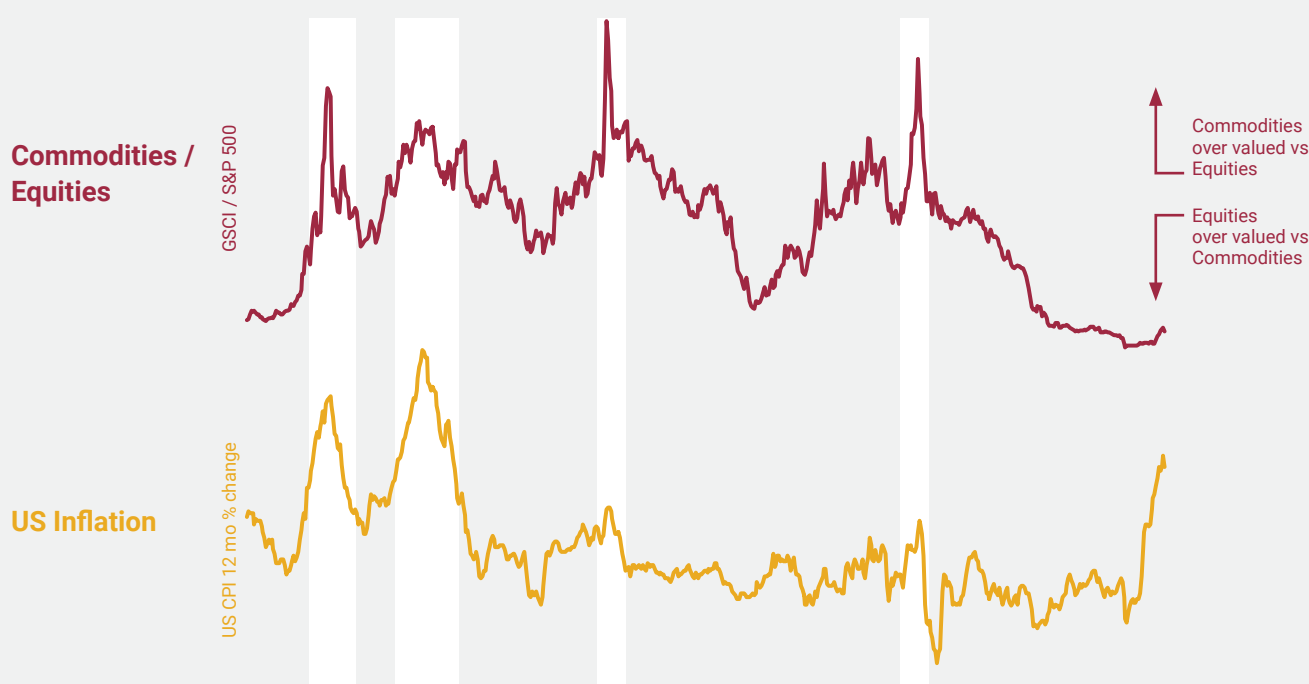
## The recent equity market trend has been positive even though many fundamentals suggest it should have been negative

Junior miners and explorers, the area in which Lion invests, are extremely leveraged to commodity prices and liquidity, so incredibly sensitive to market volatility. Should the current equity market positive performance continue, it would have to be on the basis of static or reducing rates and presumably an adjusted outlook for inflation. The lack of liquidity we have seen in early 2022 would turn out to be a pause, not a removal. On the other hand, if rates continue to increase whether this is following a pattern of previous inflation events (ie. aggressively) or more gradually, this would be expected to lead to further equity market weakness which would be felt most acutely in the junior resources sector. The latter scenario conforms most closely with historical patterns.

Increasing inflation brings about a concern about the erosion of purchasing power of cash. Being invested to avoid purchasing power erosion captures the moderate volatility of the market, which could be positive or negative but would miss the option value of having ample available liquidity. Periods of extreme volatility have historically provided some of the most lucrative investment opportunities in companies that depend on market funding. The recent equity market trend has been positive even though many fundamentals suggest it should have been negative. Whilst these fundamentals remain, they are also expected to lead to very attractive opportunities which is precisely what Lion is prepared for.

### Outlook

Comparing equities (S&P 500 Index) with commodities (GSCI) produces a ratio which is commonly used to express which asset class are generally more in favour with investors. The long-term chart of the ratio shows the market swinging from one extreme to the other – between periods when commodities were overvalued compared with equities and vice versa. The ratio has recently occupied the 'equities overvalued' extreme, and historically high inflation environments have typically favoured commodities trading at a premium to equities, despite the recent (2016-present) strong performance of commodities. This sets the scene for a growing premium of commodities over equities, noting from the discussion above that the ratio is likely to adjust via a combination of equity derating and commodity rerating.

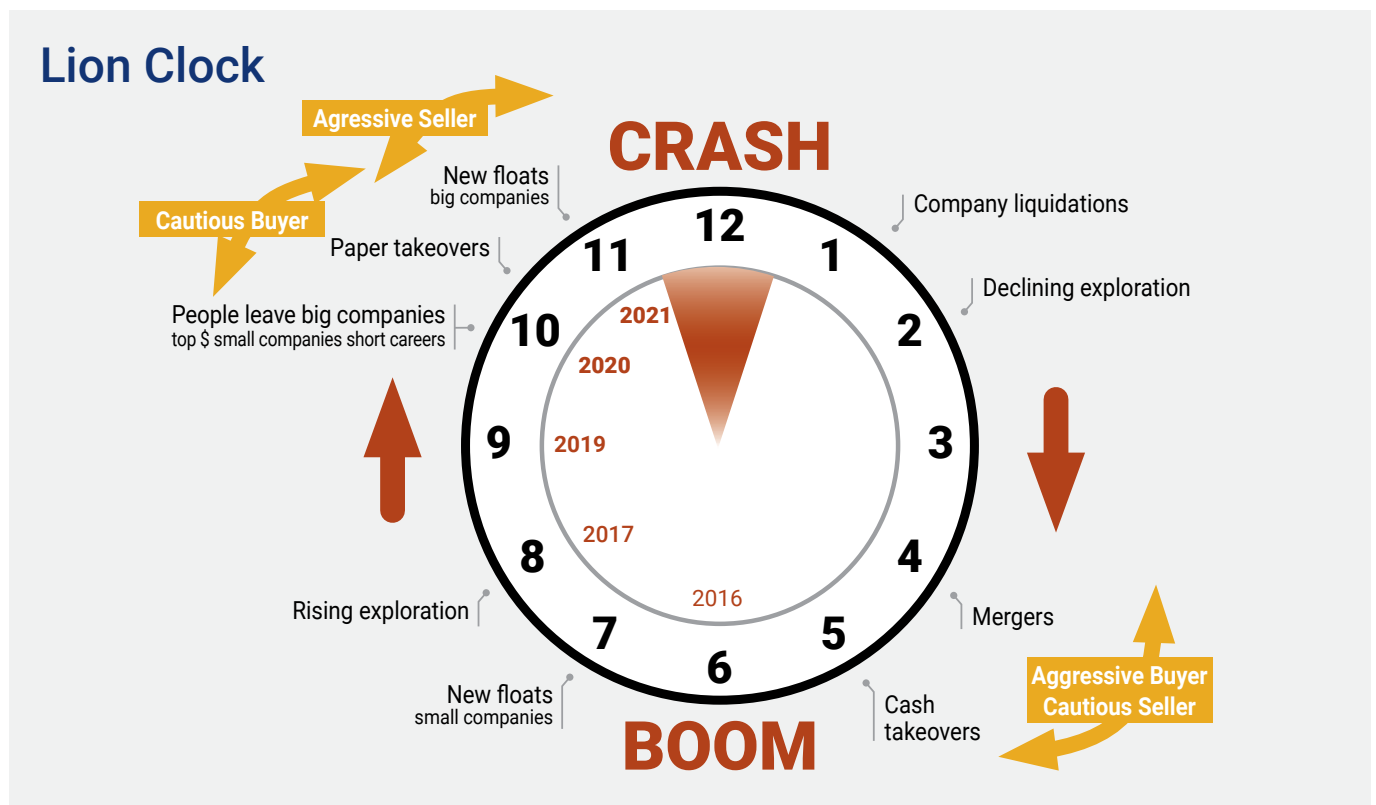


At present the world's largest miners are, in a collective sense, in excellent financial health which would mark a stark contrast with other cycle peaks such as 2011. The most recent financial results of BHP announced in August 2022 are a prime example – BHP has dramatically reduced net debt and paid a phenomenal dividend following record free cash flows. These headlines were delivered with words of caution around the short-term outlook for many commodities, as well as acknowledgement of the longer-term fundamentals. The world's major miners are in excellent position to pursue opportunistic growth via acquisition through market weakness, and are no doubt strongly motivated to do so. This is highlighted by a second recent example provided by BHP via its takeover overtures toward OZ Minerals. A mining downturn would be linked entirely to an inflation derived liquidity crisis but assisted by a slowing Chinese economy. Following that, there is a strong possibility that liquidity is eventually returned to the junior space by the large miners looking to grow via M&A. This activity would be very likely to be followed by the equity market.

The Lion Clock has been adjusted on account of several combined factors from 11 o'clock earlier in 2022:

- The equity market has weakened substantially, in response to increasing interest rates that have been driven up to combat inflation.
- Equity market weakness reduced liquidity to the mining sector, dramatically for the junior mining and exploration companies, who are reliant on market liquidity to fund their endeavours. A substantial reduction of liquidity is most of the definition of a mining cycle collapse from its peak – with the expectation that liquidity then remains depressed for a period of recovery that follows.
- The underlying driver of the weakness – inflation – has not disappeared, and the outlook for inflation remains uncertain and extremely challenging to dismiss.

There are therefore many qualities of a mining cycle peak in place.



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