

Quarterly Report for the 3 months ended 31 October 2022



ASX:LSX

Lion Selection Group (Lion) is an ASX listed mining investor (ASX:LSX), with a strong balance sheet and ability to invest in a weakening junior resources market. Lion currently has exposures to gold, copper, nickel and phosphate, but the main asset is cash. Lion provides a simple way to invest in high growth mineral companies, with a track record of value creation and dividends.

Lion Outlook

Cash backing per share to increase, dividends, investing where clear and compelling value is presented

Dates are approximate

**Late January /
Early February
2023**

At least **US\$30M cash injection**, as the finalisation of Pani consideration

- US\$10M deferred cash settlement
- Sale of Merdeka shares for at least US\$20M cash

*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 **A\$80M**¹ (approx. **54c** per share cash backing).*

February 2023

Reconciliation of full value of Pani exit, and determination of a **further special dividend**.

April 2023

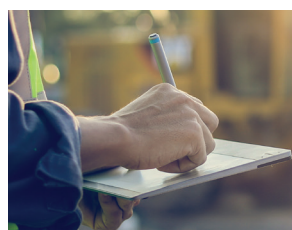
Payment of special dividend.

Ongoing

Assessment of opportunities for new investments, against a backdrop of market weakness.

Investment in select opportunities where there is a clear and compelling value proposition, and risks to the situation from continuing market weakness are limited.

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



ASX : LSX
Share price

43.5c

as at 31 October 2022

NTA

Pre-Tax **65.8c**
Post-Tax **65.6c**

as at 31 October 2022

Quarter Activities

Focussed on new opportunity assessment



Lion is very well positioned as an investor in the junior resources sector:

- Strong balance sheet – circa \$80M investable funds in cash by early 2023.
- Equity prices of target investment sector weakened and liquidity dropped.
- Signs of funding stress emerging – expect this to become more common.

Lion's efforts are currently concentrated on new opportunity investment, with strong deal flow and reducing competition from other investors as sources of liquidity dry up. Lion's assessment of the equity market and the mining cycle is that there remains a material risk for liquidity, and equity prices for junior resources companies. Now is a poor time to invest aggressively as Lion has a view there are worsening conditions for junior resources companies to come – in past mining cycles junior companies will trade at 10% of their peaks, levels that we are yet to see. The best time to set up long term investments is after the mining boom has ended. Signs of funding stress are emerging now, especially in companies that have missed the opportunity to raise or list when the market was strong.

Lion expects to develop a focused portfolio of 10-20 stocks, which would be deep conviction holdings built up patiently and providing a spectrum of commodity exposures. At present, Lion is placing the highest priority on considering modest investments that have short-term catalysts for rapid and substantial

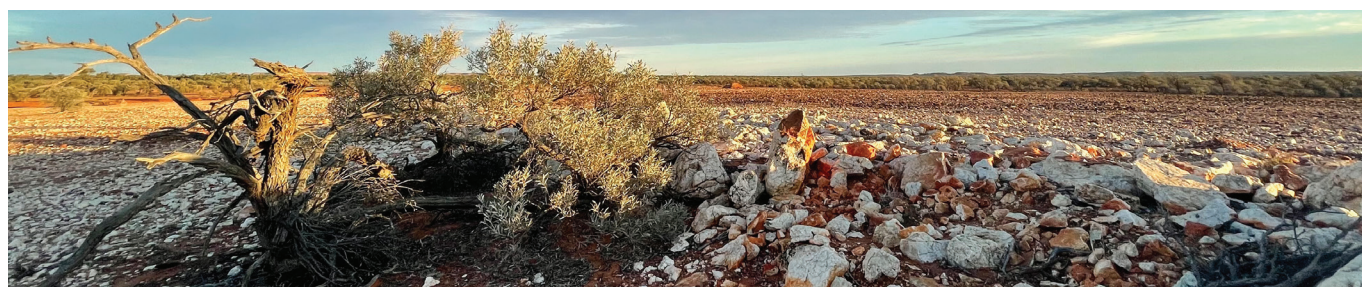
Investment focus:

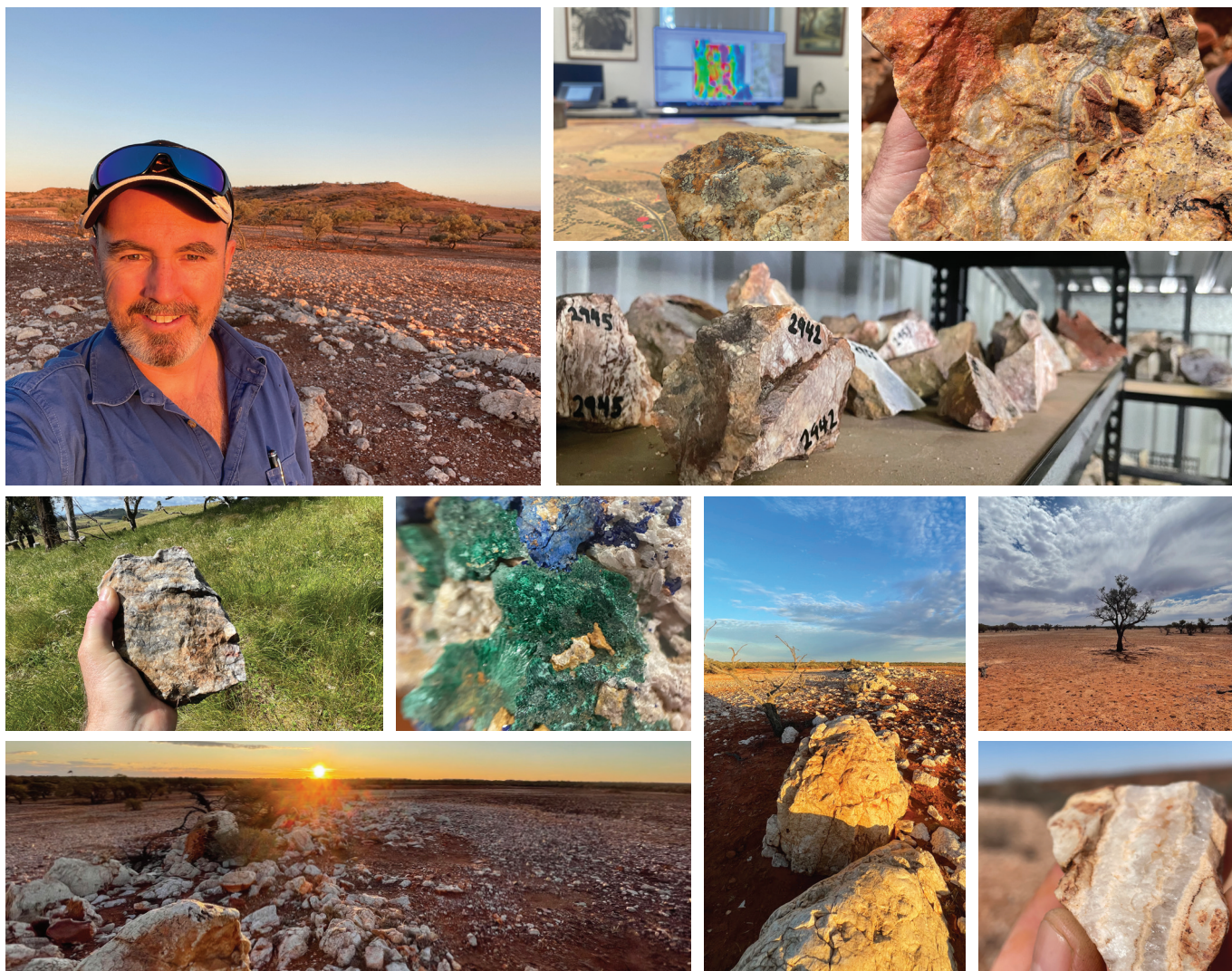
- Jurisdiction – Australia.
- Commodities – Precious metals, base metals and strategic minerals.
- Company equity, quasi equity, project interest.
- Typically, three year plus holding period.

value growth, and unlisted companies or projects on modest valuations that would be less affected by share market movements.

Following the quarter end, Lion announced an investment in Plutonic Limited, committing to invest \$1M to take a strategic interest in a gold explorer with a district scale exploration target in the Northern Territory of Australia. This is one of over a hundred companies Lion has made a detailed assessment of during 2022 having monitored the company for several years. Lion's investment process is driven by assessments focussed on value and risk of opportunities. Several of the opportunities Lion has reviewed have revealed appealing projects but still contain unacceptable valuation risk. As the current equity market weakness plays out, some of these companies which are now being actively watched, may well become of greater interest as their value vs risk interplay adjusts.

Whilst Lion maintains a high cash balance, it is benefiting from the effect of improving interest rates that are now over 4% pa for bank term deposits.





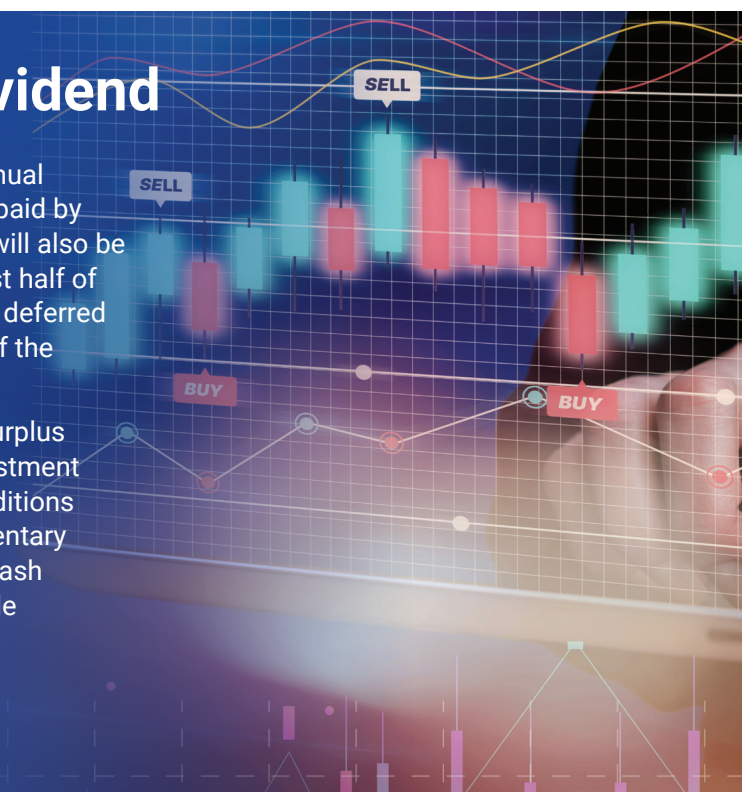
A selection of site visit photos from the quarter.

Payment of 1.5cps dividend

On 31 October 2022 Lion paid an unfranked annual dividend of 1.5cps bringing the total dividends paid by Lion in calendar year 2022 to 5cps. The Board will also be considering 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 the Merdeka shareholding in late January 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 has also operated an on-market buy-back throughout the quarter.



Lion Portfolio Overview

Following the sale of Pani, Lion's new investment attention has focussed firmly on Australia where Lion has the home ground advantage. The new investment effort on this front has led to Lion's most recent investment, a strategic stake in unlisted company Plutonic announced after the end of the quarter.

The Lion portfolio contains three key non-Australian positions:

- Merdeka shares which were received as part of the Pani sale and Lion expects to sell in line with the Pani sale agreement in early 2023.
- Two legacy investments, PhosCo and Erdene, both of which Lion is actively involved with, and where great upside is believed to remain.

Lion's key portfolio commodity exposures include gold (Merdeka, Erdene), copper and nickel (Merdeka) and phosphate (PhosCo), which all sit within Lion's commodity focus for new investments which spans precious metals, base metals, and strategic materials.

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

Lion Selection Group Limited (Lion) advises that the unaudited net tangible asset backing of Lion as at 31 October 2022 is 65.8 cents per share (before tax) and 65.6 cents per share (after tax). This excludes \$2.6M in contingent liabilities relating to Lion's acquisition of investments from African Lion 3.

Lion paid a dividend of 1.5¢ps on 31 October 2022 which reduced NTA by approximately \$2.2M.

	Commodity	October 2022	
		A\$M	¢ps
Portfolio			
Erdene Resources	Gold	4.1	2.8
Kasbah Resources	Tin	2.0	1.4
Merdeka Copper Gold	Gold/Copper/Nickel	27.4	18.6
Pani Deferred Consideration		19.7	13.4
PhosCo Ltd	Phosphate	5.5	3.7
Other		0.8	0.5
Net Cash		37.4	25.4
Net Tangible Assets – Pre-Tax		A\$96.9M	65.8¢ps
Deferred tax liability on theoretical disposal of Lion's portfolio		(A\$0.3M)	(0.2¢ps)
Net Tangible Assets – Post-Tax		A\$96.6M	65.6¢ps

Capital Structure

Shares on Issue:	147,174,026#	
Share Price:	43.5¢ps	31 October 2022

Excluding 2,967,245 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 October / holding value	37.7 cps / A\$27.4M

* 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. 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).

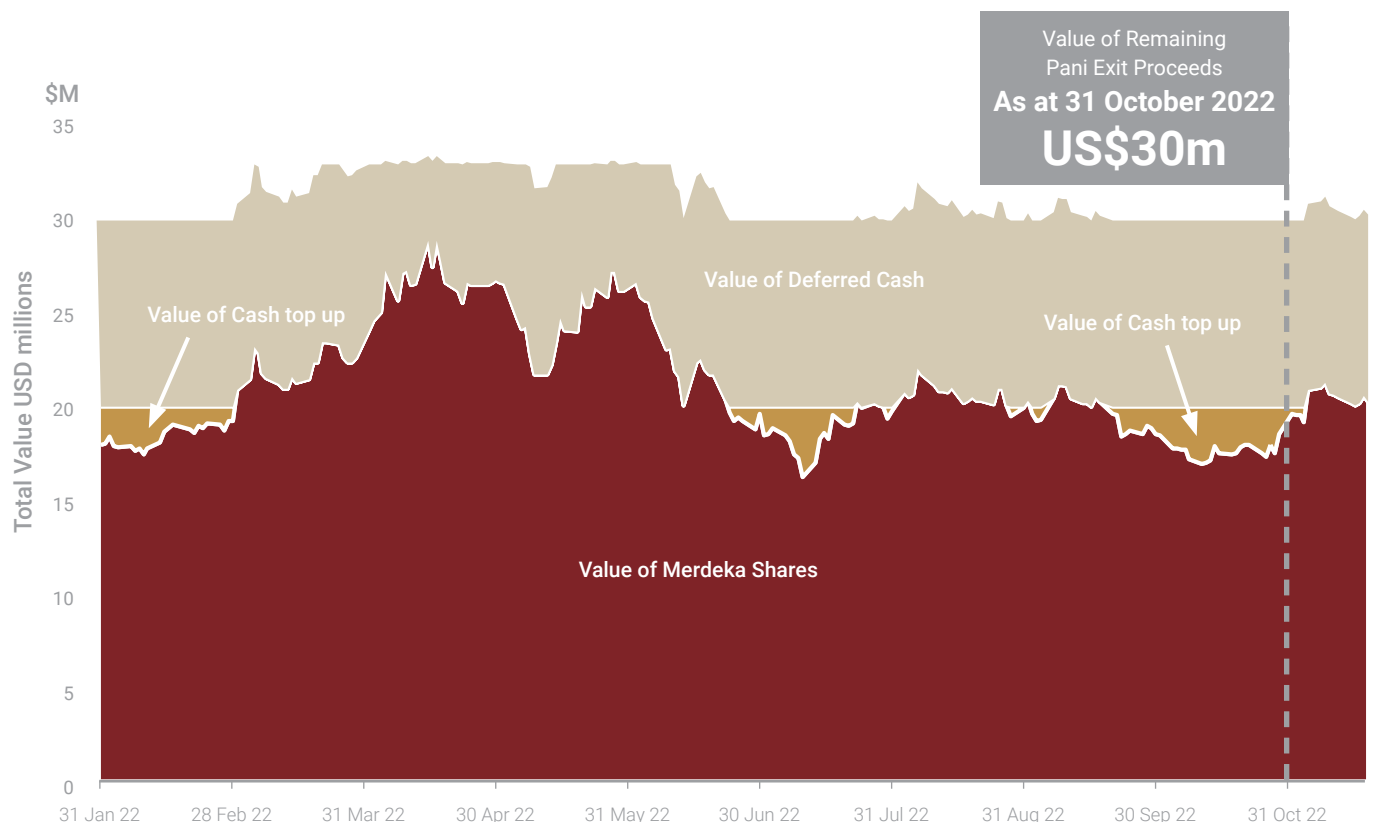
The value Lion receives for its Merdeka holding is linked to a cash top up provision and a deferred cash payment which is due in early 2023.

- 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 Lion's Merdeka shares and the associated cash payments 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. The value of the Merdeka shares has varied, but the value to Lion has been somewhat buffered by the cash top up provision. (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 October / holding value	13.5 cps / A\$5.5M



PhosCo is a Tunisian focussed phosphate developer, listed on the ASX.

Chaketma Development Concession and Scoping Study

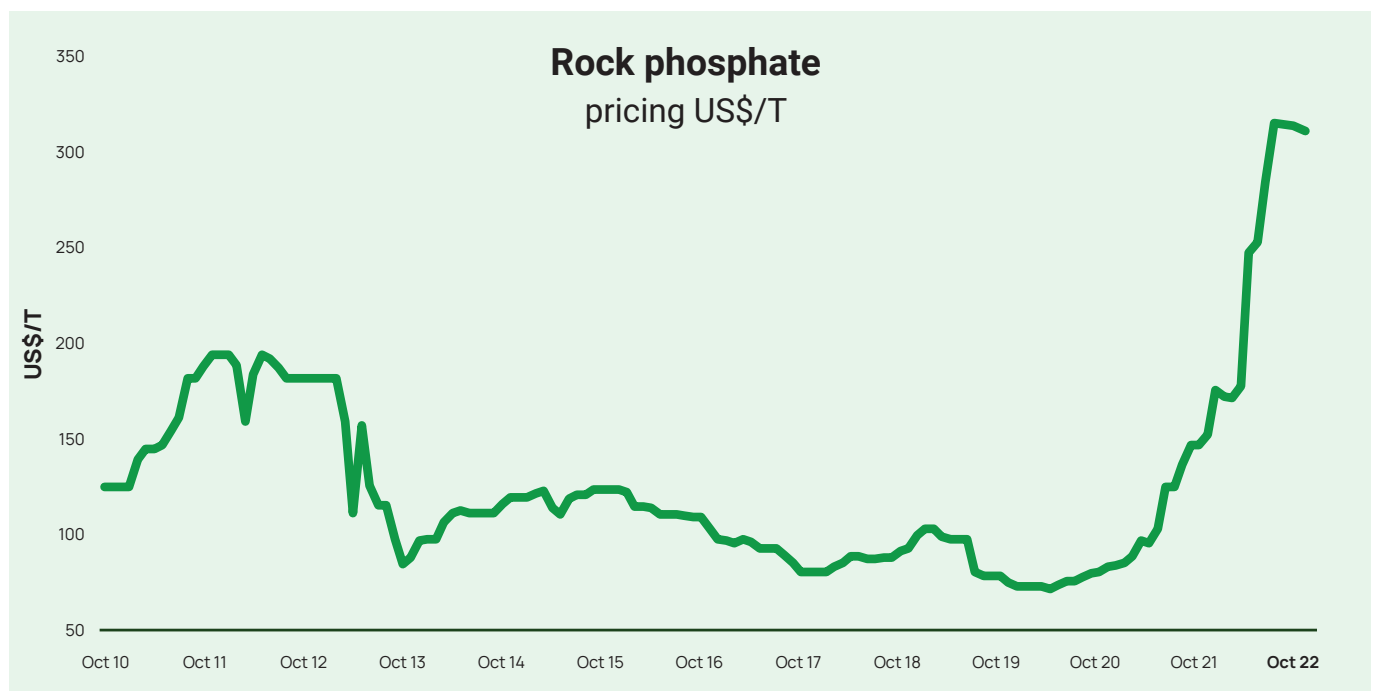
During the quarter PhosCo announced it has lodged with the Tunisian Government the economic and financial study to develop the Chaketma Phosphate Project. This study demonstrates the financial capability to finance the project and represents the final element of an application for the Chaketma Mining Concession.

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.

Zeflana Base Metals Project Auger Drilling

In October 2022 PhosCo commenced an auger drilling program at its Zeflana Project in northern Tunisia. The drilling program aims to test target areas that are considered highly prospective due to being:

- highly anomalous zinc and lead from soil sampling of transported cover conducted by OZ Minerals in 2008;
- along strike from the Sidi Bou Aouane zinc-lead deposit mined in the early 20th century;
- within a region that contain many Mississippi Valley Type (MVT) zinc-lead deposits;
- gravity high, with similar characteristics to the historic Sidi Bou Aouane mine approximately to the north-east; and
- nearby historical workings.



Phosphate Market

Fertilizer prices continue to perform strongly, with rock phosphate prices increasing substantially, from US\$88/t in February 2021 to US\$317.5/t in October 2022.

Erdene Resource Development Corp (ERD:TSX)

Lion holding (shares)	12,185,116
Lion entry price / sum invested	22.6 cps / A\$2.9M
Price at 31 October / holding value	33.8 cps / A\$4.1M



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.

Erdene's drilling results through the quarter have continued to impress and highlight the high-grade nature of gold mineralisation being tested.

Prior to finalising drilling programs for 2022, Erdene conducted a targeting exercise to apply now detailed deposit knowledge collected over Bayan Khundii, Dark Horse and Ulaan to the broader tenement package. RC drilling of targets under shallow cover has highlighted four new areas of gold anomalism in geology resembling that of Dark Horse¹.

Shallow drilling at Bayan Khundii returned high gold grades, extending and confirming the volumes of high-grade mineralisation in areas that are expected to provide initial ore feed for the Bayan Khundii Gold Project and were tested to collect ore for gravity processing testwork²:

- 16m at 8 g/t gold from 10m, inc 4m at 29.6 g/t gold (BKD-358)
- 10m at 14.4 g/t gold from 5m, inc 2m at 68.0 g/t gold (BKD-361)
- 20m at 10.4 g/t gold from surface, inc 2m at 32.6 g/t gold (BKD-369)

Shallow drilling at Dark Horse, located 3km to the North of the designed open pit and processing plant at Bayan Khundii, returned intersections which have continued to firm up and expand high grade gold at Dark Horse³:

- 12m at 20.2 g/t gold from surface, inc 6m at 39.6 g/t gold (AAD-218)
- 11m at 13.0 g/t gold from surface, inc 3m at 34.4 g/t gold (AAD-217)
- 18.6m at 4.6 g/t gold from 1.4m, inc 1m at 13.7 g/t gold (AAD-215)

1. Refer to Erdene press release dated 7 September 2022

2. Refer to Erdene press release dated 25 October 2022

3. Refer to Erdene press release dated 23 November 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 with specific or general enquiries or to arrange a briefing.

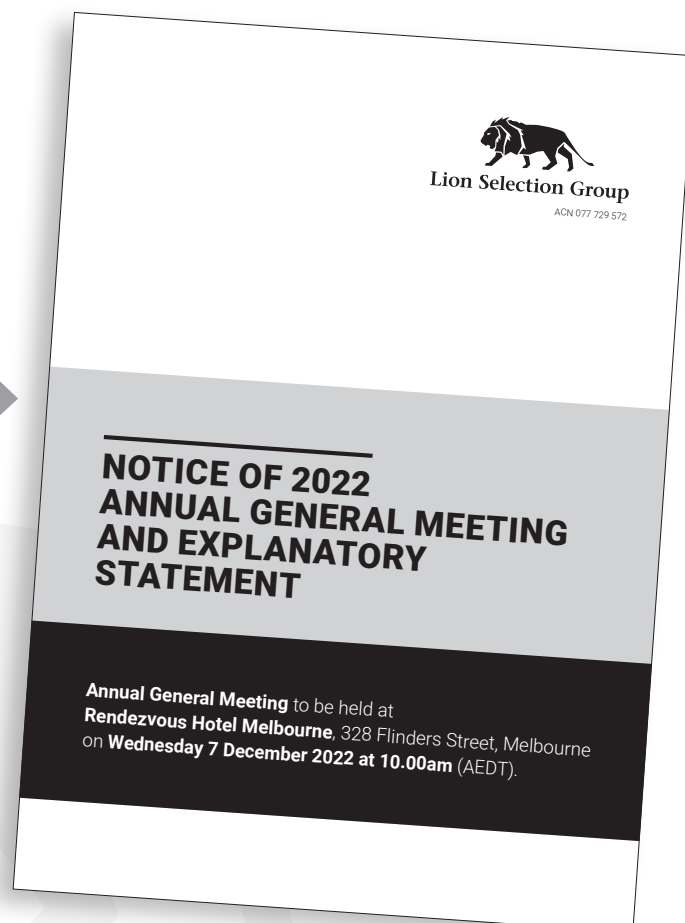
Lion intends to provide regular quarterly updates via recorded presentation, which will be posted to the Lion website shortly following the release of quarterly reports. As the Lion AGM is scheduled for 7 December 2022, the next end of quarter briefing will be expanded and presented at the AGM, and recorded separately, shortly after, as a video for shareholders that are unable to join the AGM.

Shareholder questions that are received during the quarter will be addressed in the video updates (as well as being responded to directly). Thank you to the shareholders that have contacted us during the quarter.

Public presentations

There were no presentations to conferences during the quarter. The team has been too busy with site visits.

The Lion Annual General Meeting will be held on Wednesday 7 December 2022 at the Rendezvous Hotel, 328 Flinders Street, Melbourne at 10.00am.



Market Review



2022 – More selling than buying

The most recent market peak for resources equities for both the ASX100 Resources index and smaller cap ASX Small Resource index was 19 April 2022, which have both weakened considerably since. The broader equity market has also weakened in this period having peaked in early 2022/late 2021.

Since 19 April 2022	Index Performance	Average Performance (of individual companies in the index/group)	Worst Performance (out of all the companies in the index/group)
ASX100 Resources Index	-6%	0%	-46%
ASX Small Resources Index	-23%	-22%	-78%
Non-Index Resources Companies*	NA	-22%	-97%

* All of the ASX listed companies that are GICS classified as 'Materials/Metals & Mining', and are not included in the ASX100 or Small indices groups.

In this period, there has been a trend of more negative performances in smaller market cap brackets. There is no index to express collective performance of micro capitalisation junior resources companies. Of the non-index resources companies shown in the table above, 376 are capitalised at less than \$25M, and of these over 88% have fallen since April. The average decline of that group has been 35%. Even so, previous cyclical downturns have typically seen a greater disparity of performance between large-, small- and micro-capitalisation resources companies.

There is some solace for holders of resource equities. Meta Platforms, the owner and operator of Facebook, has fallen over 70% since September 2021, a loss of over US\$600B of market capitalisation. To put the magnitude of this loss of value into context, the ASX100 Resources index was capitalised at A\$618B at its peak in April 2022.

Meta has fallen by more than the combined value of the top 21 Resources (mining, oil & gas, services) companies listed in Australia, a frightening shrinkage for one of the worlds (formerly) largest companies.

Liquidity litmus tests

All markets are driven by liquidity, which is money entering or leaving the market. Early-stage resources companies are especially sensitive to liquidity, as most need to raise funding regularly from the market. The key indicators monitored closely by Lion have all signalled top of market conditions during 2022. In lay terms, money has stopped flowing into the mining market, and this is consistent with historic patterns that have been followed, historically, by periods of equity price weakness.

Many people would be quick to point out obvious exceptions or fundamentals that run counter to this:

- It is still possible to raise money – easily – for lithium ventures.
- Most commodities have long term demand that outstrips projected supply, especially for commodities exposed to new sources of demand for green energy uses, which is a positive sentiment for commodity prices.
- Clear examples of M&A activity – for example BHP bid for OZ Minerals.

The canary is about to go into the coal mine, and we will get a good idea of what condition it is in come February 2023

Notwithstanding the outlook above for commodities, excluding lithium, resource companies' equity prices have weakened during 2022 as have many commodities. It has become challenging to raise funds, especially for exploration or development endeavours.

The two parts of liquidity are fund raising and expenditure, and both have a 'canary in the coal mine' indicator.

- IPO volumes are the litmus test of fund raising for the resources sector. High IPO volumes align with highly liquid markets, and declining IPO's is a dead ringer that liquidity has dried up. 2022 has seen a dramatic reduction in resources IPO numbers, and many planned IPOs have been deferred.
- Exploration is the most liquidity sensitive expenditure in the resources sector. Spending patterns haven't yet begun to show evidence of a slump in funding ability. To an exploration company, news flow is life blood – without results, the challenge of obtaining funding increases so despite the obvious risks of running out of money, explorers need to keep working and spending until risk becomes a reality. Fortunately, the exploration sector as a whole entered 2022 reasonably well funded. 2021 was an extremely liquid year, with numbers of IPOs and funds raised for early-stage ventures at record highs. Fund raisings during 2022 appear to have been as frequent but smaller than in 2021¹, suggesting the sector isn't approaching 2023 as flush as it did 2022.

2023 – Looming test of liquidity

The Australian market traditionally slows down between early December and late January, which is a period of almost two months where capital raising is all but impossible. Many exploration companies are approaching the point where they need to raise funds and are gambling whether the market will be more welcoming in February than it is in now, knowing their need will be greater come the new year.

There isn't much to suggest greater liquidity in February 2023 and the next month will be interesting to see if there is a rush of small raisings by junior resources companies. Any liquidity that does exist could quickly disperse and further challenge fund raising conditions. Under such circumstances, equity prices are put under pressure as investors sell some stock to fund participation in raisings as well as more

aggressive equity pricing to clear fund raisings. 2023 could be a year where poorly funded junior resources stocks show materially worse performance than the established miners. The canary is about to go into the coal mine, and we will get a good idea of what condition it is in come February 2023.

The exploration sector is not the only one where liquidity and valuations will be tested in 2023. As reported by Pitchbook², many large unlisted technology enterprises avoided fund raising in 2022. 2021 was a truly exceptional year for Venture Capital backing of Unicorns³, enabling large volumes of funding, high valuations, and for many of these companies to enter the 2022 downturn with plenty of cash. Unicorns don't trade and their equity is priced when they raise funds, so bidding of time is even more critical for Unicorns to attempt to avoid a 'down round'. Despite the valuation differences (capitalisations in billions rather than millions), the unlisted technology space has many parallels with junior resources companies and both are dependent on investor funding to progress their work programs.

Development pipeline?

Despite the funding market splutters, through the cycle many resource projects have advanced and there are now far more projects that have completed feasibility studies in hand than there were in previous years. RFC Ambrian estimates⁴ there were twice as many feasibility studies completed in 2022 than in 2021. Five times more feasibility studies were completed in 2022 than during 2017. The step after feasibility is development funding, so the diminishing supply of funding from the equity market is now also cast against increased demand for project development funding. This phenomenon is not uncommon at cyclical peaks, but under normal circumstances the most significant effect of the cycle ending might be only a severe diminishment of funding ability. In the current case the added force of inflation has also suddenly and dramatically increased costs, exacerbating the challenge of raising funding in a weakening market.

1. <https://www.spglobal.com/marketintelligence/en/news-insights/research/im-september-2022-exploration-index-stays-flat-in-august>

2. <https://pitchbook.com/news/articles/vc-unicorn-valuations-index-decline>

3. A Unicorn is an unlisted, technology focussed company with a market capitalisation greater than US\$1 Billion

4. <https://www.proactiveinvestors.com.au/companies/news/998240/rfc-ambrian-progress-of-sorts-998240.html>

Preparation meets opportunity

Lion's investment process is driven by assessments of value and risk and intends to align its investing activities with the mining cycle. Our assessment of the cycle is that liquidity has begun to fall following the peak, and equity prices for market funded junior resources companies face further downward pressure. Whilst the cyclical peak is generally a poor time to invest, it is a wonderful time to be assessing a very wide range of companies that have been active and are presenting themselves frequently.

Some situations have already started to show signs of funding related distress, creating opportunities that are attractive to Lion. Lion has been extremely active assessing investment targets and is a careful investor under current circumstances, taking precautions to manage the likelihood of further ongoing market weakness.

Periods of extreme volatility have historically provided some of the most lucrative investment opportunities, these conditions are expected to lead to very attractive opportunities which is precisely what Lion is prepared for.

Lion Selection Group Limited

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