Lion Selection Group

Quarterly Report

for the 3 months ended
31 January 2023

ASX:LSX

Lion Selection Group (Lion) is an ASX listed mining investor (ASX:LSX), with a strong balance sheet to invest in a weakening junior resources market. Lion's main asset is cash and is a simple way to invest in high growth mineral companies, with a track record of value creation and dividends.

Pani Exit Complete

Lion Cash Balance now A$80M
Further 2cps special dividend payable in April 2023

On 20 February 2023 Lion announced it has completed the sale of its 72.8M Merdeka shares received as part of the consideration for the sale of Lion's Pani Joint Venture interest. The shares have been progressively sold since late January 2023 on the Indonesian Stock Exchange for a total of A$32.5M, compared with A$26.5M (US$20M) at the time they were received.

As previously announced, on 31 January 2023 Lion also received the deferred consideration (US$10M cash) due under the sale of its interest in the Pani Joint Venture.

The completion of the sale of the Merdeka shareholding and receipt of the deferred consideration concludes Lion's exit from Pani and Indonesia. The overall value of the Pani exit is A$77.9M, a 23% premium to the 31 December 2021 NTA holding value for Pani and exceeding the initial value of A$74.4M (which was the Australian dollar value of the consideration at the time of the announcement).

Lion has exited two major investments in the last 18 months – shareholding in Nusantara Resources, and the Pani joint venture which were both Indonesian gold exposures. Prior to the first of these sales Lion's NTA was approximately 85% pre-development Indonesian gold[1]. Following its exit from Pani with the last of the Merdeka shares sold, Lion's NTA is now over 86% cash.

The graphic below compares the composition of Lion's NTA between July 2021 and January 2023. In that time Lion's NTA has increased from 62.6cps to 64.3cps, 5cps of dividend have been paid and the discount to NTA has been reduced which results in a total return to shareholders of 25%[2] over that 18 month period. During this period Lion has focused on its Pani exit, maintaining a disciplined approach whilst liquidity for junior resources companies deteriorated. Over $11.7M has been distributed by way of dividends and an on-market buyback since April 2022.

1. Refer to Lion ASX announcement on 13 August 2021 *Net Tangible Asset Backing as at 31 July 2021*
2. Total return to shareholders between 31 July 2021 and 31 January 2023 is calculated by dividing the total return (5cps dividend plus 6cps share price increase from 44cps to 50cps) by the opening share price (44cps)

ASX : LSX Share price	NTA
50.0¢ps	Pre-Tax **64.6¢ps**
	Post-Tax **64.3¢ps**
as at 31 January 2023	as at 31 January 2023

31 July 2021

62.6cps
NTA[3]

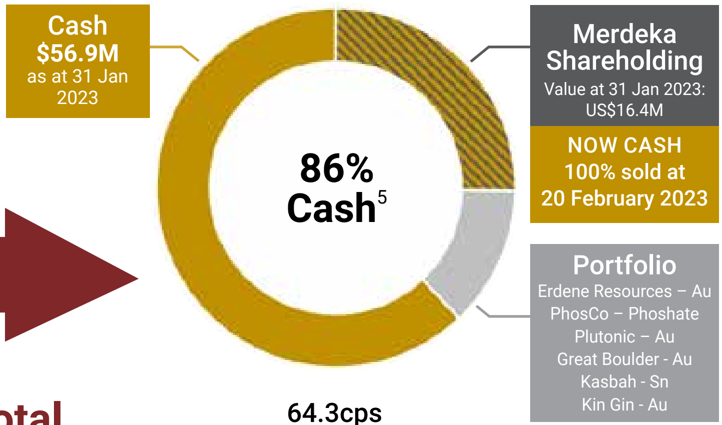
44cps
Share Price

4.7cps
Cash backing per share

30%
Discount to NTA

31 January 2023

showing which assets have been sold since NTA date



64.3cps
NTA[4]

50cps
Share Price

57cps
Cash backing per share[4]

22%
Discount to NTA

25% Total Shareholder Return[2]

Over the 18 months from 31 July 2021 and 31 January 2023

Complete exit from Indonesia
5cps of dividends paid CY2022
NTA became predominantly cash

Evolution of Lion's NTA from July 2021[3] (pre-sales of Nusantara and Pani) to January 2023[4], which illustrates the high cash portion in the NTA following sale of Merdeka shares[5].

2023 outlook and objectives

Outlook:

- Lion is *strongly funded* for making new investments.
- The Junior Resource Market has weakened since early 2022 and funding stress is beginning to emerge in early stage/micro capitalisation companies.
- Dividend of 2cps payable on 3 April 2023.

Objectives:

- Lion is targeting a commodity diversified, Australian focussed portfolio of pre-development mineral resources investments.
- Lion has maintained a high volume of new opportunity assessment through 2022; 2023 will see Lion begin making carefully chosen investments to cornerstone a new project development oriented portfolio.
- This leverages both the emerging market opportunity and Lion's $80M investable cash balance.

Lion provides a simple way to invest in high growth mineral companies, with a track record of value creation and dividends

2. Total return to shareholders between 31 July 2021 and 31 January 2023 is calculated by dividing the total return (5cps dividend plus 6cps share price increase from 44cps to 50cps) by the opening share price (44cps)
3. Refer to Lion ASX announcement on 13 August 2021 *Net Tangible Asset Backing as at 31 July 2021*
4. Refer to Lion ASX announcement on 6 February 2023 *Net Tangible Asset Backing as at 31 January 2023*
5. Refer to Lion ASX announcement on 20 February 2023 *Pani Sale Completed*

Quarter Activities

Focussed on new opportunity assessment – preparation meets opportunity

Preparation:

- **A$80M cash following sale of Pani.**

Opportunity:

- **Weakened, and weakening junior resources sector.**
- **Reduced liquidity to explorers, linked to inflation and investment market uncertainty.**
- **The junior resources companies that Lion invests in are dependent on market funding. Reduced liquidity = declining prices.**
- **Outstanding medium to long term fundamentals for commodities and resources companies.**

Lion is exceptionally 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 during 2022 as liquidity to the micro-capitalisation end of the mineral resources sector fell away.
- Signs of funding stress emerging – expect this to become more common.
- Delayed or curtailed fund-raising endeavours by a large number of junior companies – approaching rush/cluster of funding.

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. Signs of funding stress are emerging now, especially in companies that have missed the opportunity to raise or list when the market was strong, and this opens the door for Lion to begin selecting the cornerstones of a portfolio for the next cycle.

Lion expects to develop a focused portfolio of 10-20 stocks, which would be deep conviction holdings built up patiently and providing diversity over various commodity exposures across precious and base metals and strategic/critical materials.

Lion's investment process is driven by assessments focussed on value and risk of opportunities. Numerous opportunities Lion has reviewed have revealed appealing projects but 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.

Investment focus / Target portfolio:

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.

Australia Focus

For new investments

- ✓ Global mining investment destination of choice
- ✓ Efficient and accessible
- ✓ Geologically rich and diverse

Pre-Development Stage

Greatest value growth potential

Driven by deep conviction value

Suitable risk level versus entry/upside valuations

Commodity Diversity

Precious, Base and Strategic materials

Au Ag PGE

Cu Ni Li

Zn Co Pb

Mn Sn P

REE

Targeting

- ✓ Low to moderate processing risks
- ✓ No ex-site infrastructure capital requirements
- ✓ Future facing/excellent ESG credentials
- ✓ Outright best demand growth projections

Distributions to shareholders

Dividends – 5cps paid in 2022; 2cps special dividend to be paid in April 2023

Lion paid 5cps of dividends during the 2022 calendar year. These consisted of a 3.5cps special dividend (unfranked) paid in April, and a further 1.5cps annual dividend paid in October. Having received the full consideration for the sale of Pani, Lion will pay a further 2cps special dividend in April 2023. Lion also intends to pay an annual dividend in late 2023 following final accounts.

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.

On-market buy-back

Lion has operated an on-market buy-back since April 2022. The cumulative total of shares bought back to date is 8,990,496, purchased at an average price of 47cps (for a total of $4.3M distributed via the buy-back). Purchasing Lion shares at a discount to NTA has had an accretive effect on NTA.

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 late last quarter.

The Lion portfolio diversity has become more Australia-centric as a result of the sale of Merdeka and two new investments focussed in Australia during 2022. Lion holds two legacy overseas investments, PhosCo and Erdene, both of which Lion is actively involved with, and where great upside is believed to remain.

Net Tangible Asset Backing

Lion advises that the unaudited net tangible asset backing of Lion as 31 January 2023 is 64.6 cents per share (before tax) and 64.3 cents per share (after tax). This excludes $2.2M in contingent liabilities relating to Lion's acquisition of investments from African Lion 3.

Net Tangible Asset Backing as at 31 January 2023

	Unaudited NTA A$M
Net Cash	56.9
Merdeka Copper Gold	23.2
Sub Total	**80.1**
Portfolio	11.6
Less Tax	(0.4)
NTA Post Tax	**$91.3M**
NTA per share (post tax)	**64.3¢ps**

Merdeka Copper Gold TBK (MDKA:IDX)

SOLD – A$32.5M cash received

Lion received 72.8M Merdeka shares as part of the consideration for the sale of Pani. At 31 January 2023 Lion had sold approximately 30% of that holding, and reported to ASX on 20 February that the entire holding had been sold. The consideration for sales of Merdeka shares was A$32.5M, versus the value of A$26.5M when they were received in early 2022[6].

The US$10M deferred cash payment which was the final piece of consideration to be paid to Lion has been received in full[7].

Lion's exit from Pani is now complete, and Lion no longer has any exposure to Indonesia.

6. Refer to Lion ASX announcement on 20 February 2023 *Pani Sale Completed*
7. Refer to Lion ASX announcement on 1 February 2023 *Pani Deferred Consideration Received*

PhosCo Limited
(PHO:ASX)

Market Capitalisation	**A$27.4M**
Lion % held	**14.9%**

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

Chaketma Phosphate Project

PhosCo released a Scoping Study for the Chaketma Phosphate Project, which included the newly upgraded GK Resource[8].

- Production of 1.5Mtpa high-quality phosphate rock concentrate over 46 year mine life.
- Strong financial returns, with after-tax NPV_{10} of US$657M.
- After-tax IRR of 54% and payback of 1.5 years from commercial production.
- Total revenue US$10.1B @ US$150/t FOB North Africa phosphate concentrate (vs December 2022 World Bank price of US$300/t).
- Average annual net cashflow (first 10 years production) US$93.4M.
- Development capital US$170M.

PhosCo's application for a mining concession over the Chaketma Phosphate Project did not receive approval.

- PhosCo is engaging with the Ministry seeking reversal of this decision to ensure its strong legal rights are protected.
- The Chaketma exploration permit has been in good standing whilst the Chaketma mining concession application has been under consideration.
- CPSA has complied with the requirements of the mining code and has an exclusive right to apply for the Mining Concession.
- PhosCo is protected by Tunisian investment laws and international treaties.

PhosCo received a favourable court ruling for seizing the 48.99% interest in Chaketma held by its joint venture partner, TMS, for non-payment of damages. Subject to appeal, PhosCo will seek to acquire TMS' seized shares through a court endorsed sales process, with the amount determined to be deducted from the damages owed to PhosCo (A$6M).

During the quarter, Lion announced that it had agreed to acquire 14.0M PhosCo shares from Lion Manager Pty Ltd (the Manager) by issuing 2.8M Lion shares subject to approval by Lion shareholders[9]. On 3 January 2023, PhosCo provided an update to the ASX on its Chaketma mining concession application, with the application not being approved by the Tunisian authorities[10].

Noting that the transaction remains subject to Lion shareholder approval and the material change in PhosCo, Lion and the Manager have agreed to review the transaction including the pricing, timing and other terms[11]. Lion will monitor PhosCo developments and update the market in due course.

8. Refer to PhosCo ASX announcement on 9 December 2022 *Scoping Study Confirms Outstanding Economics for Chaketma*
9. Refer to Lion ASX announcement on 12 December 2022 *Lion to acquire 5.1% of PhosCo to move to 19.9%*
10. Refer to PhosCo ASX announcement on 3 January 2023 *Update on Mining Concession Application*
11. Refer to Lion ASX announcement on 5 January 2023 *Update on Lion's Acquisition of PhosCo Shares*

Erdene Resource Development Corp
(ERD:TSX)

Market Capitalisation	**C$122M**
Lion % held	**3.5%**

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

Erdene finished 2022 strongly, completing a C$7M placement led by a C$3.4M investment from Eric Sprott[12]. In January 2023 Erdene announced a strategic alliance with the Mongolian Mining Corporation (MMC), Mongolia's largest internationally traded mining company, listed on the main board of the Hong Kong Stock Exchange (HKEx: 975)[13]. Under the alliance MMC will invest US$40M through staged investments to earn 50% equity interest in Erdene's Mongolian subsidiary Erdene Mongol LLC, which holds the Khundii project licences. This provides not only a material amount of project funding but also a first class Mongolian development and operating partner.

Lion is very pleased at the calibre of investors – between MMC and Eric Sprott – to have committed to Erdene during this quarter. No doubt these 'overnight successes' have been a long while in the making.

These funding milestones were off the back of solid and continuous progress toward project development. Discoveries and extensions made since 2020 are expected to culminate in an updated and expanded resource inventory for the Khundii Gold Project which, together with community agreements and permitting successes combine to derisk and enhance the project.

12. Refer to Erdene press release on 22 December 2022 *Erdene completed $7M private placement led by investment from Eric Sprott*
13. Refer to Erdene press release on 10 January 2023 *Erdene announces Strategic Alliance with Mongolian Mining Corporation*

Plutonic Limited
(unlisted)

Market Capitalisation	A$3.2M
Lion % held	32%

Plutonic is an Australian focussed, unlisted explorer.

During the quarter Lion announced an investment of $1M was made in unlisted Australian gold explorer **Plutonic Limited**. Under the deal, Lion became a major shareholder of Plutonic and Hedley Widdup was appointed to the board of directors[14].

Champion

The Champion project sits within the continental scale G3 structural corridor, which contains other gold systems such as Tanami. Champion is set within a rift zone activated during the accretion and deformation of Eastern Australia. The Champion area is un-explored and un-tested for gold, yet displays many factors that underpin prospectivity, including:

- Plutonic has newly recognised a significant quartz reef field including substantial outcropping and sub-cropping veins.
- Epizonal quartz and quartz breccia textures observed over many veins.
- Gold anomalism from rock chips collected at surface.

These combined factors underpin an exciting target for an overlooked, potential new gold field, which Plutonic holds 100% and has first-mover advantage.

Georgetown

The Georgetown project includes an extremely large intrusion related gold target, and is located at the intersection of major, crustal-scale structures.

The Plutonic board is highly credentialed for exploration, including directors Kris Butera, Jon Hronsky and Amanda Buckingham.

Lion has historically made early-stage investments, such as Plutonic, for exceptional opportunities. In this case, Plutonic contains immense district scale discovery potential with a first-class team, which has been obtained at a very attractive valuation.

Quartz textures in outcrop (left) and cut sample (right), from the Champion Project, NT

14. Refer to Lion ASX announcement on 30 November 2022 *Lion to invest $1M in Australian gold explorer Plutonic Ltd*

Market Review

Size matters

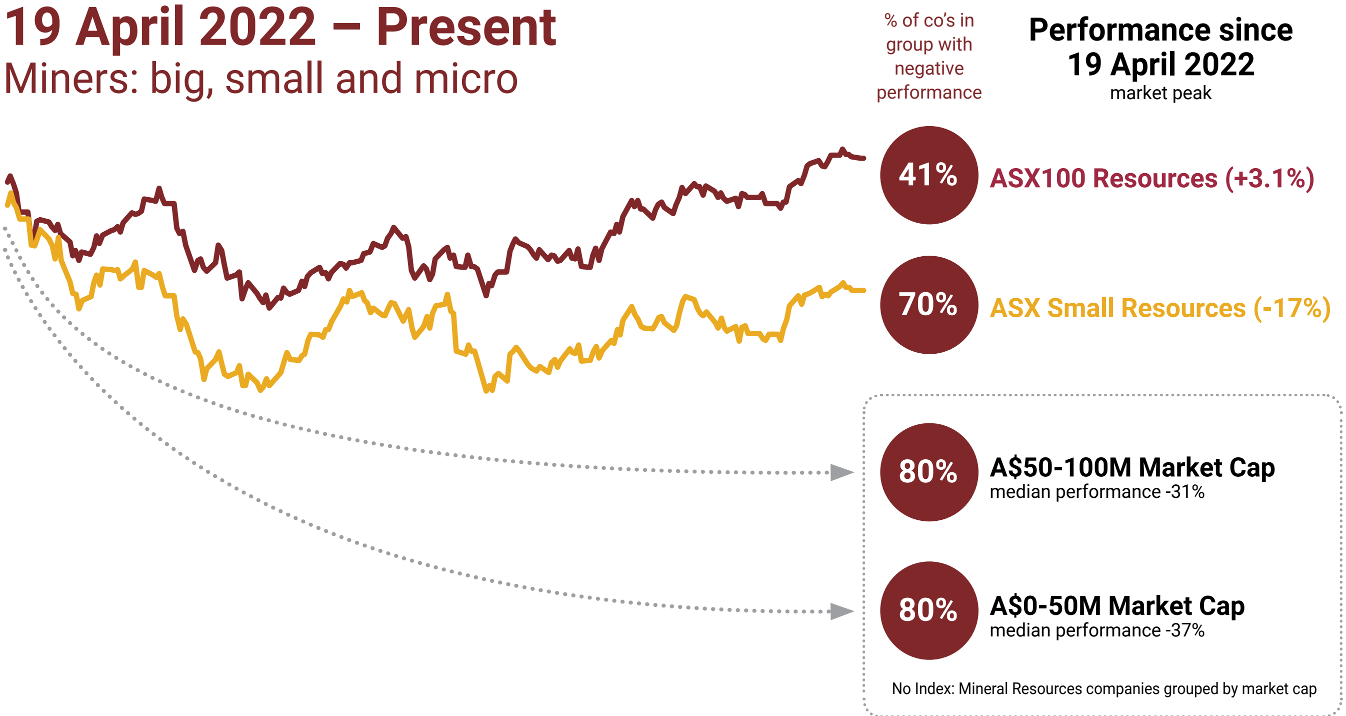
Equity markets weakened in 2022 as investors began to show concern about inflation, interest rates and recessions. Resources companies have been broadly affected along with the rest of the market despite the robust medium to long term outlook for commodities and buoyancy provided by the electrification thematic.

Mining equities have tracked sideways or down since a peak on 19 April 2022. The diagram below compares the ASX100 Resources and ASX Small Resources indices with baskets of micro-capitalisation juniors within capitalisation ranges. Whilst the large capitalisation resources companies of the ASX100 have regained the losses since April, smaller companies have fared less well. Negative performance becomes more prevalent for smaller capitalisation companies – both on aggregated performance of the groups (indices or capitalisation ranges) and the proportion of the groups of companies that had negative performances in the period.

As flagged in previous commentary, the micro-capitalisation resources companies that Lion targets for investment have experienced a weakening market and signs of capital raising stress are emerging.

19 April 2022 – Present

Miners: big, small and micro



Performance of ASX100 Resources and ASX Small Resources indices versus median performance of Mineral Resources companies capitalised between \$0-\$50M market capitalisation, and \$50-\$100M market capitalisation brackets in April 2022, also showing the % of companies in each group that have posted a negative share price performance in that time.

Data source: IRESS

Lesson from history –
Dr Copper VS Mining Equities

Over the long-term mining equities and commodity prices both map out the boom-and-bust cycles of mining. Copper is a great example – commonly referred to as 'Dr Copper' for the strong proxy it represents of the global economy, which reflects the essential part copper plays in economic growth.

Copper had an amazing run between 2005 and 2006, more than doubling (150% increase in price between June 2005 and April 2006) in under 12 months to a peak of around US$8,140/tonne. This peak was more than two years before mining equities capitulated to the Global Financial Crisis in 2008. Notably during the hottest years of the boom, copper only increased 8% between April 2006 and June 2008, via a series of incrementally higher peaks punctuated by substantial drops.

In the period from 2005 to 2008 mining equities also performed strongly, the ASX100 Resources index increasing by over 150% between June 2005 and April 2006 when copper was running strongly. As copper settled into a pattern of successive but only incrementally higher peaks, the ASX100 Resources index increased further by over 50%. This curious difference defies the overall correlation and is even more remarkable given most other equities began to crash in nine months earlier in October 2007. Perhaps the previous strong run in commodity price was enough to cause equities to shift gaze to fuzzy fundamentals rather than actual performance? The mining equity market at the time was very confident of a strong Chinese resumption of commodity buying and industrial activity following the Beijing Olympic Games, which did not materialise.

Commodity price forecasts are based on supply and demand projections, and visible stocks are often a factor that underpin short term price expectations. Low or shrinking stocks imply demand is exceeding supply and lead to the expectation price would go up as supply becomes scarcer, and vice versa. During 2006-2008 persistently low copper stocks underpinned an expectation that copper would continue to perform, the pattern of recorded prices shows that this did not come to pass. For consumers of copper, high copper prices mean a higher cost of business so this pattern might be explained by copper reaching a price level that saw changes in copper consumers behaviour or the beginning of substitution. At the same time the outlook must have been good enough for equity investors to assume prices increases before they were real!

Copper versus mining equities (ASX100 Resources index), 1990 – present, illustrating the similarity of copper performance in the key boom periods: 2005-2008 and 2020-2023.

There is an interesting parallel to draw between the performance of copper and mining equities in 2005-2008 and recent trends. The COVID crash of 2020 was a turning point across most markets, including copper and mining equities. Between March 2020 and May 2021, copper increased by around 120% to a peak price of US$10,724/tonne. The price made very similar peaks (within 1%) in October 2021 and March 2022, then has weakened through to July 2022. Whilst forecasting is a mugs game it will be an interesting test of the pattern if, having peaked successively at around US$10,730/tonne, copper continues to rise (against clear visibility of low stocks) to the same level but no higher.

Mining equities, using the ASX100 Resources index again as the proxy, increased by around 60% as copper had its strongest performance between March 2020 and May 2021. The index went on to peak another 10% higher in April 2022, and as noted above, the index sits marginally above that level now. Mining equities don't seem to have the same exuberance as in 2006-2008, and certainly appear to be more observant of the lead provided by commodities.

Nevertheless, commentary around copper is not just about demand and supply outlook, copper stocks are at levels that justify to many people a robust short term outlook for the price which is set to be tested. In a possible example of Deja vu, commodity demand commentary hinges on a resumption of Chinese commodity buying and industrial activity following the exit of COVID lockdowns across much of China.

There is clearly a great deal of uncertainty in equity markets generally given the backdrop of inflation and interest rates. This appears to have tempered mining equity performances with a clear weakening in all but the largest capitalisation miners, yet commodity forecasting remaining robustly confident.

Investment window opening

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 peaked and begun to fall (this was well documented in Lion's 2022 AGM presentation[14]), and equity prices for market funded junior resources companies that have weakened the most face further downward pressure. This is supported by the pattern of commodity price trading, which does not appear set to provide a further strong/upward lead. 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.

Lion is actively assessing investment opportunities that are already presenting more attractive valuations, especially in situations where signs of funding related distress are already starting to show. The levels of risk in the general equity market are such that further weakening of equity markets, especially for microcap stocks, carries too high a likelihood to ignore. This factor demands a prudent approach to establishing holdings with a longer term holding outlook, but is creating opportunities for a typical first entry for Lion.

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.

14. Refer to Lion ASX announcement on 7 December 2022 *Annual General Meeting Presentation*

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