Lion Selection Group

Quarterly Report
for the 3 months ended
30 April 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.

- Lion is assembling a portfolio of high-growth potential mineral resource companies.
- Active assessment of a growing stream of investment opportunities during 2023; numerous diligence processes advanced.
- The price of Lion's target investment universe has almost halved since April 2022. These price falls have accelerated in 2023 as equity market funding for the sector dries up.
- Lion has $76.8M cash, which is earning a strong return of interest whilst its purchasing power (for investing in micro-cap resources companies) is increasing.
- Lion is focussed primarily on copper, lithium, gold and nickel opportunities, but will consider any mineral resource situation focused in Australia for new investment, whilst contemplating modest follow-on for legacy holdings.
- Lion paid 5cps of dividends during 2022, and so far paid 2cps of dividends in 2023.

ASX : LSX
Share price
46.5¢ps
as at 30 April 2023

NTA
Pre-Tax **62.8¢ps**
Post-Tax **62.7¢ps**
as at 30 April 2023

Lion Selection Group

ASSEMBLING AN AUSTRALIAN FOCUSSED PRE-DEVELOPMENT MINERALS PORTFOLIO

Lion Investment Focus

Pre-Development Stage

Greatest value growth potential

Driven by deep conviction value

Suitable risk level versus entry/upside valuations

New Opportunities

$76.8M cash to invest

Existing Portfolio

13.4% of NTA

Australia Focus

For new investments

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

Commodity Diversity

Precious, Base and Strategic materials

Au Cu Li
Ni Ag Zn
PGE Co Pb
Mn Sn P
U REE ETC

Targeting

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

Development Ready

Erdene: Gold/Mongolia
[TSX:ERD]

Atlantic Tin: Tin/Morocco
[unlisted]

PhosCo: Phosphate/Tunisia
[ASX:PHO]

Great Boulder: Gold/Australia
[ASX:GBR]

Kin-Gin: Gold/Japan
[unlisted]

Plutonic: Gold/Australia
[unlisted]

Pre-discovery

The transition to renewable power and battery storage favours Australia, which is endowed with geology rich in critical minerals and is a safe commercial jurisdiction in troubled times.

This provides great opportunity for Lion, which has a strong cash balance at a time of a downturn for junior resources companies and explorers – Lion's purchasing power is multiplying.

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

Lion Portfolio Overview

Net Tangible Asset Backing

Lion advises that the unaudited net tangible asset backing of Lion as 30 April 2023 is 62.8 cents per share (before tax) and 62.7 cents per share (after tax). This excludes $1.7M in contingent liabilities relating to Lion's acquisition of investments from African Lion 3.

Net Tangible Asset Backing as at 30 April 2023

	Unaudited NTA A$M
Net Cash	76.8
Portfolio	11.8
Less Tax	(0.2)
NTA Post Tax	**$88.4M**
NTA per share (post tax)	**62.7¢ps**

Distributions to shareholders

5cps paid in 2022;
2cps special dividend 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 paid 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 occurs that provides a cash surplus over and above supporting a sustainable dividend.

PhosCo Limited
(PHO:ASX)

Market Capitalisation	**A$21.92M**
Lion % held	**14.9%**

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

Chaketma Phosphate Project

PhosCo noted it had been engaging with the Tunisian government during the quarter regarding the status of the Chaketma Phosphate Project, following the denial of an application for a Mining Concession as announced on 3 January 2023.

PhosCo has formally requested the Minister to revisit this decision under Tunisian administrative processes. The Company has engaged with the Tunisian Ministry of Industry, Mines and Energy (Ministry) regarding the permit status for the Chaketma Phosphate Project and notes comments made by the Ministry stating the importance of Australian-Tunisian relations and the willingness of both countries to work together.

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's seized shares through a court endorsed sales process, with the amount determined to be deducted from the damages owed to PhosCo (A$6M).

The Company awaits the anticipated grant of additional permits including the Sekarna Phosphate Project (100% PhosCo) that appears to mirror the stratigraphy and scale of the Chaketma Phosphate Project that lies 10km to the south-west and has the potential to create a regional scale phosphate hub.

The rock phosphate market continues to perform strongly, with the World Bank recording a price of US$345/t at 30 April 2023.

Lion's agreement with Lion Manager Pty Ltd (the Manager) to acquire 14.0M PhosCo shares from the Manager in consideration for the issue to the Manager of 2.8M Lion shares lapsed during the quarter. The condition precedent to the agreement (which required the approval of Lion shareholders for the issue of the 2.8M Lion shares) was not satisfied by 5pm on 31 March 2023.

Lion remains staunchly supportive of PhosCo and continues to hold a strong view of project value.

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 has recently transformed itself from an explorer into a developer, having secured an outstanding Mongolian development partner in Mongolian Mining Corporation (MMC). Erdene is now well funded, has a first class owners team, and is preparing the Bayan Khundii Gold Project for construction.

MMC is Mongolia's largest internationally traded mining company, listed on the main board of the Hong Kong Stock Exchange (HKEx: 975)[1]. Under the alliance MMC will invest US$40M through staged investments to earn 50% equity interest in the project, and to date stages one and two have closed, with MMC investing US$10M so far. The third and final stage of the partnership will see MMC invest a further US$30M upon a construction decision expected in Q3 2023.

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 publishing an updated Feasibility Study, community agreements and permitting successes combine to de-risk and enhance the project.

Upon finalisation of the alliance, Erdene will retain 50% of the Bayan Khundii project and a 5.0% NSR royalty on production from the Khundii, Altan Nar and Ulaan licences, as well as any properties acquired within five kilometres, beyond the first 400,000 ounces of gold recovered.

1. Refer to Erdene press release on 10 April 2023 *Erdene announces Strategic Alliance with Mongolian Mining Corporation*

Kin-Gin Exploration
(unlisted)

Kin-Gin Exploration is a Japan focused gold explorer.

Lion was a founding seed investor in **Kin-Gin Exploration**, a Japan focused gold explorer, prior to the sale of Pani and rejuvenation of Lion's investing focus.

Kin-Gin was founded by Greg Foulis and Rod Davies, geologists with a strong background knowledge of Japanese geology. Japan is located on the Pacific Rim and features extensive recent volcanic terranes containing epithermal systems many of which are known to contain gold. There was a thriving gold mining industry prior to World War II, but there has been very little mineral exploration or mining since. The well-known modern exception is high-grade gold deposit Hishikari (8Moz @ 30+ g/t Au) which is owned and operated by Sumitomo and demonstrates the 'size of the prize' in demonstrated prospective yet completely unexplored geology.

The amount of drilling in these areas is estimated to be less than 0.1% of comparable terranes[2] in Australia. Japanese mining law has only recently changed to allow foreign companies to own mineral licences, and Kin-Gin has lodged applications for ~500km^2 covering seven projects that it is seeking approval for to commence drilling. The areas applied for contain numerous historic workings and high grade surface samples.

The lead prospect Shizukari is located in South West Hokkaido and a standout from a prospectivity, permitting, access and pathway to drill perspective. Shizukari covers historic workings that produced ~200Koz gold up until World War II and contains walk-up drill targets.

Many of Kin-Gin's projects are data-rich and brownfields in nature, given the historic identification of mineralisation which has been mined in many cases, and despite the lack of drilling. Activities have been focused on stakeholder engagement and permitting.

Lion visited Southern Hokkaido, including Shizukari, having made a seed investment in 2019 to better understand the opportunity presented by Kin-Gin. Kin-Gin is preparing for an ASX IPO and presents a unique contrast to many exploration company IPOs – being multiple historic high-grade gold mines with no drilling before or since closure due to World War II.

2. Epithermal geology with a history of gold mining, such as Cracow or Pajingo.

Lion public presentation

Lion has recently presented at the junior mining investment conference Resources Rising Stars Gold Coast; below is a video link to the presentation:

Resources Rising Stars Gold Coast:

15–18 May 2023
Keynote presentation by Hedley Widdup
https://lionselection.com.au/category/mining-media/

Market Review

Equity markets – Resources Robustness

Global equity markets peaked in late 2021 and have weakened since on sentiment connected to growing and persistent inflation, the consequent increase in interest rates and geopolitical tension and conflict.

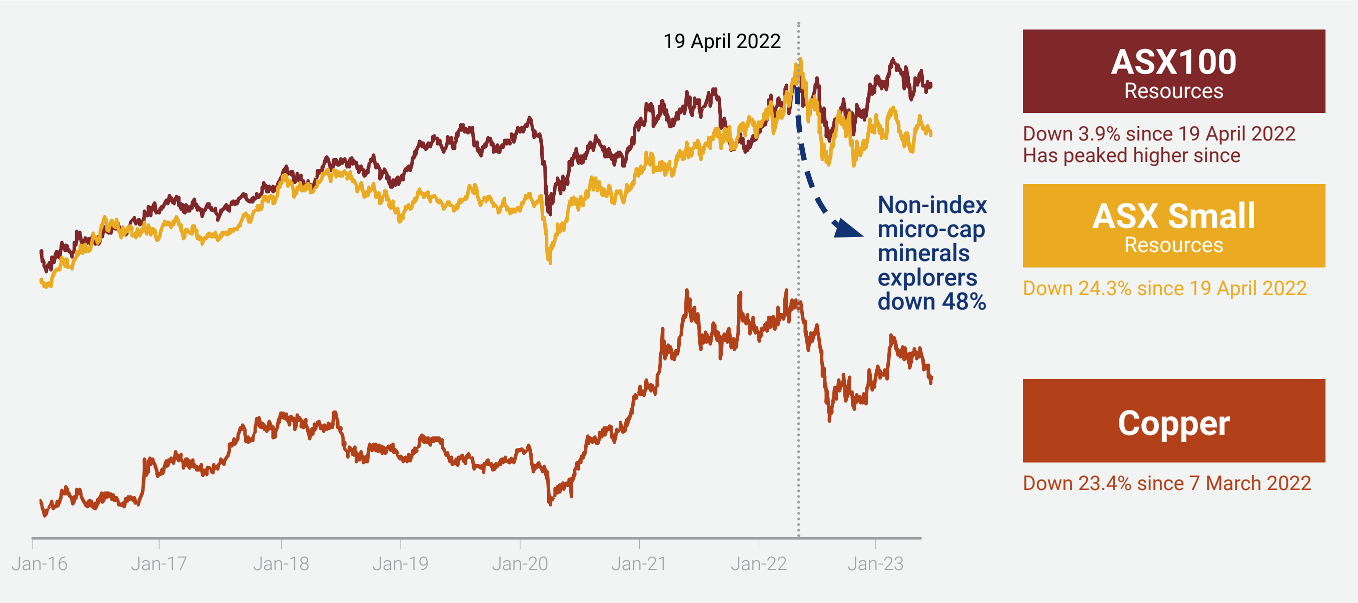
Looking only at large capitalisation indices, the Resources sector has defied global weakness. The ASX100 Resources index has more than tripled in value from its low point in January 2016 to amost recent high in January 2023. In that time, it has shared similar ups and downs to the rest of the Australian market (represented by the ASX100 Industrials index) with one exception. Resources stocks weakened in the second half of 2021 whilst the Industrials index continued to improve. After the Industrials index peaked (contemporaneously with global equity markets peaking), Resources surged during early 2022 as the impacts of the Russian invasion of Ukraine rippled through the commodity market.

The high point of the Ukraine invasion surge for the Resources market was a turning point for much of the Resources sector. The ASX100 Resources index has gone on to make new highs, but since 19 April 2022 the ASX Small Resources index has weakened, as have the prices of many mineral commodities.

Commodities – not as strong as they look

The invasion of Ukraine caused a disruption in supply of many commodities, which saw many prices surge and had a commensurate effect in the equities of miners. This took on the appearance of a pivot as most markets fell whilst Resources stocks gained. As uncertainty and inflation have continued to bite this pivot has focussed into the largest capitalisation miners, which looks like a flight to safety because the continued robustness of the large capitalisation Resources index has defied the commodity trend.

Commodities have softened since March-April 2022. Concerns about supply linked to disruption of supply or sanctions after the Russian invasion of Ukraine have faded, and Chinese economic rejuvenation after COVID lockdowns isn't playing out as strongly as many expected. Strong long-term fundamentals such as scarcity of new supply (principally because of under investment) and electrification still feature strongly in promotion of many miners, even whilst the softening prices have led the equities of small and micro-capitalisation resources companies lower. For now, trend appears to be trumping fundamentals.

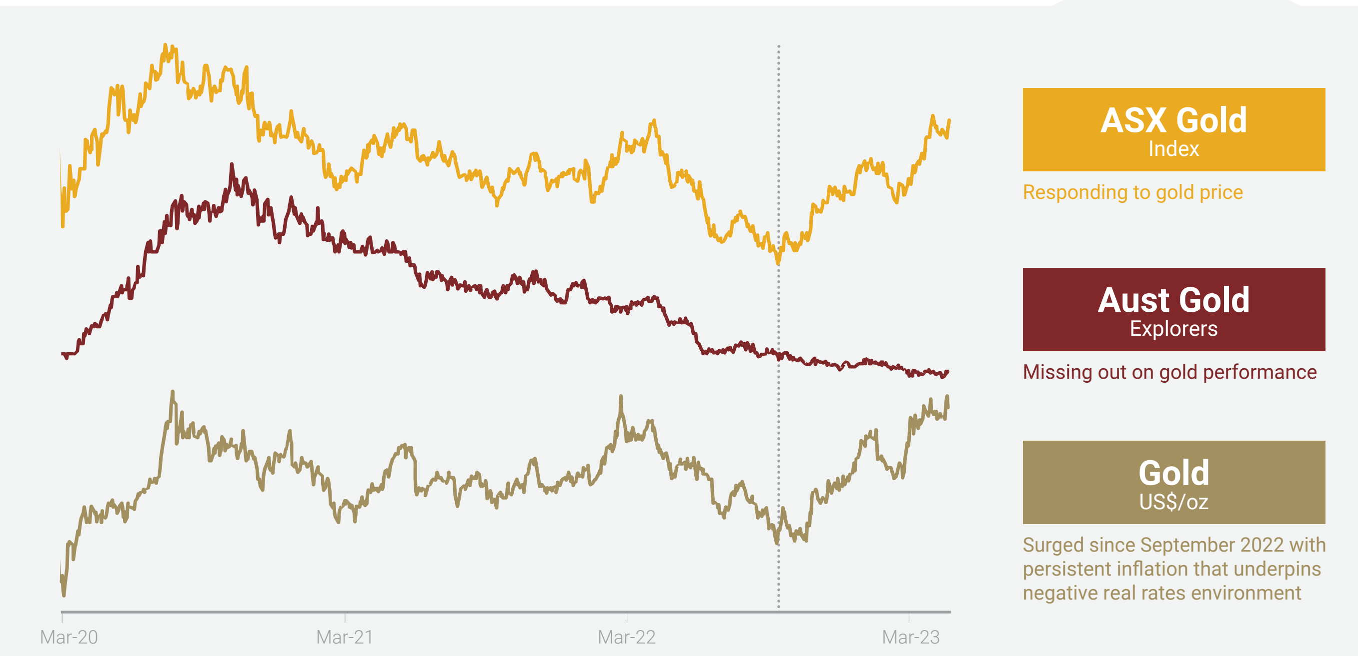


Liquidity – micro-caps suffering

The plight of the micro-capitalisation explorers highlights a substantial drop in liquidity which has been drying up as the market for small cap Resources weakened since April 2022. Below the level of equity market indices, the large number of micro-capitalisation minerals explorers have experienced far harsher share price weakness than the large capitalisation or even small capitalisation miners – the collective performance of 664 minerals companies listed on ASX that are capitalised at less than $200M is down 48%. Of this group, 87% have had a negative share price performance in this time. Fund raisings have become smaller and gravitated toward entitlement issues or share purchase plans, which highlights the lack of institutional investment to execute rapid placements.

Gold – miners up, explorers down

Gold has performed strongly since late 2022 – even whilst interest rates have increased, inflation has maintained an environment of negative real rates and gold has defied the trend of most other commodities. Gold miners have benefitted from the gold price increase, reflected in the ASX Gold Index, which is up 81% since September 2022. The collective performance of gold explorers largely matched the performance of the Gold Index from March 2020, which was the low point of the market after the 2020 COVID crash, until when the gold index began to perform strongly in late 2022. These explorers have missed out – their collective performance has continued weakening despite the huge stimulus the gold price provided their larger contemporaries, opening a significant performance gap. This is a stark illustration of the impact of the deterioration in liquidity on micro-cap Resources stocks.



Purchasing power of cash *multiplying*

if you're targeting Resources micro-caps

The equity market is a barometer of global investors' risk appetite and is held back by deep uncertainty at the moment. Big spikes in inflation have typically not ceded into easy economic conditions historically.

In this sort of market, when the prices of junior resources and exploration companies are falling, one of the greatest risks to investors is being illiquid. The money that was chasing explorers has dried up. Even great stories suffer from weak markets and when they need to raise money an investor can be severely diluted holding a company they deeply believe in but can't follow their investment. This penny is still dropping, and it forms a characteristic pattern. When liquidity retreats, the cycle in mining rolls over.

Lion is cash rich, and the value of Lion's cash is not diminishing – it is earning approximately 4% pa, which is currently beating the equity market. And, whilst inflation drives concerns about eroding purchasing power of cash across much of the economy, Lion's cash is earmarked to invest in junior resources companies. The price of this asset class is collapsing, so rather than eroding – Lion's purchasing power for investing is multiplying.

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Lion's purchasing power for investing is multiplying

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