Lion Selection Group

Quarterly Report
for the 3 months ended
31 July 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.

- The price of Lion's target investment universe has halved since 2021. These price falls have accelerated in 2023 as equity market funding for the sector dries up.
- Lion has begun to take selective advantage of once-in-a-cycle opportunities.
- Lion has $76.1M 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	NTA
43.5¢ps	Pre-Tax **63.2¢ps** Post-Tax **63.0¢ps**
as at 31 July 2023	as at 31 July 2023

Lion Selection Group

ASSEMBLING AN AUSTRALIAN FOCUSSED PRE-DEVELOPMENT MINERALS PORTFOLIO

Lion Investment Focus

Targeting:
Pre-Development Stage
Greatest value growth potential

Selection:
Driven by deep conviction value
Suitable risk level versus entry/upside valuations

New Opportunities

$76.1M cash to invest

Equity Portfolio

14.6% of NTA

Australian Focus

For new investments

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

Commodity Diversity

Precious, Base and Strategic materials

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

Investing in a <u>falling</u> market

Pre-development resources companies – smashed by market risk averseness

Investment target group has fallen over 50% in price since the last peak in the equity market

Development Ready

Erdene: Gold/Mongolia
[TSX:ERD]

Atlantic Tin: Tin/Morocco
[unlisted]

PhosCo: Phosphate/Tunisia
[ASX:PHO]

Alto Metals: Gold/Australia
[ASX:AME]

Great Boulder: Gold/Australia
[ASX:GBR]

Kin-Gin: Gold/Japan
[unlisted]

Plutonic: Gold & Copper/Australia
[unlisted]

Pre-discovery

(legacy investments shown in pale grey)

The transition to renewable power and battery storage favours Australia, which is endowed with geology rich in critical minerals and tier-one mining-commercial jurisdiction.

The equity market has faltered because of inflation and interest rate concerns. This has smashed micro-caps, especially pre-development mineral resources companies that rely on a liquid market to raise money. This provides great opportunity for Lion – the purchasing power of Lion's strong cash balance 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 31 July 2023 is 63.2 cents per share (before tax) and 63.0 cents per share (after tax). This excludes $1.7M in contingent liabilities relating to Lion's acquisition of investments from African Lion 3. The contingent liabilities erode over time and will become zero by 3 March 2026 if not crystallised by the sale of PhosCo or Atlantic Tin prior.

Net Tangible Asset Backing as at 31 July 2023

	Unaudited NTA A$M
Net Cash	76.1
Portfolio	13.0
Less Tax	(0.2)
NTA Post Tax	**$88.9M**
NTA per share (post tax)	**63.0¢ps**

Portfolio development

Lion's investment focus of pre-development stage mineral resource companies and projects exposes Lion's shareholders to one of the highest growth sectors of the equity market. This investment approach carries the strong potential for value creation, but it also requires a specialist approach to investment selection and monitoring of risks.

Lion is targeting a commodity diversified, Australian focussed portfolio of pre-development mineral resources investments. Investments will be selected for value proposition, risk profile and strategic considerations with the objective of obtaining multiples of capital growth through the mining cycle.

Lion has experienced a high volume of new opportunity flow through 2022 and this has increased during 2023. This has resulted in a high volume of assessment work, which has begun to deliver carefully chosen investments to cornerstone the targeted project development oriented portfolio, and a watchlist of opportunities at an advanced stage of assessment to be carefully monitored as the market continues to weaken.

A combination of factors produces a once-in-a-cycle investing opportunity for Lion:

1. Strong and persistent share price deterioration in the junior resource market since early 2022. Funding stress is setting in for the early stage / micro capitalisation companies that Lion targets for investment.
2. Lion is strongly funded with a cash balance of $76.1M.

The Lion view is weakness in this market will persist, although it is unlikely we have seen the bottom for micro-capitalisation resources companies. We have begun making investments where appropriately priced opportunities have been identified.

There are a variety of attractive investing themes exposed by current market conditions. For example:

- **Cents in the dollar opportunities.** Defined and attractive projects are now becoming available at capitalisations below their 'replacement cost' (the investment that has historically been made to achieve the level of definition and derisking).
- **Leverage to consolidation.** Gold in Western Australia is a great example, where there are many established process facilities with dwindling ore reserves, and separately owned gold resources that are cheaper and lower risk to acquire via M&A than to replace by exploration.
- **Exposure to strong projected demand growth for commodities required for the transition to renewable power.** This theme is well promoted, but contains new uncertainties and whilst existing resources are likely to become far more valuable, this is a long game where the unknown variable is 'when ?'

In all cases, a long term view is essential to being able to realise contained value.

Investment deployment in 2022 and 2023

Lion invested in **Great Boulder Resources** (ASX:GBR) in April 2022 and followed this investment in March 2023, then invested in **Alto Metals** (ASX:AME) in July 2023. These companies share similar characteristics in their investment thesis. Both are strongly exposed to the theme of consolidation in the Western Australian gold sector and contain relatively shallow established gold Resources. Both have delivered growth in Resources during 2022 and 2023 and have attractive targets to test to potentially add to their respective mineral inventories, within large areas of historically under- (or un-) explored greenstone geology under their control. Lion has always been attracted to gold investments for their low risk profile, as gold is typically far easier to separate and sell than other commodities and both of these investments have the potential for multiple commercialisation scenarios.

In November 2022 Lion announced an investment into unlisted company **Plutonic Limited**, which has two early-stage exploration projects in Northern Australia, with a focus on the Champion project in the Northern Territory. Plutonic is an unusual investment for Lion, having only rarely and hence very selectively made investments at such an early stage historically. Exploration stage investments can produce excellent investment returns but carry the risk of total investment loss due to the uncertainties of exploration. The attraction of Plutonic to Lion, which makes it a virtually unique opportunity, is the very large scale of geological potential that exists at Champion where previously unrecognised epithermal textures have been identified in quartz veins and are extensive over a very large area. Success at Champion would mean the discovery of a new district which could hold immense value. Lion has been able to invest in Plutonic for a very attractive price and offers Lion shareholders exposure to the potential of discovery driven value creation that they would be unlikely to be able to access as individuals.

The main asset in Lion's Net Tangible Assets is cash, which is available for investing and will see the portfolio of Australian focussed investments added to, across a number of commodity exposures.

Legacy Investments

Lion holds several legacy investments, which do not fit within the strategy of focussing on Australia yet are awaiting realisation of their contained value and are not yet at the stage that Lion considers sale is warranted.

- **PhosCo Limited (ASX:PHO)**
  Rock Phosphate in Tunisia.
  Awaiting licence restitution and new license granting.
- **Erdene Resource Development Corp (TSX:ERD)**
  Gold and Molybdenum in Mongolia.
  Early development works have begun at the Khundii gold project which was discovered by Erdene in 2015.
- **Atlantic Tin (unlisted)**
  Tin in Morocco.
  Awaiting commercial pathway to liquidity.
- **Kin Gin (unlisted)**
  Gold in Japan.
  A licence portfolio containing defined epithermal gold deposits and historic mines has been assembled for very low cost.
  Awaiting approvals to enable drilling.

Lion considers that modest follow-on investment may be required in some legacy investments.

Market Review

Equity markets – up again in 2023

Headline equity market indices have stabilised somewhat during 2023 after extended weakness through 2022. The Australian market (All Ordinaries Index) fell by 7% during 2022 but is up 4% since the start of 2023, and the American market (S&P500) fell 19% in 2022 and is up 17% in 2023. These market trends are largely the result of adjusting perceptions of the outlook for interest rates, which are linked to the changing view of inflation. So, whilst equity markets have had a strong year in 2023, this is against a backdrop of persistent inflation interest rates which are still rising, albeit at a slower pace than in 2022.

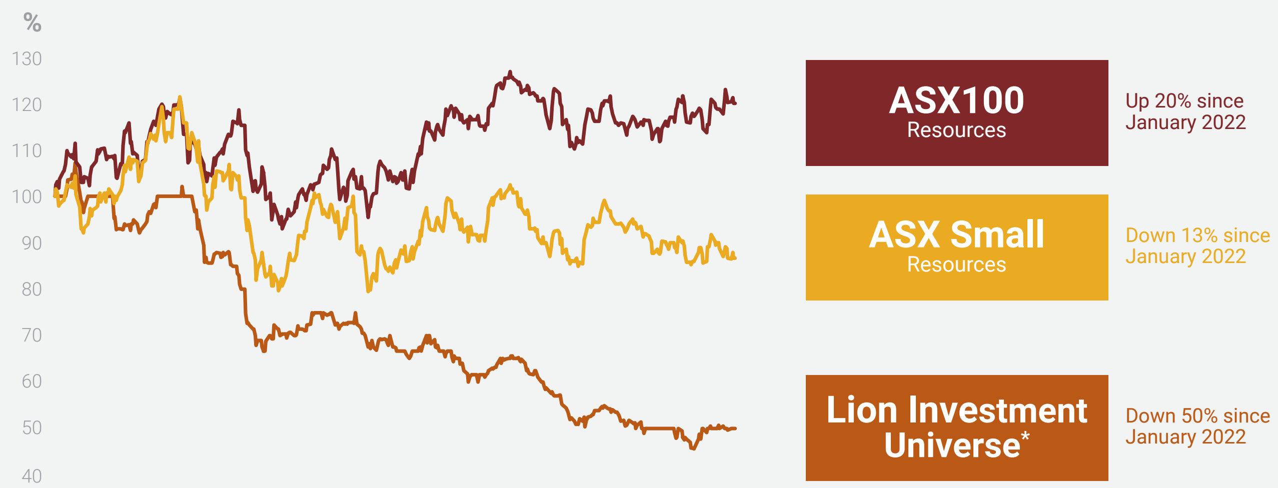
Only for large caps

Whilst money has come back to equities in 2023 the rise in the market is ,overprinted with a sentiment of uncertainty which has primarily favoured large capitalisation stocks. The ASX100 Index is up over 4% in 2023 and whilst the Small Ordinaries is currently up 1% for the year, it has been underwater in 2023 for as long as it's been in positive territory.

The risk-free rate has risen substantially in 18 months, meaning investors can obtain a yield without the risk of capital losses which are generally higher in smaller capitalisation companies. Small- and micro-capitalisation companies across the board have not experienced anywhere near the same investor interest as large cap stocks have in 2023.

Liquidity is still limping

Exploration companies rely on fund raising from the equity market to sponsor ongoing work. Liquidity has been drying up since equity markets began to falter in early 2022, and it has not improved in 2023. The volume of Initial Public Offerings (IPOs) is a good proxy of liquidity and maps a steep decline in liquidity from 2021 to present. There were 105 Resources IPOs onto ASX in 2021 – the second highest number of Resources IPO's in over three decades (versus 143 in 2007) and a peak year of liquidity in the sector. This almost halved to 64 in 2022 and lower again (14 year to date) in 2023 as liquidity has rapidly fallen away. The pattern of capital raising by already listed



Timeframe: January 2022 – July 2023

* The proxy for price of the Lion investment universe used here is the Median Performance of group of 511 ASX listed companies with GICS classification Metals & Mining, that were capitalised at less than A$50M on 3 August 2023.

explorers now frequently features steep discounts and attaching options which are incentives to investors that are not required in stronger markets and harbingers of funding stress.

IPO volumes are down across all sectors, not just the resources sector, so the decline of liquidity is not limited to the resources sector. Liquidity is likely to remain low for micro-capitalisation companies, especially explorers in the resource sector, so long as sentiment in the equity market is afflicted by high interest rates.

The departure of liquidity has a compounding effect on share prices. As well as a general lack of buyers, the absence of new investors to support equity fund raisings places the onus back onto existing shareholders. Inevitably, some shareholders sell shares to follow their interests, which further depresses share price.

Great opportunities are presenting but it's not the bottom

Lion's target investment group has fallen in price – down by a median measure of 50% since the start of 2022. Of 511 metals and mining companies listed on ASX with a market capitalisation of less than $50M, 86% have performed negatively since the start of 2022. There are multiple examples of companies that we reviewed in 2021 that have made significant progress with their project but share price has declined materially. The market is beginning to present attractive opportunities for Lion investment, but we don't think it is the bottom.

Historically cyclical lows have been marked by capitulation events which have not presented so far. The precarious nature of equity market sentiment makes it even more challenging to forecast whether liquidity is likely to surge or dry up completely. Given the persistency of inflation and elevated interest rates that overshadowed the downturn, the lowest risk forecast is the status quo, and it is premature to say that liquidity is near to the bottom. The market has however brought many opportunities to attractive prices, so Lion is happy to begin making investments.

The risk for investors is remaining liquid

The biggest risk for investors under these circumstances is to be illiquid. Even great stories suffer in 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. For investors, like Lion, that have cash to take advantage of these once-in-a-cycle investing conditions, the purchasing power of cash has multiplied.

If liquidity brings any big names undone, there is likely to be another leg down for juniors

Tall poppies in weak markets can be rapidly devalued if they don't deliver. Companies that maintain a high valuation relative to their same stage peers carry the weight of sentiment on their shoulders. By virtue of obtaining a large capitalisation, they become big bets for some of their shareholders. No matter what the market conditions, there are always examples of shooting stars in the mining market. They might be supported by strong exploration results, corporate interest, or a well promoted development story. Weak markets historically have brought shooting stars to earth with a crash. Their valuation may remain elevated because belief that they are going to deliver on a dream is maintained. However, weak markets introduce headwinds and risks to delivery, and exposes optimistic exuberance. If a shooting star collapses in a weak market it has a knock on effect to sentiment generally. Bad news in shooting stars detrimentally affects the entire sector.

Lion Selection Group Limited
ABN 26 077 729 572

Level 2, 175 Flinders Lane
Melbourne Vic 3000
T: +61 3 9614 8008
F: +61 3 9614 8009
www.lsg.com.au

Enquiries

Hedley Widdup
hwiddup@lsg.com.au
Jane Rose
jrose@lsg.com.au

Authorised for release by

Craig Smyth
csmyth@lsg.com.au