Lion Selection Group

Quarterly Report
for the 3 months ended 31 October 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's portfolio development continues: two new investments made.
- Lion is focused on opportunities in precious metals, base metals and strategic materials, and will consider any mineral resource situation focused in Australia for new investment.
- Investments made during 2023 have been gold biased, which reflects the extreme discounts available for pre-development gold companies. Lion expects to adopt broader commodity diversity as further opportunities are added.
- Deal flow continues to increase.
- Meanwhile, Lion continues to earn in excess of 4.5%pa interest on cash, and finished the quarter with $74.4M cash.
- Lion paid a total of 5cps of dividends during 2022, and 3.5cps of dividends in 2023 with the payment of the annual dividend of 1.5cps made on 10 November 2023.

ASX : LSX Share price	NTA
41.0¢ps	Pre-Tax **62.1¢ps** Post-Tax **62.1¢ps**
as at 31 October 2023	as at 31 October 2023

Lion Selection Group

Assembling a portfolio of *High Growth* Australian Mineral Resource companies

$74.4M cash to invest

Investing in a falling market

Targeting Pre-Development Stage:
Greatest value growth potential

Focus

Precious, Base and Strategic materials

Development Ready

- **Erdene:** Gold/Mongolia [TSX:ERD]
- **Atlantic Tin:** Tin/Morocco [unlisted]
- **Saturn Metals**: Gold [ASX:STN]
- **PhosCo**: Phosphate/Tunisia [ASX:PHO]
- **Sunshine Metals**: Gold [ASX:SHN]
- **Alto Metals**: Gold [ASX:AME]
- **Great Boulder**: Gold [ASX:GBR]
- **Kin-Gin**: Gold/Japan [unlisted]
- **Plutonic**: Gold & Copper [unlisted]

Pre-discovery

(legacy investments shown in pale grey)

Lion Portfolio Overview

Net Tangible Asset Backing as at 31 October 2023

Lion advises that the unaudited net tangible asset backing of Lion as 31 October 2023 is 62.1 cents per share (before tax) and 62.1 cents per share (after tax).

	Unaudited NTA A$M
Net Cash	74.4
Portfolio	13.3
Less Tax	(0.1)
NTA Post Tax	**$87.6M**
NTA per share (post tax)	**62.1¢ps**

Notes to the NTA

- The NTA laid out above excludes $1.5M 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.
- The NTA contains the value of the component parts of Lion's assets as at the NTA date, which is a snapshot in time. The majority of this includes the value of cash at bank, and value of investments at their closing price on NTA date. The NTA is not an expression of the ultimate, realisable value of the investments, which in many cases may far exceed the value contained in the NTA.

Portfolio development

Lion's investment focus is pre-development stage mineral resource companies and projects. This provides exposure to one of the highest growth sectors of the equity market. This investment approach targets strong value creation and requires a specialist approach to investment selection and monitoring of risks.

Target investment sector – strong returns possible in junior resources

Immense value can be created de-risking mineral commodity projects from initial investments of a modest scale. Over the long-term small capitalisation companies in the resource sector have consistently provided the largest outperformance over large capitalisation peers of all sectors on ASX through bull market periods. The opportunity to leverage investment returns through the natural operation of the market cycle is considerable. With careful selection and management, and taking a long-term view, Lion aims to take full advantage of depressed equity prices and the ability to develop large percentage holdings when the market is weak.

Portfolio development and investment deployment

Lion is assembling an Australian focussed portfolio of pre-development mineral resources investments spanning precious and base metals and strategic materials. Investments will be selected with the objective of obtaining multiples of capital growth through the mining cycle.

New opportunity flow steadily increased during 2022 and into 2023, opportunity volume is now very high. Consequently, Lion has engaged in a high volume of assessment work including numerous diligence processes and site visits. So far, this work has delivered a small number of carefully chosen investments to cornerstone the targeted project development-oriented portfolio. There is now a strong watchlist of opportunities that are considered a pipeline of potential investments, several of which are at an advanced stage of assessment to be carefully monitored.

The investments made by Lion recently have been skewed toward gold companies. This reflects the deeply discounted nature of pre-development gold situations at the moment, which is an interesting disparity in the market. Despite A$ gold prices being at record highs (with a positive outlook) pre-development gold companies have largely been abandoned by the equity market – gold explorers are currently a highly contrarian investment.

Lion expects to adopt broader commodity diversity as further opportunities are added.

During the quarter, Lion announced two additions to the portfolio.

Saturn Metals (ASX:STN)

Lion has committed to invest $3M in the fund raising announced by Saturn Metals (ASX:STN). This will be Lion's largest deployment of funds into a new investment since exiting Indonesia and will make Lion a substantial shareholder in Saturn (11.45% after the placement ($6M total) and 10.64% after a fully subscribed SPP (a further $2M)). Saturn has a large established gold Resource in Western Australia near Leonora, and recent metallurgical test work has shown that high recoveries of gold can be obtained by heap leach style processing, which led to the announcement of a preliminary economic assessment published by Saturn on 17 August 2023. Lion has been attracted to a low-cost entry into a potentially strategically sized gold development opportunity.

Sunshine Metals (ASX:SHN)

Lion also made an investment of $0.25M in Sunshine Metals (ASX:SHN) which holds a polymetallic (zinc, gold, copper) Resource in North Queensland within a geological belt that contains numerous similar examples of mineralisation. As a result of investment by historic owners of the ground, Sunshine benefits from defined Resources that are open in all directions, and established targets that are revealed in the data-rich ground position. There has been mining in the district for over a century and the project is well located with respect to critical infrastructure, which reduces the risk threshold for potential future project development.

The replacement cost of the project databases for both Saturn and Sunshine would far exceed the capitalisations of the companies, which makes for low-cost entry to two well established projects with very compelling future value fundamentals. These are both cents in the dollar style investments in projects with robust outlooks.

Lion's investment in Sunshine was made via the placement announced on 21 September at 1.4cps. On 24 November (after Lion's quarter end), Sunshine announced the result of a drill hole targeting a feeder zone, which returned a broad intersection of high-grade gold. In the short period since, Sunshine has traded strongly and closed at 3.1cps on 27 November.

Plutonic Resources (unlisted) work at Champion in the Northern Territory through 2023 has identified the potential for never-before considered mineral systems over a large area, providing the basis for large exploration targets which could lead to district scale discoveries. Champion is situated on a geodynamic setting that is considered ideal for the formation of giant mineral systems: occurring near the junction of continental-scale structures, and field work in 2023 has identified large areas of alteration that are characteristic of mineral systems that can contain gold and copper, with metal anomalism in rock chips including up to 1.3 g/t gold and up to 1,840 ppm copper. Plutonic is an unusual investment for Lion, having only rarely and hence very selectively made investments at such an early stage historically. Subsequent to the quarter end, Lion announced a commitment to invest a further $2M in Plutonic which supports a 2024 field season to follow on from the exciting developments of 2023. Success at Champion would mean the discovery of a new district which could hold immense value.

Lion's investments in **Great Boulder Resources (ASX:GBR)** and **Alto Metals (ASX:AME)** have continued to progress their respective Western Australian gold projects. 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 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.

Lion's main asset is cash, which is available for investing and will see the portfolio of Australian focussed investments added to, across a number of commodity exposures. Lion is earning a strong return of interest (over 4%pa) on cash, which has bolstered the cash balance despite recent investments and dividend payments.

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.

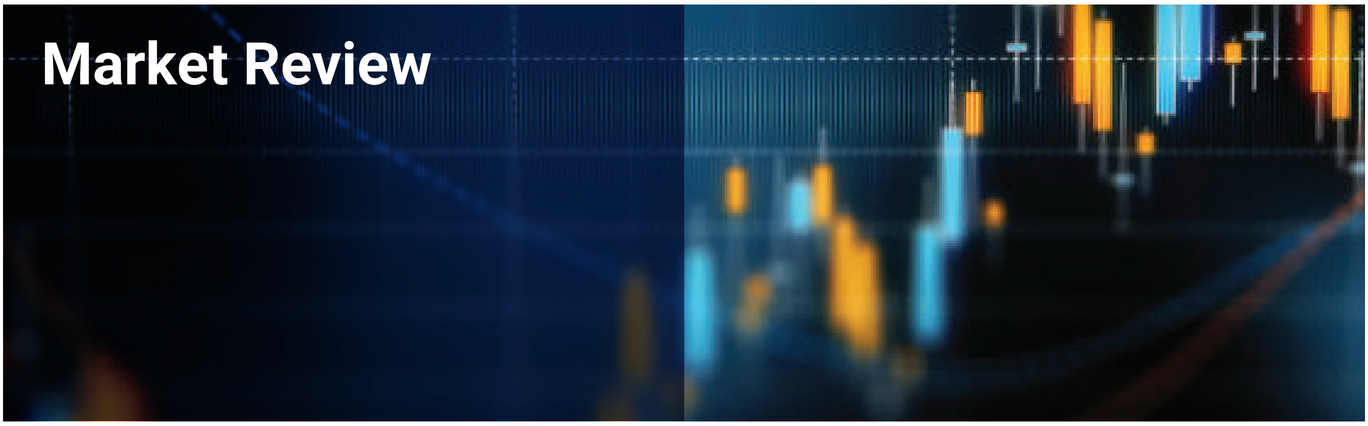
- **Erdene Resource Development Corp (TSX:ERD)**
  Gold and Molybdenum in Mongolia.
  Early development works have begun at the Khundii gold project which was discovered by Erdene in 2015.

- **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. The first project approvals are expected imminently, and systematic on-ground work is anticipated to Follow.

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

Market Review



Liquidity – generally terrible, but in some cases defying logic

The market is currently tough for resource juniors and fund raising is challenging. But the generalisation of 'liquidity has dried up' masks striking exceptions and some norms of markets that are being ignored.

'Trend trumps fundamentals every time'. Just not at the moment

Over the long-term equity trends in the mining sector take a lead from commodities, and mining equities and mineral commodities are closely correlated. Turning points in the mining market have always been associated with a turning point in commodities – although at the times these turning points were not recognised as such, many promoters and market watchers insisted that a more positive fundamental was still in place[1]. Equity markets are excellent followers of commodity trends but poor forecasters. There has never been a case in history where a set of mining equities permanently detached itself from the associated commodity price trend. But there are loads of examples of short periods when investor sentiment drove groups of equities to anomalous pricing based on a fundamental, only to eventually 'revert to the commodity'. Trend always trumps fundamental, which can be true for the long term but disrupted short term.

There are two examples at the extremes of investor sentiment that stand out at present.

GOLD – both safe haven and contrarian

The gold price has benefited from the persistence of inflation, is trading near all-time highs in US$ terms and strongly boosted in A$ terms by a weakening A$. Share prices of large gold producers have been generally positive, yet pre-development gold companies have seen their prices slashed and are one of the most contrarian investments you can make at present. Whilst the market is prepared to buy gold at extreme highs it is also valuing established resources in exploration and development companies at the opposite extreme and in some cases, well below replacement price.

Lion recognises this opportunity; we have taken advantage to establish holdings in several gold explorer/developers.

The best explanation for the extreme difference in sentiment from gold miners to explorers is funding risk and the difficulty raising funds to develop a new gold project at present, linked to the risk of budget blow outs on capital expenditure or from slow commissioning – for which there are several recent examples. Lion is extremely mindful of this risk in making assessments.

1. 'Stronger for longer': every mining promoter, early to mid-2008.

LITHIUM – crazy rich West Australians?

The lithium carbonate price is currently one quarter of the peak price of November 2022[2]. Lithium has had a short, volatile history in its brief existence as a mainstay of the electrification theme. It fell by over 75% from its highs in 2017, which brought on existential moments for the few new producers struggling to commission their projects in 2018, then rose by over 15x between late 2020 and late 2022 before the most recent collapse. Lithium producers have softened recently – Pilbara Minerals is down 35% since its peak in November 2022. Pilbara, Allkem and IGO make up the 4th, 3rd and 2nd worst performances in the ASX100 in the last 12 months.

And yet there has scarcely been a better time to discover lithium, especially in Western Australia. Azure Minerals has gone up 15x in 12 months and remains at its highs. Azure is currently capitalised at A$1.9B, owns 60% of its project which so far contains no Resource (but a thick and large lithium discovery is evident), is subject to a takeover bid at $3.50/share from SQM yet is trading above $4/share.

Hancock Prospecting and Mineral Resources, each backed by prominent resource Billionaires, have accumulated substantial shareholdings – large proportions of which have been purchased above takeover bid price (which includes a premium for control). Earlier in 2023 Hancock took up a similar position in Liontown Resources after a takeover bid had been made by Abermarle which seemed to be the event that preceded the bid falling away. It is so far unclear whether these Billionaires want to own all of Azure or Liontown, but it sure is clear that their positioning is motivating other investors.

Granted, Azure appears to have made a sizeable discovery, but when a commodity price has dived so severely in the past as it has in lithium recently, it has meant curtains for explorers. The severe declination in the lithium carbonate price doesn't appear to have dented investor appetite. When it comes to lithium investors appear enthusiastic to speculate about M&A outcomes in Western Australia and there is no evident concern about funding risk or budget blow outs. These attitudes are totally opposite to the mood of the same investors toward gold projects and make investing in quality lithium projects with a long-term view challenging. Will the Billionaires keep buying at above-takeover-bid prices? Do they want to own all of Azure? If they stop, will lithium price sentiment come into focus? Other prominent lithium explorers internationally don't seem to be experiencing the same exuberant investor interest.

Liontown was negatively re-rated after its takeover bid fell away, and announced a fund-raising totalling $1,181M (including $760M of debt, and an equity fund raising of up to $421M priced at $1.80/share, versus the price of $3/share for the bid that fell away) to cover remaining project development costs and working capital. The November 2021 definitive feasibility study contained a capital cost of $473M, which would be covered two and a half times by the recent raising. While there has been change to the scope of the project, it looks very much like a lot more money than anyone expected has been spent, and the project is still not built[3]. Liontown's price has softened further from the raising price (currently $1.46/share), whilst this is now less than half the $3/share bid price, is down 29% from the lithium market highs of November 2022 which isn't as negative a performance as the producers and is within the trading range that existed prior to the bid. This trading pattern seems more aligned with removal of a large premium for control than punishment for severe over-expenditure.

Performance since 11 November 2022 and ASX Market Capitalisation of companies at 20 November 2023

Lithium Carbonate CNY/T	Pilbara Minerals	IGO Ltd	Allkem Ltd	Liontown Resources	Azure Minerals
-76%	**-34%**	**-46%**	**-45%**	**-29%**	**15x**
	A$10.7B	A$6.8B	A$5.7B	A$3.5B	A$1.9B
Commodity Price	Key Australian Lithium Producers			Mine Developer	Successful Explorer

2. If you have been selling your gold exploration equities because you're more interested in Lithium explorers, you may need to re-read that sentence.
3. Imagine if a gold company had done this.

Tall poppies

Chalice Mining achieved a market capitalisation in excess of $3.3B at a peak share price of $9.85/share on 16 November 2021. Much of this lofty capitalisation was achieved prior to announcement of a Resource, which was announced on 9 November 2021, a week prior to the peak price. Chalice has fallen almost 85% since its peak – quartering in price in 2023 – with the steepest falls following the release of a scoping study in August 2023. At the recent price of $1.50/share Chalice was capitalised at $593M.

Liontown, as described earlier, has more than halved in price as it tumbled from a significant market capitalisation that was generated partly by the white-hot lithium market (before the commodity price collapsed) and then a takeover bid. The price collapse has followed the takeover bid being withdrawn.

Many investors have lost money across the pre-development resources landscape recently. But because Chalice and Liontown had achieved multi-billion-dollar capitalisations, collecting large institutional investors along the way, institutions have lost money on the demise so far of both. Some of these institutions would have developed holdings passively, because Chalice and Liontown entered large capitalisation market indices. Our hearts don't bleed for institutions losing money, the point is that institutions are the absolute swing investor for explorers and the holy grail is to build an institutional shareholder register, and easily deterred. Multi-billion-dollar capitalisation losses or collapses can produce investing experiences that go on to increase the challenges of future funding for the rest of the market if they deter future institutional participation.

Every institution that has lost money in a Chalice or a Liontown will perceive 'Something has caused this'. Whether or not their conclusions are accurate or justified, the portion of their conclusion that concerns us is that investments in new project developments or explorers are more risky than we thought before. The effect this has on liquidity is unlikely to be measurable, because the overall drop has been so large anyway. It may well be easier in the future for these investors to restrict their funding decisions to companies that aren't building projects, which is likely to reduce the market's funding capacity for equity portions of project developments.

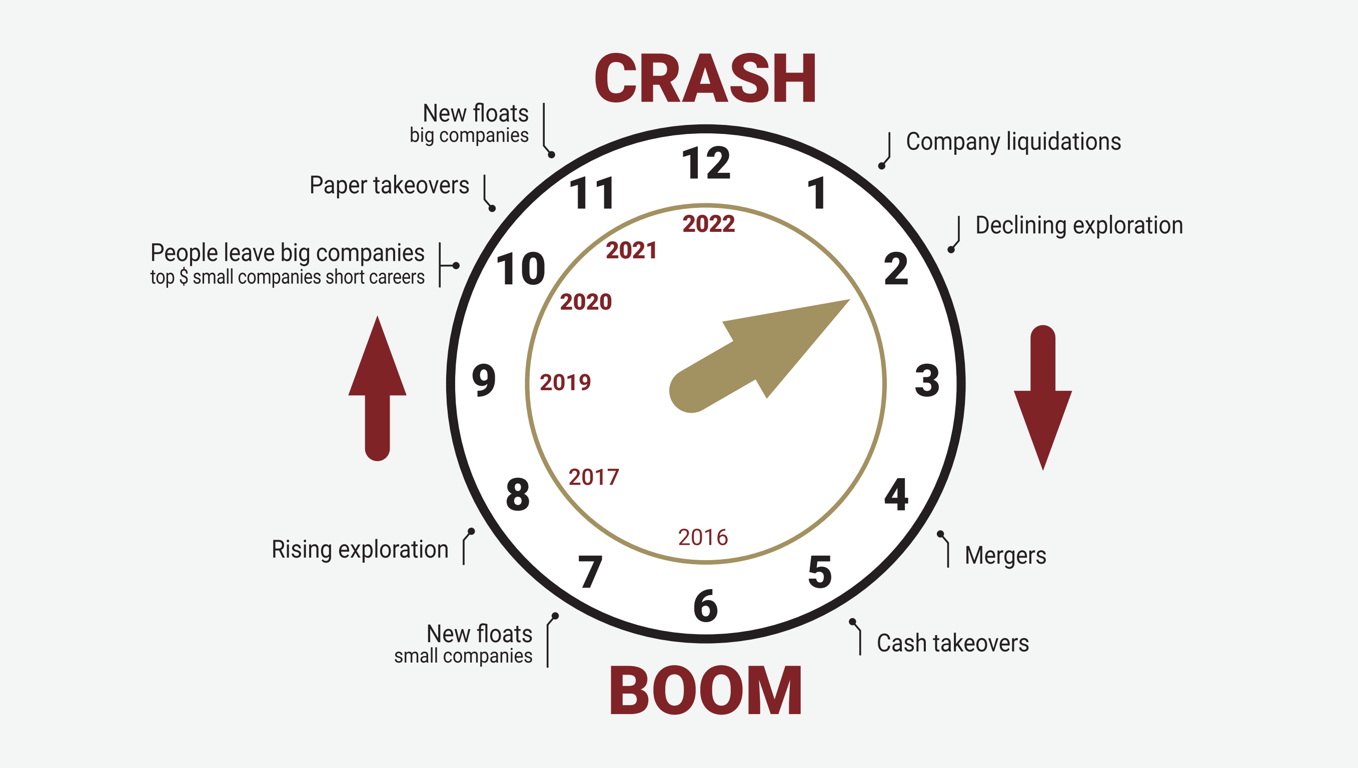
The Liontown bid fell away in such unsual circumstances, there are undoubtedly investors wishing they had just sold into the market at the bid price. They would have had cash to invest now, rather than the regret of a holding that suddenly halved. Had the full bid completed $6.6B cash would have been liberated, and even if this was only partially reinvested in the sector it would have been a positive boost to liquidity.

Lion Clock – early hours, ticking slowly

The Lion Clock was at 12 midnight in mid-2022, but we haven't addressed it since[4]. The equity market is overhung with interest rate concerns, geopolitical tensions and straining global economies. But the market hasn't crashed, it has only weakened – especially so for exploration stocks. Without drastic losses in large capitalisation companies[5], or a dramatic shock and capitulation, there has been no event to reset sentiment which is otherwise able to wander. In some cases, it fades to nothing and in others it can cling to attractive fundamentals. This results in unusual levels of speculation and uneven application of concern about risks. We see tremendous differences in sentiment between commodity sectors.

The gold explorer and developer market is depressed, despite a positive commodity lead (which is being enjoyed by producers) and investors appear concerned about the risk around raising development capital and budget overruns / poor initial project performance in new developments. There could not be a greater contrast to the lithium explorer market – there appears to be no concern about these specific risks, and optimism about Western Australian explorers is outweighing even the fully funded and developed producers. The performance of some discoverers of lithium have defied a 75% fall in the commodity price, weakening in producer equity prices and some of the largest blowouts in capital budgets seen in the industry recently. The cause of this extreme buoyancy for the equities of lithium discoverers is M&A speculation, driven and stoked by the behaviour of two billionaire strategic investors. Lithium fundamentals do look great, but the recent price trend hasn't been. Either the investment market or the commodity market will end up being right – they can't both be.

4. We have not addressed this *publicly*. It has been the topic of intense internal debate, and a question at every single conference.
5. Other than the noted tall poppies.



The clearest markers for the progress of the mining cycle so far are:

- Commodity prices have weakened. There is a range of performances across the spectrum of mineral commodities. Gold is near record highs, copper is down 24% from its March 2022 high, lithium is down 76% from its November 2022 high.
- Mining equities, like most other equities have weakened. This is almost a sideways march for major miners but has been severe for explorers.
- Liquidity has declined, as the pace and size of exploration IPO's and fund-raising patterns show.
- Exploration expenditure hasn't fallen, it has levelled off[6]. Even so, drill rigs were in short supply in 2021, but are now far more plentiful.

As the cycle progresses, presuming funding remains challenging for explorers and commodities weaken, we would expect to see other markers such as corporate bankruptcies.

The Lion Clock has been moved to 2 o'clock reflecting the drop in liquidity that has occurred but acknowledging that the equity market, which is the source of liquidity, remains delicately positioned and still has the potential to deliver a further shock. The Lion Clock is wound on liquidity, which reflects the mining market as a whole. Currently, there is amazing liquidity around lithium, which is directed mostly at successful explorers in Western Australia rather than producers and driven by M&A speculation in defiance of the overwhelming commodity price lead. This does not mean the 'lithium clock' is pre-midnight[7], it means there is a disproportionate amount of total liquidity directed at lithium, and if M&A activity dries up then a measure of this liquidity might too.

6. Based on Australian Bureau of Statistics figures, dated 30 June 2023.
7. There is **no** 'lithium clock'.

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