Lion Selection Group

Quarterly Report
for the 3 months ended 31 January 2024

ASX:LSX

Portfolio development: Lion is focussed on opportunities in precious metals, base metals and strategic materials, and will consider any mineral resource situation focused in Australia for new investment.

- $2M committed to Plutonic taking Lion's interest to 48.5% of an **unlisted district discovery opportunity**.
- $3M investment in Saturn Metals completed taking Lion's interest to 10.8% of a **large and strategic gold resource amenable to very low-cost mining and processing**.
- Top-up investment of $0.25M in Great Boulder Resources where Lion now holds 1.7%, **exploring for the eastern repetition of the Meekatharra gold fields**.

High volumes of deal flow and opportunity assessments.

- Market conditions for micro-capitalisation resources companies have continued to weaken.
- Large capitalisation miners have weakened in 2024, suggesting there is worse to come.
- Lithium driven optimism which had defied a lithium price collapse has now disappeared.
- Lithium (and other strategic minerals) explorers which were ridiculously expensive in 2021 have come down in price.

Lion continues to earn in excess of 5%pa interest on cash and finished the quarter with $69.7M cash.

As announced during the quarter, Robin Widdup was appointed Executive Chairman of Lion, and Barry Sullivan stepped down as Chairman to take up a position as Non-Executive Director.

The independent directors of the Lion board (Barry Sullivan, Peter Maloney and Chris Melloy) have commenced discussions with Lion Manager regarding the ongoing need for an external manager, and the potential for a more conventional management structure.

ASX : LSX Share price	NTA
42.0¢ps	Pre-Tax **61.4¢ps** Post-Tax **61.3¢ps**
as at 31 January 2024	as at 31 January 2024

Lion Selection Group

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

$69.7M 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 January 2024

Lion advises that the unaudited net tangible asset backing of Lion as 31 January 2024 is 61.4 cents per share (before tax) and 61.3 cents per share (after tax).

	Unaudited NTA A$M
Net Cash	69.7
Portfolio	17.0
Less Tax	(0.2)
NTA Post Tax	**$86.5M**
NTA per share (post tax)	**61.3cps**

Notes to the NTA

- The NTA laid out above excludes $1.6M 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.

Cash movements during the quarter

The principal movements in Lion's cash balance between 1 November 2023 and 31 January 2024 are described below.

Cash management

- Lion received interest income of $840k.
- Lion's cash is held between an on-call account and term deposits which roll off on a regular basis, providing a higher interest income than call accounts but ensuring Lion has sufficient access to liquidity to fund investment opportunities as they arise.
- Note that the interest on term deposits that Lion had in place as at 31 January 2024 ranges between 4.42%pa and 5.44%pa.
- As at 31 January 2024 Lion held $69.7M cash, which is available for investing and will see the portfolio of Australian focussed investments added to, across a number of commodity exposures.

Investment portfolio

- As announced on 20 November 2023, Lion committed $2M to Plutonic as part of a $3-5M raising. This raising was closed in two tranches, with the first close occurring during the quarter and Lion investing $1,288,402 of the committed $2M. Note that the balance of the $2M was invested post quarter end which would take Lion's interest to 48.5%.
- Lion followed its interest to invest $250,000 in the $4.5M funding announced by Great Boulder on 23 November 2023. Lion's Great Boulder interest is now 1.7%.
- Lion completed its investment in Saturn Minerals which was announced on 16 October 2023, investing the second tranche of $1,216,747 to take Lion's interest to 10.76%.
- Lion did not add a new stock to the investment portfolio during the quarter, which coincided with the months of December and January, which are typically low activity in capital markets.

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, where the opportunity to leverage investment returns through the natural operation of the market cycle is considerable. This investment approach targets strong value creation and requires a specialist approach to investment selection and monitoring of risks, especially the status of the mining cycle which Lion does utilising the Lion Clock.

Through 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, or to acquire direct project interests at attractive prices, while the market is weak.

Opportunity assessment 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.

Market conditions for Lion's target investment universe have weakened substantially between 2021 and present. These conditions have imposed challenging funding conditions for micro-capitalisation resources companies resulting in very large share price deterioration across the sector. These conditions have resulted in a large volume of opportunity flow at reduced and reducing prices and are not expected to alleviate in the short term. Lion envisages a portfolio that contains 10-20 individual companies (excluding legacy investments) or projects that provide commodity diversity within Australia, which will be added to as appropriate entry opportunities arise and built on through the weakest part of the market.

So far, Lion's assessment and due diligence work has delivered a small number of carefully chosen investments to cornerstone the targeted project development-oriented portfolio. There is now a growing watchlist of opportunities that are considered a pipeline of potential investments, many of which are at an advanced stage of assessment to be carefully monitored. Of the watchlist stocks, many have presented earlier as investment opportunities previously at higher prices.

Lion completed several substantial diligence processes during the quarter. The conclusion of these in each case was not to invest, with a common reason being the detection of risks that are likely to manifest during 2024.

Selected highlights from the investment portfolio are described below.

Portfolio growth

Lion did not add any new companies to the portfolio during the quarter, which spans months which are normally quiet in Australian capital markets, but did follow its money to increase holdings in two of the portfolio stocks.

Whilst gold price performance was positive for much of 2023, sentiment toward gold exploration and development companies was poor, which presented some of the most attractive opportunities (and contrarian) in the market and attracted Lion to the price/risk outlook for gold opportunities. Sentiment toward gold micro-caps doesn't appear to have changed, but sentiment toward other commodity focussed companies (eg lithium) has weakened substantially and it is now probably more fair to say that the contrarian approach is to consider opportunities in micro-caps across just about any commodity, not just in gold. This broadens the range of opportunities from a Lion perspective.

Saturn Metals – strong economics available unlocking strategically sized gold development

Having invested $3M in Saturn Metals (ASX:STN) between October and December (having participated in both tranches of the placement announced on 16 October 2023) at 12.5cps, Saturn performed strongly during the quarter to peak at 20cps (closed the quarter at 16.5cps). Saturn holds a large established gold Resource in Western Australia near Leonora, where metallurgical test work has shown that high recoveries of gold can be obtained by heap leach style processing. Saturn's Preliminary Economic Assessment[1] demonstrated strong margins over a long-life project, by being able to employ large scale mining and processing – these metallurgical characteristics appear likely to unlock very attractive economies from scale.

1. Refer to STN announcement dated 17 August 2023.

The Australian mining sector is not as familiar with large scale heap leach processing as the North American Market, where large scale heap leach gold operations are more common. This factor may be relevant in the Australian market's disposition toward Saturn. Saturn is now well funded to develop the assessment of a project which already has the scale of Resource to potentially become a strategically sized gold development opportunity. Lion's 10.8% holding in Saturn has been invested at well below the replacement cost of the historic investment in the project, at a price that reflects poor market recognition of the value that could be unlocked via the newly recognised heap leach suitable metallurgy.

Plutonic Limited – district scale discovery

Plutonic Limited (unlisted) work at its focus Champion project 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. Plutonic was led to the area on the basis of a geodynamic setting that is considered ideal for the formation of giant mineral systems: occurring near the junction of continental-scale structures. Work in 2023 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 has subsequently received Ar-Ar maximum age dates of 450Ma and 400Ma from alteration minerals. These age date results overlap with the ages of most of the porphyry, epithermal and orogenic gold +/- copper mineralisation of the Tasmanides (Eastern Australia), a period which was responsible for numerous mineral deposits.

Plutonic is an unusual investment for Lion, having only rarely and hence very selectively made investments at such an early stage historically. With the completion (post quarter end) of a $3M funding Plutonic is now positioned strongly to deploy Induced Polarisation geophysics in the largest ever field season in the area. Having now invested a further $2M as part of Plutonic's recent raising, Lion holds 48.5% interest in Plutonic. Success at Champion could mean the discovery of a new district which could hold immense value, and Lion's investment premise here is simple: a potentially very large reward on an investment that has been made for a low cost and now a high percentage exposure.

Great Boulder – uncovering 'Eastern Meekatharra'

Lion invested a further $250,000 in Great Boulder (ASX:GBR) during November as part of Great Boulder's $4.5M fund raising, which took Lion's interest to 1.7%. Great Boulder's focus is the Side Well gold project, immediately east of Meekatharra in WA over geology which is geologically equivalent to the well mineralised and historically mined gold fields around Paddys Flat and Meekatharra, being the folded eastern limb of the same stratigraphy. Lion invested prior to the establishment of any Mineral Resources at Side Well. Since Lion's first investment, Great Boulder announced a first, and subsequently upwardly revised, Mineral Resource for Mulga Bill, which is an unusual style of gold mineralisation for the WA gold fields. The 568koz Mulga Bill Resource [2] is open along strike and at depth and contains numerous high-grade intersections.

Great Boulder has also established Resources in more conventional (for WA) mafic/ultramafic rocks along a region considered stratigraphically equivalent to the Paddy's Flat Mineralisation at Meekatharra. Only a small portion of this area has been available to Great Boulder to drill, but heritage clearances in 2023 have now been completed and Great Boulder is drilling on targets extending over a strike of 14km. The new discoveries of Great Boulder are within short trucking distance of established gold process facilities, leveraging Great Boulder to potential future consolidation in the WA gold sector and at very least providing commercialisation opportunities in addition to stand alone development.

Many geologists have historically questioned why the eastern limb of the regional scale fold at Meekatharra is apparently less well mineralised than the western limb. It may well be that the two are more alike than long considered – work by Great Boulder may unlock the answer to just how significantly the Eastern limb is mineralised.

2. Refer to GBR announcement to ASX dated 16 November 2023.

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 have now been granted, 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

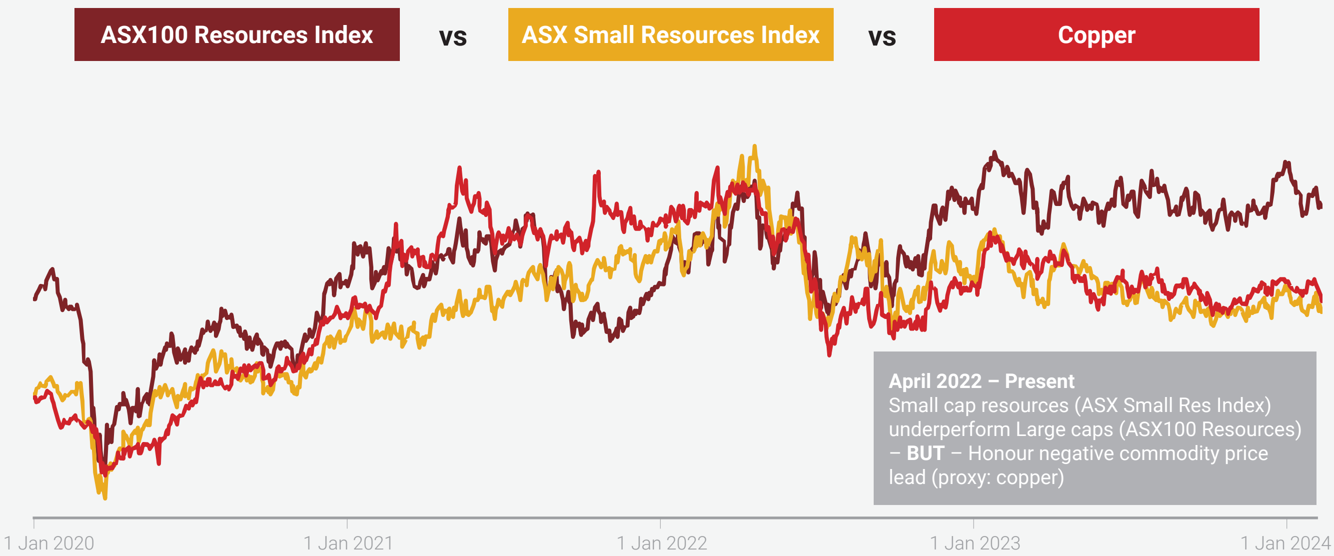
What a difference a new year can make. Many CEOs of micro-cap resources companies woke up on 1 January hoping 2024 would be a better year. For many of them, 2023 probably felt like a death by a thousand cuts and so far, 2024 has just been rubbing salt into the wounds.

Equities – Large cap miners (finally) following the commodity lead (?)

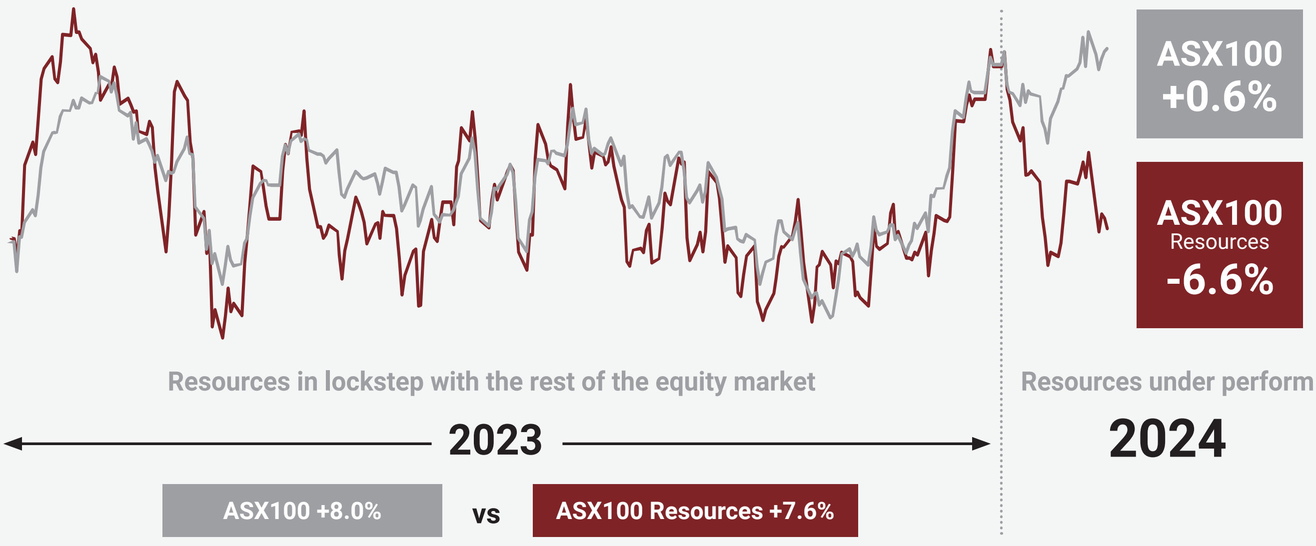
2023 was the year of large capitalisation stocks which showed resilience where smaller capitalisation companies, irrespective of their industry or focus, suffered from price weakness. Australia's headline large cap market index the ASX100 spent a lot of the year moving sideways, then a December rally resulted in a positive performance for the year. Large capitalisation resources stocks – represented by the ASX100 Resources index – traced a very similar pattern to the broader market. But in 2024, resources have dropped noticeably away from the broader market trend, starting the year negative.

Negative performances in the ASX100 Resources stocks are shared across most of the component stocks and is a stark change in trading pattern – having been in lock step with the broader market right through 2023. This is the first significant negative divergence of resources stocks we have seen since the beginning of the resources bear market in 2011 (there was a brief period in 2021, when many commodity prices peaked and many of the large miners fell – only to quickly regain lock step with the market).

Reflecting on the last 2-3 years of equity and commodity performances, small and micro capitalisation resources stocks followed the commodity lead most faithfully, weakening substantially since April 2022 – the proverbial canary in the coal mine. In previous cycles, the largest miners have been the most resilient to commodity prices turning negative. This recent negativity has the appearance of large capitalisation miners now following that lead.



Large and Small capitalisation resources equities (represented by the ASX100 Resources and Small Resources Indices) versus copper: 2020 to present. The Small Resources index has weakened persistently since April 2022, following a negative lead by commodities (proxy here is copper), whilst the ASX100 Resources index has been resilient.



Large capitalisation Resources versus the rest of the market (represented by the ASX100 Resources and ASX100 indices): 2023 to present. In 2024 the Resources index has noticeably underperformed the broader market, having been in lockstep through 2023.

Liquidity

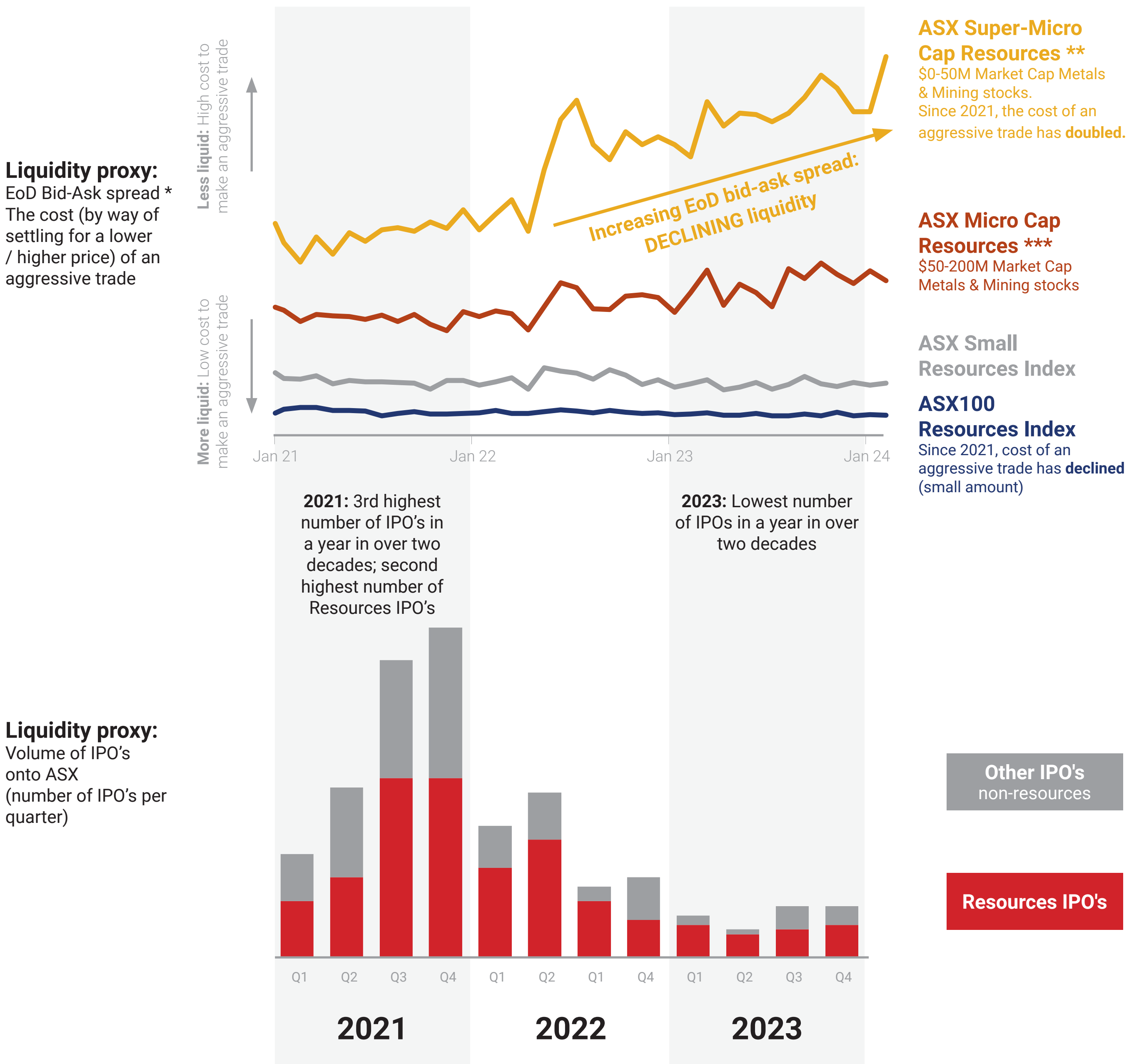
Lion monitors liquidity indicators because liquidity is the driver of the Lion Clock. Liquidity grows when the time is on the left-hand side of the clock (6 to 12) but is absent on the right (12 to 6).

The volume (number per year) of Initial Public Offerings (IPOs) is a terrific measure of liquidity taken over several years, but too coarse to monitor finer trends or the differences in liquidity between large and small capitalisation companies. As an alternative, a measure of daily bid-ask spread (the difference between the price being offered by buyers versus the asking price of sellers) can be monitored for ongoing changes and to compare large and small capitalisation groups of companies. The broader the spread, the larger the cost for an investor to execute an aggressive trade, because buyers and sellers are further apart on price expectations. Over the last three years this paints a fascinating picture.

Comparing baskets of resources stocks on ASX:

- Best liquidity, manifest as a narrower bid-ask spread, is for the group of ASX100 Resources stocks, and liquidity is generally lower for smaller companies. This disparity would be expected.
- Between 2021 and 2023, liquidity to smaller capitalisation companies decreased. This has been evident in IPO trends, but as the chart shows this has been a substantial decline, especially for the smallest companies. Using this measure, the bid-ask spread **doubled** for the pool of resources companies with market capitalisations less than $50M.
- In the same period, the bid-ask spread marginally narrowed for the ASX100 Resources companies. On face value, this contrast looks like a flight to safety and goes some way to understanding the relative resilience of large cap stocks who have been the beneficiary of the decline in liquidity for micro-caps.

2021-2023: Liquidity (bid-ask spread VS IPO volume)



Data source: IRESS DATA

* End of Day (EoD) bid-ask spread computed as the difference between the recorded end of day ask price and bid price, divided by the mid-point price (so the size of the spread is expressed as a proportion of the share price). The series in the chart is the daily (unweighted) mean across the basket of companies, aggregated over a month.

** 551 Companies with GICS classification 'Metals & Mining', that were capitalised at $0-50M on 6 January 2024.

*** 130 Companies with GICS classification 'Metals & Mining', that were capitalised at $50-200M on 6 January 2024.

Liquidity measures compared for 2021, 2022 and 2023:

1. End of Day (EoD) Bid-Ask spread is the cost to an investor of an aggressive trade. This cost has diminished slightly (small liquidity increase) for the large capitalisation resources companies of the ASX100 Resources index.
2. In the same period, this cost has doubled (liquidity significantly decreased) for a basket of resources companies capitalised at less than $50M.
3. IPO volumes confirm a substantial decrease in liquidity from 2021 to 2023.

Shades of a typical down cycle?

It is worth reflecting on the trends that play out through a mining cycle crash:

1. Commodity prices fall

So far across most commodities we have seen a weakening but not a collapse. From a commodity price perspective, the last two years are beginning to look somewhat like the period ~2011-2012, where commodities came off their China stimulus induced peaks but had yet to endure their full fall through to late 2015. Long term fundamentals for commodities are wonderful, and these are still strongly promoted by their proponents, but with a lack of economic stimulus it is hard to see a rebound in commodities in the short term.

What about lithium? The media has spent a lot of time in recent months on lithium (and nickel), which has had one of the worst price performances in the last two years. The worst of the falls took place between late 2022 and early 2023, so lithium's collapse is actually old news – the newest part of the story is around sentiment. For a long while the persistent weakening in the lithium price was explained away as a short-term aberration against a long-term super fundamental which the equity market was keen to cling to. 'Strategic minerals' is no longer the catch phrase it once was, and the equity market is adjusting.

2. Liquidity declines

This has well and truly begun, and as illustrated above has impacted smaller capitalisation companies the most. In fact, the manifestation looks like a 'flight to safety', where liquidity has marginally increased for the largest companies, and decreased inversely proportionate to capitalisation such that the smallest capitalisation companies are the worst affected.

3. Budget cuts

When you are struggling to raise money, you need to stop spending it but budgets don't get cut as soon as equity price trends turn. Spending behaviours tend not to be what you might expect – any company fighting for relevance with investors needs to maintain news flow, and give investors reasons to invest, and this necessitates spending money. Exploration activity trends tend to peak after liquidity does as cash balances are drained after they are raised, and things like investor relations budgets tend to get reduced at the same time. Australian exploration as tracked by the Australian Bureau of Statistics tracks a decline in activity (drill meters per quarter) since a peak in 2021.

4. Equity prices fall

Over long-term data series, commodities and mining equities show a strong correlation. As noted, since a peak in April 2022, small and micro-capitalisation resources stocks have followed the negative lead provided by commodities, whilst the largest capitalisation miners have been resilient. Returning to the analogy of 2011 to 2015: small and micro-capitalisation resources companies honoured the commodity lead and fell for the duration of the bear market. But large capitalisation resources companies, having been resilient against the commodity lead, had their worst equity performances in the latter year(s) – circa 2015. Investor resilience was strongest in the largest companies, until capitulation set in.

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