

# Quarterly Report for the 3 months ended 31 July 2021



Lion Selection Group

## Investment Highlights

### Pani

- New geological model provides basis for future modelling and exploration targeting.
- Arbitration is now in progress.
- Pani historic data collated and summarised on the Lion website.

### Nusantara

- To be acquired by Indika via Scheme of Arrangement, 35cps cash.
- Scheme Booklet available on Nusantara's website and being dispatched to Nusantara shareholders together with the Notice of Scheme Meeting.
- Updated Mineral Resource Estimate, Ore Reserve, and DFS announced for Awak Mas Gold Project.
- Sale of Lion's Nusantara holding under the proposed Scheme would add \$17.5m to Lion's cash position, placing it in a strong position to manage an outcome on Pani.

### Erdene

- Dark Horse discovery grows: 27m at 5.86g/t gold.
- New discovery at Ulaan: 258m at 0.98g/t gold (300m west of the Bayan Khundii Gold Deposit).
- Local Co-Operation Agreement executed for Bayan Khundii development.



## Sector Themes

- Commodity prices create bonanza dividends and enhance the mining industry's investing capacity.
- Well-performing and well-funded industry beginning to look to growth?
- M&A beginning to look competitive.
- ASX miners' market weight has increased by 2.1x since 2015 – taken background from financials.
- At this point in the cycle, 11 on the Lion Clock – Lion is traditionally a seller not buyer. Lion has the ambition to set itself up for the next cycle, ideally paying regular dividends from crystallised profits on investments.
- Consequently opportunities are actively being assessed and prioritised for consideration once the sector falls.

### About Lion

Lion Selection Group is a mining investment company, focused on a portfolio of carefully selected and closely managed investments in listed and unlisted junior developing mining companies. Lion aims to offer diversity and a portfolio approach to the micro-cap end of mining investment, providing exposure to companies in various stages of development. Lion's investment model involves focusing investment towards the best opportunities in the portfolio, which from time to time results in concentration of Lion's portfolio towards specific investments and commodities. Lion is currently weighted towards several developing gold projects, across a range of jurisdictions but in particular to the Pani gold project in Indonesia.

**Lion is listed on ASX, under the ticker code LSX.**

ASX : LSX  
Share price

**44cps**

as at 31 July 2021

NTA

Pre-Tax **64.7cps**  
Post-Tax **62.6cps**

as at 31 July 2021

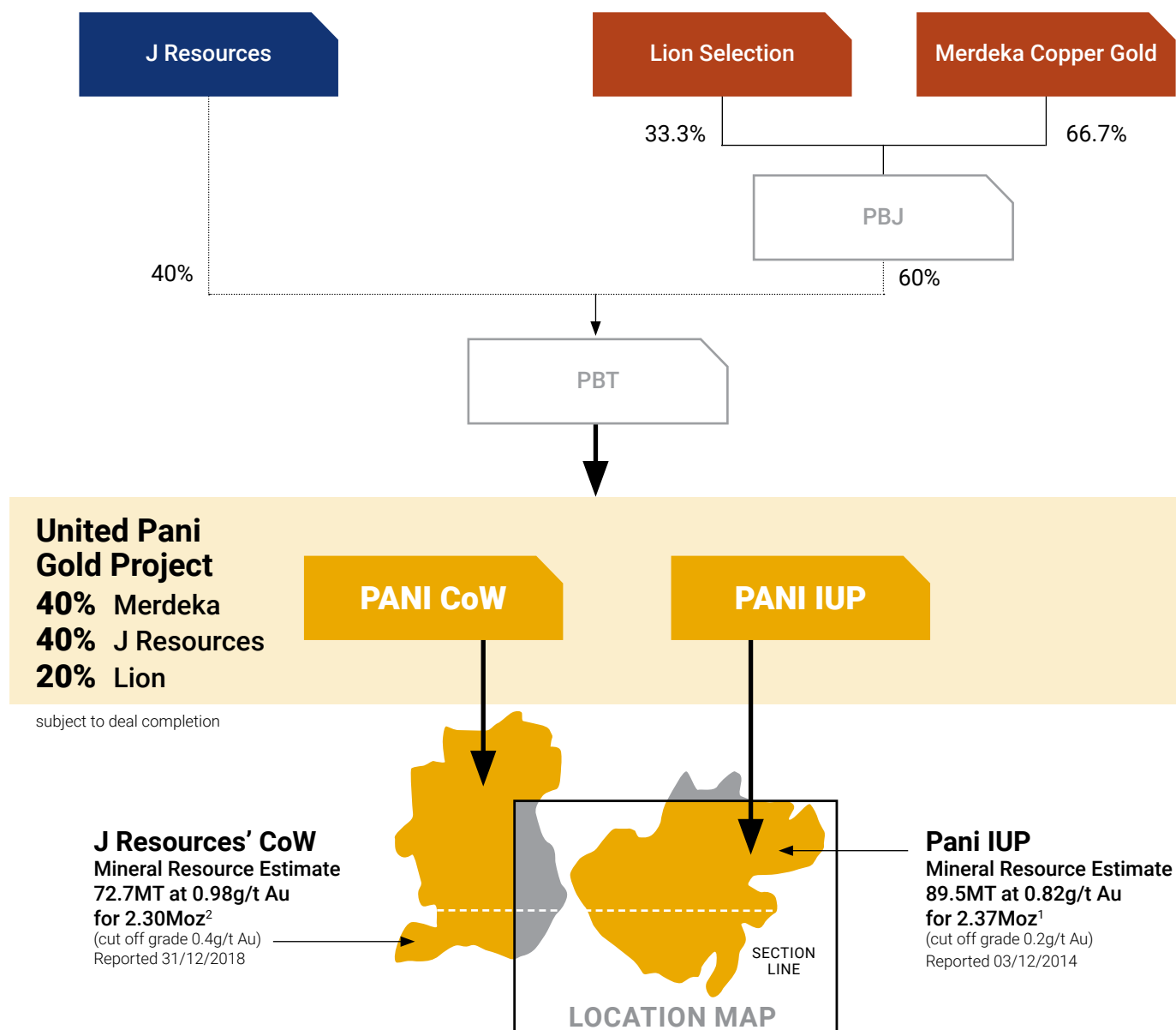
## Pani Joint Venture

Lion holds 33.3% in the Pani Joint Venture alongside Merdeka Copper Gold. The Pani Gold Project is emerging as a potential world class gold project, showing signs of size, exposure, geometry and metallurgy to warrant investigation of a large scale, long-life, open pit operation.

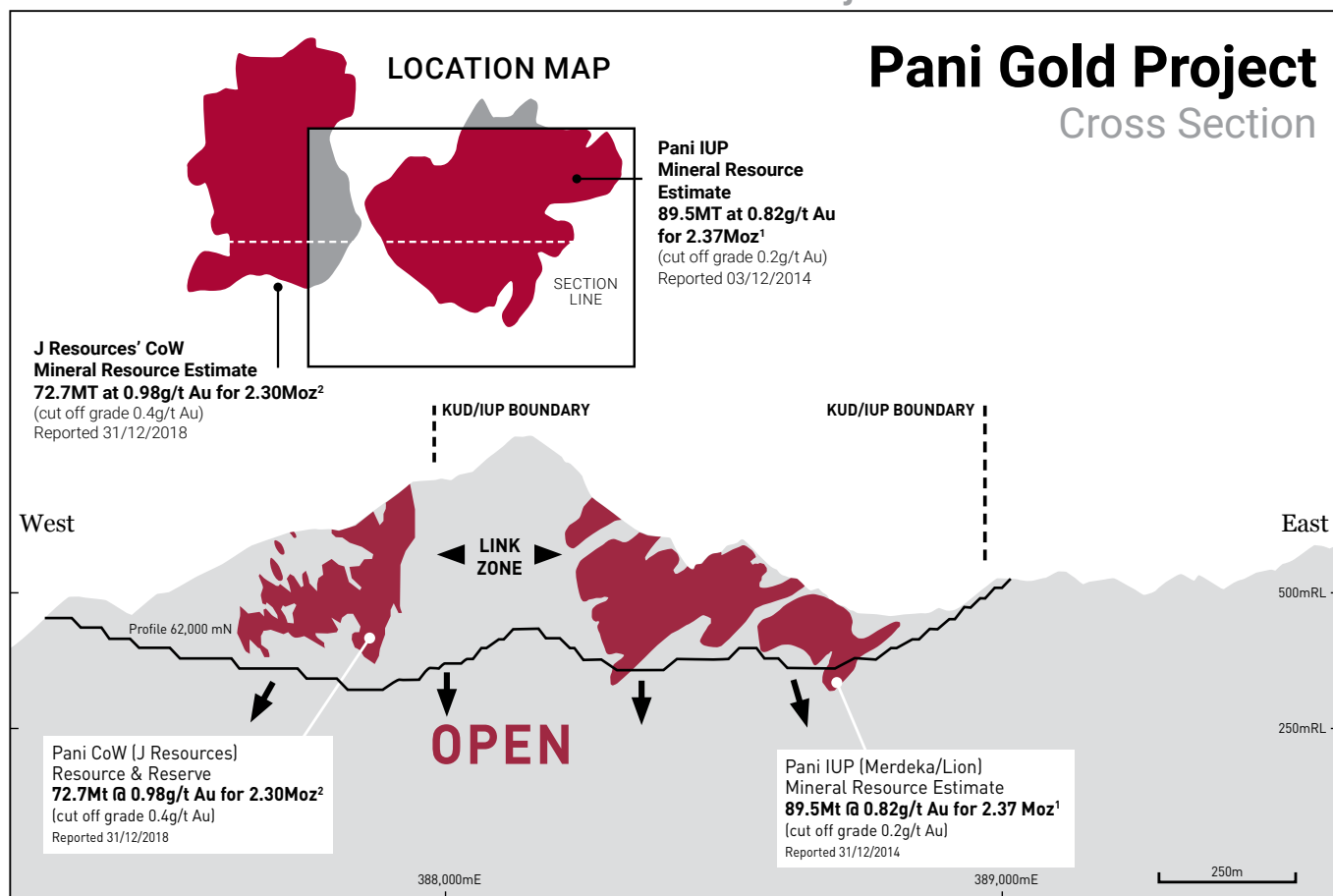
Pani currently consists of two Resources [2.37 Moz Au<sup>1</sup> (33.3% Lion/ 66.7% Merdeka) and 2.30Moz Au<sup>2</sup> (100% J Resources)] on two licences which historically have been separately held. An agreement to combine the two Pani tenements into one ownership group was signed in late 2019, but remains incomplete, and is subject to arbitration initiated by the Pani Joint Venture<sup>3</sup>.



Pani ownership diagram showing the Pani Joint Venture between Merdeka and Lion, which in turn have agreed to form a joint venture with J Resources to unite tenure over the Pani Gold Project.

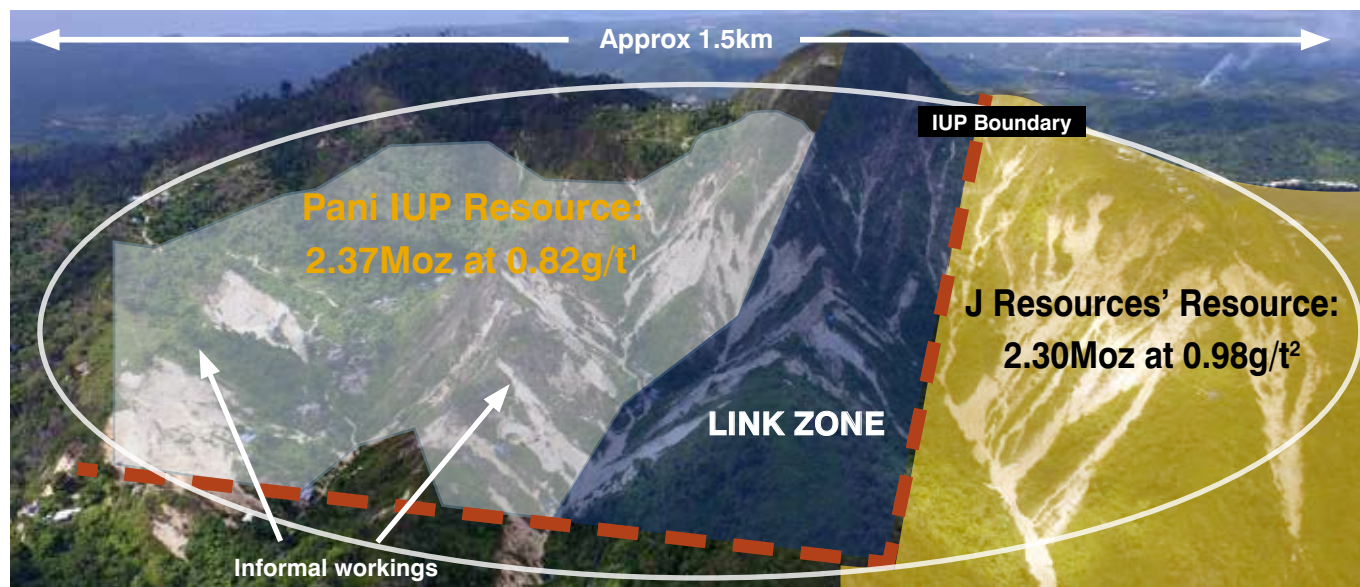


## East-West Cross Section over the United Pani Gold Project



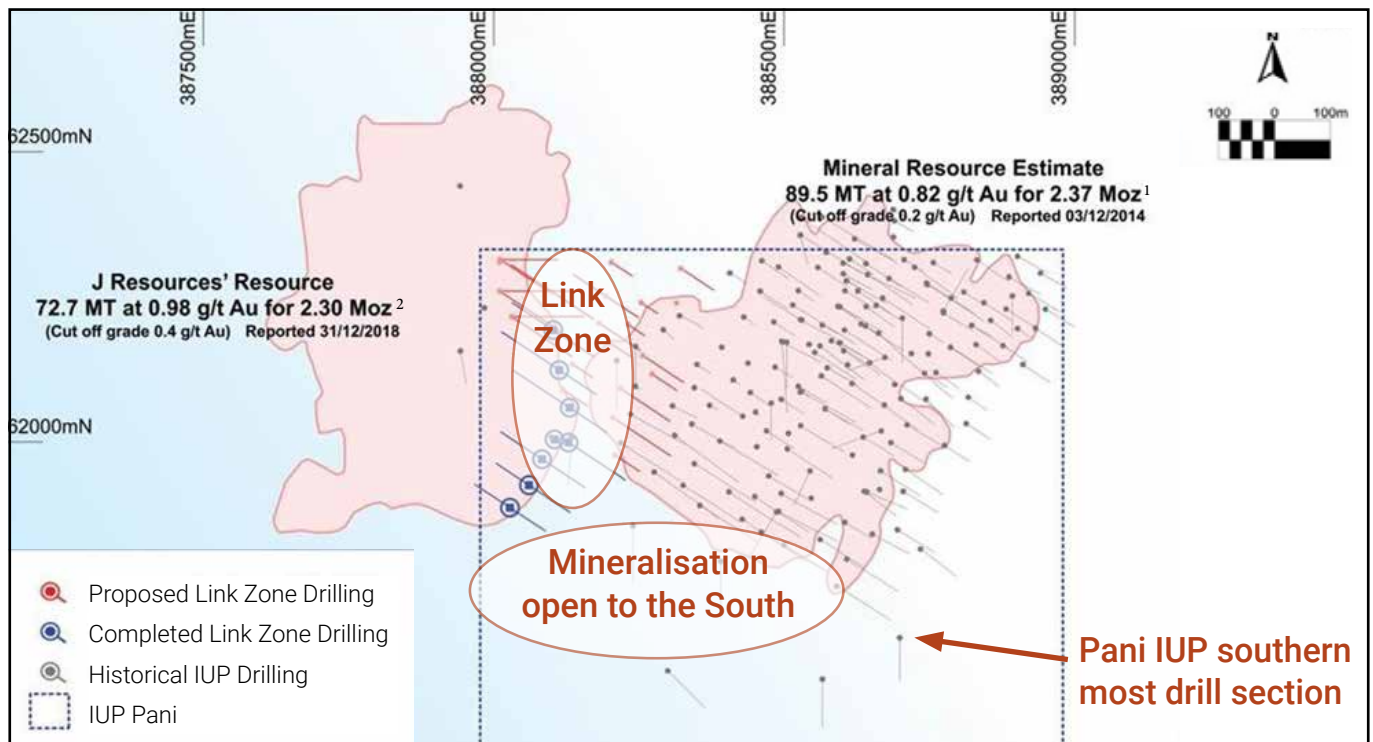
## Pani Mineral Resource Estimates

| Category     | Pani IUP (Lion 33.3%/Merdeka 66.7%)<br>0.2g/t cut off <sup>1</sup> |                |                      | Contract of Work (J Resources 100%)<br>0.4g/t cut off <sup>2</sup> |                |                      |
|--------------|--|----------------|----------------------|--|----------------|----------------------|
|              | Tonnage (Mt)   | Grade (g/t Au) | Contained Gold (Moz) | Tonnage (Mt)   | Grade (g/t Au) | Contained Gold (Moz) |
| Measured     | 10.8   | 1.13           | 0.39                 | 15.5   | 1.03           | 0.51                 |
| Indicated    | 62.4   | 0.81           | 1.63                 | 41.3   | 0.98           | 1.31                 |
| Inferred     | 16.2   | 0.67           | 0.35                 | 15.9   | 0.93           | 0.48                 |
| <b>Total</b> | <b>89.5</b>  | <b>0.82</b>    | <b>2.37</b>          | <b>72.7</b>  | <b>0.98</b>    | <b>2.30</b>          |



Pani view looking south showing the approximate footprint of estimated Resources on the IUP and Contract of Work, as well as informal workings.





**Pani map showing the outlines of known mineralisation and Resources, collars of 2020 Link Zone drilling and the targets for future exploration at Pani.**

## Pani Arbitration Update

As announced on 4 February 2021<sup>3</sup>, the Pani Joint Venture (Lion 33%, Merdeka Copper Gold 67%) earlier this year initiated arbitration action against J Resources in relation to a claim of non-compliance with the terms of the November 2019 J Resources agreement to combine the two Pani tenements into one ownership group. This agreement remains incomplete due to the lack of regulatory approvals and approval from J Resources' secured lenders. The Pani Joint Venture is seeking compensation in the range of US\$500 – US\$600 million or specific performance to complete the transaction.

The arbitration is now in process.

Neither party has terminated the J Resources agreement, and Lion still remains hopeful that the parties involved can avoid a drawn out arbitration process and close the deal as originally intended.

Lion is actively involved in seeking to reconcile the issues that have prevented the deal from closing. Joint development of the Pani Project generates maximum value for all participants. If completed, the combination of the two tenements and Pani link zone drilling results announced previously are anticipated to materially improve the valuation of Lion's investment in the Pani Joint Venture.



An extensive drill campaign is being planned to in-fill the link zone and test the depth and boundaries of the deposit once the J Resources deal closes.



## Pani Technical Progress

Technical work has continued and is being managed by the Merdeka team. The key focus has been unification of technical databases and generation of a geological model based on data and observations taken from the separate historic Pani IUP drilling (primarily by One Asia), Pani Contract of Work (primarily by J Resources), and most recent Link Zone drilling (conducted by the Pani JV and carried out by Merdeka).

A geological model for Pani as a rhyodacitic lava dome has been developed and will form the basis for future drill targeting and mineral resource modelling that is expected to ultimately culminate in a unified Resource for the 'Pani Besar' ('Greater Pani') region which can then be used as the basis of project development studies. A lava dome is a shallow level intrusion of lava<sup>4</sup>, which in the case of Pani has subsequently been mineralised by gold bearing epithermal fluids. Key geological features include sheared margins of the intrusive body, especially the lower margin which may have been a key fluid conduit, as well as permeability of the lava dome from internal joints, shears and brecciation which has enabled widespread penetration of epithermal fluids producing thick zones of gold mineralisation including some areas of spectacularly high grade.

Lion's [updated website](#) includes a more up-to-date geological summary of Pani geological features and historic work based on materials that have all been previously released, including historic drilling results released by One Asia Resources which support the Mineral Resource estimate for the Pani IUP.

Drilling on the Pani IUP by One Asia Resources in the period 2012/2013 returned both broad zones of gold mineralisation and high-grade intervals<sup>5</sup>, including examples:

- PDH-99: 62.3m at 15.5g/t Au from 43m (inc 3m at 307.9g/t Au from 72.7m)

- PDH-34: 125.7m at 2.77g/t Au from 0m (inc 36.5m at 5.9g/t Au from 31.7m)
- PDH-49: 134.8m at 2.2g/t Au from 0m (inc 14.1m at 12.6g/t Au from 96.6m)
- PDH-33: 97.2m at 2.58g/t Au from 0m (inc 27m at 5.9g/t Au from 24m)
- PDH-12: 124m at 1.5g/t Au from 0m

See [Pani IUP Cross Sections](#) on the Lion website.

Pani mineralisation spans approximately 1.5km (east-west) x 0.8km (north-south), and the lava dome model further substantiates targets for future drilling to identify the lateral extents and vertical extremities of mineralisation. The majority of targets for extensional drilling are located on the Pani IUP, including deeper drilling beneath the link zone and the area to the south of the existing Resource. Both target areas are adjacent to drilled mineralisation that has not been closed off, however the geological lava dome model now also supports these as logical and robust targets.

The drilling conducted by the Joint Venture (and managed by Merdeka) in the Link Zone indicates that the two Mineral Resource areas at Pani (2.37Moz<sup>1</sup> on the IUP and 2.30Moz<sup>2</sup> on the adjacent Contract of Work) are connected, however hole depths were limited by the capacity of the drill rig used and some holes finished in mineralisation<sup>6</sup>. In addition to generating appropriate drill hole spacing within the upper Link Zone, a target exists beneath to determine what the deeper part of the system comprises. The southern-most section of drilling on the Pani IUP includes broad intervals of mineralisation such as PDH-61, which returned 112.6m at 1.04g/t Au<sup>5</sup> and is open to the south and requires testing.

An extensive drill campaign is being planned to in-fill the link zone and test the depth and boundaries of the deposit once the J Resources deal closes.

# Nusantara

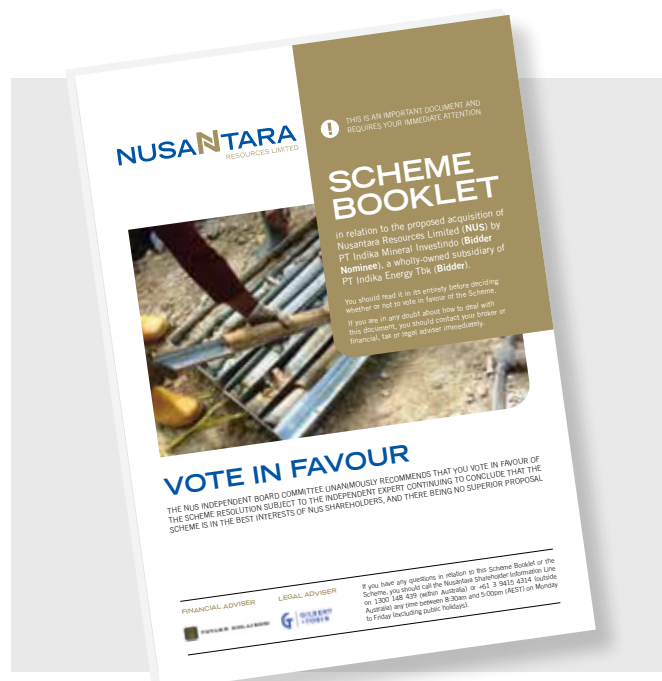
On 28 June 2021 Nusantara announced a proposed acquisition of Nusantara by PT Indika Energy TBK (Indika) by way of Scheme of Arrangement for \$0.35 per share cash<sup>7</sup>:

- Nusantara and Indika are joint venture partners in the Awak Mas Gold Project through their 75% and 25% respective interests in subsidiary PT Masmindo Dwi Area (Masmindo).
- The proposed scheme is unanimously recommended by the Independent Board Committee of Nusantara (which comprises Greg Foulis, Rob Hogarth, Robin Widdup and Neil Whitaker), who have each confirmed their intention to vote in favour of the Scheme for shares which they hold or control, subject to no superior proposal, and the independent expert determining the Scheme of Arrangement is in the best interests of shareholders.
- A Scheme Booklet containing a detailed explanation of the proposed Scheme, the basis for the Independent Board Committee's recommendation and the independent expert's report is available on Nusantara's website and is being dispatched to Nusantara shareholders together with the Notice of Scheme Meeting.

- The Full terms of the proposed transaction are contained in the Scheme Implementation Deed which was annexed to Nusantara's announcement of 28 June 2021.
- Lion Selection Group holds 21.77% interest in Nusantara and, alongside Cumulus Wealth (4.96%) and Federation Mining (12.3%), have confirmed to Nusantara their intention to vote in favour of the transaction in the absence of a superior proposal and subject to the independent expert concluding (and continuing to conclude) that the Scheme is in the best interests of shareholders.<sup>8,9</sup>

The reasons for unanimous recommendation by Nusantara's Independent Board Committee are detailed in the Scheme Booklet, but include:

- \$0.35 cash per Nusantara share represents a fair premium:
  - 19% premium to the volume-weighted average price of Nusantara shares traded on the ASX over the 5 Nusantara trading days prior to the announcement;
  - 21% premium to the volume-weighted average price of Nusantara shares traded on the ASX over the 30 Nusantara trading days prior to the announcement.
- The offer provides certainty of Nusantara's shareholder value with a cash offer and without further investor risk inherent in gold price, project financing, construction/commissioning, production and jurisdiction.
- The transaction will provide shareholders with liquidity for their investment. Nusantara has typically been a very illiquid stock. The average daily liquidity for the 3 months leading up to announcement of the transaction was \$8,170 per day.







- Immediately prior to announcement of the transaction, Nusantara shareholders (including Lion) representing 26.7% of its shares on issue indicated their support for the proposed transaction by confirming that they intend to vote in favour of the Scheme in the absence of a superior proposal and subject to the independent expert concluding that the Scheme is in the best interests of shareholders.

When considering the merits of the proposed transaction, Nusantara Independent Board Committee had particular regard for:

- The impact of trying to fund the potentially higher capital costs for the Awak Mas project compared to the 2020 addendum to the DFS (refer Nusantara ASX announcement: FEED Progress Update dated 28 June 2021);
- Nusantara's potential funding obligations for FEED work incurred to date (up to US\$15m on a 100% basis) and the corporate costs / working capital required between now and first production;
- The challenges for an ASX listed junior mining company financing a gold project in a foreign jurisdiction;
- Continued COVID disruptions; and
- The current market capitalisation of Nusantara, the quantum of capital expenditure required and the dilutive impact, on a dollars per share basis, of funding this expenditure.

For the purposes of expressing Lion's Net Tangible Asset (NTA) backing, the value of the Nusantara holding will continue to reflect the market price for Nusantara until such a time as the Scheme consideration is received. Sale of Nusantara to Indika under the proposed 35cps Scheme Offer would add \$17.5m to Lion's cash position, placing it in a strong position to manage an outcome on Pani.

Nusantara also announced the results of completion of several project-oriented work streams:

- Updated Mineral Resource Estimate for Salu Bulu, featuring a 24% increase in grade and overall 3% increase (6,000oz) in contained gold, as well as maiden Measured category material for the estimate of the Salu Bulu deposit<sup>10</sup>.
- Updated Ore Reserve Estimate for the Awak Mas Gold Project which now stands at 33.0MT at 1.37g/t for 1.45Moz of contained gold, and including 3.1MT of maiden Proven Ore Reserves<sup>11</sup>.
- Updated Definitive Feasibility Study, which is based on the ongoing Front End Engineering and Design studies, management inputs and estimates by independent external consultants. The DFS Update contained increased Capex of US\$233m, albeit with improved design-level accuracy, and estimates a post tax NPV of US\$383m for the Awak Mas Gold Project (100% basis, 5% discount rate, US\$1700/oz Au)<sup>12</sup>.

# Erdene Resource Development Corp

Erdene has reported yet another significant gold discovery at Ulaan



## Khundii Gold District, Mongolia

Despite the impacts of COVID-19 on the global economy and international travel, Erdene continues to progress the Khundii Gold Project toward development while continuing to explore the Khundii Gold District, and expanding high-grade gold resources.

### New Discovery – Ulaan: 258m at 0.98g/t gold

Erdene has reported yet another significant gold discovery at Ulaan, 300m west of the Bayan Khundii Gold Deposit, with multiple holes intersecting mineralisation. Results included 258m at 0.98g/t gold from 92m, including 40m at 3.77g/t gold from UDH-10, the same hole ended in mineralisation<sup>13</sup>. This discovery adds a third potential development prospect within the Khundii-Ulaan alteration system alongside the Bayan Khundii Gold Deposit and Dark Horse gold prospect.

### Dark Horse – further high-grade hits: 27m at 5.86g/t gold

The Q2 drilling program at the recently discovered Dark Horse prospect results were reported. Multiple holes intersected high-grade mineralization along strike and down dip in the southern portion of Dark Horse Mane, 3.5 kilometres north of the Bayan Khundii Gold deposit.

Results included:

- AAD-124: 27m at 5.86 g/t gold from 24m, including 3m at 17.41 g/t gold from 28m
- AAD-126: 30m at 5.63 g/t gold from 10m, including 6m at 24.12 g/t gold from 26m
- AAD-123: 30m at 2.86 g/t gold from 58m, including 11m at 7.03 g/t gold from 61m

20 of the 23 holes in the program intersected anomalous gold mineralization.

The high-grade zone in the southern portion of Dark Horse Mane, which was identified with discovery hole AAD-58 in January 2021 (45m at 5.97g/t gold from 10m) has a strike length of approximately 180 metres, along a 50 metre wide trend, that remains open at depth<sup>14</sup>.





## Bayan Khundii

Erdene has executed a Local Cooperation Agreement with the Bayankhongor Provincial Government, the host community for its 100%-owned Bayan Khundii Gold Project and all exploration and mining licences within the Khundii Gold District, in a significant milestone for the progression of the Bayan Khundii Gold Project<sup>15</sup>.

Key Terms of the Agreement include:

- Investments in local communities by Erdene tied to permitting, project development, and first production milestones, as well as annual payments during production;
- Establishment of a non-governmental organisation comprised of Company and Community members to administer local investments; and
- Training, employment, and local procurement commitments.

Erdene held its most recent community consultations in late June 2021, where the Company presented the Bayan Khundii Gold Project development plans at an official meeting of local residents. At this meeting, local community members had the opportunity to ask questions and provide feedback on the Project. As part of this exercise, community leaders collected a formal survey with the majority of residents supporting the Project's development. This meeting is part of Erdene's ongoing initiative of local consultations, which is an important component of Erdene's commitment to operating ethically and considering all stakeholder interests.

## Zuun Mod

Erdene has initiated a strategic review of its 100%-owned Khuvyn Khar Molybdenum-Copper Project located 30 kilometres east of the Khundii Gold District in South West Mongolia. The Khuvyn Khar licence hosts the Zuun Mod Molybdenum-Copper deposit, one of the largest undeveloped molybdenum-copper resources in Asia, as well as multiple copper and molybdenum prospects.

Zuun Mod contains an NI 43-101 Measured and Indicated Resources of 273.5 million pounds molybdenum and 330.7 million pounds copper, and Inferred Resources of 157.7 million pounds molybdenum and 197.7 million pounds copper<sup>16</sup>.

Drilling 2.2 kilometre northwest of Zuun Mod has historically intersected 34 metres of 1.3% copper and 9.2 g/t silver, whilst the majority of the licence area remains under-explored.

With significant potential to expand resources, the Company sees several paths to unlock the value of the Project for Erdene shareholders. The strategic review will consider multiple avenues to optimise the Project's value, including a sale, joint venture partnership, or spinout.



## Market Update

- Commodity prices create bonanza dividends and enhance the mining industry's investing capacity.
- Competition emerging in M&A?
- Miners market weight taken background from financials.

**2021 has become a bonanza year for shareholders of large miners, where handsome payouts have flowed from record profits brought about by strong performances of key commodities.**

BHP will pay total 2021 dividends of around A\$4.12/share, which is almost 2.5x the dividend paid in 2015, when the company's progressive dividend policy was of white-hot market interest and widely viewed as unsustainable and financially reckless – how quickly fortunes change. BHP holders are not alone – Rio Tinto announced a record interim dividend of A\$5.09/share, which along with A\$2.50/share special dividend are already 2.5x the 2015 dividend with the final dividend for 2021 to come.

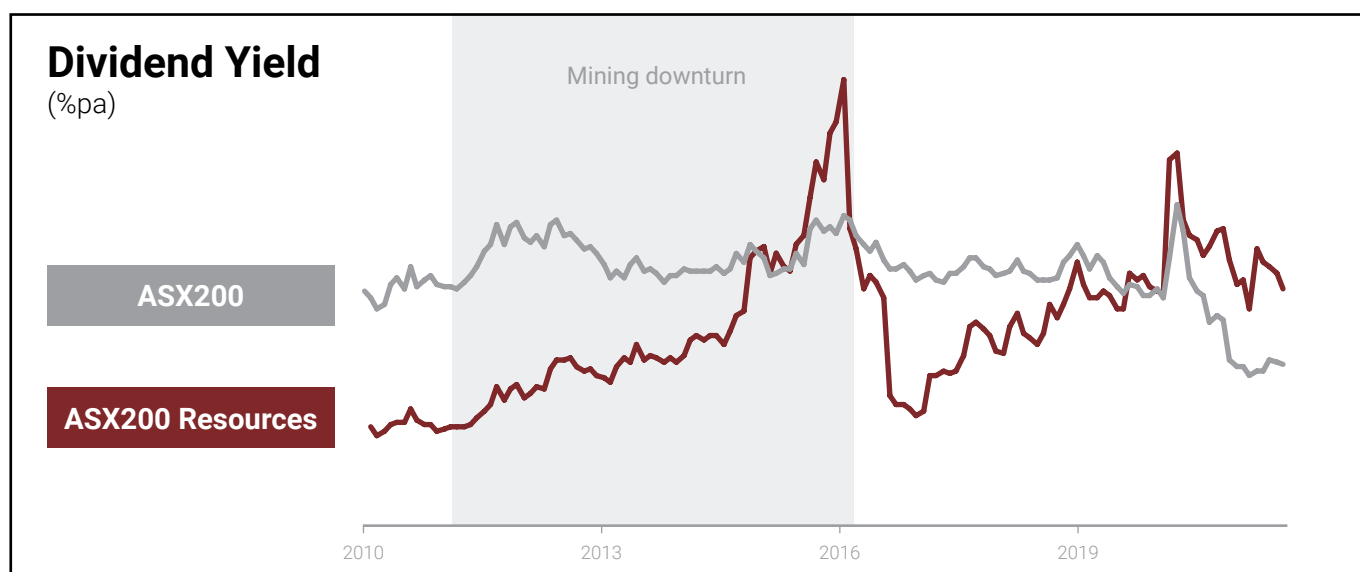
The dividend yield of the ASX200 Resources Index is 3.9% pa compared with the ASX200 2.7% pa. Miners yielding materially more than the market as a whole is without precedent and is seriously at odds of challenging a hard-earned reputation – historically

miners have tended to reinvest (some would say squander) gains rather than paying dividends to investors. How long miners will sit on their hands remains to be seen with the money burning a hole in their respective pockets.

### Commodities – into windfall territory

The COVID-crash of March 2020 was an inflection point for many commodities – what might have been gathering steam before became super-charged after.

Copper is a great example: having struggled up from a market bottom in early 2016 it was moribund, up 5% in just over four years to March 2020. In the 14 months that followed, it has more than doubled to establish a new all-time record price of US\$10,460/tonne. Iron ore has gone up 2.75 times in the same period to its own record of US\$230/tonne in 2021. Battery related commodities (nickel, cobalt, lithium) have so far have been one of the hottest places to be in mining in 2021, even though they are much smaller markets than iron ore or copper.



**Dividend yield of the ASX200 Index and ASX200 Resources Index.**



With the coffers of some of the world's largest miners now rapidly filling, an escalation of growth investment within the mining industry seems more a matter of 'when', not 'if'.

### Mining industry's war chests filling...

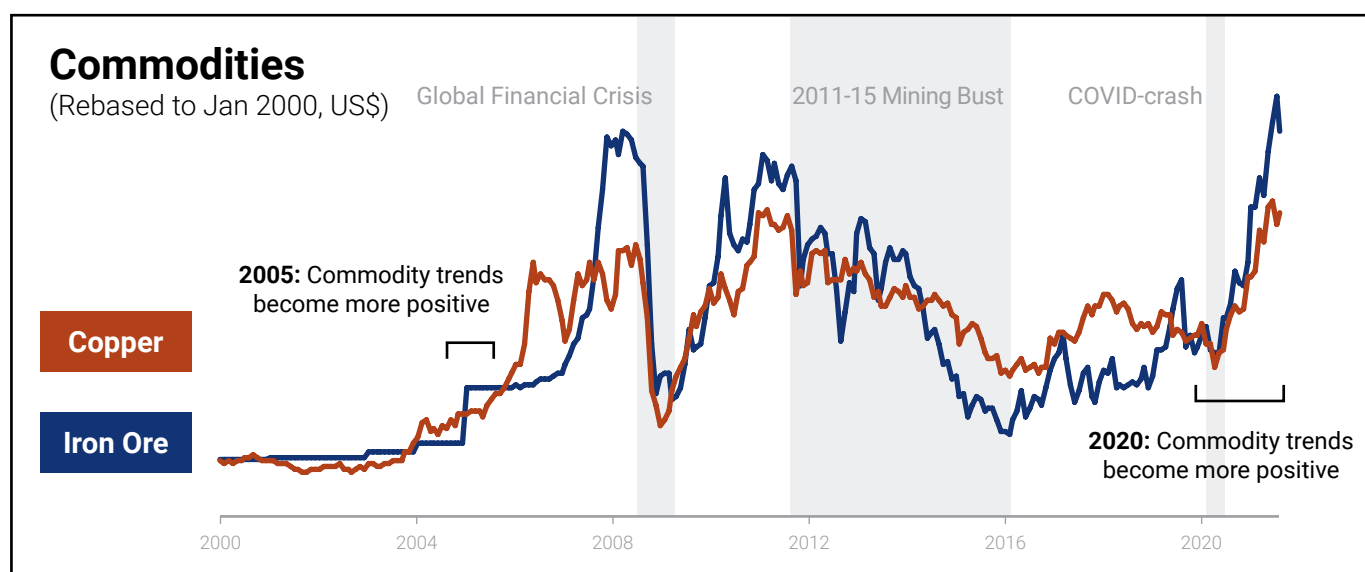
When earnings grow strongly, the investment capacity of the industry increases vastly. This presents an interesting contrast to the backdrop of lagging capital investment across the mining industry. The boom cycle of the early 2000's featured a similar inflection in commodity prices (circa 2005), which saw prices move higher more rapidly and compounded an enormous investment boom as producers of most mineral commodities scrambled to make more of them. That cycle was driven by barnstorming demand growth from China which is unlikely to be repeated. The purpose of the comparison is to note that there is a stage in mining booms, which appears very much to have arrived, when commodity windfalls generate investment capacity within the industry. With this comes the wherewithal for mining companies to gain autonomy over their growth agenda rather than needing to rely on bankers or investors for funding.

### ... so are miners poised to grow or to yield?

Having presided over some eye-wateringly poor performing investments leading up to 2011, the mining industry bore the brunt of investor dissatisfaction. Many commodities were oversupplied because of a raft of growth-oriented investments. Hesitancy within the industry toward committing to capital investments, and thus a lagging trend of industry capex in the years that followed is understandable against this backdrop.

The rapid appreciation of many commodity prices has also procured a long missing pre-requisite for growth investment – incentive pricing. For example, prevailing copper prices have produced far more appealing economics for undeveloped projects which are under consideration – especially if one were to blend 2019 capex pricing with 2021 revenue assumptions (the two are incompatible, but this is a common slight of hand when 'dusting off' a project appraisal). Fundamentals for many commodities are favourable and supported by demand growth, providing confidence that current prices are not only here to stay, but perhaps conservative assumptions.

Current behaviours and history are at odds – it is unlikely that the mining sector can continue to pass through enormous dividends, whilst at the same time commit capital to growth. Dividends, no doubt, might soften investor attitudes somewhat. Will the industry be held back by investor nervousness about the return on growth investments? With the coffers of some of the world's largest miners now rapidly filling, an escalation of growth investment within the mining industry seems more a matter of 'when', not 'if'.



Copper and Iron Ore price, 2000-2021 in US\$ per tonne, rebased to January 2000.

## Competitive pressures have appeared in M&A

Despite the present mining capex trend, examples of growth investment are plentiful enough just mostly small. As they say though, from little things, big things grow\*.

BHP's announced proposed divestment of its oil and gas business to Woodside has been widely flagged as dramatically reducing BHP's capital investment outlook. The reduction in capex is disproportionately larger than the reduction of the size of the asset base, and a common conclusion is this will free up funding for alternative growth opportunities. BHP had earlier announced a board recommended bid for a nickel company, Canada's Noront Resources, which would not be a large acquisition for BHP but clearly demonstrates outward-looking M&A intent already exists. To many the importance is that BHP has opened its acquisition cheque book, and the whole world knows they have a very, very large cheque book. A probable freeing up of funding combined with an announced acquisition has many tongues wagging.

There is a secondary source of intrigue in BHP's bid for Noront, as Australian billionaire Andrew Forrest has a significant equity interest in Noront via his private vehicle Wyloo. Whether or not Wyloo elects to bid or counter bid is pure speculation – all options have been firmly kept open by way of Wyloo's public statements. The presence of a potential counter bidder, or even an entity which could hold out for a higher price gives this situation a distinct whiff of competition which has been all but absent from mining M&A for many years. Where there is competition in M&A there are larger premia.

\* It was in fact Paul Kelly who said this.

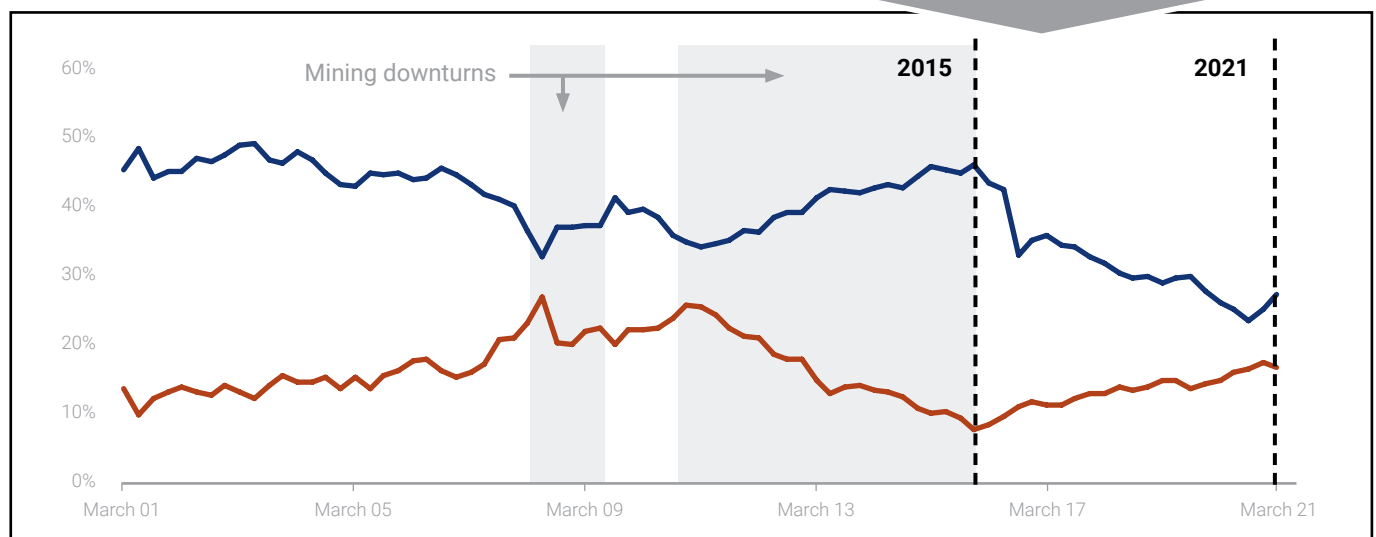
## Market weight – miners have regained a lot of favour

Miners currently make up about 17% of the market capitalisation of the ASX300. Miners have steadily grown their market weighting on ASX from a low of 8% in December 2015, which marked the absolute nadir of investor despondency toward miners. Miners have commanded peak market weightings of 27% (June 2008) and 26% (December 2010) on ASX in previous booms. This puts the boom for miners into context against an also-booming global equities market, the relative attraction of miners must be high, as their market weight is improving.

Miners' market weight on ASX has increased by 2.1x since the low of 2015. For an already large capitalisation sector, this represents a substantial movement of money from elsewhere. The biggest loser in the same period of time has been financials, whose market weight has fallen to 60% of its 2015 peak when financial stocks on ASX accounted for 46% of the market's total capitalisation.

### Key ASX Sectors Market Weights

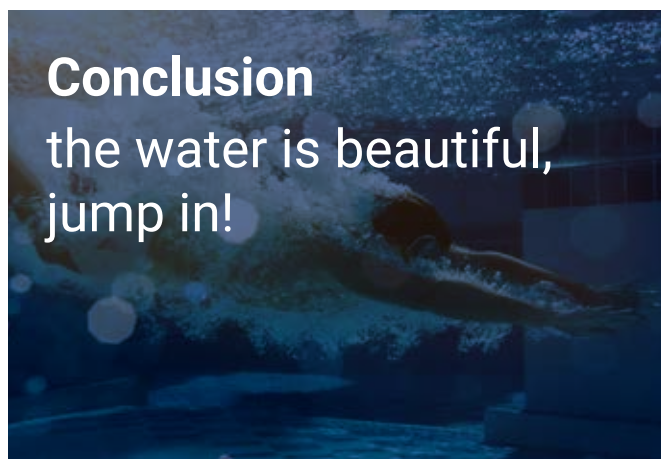
|                                | 2015       | 2021       | Change      |
|--------------------------------|------------|------------|-------------|
| <b>Financials</b>              | <b>46%</b> | <b>27%</b> | <b>0.6x</b> |
| <b>Metals and Mining</b>       | <b>8%</b>  | <b>17%</b> | <b>2.1x</b> |
| Health Care                    | 7%         | 10%        | 1.4x        |
| Consumer Discretionary         | 6%         | 8%         | 1.3x        |
| Industrials                    | 8%         | 7%         | 0.9x        |
| Consumer Staples               | 7%         | 5%         | 0.8x        |
| Telecommunications Services    | 6%         | 5%         | 0.9x        |
| Information Technology         | 1%         | 5%         | 3.6x        |
| Energy                         | 4%         | 4%         | 0.9x        |
| Materials (ex Metals & Mining) | 4%         | 3%         | 0.8x        |
| Utilities                      | 2%         | 1%         | 0.5x        |



Source: IRESS data, Lion Manager

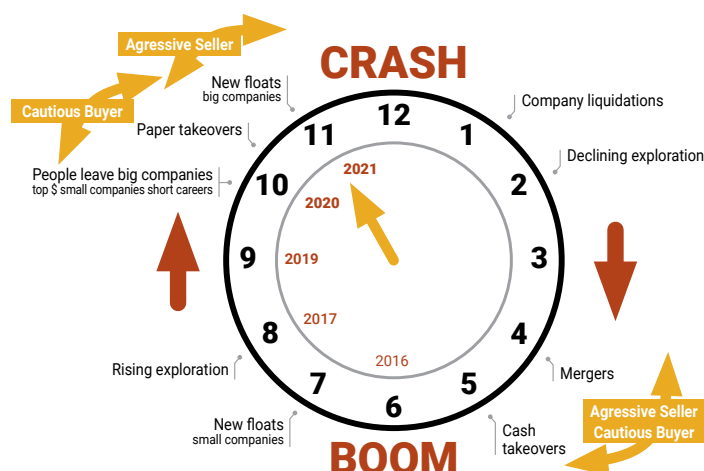
Market weights of Metals and Mining and Finance sectors of the ASX 300 index, 2001-2021.





Last quarter, the Lion clock moved to 11 o'clock having seen a surge in the number of exploration IPO's come to market and the emergence of large mining IPO's which are a litmus test that liquidity in the sector is at a very high level. 11 o'clock onward can return spectacular trading returns for fleet footed investors especially in exploration stage companies which can attract large valuations.

The inflection point in many commodities since the COVID-crash in 2020 bears similarity to 2005/2006, which gave way to the headiest days of the 2000's boom.



The missing ingredient has been large scale M&A, which may have been stifled by COVID-19 related travel restrictions as much as hangovers of investor sentiment. Growth of all kinds, within which M&A is the quickest and most certain, is unlocked by surging commodities.

Quick returns brought on by commodity price movement, exploration discoveries, takeovers or just speculation emboldens many investors who might have been avoiding the sector. Much like putting a toe in the water before jumping into a pool, many will be emboldened by easy wins of their friends who are already in.

## Lion Corporate

**Lion has net cash of \$7.1M at 31 July 2021, with an additional \$17.5M anticipated assuming the completion of the Nusantara Scheme of Arrangement.**

### Deferred Tax Position

Lion has recently undertaken a review of its income tax affairs in light of evolving tax guidance for investment companies. The tax review has highlighted that Lion should treat its direct investments on revenue account for tax purposes as opposed to capital account as Lion has done since it first listed in 1997.

Lion has filed amended tax returns on this basis, including the re-ascertainment of its carried forward revenue losses to include historical losses on investments on revenue account. In addition, Lion has elected to enter into tax consolidation with its 100% owned investment in Lion Selection Asia Limited with effect from 1 August 2018. By entering into tax consolidation, Lion is able to ensure that

transactions between these group companies are effectively neutral for income tax purposes and that group tax losses are available to offset group assessable income. In addition to normal rules around tax losses, \$81.4M of Lion's carried forward losses that predate tax consolidation can only be partially utilised to offset group income.

Accordingly, for the July 2021 NTA Lion has calculated that \$3.1M income tax would need to be paid assuming that Lion realised its entire portfolio as at 31 July 2021. This deferred tax liability has been reflected in the attached NTA figures and will be updated on a monthly basis.

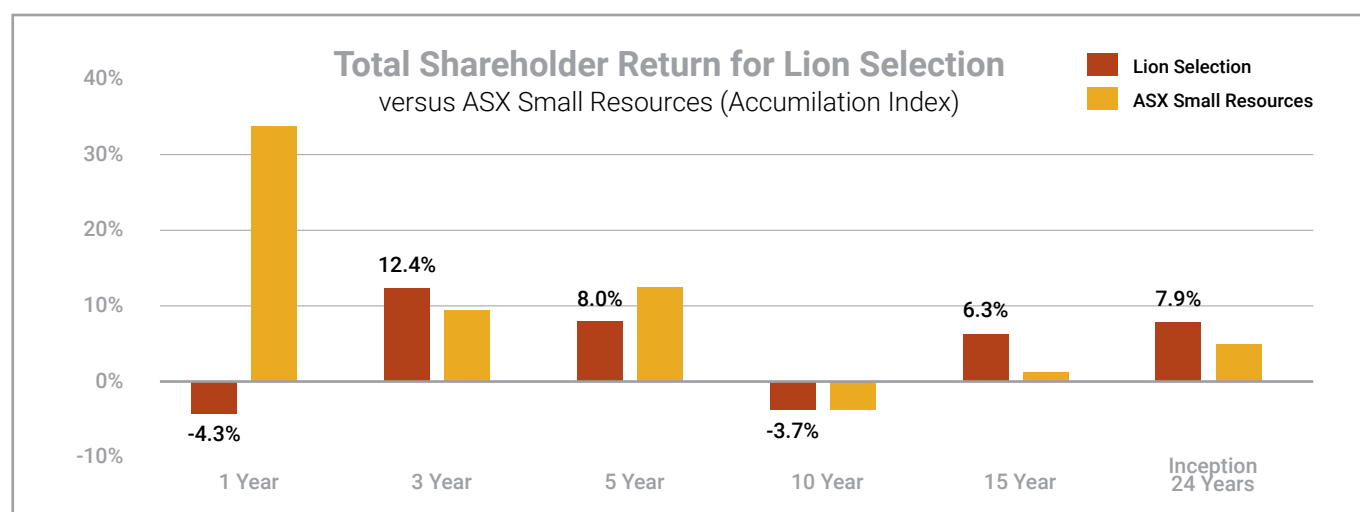
An actual liability to pay tax will only arise as investments are realised and, as with many tax matters, there is a degree of uncertainty about how the tax authorities will ultimately assess Lion's position.

Lion has an ambition to provide a steady dividend stream of crystallised profits on sale of investments to shareholders. Assuming that Australian tax is payable, Lion intends to frank dividends to the extent possible.

# Lion Performance

Annualised Total Shareholder Return <sup>17-22</sup>

| Annualised TSR to 31 July 2021 | Lion         | ASX Small Resources |
|--------------------------------|--------------|---------------------|
| 1 Year                         | <b>-4.3%</b> | 33.8%               |
| 3 Years                        | <b>12.4%</b> | 9.5%                |
| 5 Years                        | <b>8.0%</b>  | 12.5%               |
| 10 Years                       | <b>-3.7%</b> | -3.8%               |
| 15 Years                       | <b>6.3%</b>  | 1.2%                |
| Inception (23 yrs)             | <b>7.9%</b>  | 4.9%                |



## Notes

1. Refer to One Asia Resources Limited news release 3 December 2014 ([https://www.oneasiaresources.com/images/document/News\\_Release\\_Dec\\_3\\_2014.pdf](https://www.oneasiaresources.com/images/document/News_Release_Dec_3_2014.pdf))
2. Refer to J Resources 31 December 2018 Annual Report (<http://www.jresources.com/investors/article/final-resources-reserves-compilation-2017-to-2018>).
3. Refer to ASX announcement by Lion Selection, 4 February 2021 Pani Arbitration Initiated with J Resources: US\$500-\$600m Compensation Claim.
4. Yoshihiko & Akihiko 2019: <https://www.frontiersin.org/articles/10.3389/feart.2019.00066/full>
5. Pani geological information extracted from One Asia Resources Technical Report, released in 2014 to support the Pani MRE: [https://www.oneasiaresources.com/images/document/Pani%20Mineral%20Resource%20Estimation%20Final%20by%20SRK%20122014\\_inc%20App%20A\\_F.pdf](https://www.oneasiaresources.com/images/document/Pani%20Mineral%20Resource%20Estimation%20Final%20by%20SRK%20122014_inc%20App%20A_F.pdf)
6. Refer to ASX announcement by Lion Selection, 11 February 2021 Pani Valuation and Update.
7. Refer to ASX announcement by Nusantara, 28 June 2021 Indika to Acquire Nusantara for 35 cents per share.
8. Refer to ASX announcement by Lion Selection, 28 June 2021 Indika Energy to Acquire Nusantara for 35cps.
9. Refer to ASX announcement by Nusantara, Update on proposed acquisition by Indika of Nusantara.
10. Refer to ASX announcement by Nusantara, 5 July 2021 Awak Mas Project Mineral Resource Update.
11. Refer to ASX announcement by Nusantara, 7 July 2021 Maiden Proved Ore Reserve for Awak Mas Gold Project.
12. Refer to ASX announcement by Nusantara, 13 July 2021 DFS update Awak Mas Gold Project.
13. Refer to News Release by Erdene Resources, 11 August 2021 Erdene Reports New Discovery at Ulaan ([https://www.erdene.com/site/assets/files/4286/epr\\_en.pdf](https://www.erdene.com/site/assets/files/4286/epr_en.pdf)).
14. Refer to News Release by Erdene Resources, 27 July 2021 Erdene Intersects 5.86 g/t Gold Over 27 Metres and 5.63 g/t Gold Over 30 Metres at Dark Horse Prospect ([https://www.erdene.com/site/assets/files/4284/epr\\_en\\_3.pdf](https://www.erdene.com/site/assets/files/4284/epr_en_3.pdf)).
15. Refer to News Release by Erdene Resources, 5 August 2021 Erdene Signs Local Cooperation Agreement with Bayankhongor Provincial Government for Bayan Khundii Gold Project ([https://www.erdene.com/site/assets/files/4285/epr\\_en.pdf](https://www.erdene.com/site/assets/files/4285/epr_en.pdf)).
16. Refer to News Release by Erdene Resources, 15 July 2021 Erdene Initiates Strategic Review of Khuvyn Khar Molybdenum-Copper Project ([https://www.erdene.com/site/assets/files/4283/epr\\_eng.pdf](https://www.erdene.com/site/assets/files/4283/epr_eng.pdf)).
17. Investment performance figures reflect the historic performance of Lion Selection Group Limited (ASX:LSG, 1997 – 2007), Lion Selection Limited (ASX:LST, 2007-2009), Lion Selection Group Limited (NSX:LGP, 2009-2013) and Lion Selection Group Limited (ASX:LSX, 2013-present).
18. Methodology for calculating total shareholder return is based on MorningStar (2006), which assumes reinvestment of distributions.
19. Distributions made include cash dividends, shares distributed in specie as a dividend, proceeds from an off market buyback conducted in Dec 2008, and the distribution of shares in Catalpa Resources via the demerger of Lion Selection Limited in Dec 2009. Lion assume all distributions are reinvested, with all non-cash distributions sold and the proceeds reinvested on the distribution pay date.
20. Investment performance is pre-tax and ignores the potential value of franking credits on dividends that were partially or fully franked.
21. Past performance is not a guide to future performance.
22. Source: IRESS, Lion Manager.



# Summary of Investments as at 31 July 2021

## Net Tangible Asset Backing

Lion Selection Group Limited (Lion) advises that the unaudited net tangible asset backing of Lion as at 31 July 2021 is 64.7 cents per share (before tax) and 62.6 cents per share (after tax). This excludes any contingent liability relating to Lion's acquisition of African Lion 3 (see note below).

|   | Commodity | July 2021       |                |
|---|-----------|-----------------|----------------|
|   |           | A\$M            | ¢ps            |
| <b>Pani Joint Venture</b>   | Gold      | <b>62.5</b>     | <b>41.6</b>    |
| The fair value of Lion's interest in the Pani Joint Venture increased to A\$60.7M at 31 July 2020. This increase reflects the sustained escalation in gold prices from the time of the most recent arm's length transaction in November 2018*. An additional \$1.8M has been invested subsequently. |           |                 |                |
| <b>Portfolio</b>  |           |                 |                |
| Nusantara Resources   | Gold      | <b>17.0</b>     | <b>11.3</b>    |
| Erdene Resources  | Gold      | <b>5.3</b>      | <b>3.6</b>     |
| Kasbah Resources  | Tin       | <b>2.0</b>      | <b>1.3</b>     |
| Celamin Holdings  | Phosphate | <b>1.9</b>      | <b>1.3</b>     |
| Other   |           | <b>1.3</b>      | <b>0.9</b>     |
| <b>Net Cash</b>   |           | <b>7.1</b>      | <b>4.7</b>     |
| <b>Net Tangible Assets – Pre-Tax</b>  |           | <b>A\$97.1m</b> | <b>64.7¢ps</b> |
| Deferred tax liability on theoretical disposal of Lion's portfolio  |           | (A\$3.1m)       | (2.1¢ps)       |
| <b>Net Tangible Assets – Post-Tax</b>   |           | <b>A\$94.m</b>  | <b>62.6¢ps</b> |


## Capital Structure

|                  |             |              |
|------------------|-------------|--------------|
| Shares on Issue: | 150,141,271 |              |
| Share Price:     | 44¢ps       | 31 July 2021 |

\* Lion Selection Group ASX Announcement 4 August 2020, Pani Update and Valuation Revision

## Contingent Consideration

Lion's NTA excludes potential contingent consideration that may be payable if Lion sells its investment in either Celamin or Kasbah. Based on a theoretical sale of both investments at the date of the NTA, contingent consideration of \$2.4m would arise (June 2021, \$2.4m). This obligation arises following Lion agreeing to purchase the shares it did not own in African Lion 3 Ltd (AFL3) to consolidate ownership (with the exception of Lion Manager Pty Ltd who opted to hold its investment). The transaction involved part cash consideration and Lion agreeing to pay contingent consideration to be paid in certain circumstances for up to 5 years. The value of the contingent consideration depends the ultimate exit price for Celamin and/or Kasbah, how long Lion holds the investments, and how much additional investment is required.

|   |   |   |
|---|---|---|
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