



Lion Selection Group

QUARTERLY REPORT FOR THE 3 MONTHS ENDED 31 JULY 2020

SUMMARY

INVESTMENT HIGHLIGHTS

Pani Joint Venture (Lion 33.3%, Merdeka 66.7%)

- Pani valuation increases to \$60.7M, up from \$40.7M.
- Further upgrade expected when J Resources deal is completed.
- Preliminary results from step-out drilling in 'link' zone appear broadly consistent with mineralisation on either side; assays awaited. Further drilling paused pending deal completion.
- Concept study underway considering large-scale project with CIL processing.

Nusantara Resources

- Ore Reserves increased 34% to 1.53moz¹.
- 16 year mine life, 1.8 year payback.
- 20% annual production increase to 128k oz / year, first 4 years.
- Working towards debt funding.

Erdene Resource Development

- Bankable Feasibility Study completed demonstrating high-grade, shallow open-pit mine with strong NPV, IRR and low initial capital investment.
- High grade drill results returned within pit design from a new structure, and high grades in trenching from nearby Dark Horse confirms prospect as the best on-license target since the discovery of Bayan Khundii.
- Completion of \$20M private placement, led by \$15M investment by prominent resources investor Eric Sprott.
- Funds to be focused on expanding high-grade resources in the Khundii Gold District and initiate early works at Bayan Khundii Gold Project.

SECTOR THEMES

- Gold price –record highs during July, outlook on fundamentals is excellent.
- Investor interest surging for explorers and junior resources companies, driven by a resurgent Canadian market.
- Lion Clock – moved to 10 o'clock, best years of the cycle (where junior miners and explorers perform most strongly) are upon us.

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.

INVESTMENT HIGHLIGHTS

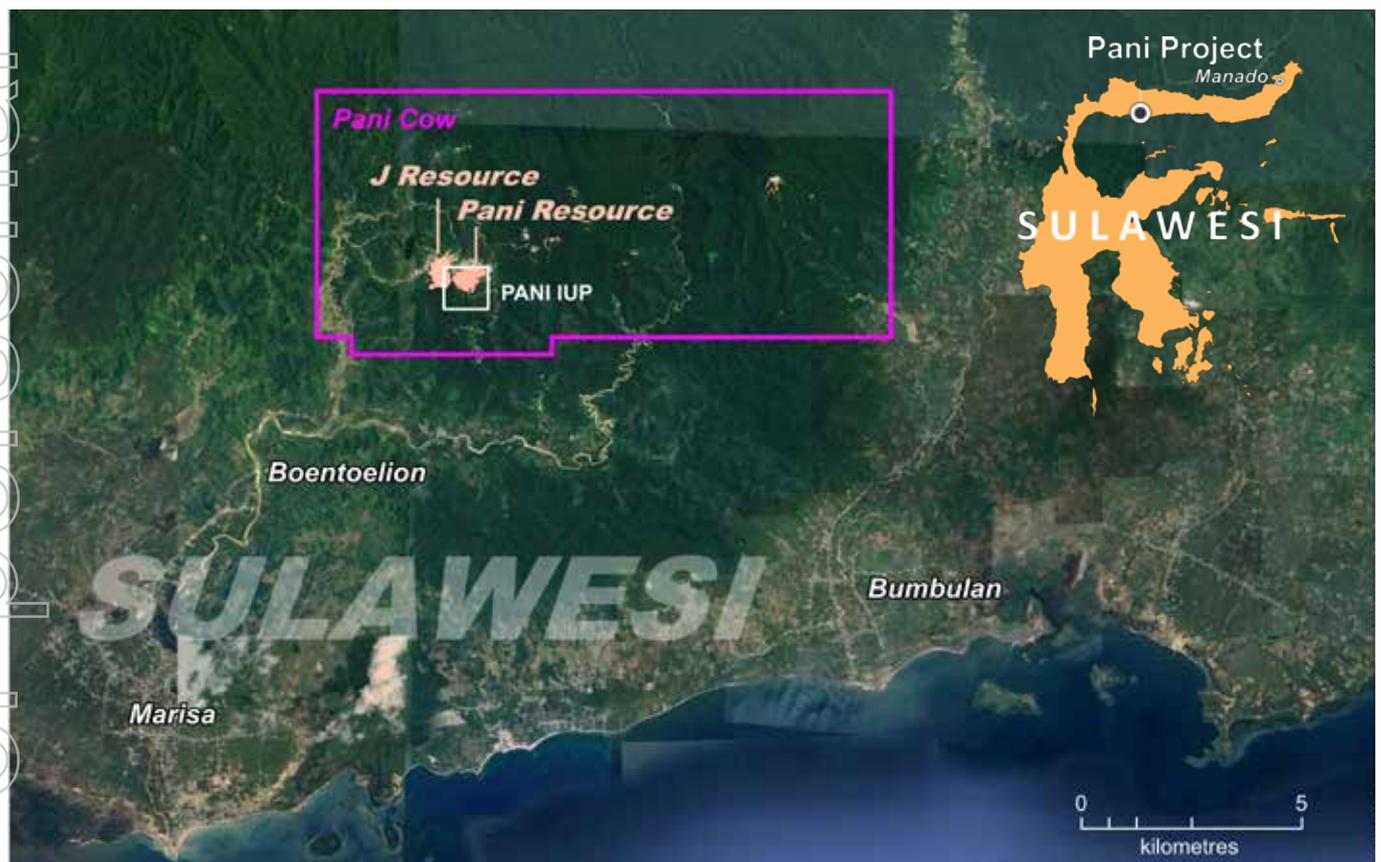
Pani Joint Venture

Pani Valuation

The value of Lion's interest in the Pani Joint Venture increased from A\$40.7M to A\$60.7M as at 31 July 2020. This increase reflects the sustained escalation in gold prices since November 2018, being the most recent arms-length transaction when Merdeka acquired its project interest in the Pani Joint Venture. This increase is most notable since mid-March 2020 with spot gold prices strengthening ~US\$500/oz, and the share prices of most comparable peer companies increasing by more than 100%.

J Resources Deal

In December 2019 Lion announced that its Pani Joint Venture had reached conditional agreement with J Resources to combine the two Pani tenements into one ownership group. The agreement is subject to regulatory approvals and approval from J Resources' secured lenders, with deal closure now anticipated late-2020. Further material upside is expected for the Pani gold project once the J Resources transaction completes. This upside has not been considered in the fair value for the assessment made at 31 July as the deal has not yet been completed. Until completed, there is an ongoing risk that the conditions precedent are not met and the deal is unable to be completed.



The conditional deal combines two adjacent gold resources in Gorontalo, Sulawesi to form a single gold deposit with an approximate current footprint of 1.5km x 0.6km:

- Pani IUP JV (66.6% Merdeka, 33.3% Lion) 2.37 moz²
- Pani Contract of Work (100% J Resources) 2.30 moz³

INVESTMENT HIGHLIGHTS

Pani Joint Venture continued

Pani IUP (Lion 33.3%/Merdeka 66.7%) 0.2g/t cut off²

Category	Tonnage (Mt)	Grade (g/t Au)	Contained Gold (Moz)
Measured	10.8	1.13	0.39
Indicated	62.4	0.81	1.63
Inferred	16.2	0.67	0.35
Total	89.5	0.82	2.37

Contract of Work (J Resources 100%) 0.4g/t cut off³

Category	Tonnage (Mt)	Grade (g/t Au)	Contained Gold (Moz)
Measured	15.5	1.03	0.51
Indicated	41.3	0.98	1.31
Inferred	15.9	0.93	0.48
Total	72.7	0.98	2.30

This deal is seen as a win-win for all parties:

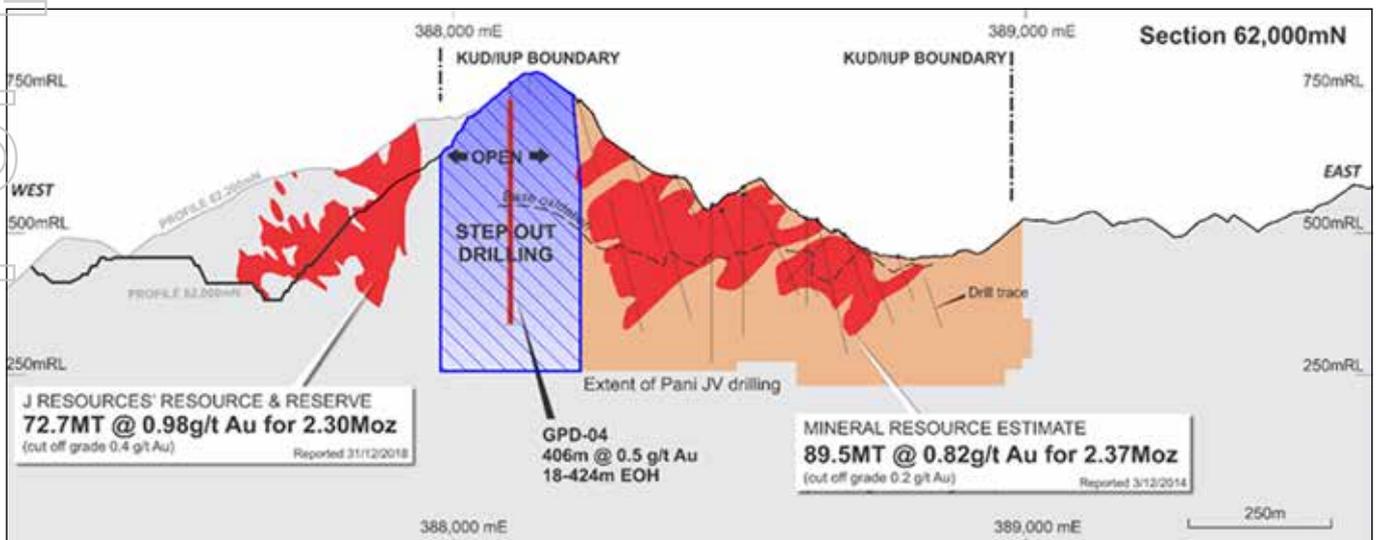
- The common tenement boundary restricted individual open pit mine development.
- The larger resource offers scope for large scale open pit mining, improved logistics, and can consider a range of treatment methods.
- Exploration opportunities and extensional drilling potential including between the two existing resources.

The resultant structure will see J Resources transfer its interests in PT Gorontalo Sejahtera Mining (**GSM**) into the Pani Joint Venture in exchange for a 40% ownership interest in the combined entity.

Pani IUP Drilling

In addition to revaluation reflecting the combination of ground positions, the combined project value could improve to the extent that step out drilling on the Pani IUP between the two Resources confirms geological continuity. As reported previously, the Pani Joint Venture has been drilling a 11,000 metre drill program on the Pani IUP in the area between the Pani IUP and Pani Project where two holes drilled by Utah International in 1982, assayed 406m @ 0.5 g/t Au (GPD-04) and 154m @ 0.57 g/t Au (GPD-05). As reported in Merdeka's June 2020 quarterly report,⁴ four further holes have been completed or were underway for a total of 1,578.6 metres. This brings total drilling in the current program to 13 holes completed or underway for a total of 3,407.6 metres.

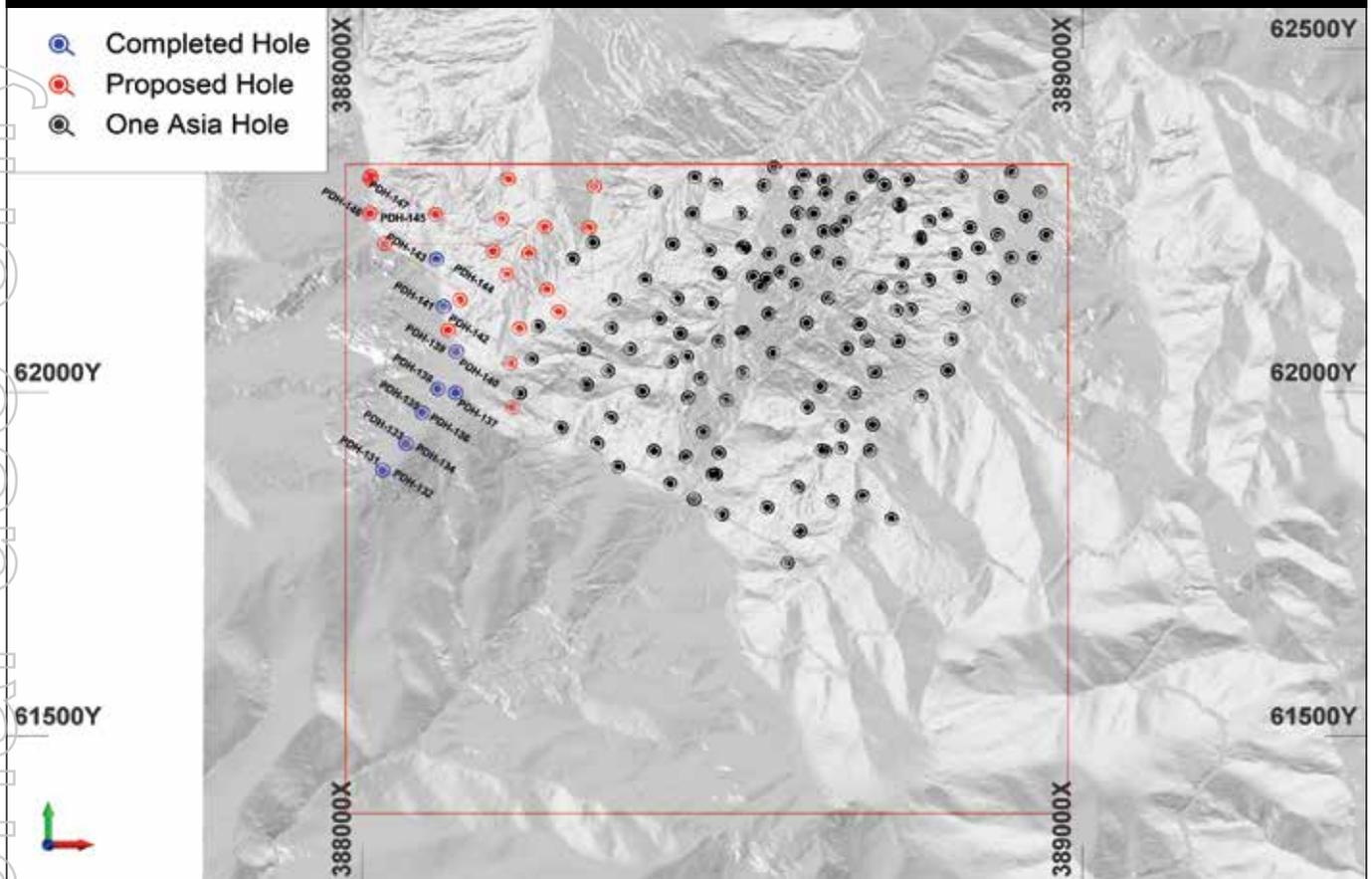
The Pani Joint Venture will temporarily pause its on-going drilling program pending completion of the J Resources agreement. It is anticipated that assay results of holes that have been drilled will be progressed and become available after the recommencement of drilling. Preliminary assays and observations from visual geological logging are broadly consistent with mineralisation that is observed within both the Pani CoW and the Pani IUP.



INVESTMENT HIGHLIGHTS

Pani Joint Venture continued

Schematic Showing Pani Proposed and Completed Drill Holes



It is expected that unification of technical databases, geological models and integration of new diamond drilling results will 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.

Pani Besar Internal Concept Study

The Pani Joint Venture is working on an internal concept study focused on how a combined Pani Besar project might look. The purpose of the concept study is to help scope further work, understand key risks requiring further assessment, and to assess for potential fatal flaws. The study is premised on high level assumptions, including that the Pani deposit is one continuous zone of mineralisation across the two tenements.

The Internal Concept Study is being undertaken to determine the potential viability of an open pit mine with conventional milling and CIL processing. The study is a preliminary technical and economic study based on low-level technical and economic assessments that are not sufficient to support the estimation of ore reserves. Further evaluation and appropriate studies are required before any ore reserves estimate or any assurance of an economic development of the project.

The combination of the Pani IUP and Pani COW unlocks optimal development of the Pani deposit unrestricted by tenement boundaries, including:

- Favourable topography and ore geometries: low strip ratio, open pit operation amenable to large scale bulk mining.
- Metallurgical work to date suggests high recoveries are achievable, with conventional CIL assumed for the internal concept study.
- Low processing costs anticipated, with grid power available.
- Subject to appropriate assessment, initial concepts envisage 7.5 Mtpa to 15 Mtpa processing rates.

INVESTMENT HIGHLIGHTS

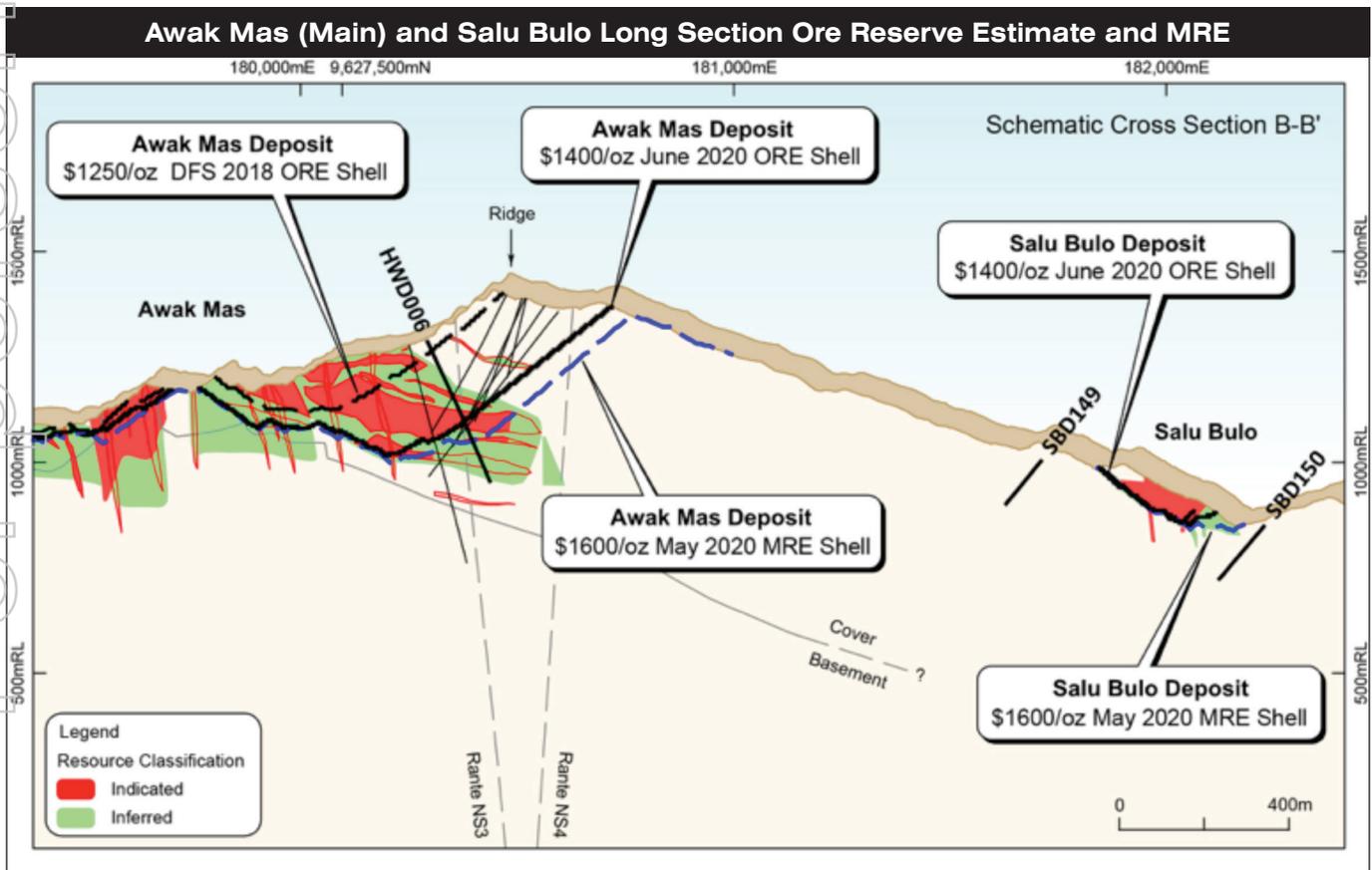
Nusantara Resources Limited

Awak Mas Gold Project in Sulawesi, Indonesia

Ore Reserves

- Increase from 1.1moz to 1.5moz June 2020¹.
- Open pit reported 0.5 g/t cut off using US\$1,400/oz gold price.

	Classification	Tonnes (Mt)	Au Grade (g/t)	Contained Gold (Moz)
Awak Mas (Main)	Proved	-	-	-
	Probable	32.7	1.30	1.37
	Sub-total	32.7	1.30	1.37
Salu Bulu	Proved	-	-	-
	Probable	2.9	1.66	0.16
	Sub-total	2.9	1.66	0.16
Total	Proved	-	-	-
	Probable	35.6	1.33	1.53
	Total	35.6	1.33	1.53



INVESTMENT HIGHLIGHTS

Nusantara Resources Limited continued

Updated Economic Assessment⁵

- Increased production and mine life.
- Based on October 2018 DFS.
- Improved debt carrying capacity.

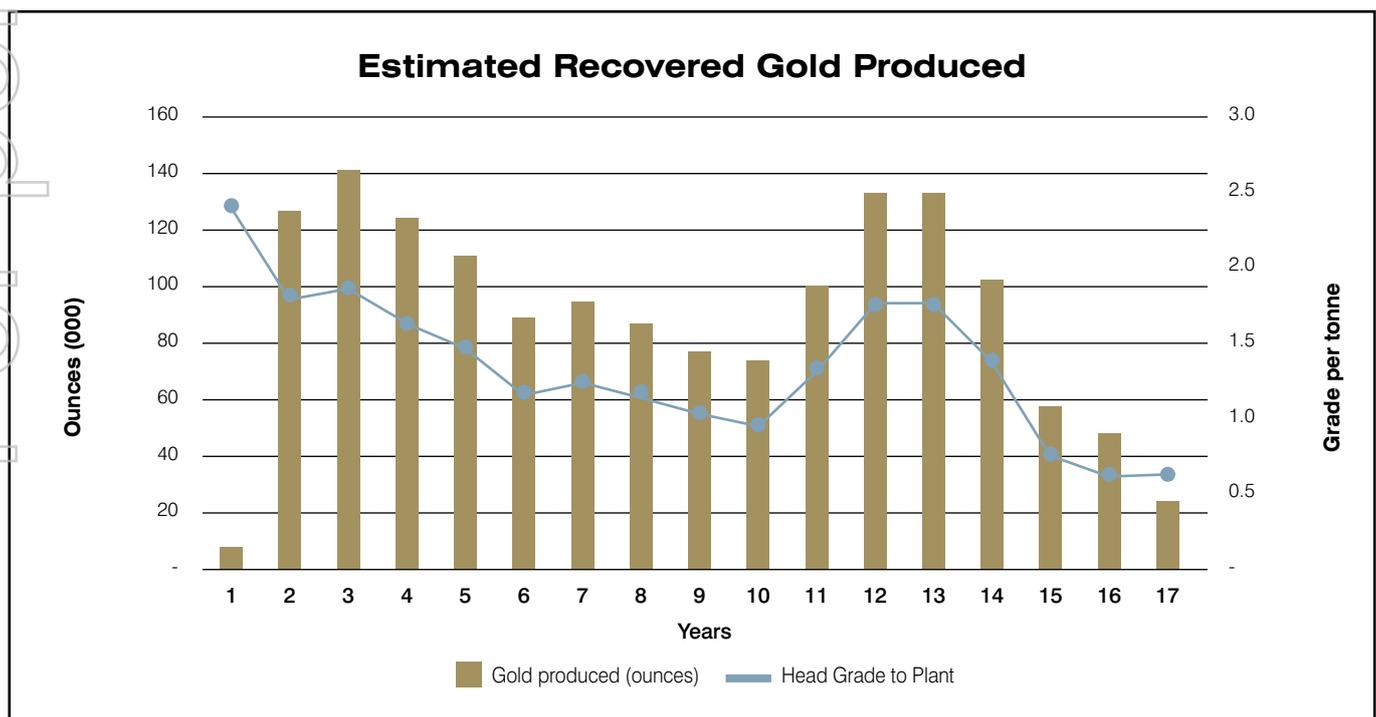
2020 ADDENDUM KEY ASSUMPTIONS AND OUTCOMES COMPARED TO THE 2018 DFS

Description	2018 DFS	2020 Addendum
Gold Price Assumption	USD1,250 per ounce	USD1,700 per ounce
Upfront capital	USD146M	USD156M
Pre-Production capital	USD16M	USD16M
Gold Produced LOM	1.1M ounces	1.5M ounces*
AISC	USD758 per ounce	USD875 per ounce
Initial mine life	11 years	16 years
NPV _{5%} real ungeared – after tax	USD152M	USD517M
IRR – after tax	20%	45%
Payback – post tax	48 months	21 months

* The production targets referred to in this announcement are based on 92% Probable Reserves and 8% Inferred Mineral Resources. There is a low level of geological confidence associated with Inferred Mineral Resources and there is no certainty that further exploration work will result in the determination of Indicated Mineral Resources or that the production targets themselves will be realised.

Amended Mine Schedule

- Higher grade first 4 years, average 1.7 g/t.
- Lower grade 0.4-0.5 g/t stockpiled.
- Potential larger scale mining years 5 to 11.



INVESTMENT HIGHLIGHTS

Erdene Resource Development Corp

Khundii Gold District, Mongolia

Bankable Feasibility Study

Erdene delivered the Bayan Khundii BFS⁶, with headline financials showing a high return from low initial capital expenditure:

- Base Case after-tax NPV of US\$100 million (NPV_{5%}) and 42% IRR (using gold price of US\$1400/oz), increasing to US\$216 million and 77% IRR, respectively, at current gold price of US\$1,800/oz.
- Total recovered gold over the initial phase of the Khundii Gold District development of 381,700 oz.
- Six year operating life with average annual gold production of 63,500 oz, including 77,600 oz in Year 2, from Proven and Probable Reserves of 409,000 oz Au at an average grade of 3.71 g/t Au.
- AISC of US\$733/ounce of gold recovered and upfront capital costs of US\$59M.

Exploration

High probability growth options have been identified and are set to be tested during the September quarter.

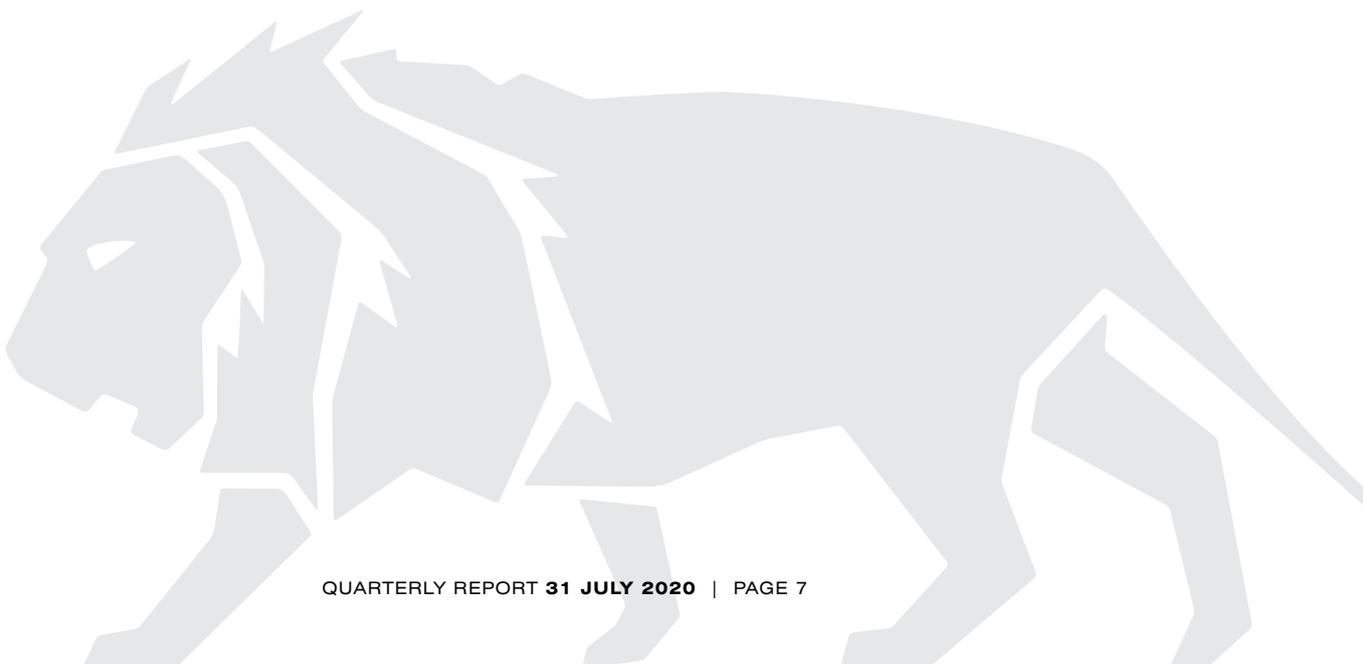
- High grade results returned for a new structure discovered within the designed BFS pit. Best results included 5.5m at 126g/t gold, and 15m at 26g/t gold.⁷ This zone is to be further delineated by planned drilling commencing in August.
- Discovery of high-grade zones (eg 6m at 8.8g/t gold) in trenches at the Dark Horse prospect, which is located 3.5km north of the planned development at Bayan Khundii.⁸ These results confirm Dark Horse as the best on-license target since the discovery of Bayan Khundii.

Corporate

Erdene announced a non-brokered private placement of approximately C\$20M which was closed after the quarter end. This was led by a \$15M investment by Mr Eric Sprott, a prominent resources investor. Lion participated in the placement.

This funding positions Erdene strongly to continue with work to expand high-grade resources in the Khundii Gold District and provide for initiation of early development works at the Bayan Khundii Gold Project, whilst project financing is pursued.

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MINING MARKET REVIEW

2020: Gold is glittering and the year that Canada re-discovered explorers

OVERVIEW POINTS

- Gold price – setting record highs.
- Investor interest surging for explorers and junior resources companies.
- Canadian market investor interest has swung strongly back to explorers.
- Investors now pricing exploration potential, rather than waiting for success.
- Lion Clock – moved to 10 o'clock.
- M&A outlook – new model for M&A rewards critical mass, not sector dominating scale.

With investors moving decisively and with strong interest into the exploration space, and valuations jumping as a result, the Lion Clock has moved to 10 o'clock. We now find ourselves within the most exciting time in the cycle – where juniors can perform with access to enthusiastic investors and funding to progress.

Lion's April quarterly report was published at a time of incredible equity market uncertainty: the COVID-19 related equity market crash was extremely fresh and we were in the midst of a fragile recovery. It has certainly begun to appear that the recovery commenced in April, which could have gone on to be a dead cat bounce, has stuck and popular confidence in the recovery appears to have grown. The equity market has become richly valued in comparison to earnings. Viewed against bond yields, this is most easily explained as there being very few other options for investors besides expensive equity, which seems to be tacitly accepted as the consequence of extensive stimulus. For the time being at least, stimulus as the guiding force for the market has won out over reality and even though COVID-19 has not gone away the market is looking past the point when it does.

Specifically, with regard to mining equities, there are two stand out developments that have taken place between January and July / August:

- Gold price has appreciated strongly and hit record new highs, driven by a combination of low interest rates and uncertainty;
- Substantial surge in investor interest toward exploration companies and commensurate liquidity flowing into the small capitalisation end of the mining sector. Investor sentiment is strongly linked to the gold price, but the big news really is the long-awaited awakening of the Canadian market.

Gold – setting new records

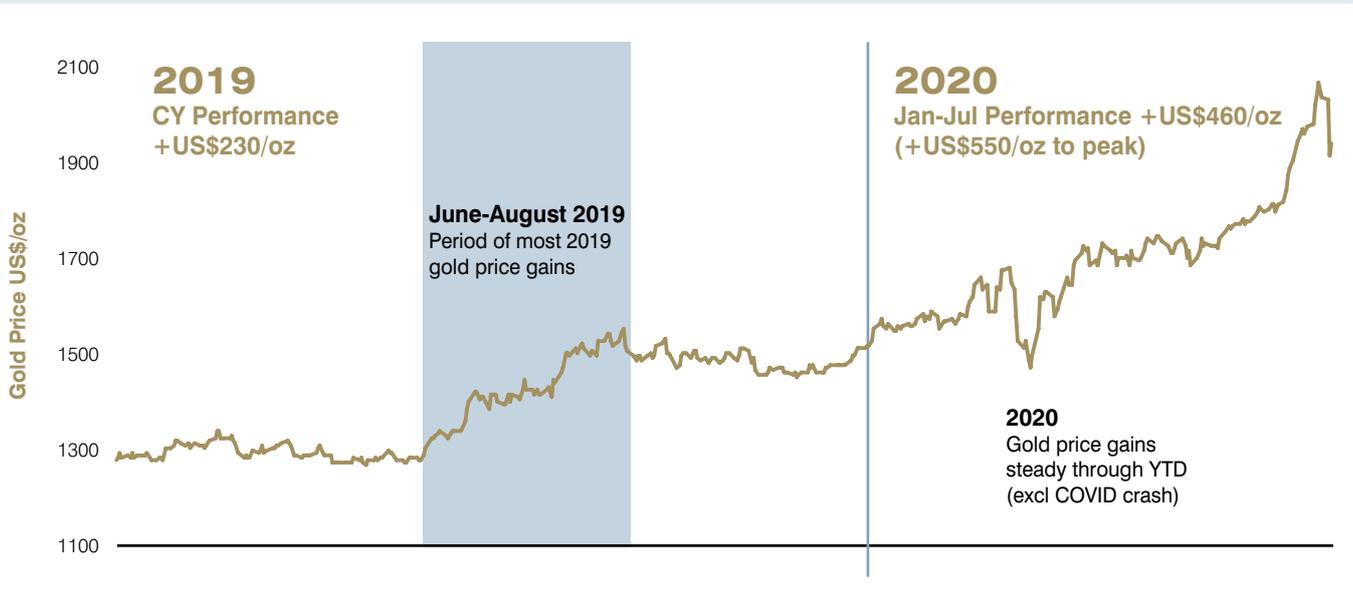
2019 was a strong year for gold, strengthening by US\$235/oz through the year. Most of that gain was delivered through June, July and August – the months before and after were reasonably flat. 2020 in contrast has seen far more consistent and steady appreciation for gold, with the exception of March when gold was caught up in broader financial market collapse. By mid-year in 2020 gold had appreciated by more than the whole of 2019, and by early August was up by almost US\$550/oz, peaking at a record closing price of US\$2,063/oz on 6 August. Once the domain of gold fanatics, fundamentals for gold are now being reported in mainstream media.

A rally in gold draws out both bulls and nay-sayers, with opposing camps quoting fundamentals or pointing out gold's obvious lack of actual use or consumption. Unlike most other commodities, demand for gold is generated by desire and not consumption. If iron ore rallies strongly, the margins of steel smelters are

MINING MARKET REVIEW continued

reduced because they are less able to pass on the full price increase to users of steel. In such an instance, steel producers reduce their purchases of iron ore hoping for the market to cool. The same is not true of gold – as price increases, it attracts buyers and new interest rather than deter them. Forecasting gold is challenging because it is not possible to value the cost of gold in use – the price will be whatever buyers are prepared to pay, and in times of uncertainty and extremely low interest rates, that price typically moves upward in response to greater buying interest.

The gold champions have recently made light of Berkshire Hathaway taking a circa US\$560m position in Barrick Gold, the world's largest producer. The headline is all the more tantalising because Warren Buffett has been famously outspoken against holding gold in the past. It is important to point out that this is not a large investment for Berkshire Hathaway, and in that regard might not have been championed by Buffett directly. Even so, as an outsider looking in, this appears an ideal exposure for a value-oriented investors such as Berkshire Hathaway – the investment is in a gold producer which has far greater leverage to gold, generates earnings and is capable of distributing earnings. The underlying assumption is that such an investment is presumably underpinned by a view on the outlook for gold, and as such is an excellent example of 'generalist' money moving into the space having previously held little to no exposure.



For anyone who watches the junior market for miners it will also be the year that liquidity truly returned to the explorer space.

Post COVID-19 Crash: Explorer Liquidity Surging, especially in Canada

2020 will no doubt be remembered as the year COVID-19 struck. For anyone who watches the junior market for miners it will also be the year that liquidity truly returned to the explorer space. The two are connected – investor interest surrounds gold companies and the gold price surge stems in no small way from factors linked to COVID-19. The turning point aspect is that liquidity is flowing into explorers from the largest market for miners in the world – Canada, which has been reluctant to show enthusiasm for explorers until recently.

Canadian equity exchanges collectively raise more equity funding for miners and explorers on an annual basis than any other exchange, and Canadian markets are the largest pool of investment capital for risky enterprises such as exploration. But 'risk investors' aren't obliged to continually fund exploration, nor do they. From time to time and especially after a mining boom has busted, these investors' 'risk money' flows elsewhere.

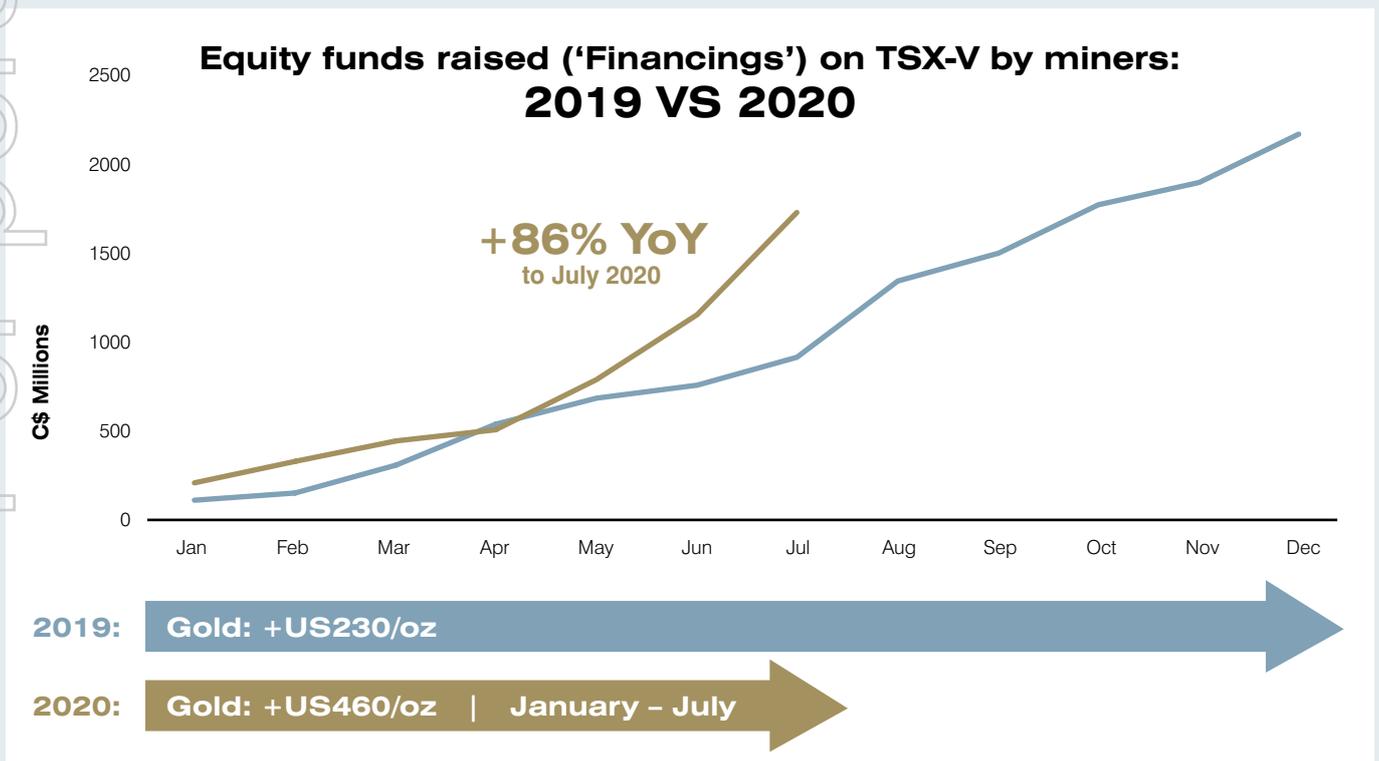
MINING MARKET REVIEW continued

Through 2017, 2018 and much of 2019, Canadian risk money was fascinated with medicinal cannabis – an investment theme premised on a new legal platform and consequent perception of an emerging market. By late 2019, the Canadian pool of risk money was ready for something new, and the renewed lustre of gold in a heady mix with global pandemic was perched to catch their collective eye.

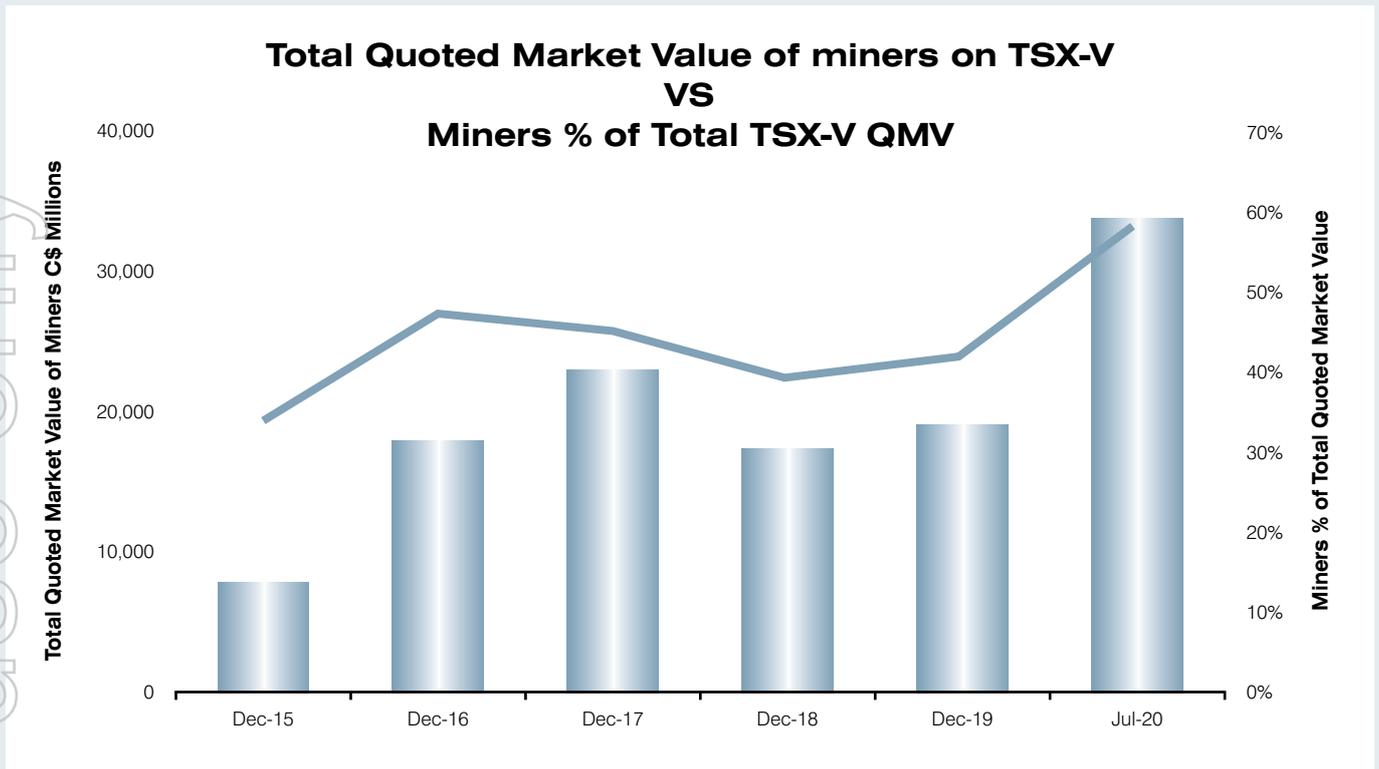
The striking and sudden recovery of the Canadian market sentiment toward the exploration end of mining is strongly reflected in capital raising numbers, as well as the valuation of listed miners and explorers. Most global equity markets are only segregated into sub-sectors by way of stock indices (eg resources, industrials) but indices are only applicable to the largest capitalisation companies. There are no indices for micro-capitalisation companies within a sector such as explorers. The Canadian market is unique in that it has tiered exchanges, largest companies are typically listed on the Toronto Stock Exchange (TSX) and smaller companies on the Venture exchange (TSX-V). Whilst not a perfect segregation, when it comes to miners those listed on TSX-V are overwhelmingly exploration / pre-production stage and statistics for funding of TSX-V miners are a great indicator of funding from investors going into the exploration sector.

In 2019, 'mining' companies on the TSX-V (ie mostly explorers) raised a combined total of C\$2.2B. The running tally at the end of July 2020 is already at C\$1.7B, which is 86% above the same time in 2019. This aligns strongly with a gold price tailwind, and there are a high number of gold focused companies active on TSX-V. The amount of funds raised by miners and explorers on TSX-V is 47% of the total for miners across both the TSX and TSX-V – a high proportion in comparison to historic averages (the proportion tends to be higher in years where investors are enthusiastic about explorers).

Capital raising trends mimic a commensurate appreciation in market capitalisations for Canadian explorers. The total Quoted Market Value (QMV = quoted shares x share price) of 'mining' companies on TSX-V at the end of 2019 was C\$19.0B, and those companies collectively comprised 42% of the total QMV of the TSX-V. By the end of July 2020 QMV of miners on TSX-V had close to doubled, surging to C\$33.7B with these companies now accounting for 58% of the total QMV of the TSX-V. This is a remarkable jump, and the C\$1.7B of new capital that has been raised in the period is only a small fraction of the difference. Meanwhile, QMV of miners on the TSX have increased by 35% – a positive change by a far cry from the performance of the smaller capitalisation companies. The story, clearly, has been about explorers in Canada in 2020.



MINING MARKET REVIEW continued



Casting an eye over performance of many ASX listed exploration / assessment stage companies there has been a similar and positive surge of investor sentiment, and capital raising tempo has also increased. Whilst it is noteworthy that liquidity is now flowing into the exploration space, it is far more significant that the Canadian market is now experiencing this renewed interest in explorers, because whilst the Canadian market was preoccupied by cannabis it held back the sector globally.

This development opens the door to a new and exciting stage of the boom, and even though there is a clear centricity toward gold, investor enthusiasm for risky activities such as exploration is spreading across the sector in a fashion that was last seen almost a decade ago.

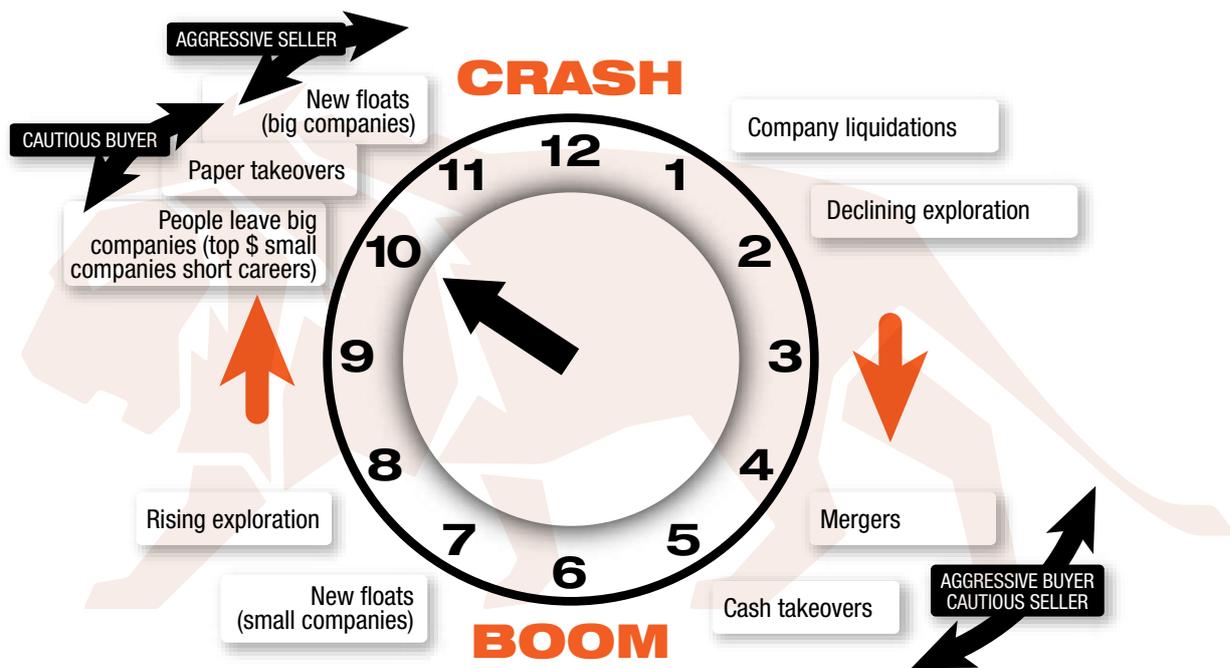
Appetite for exploration - pricing potential, rather than waiting to reward success

The corollary of valuations surging across the exploration sector is there has been a substantial shift in sentiment from investors around how they value exploration. In January of this year, investors were clearly rewarding successful explorers which was a healthy improvement on much of the period from 2011 through to 2018. Whilst not universal, there are now growing instances where valuations can only indicate that the investors in the company are valuing potential, yet still await the milestone of exploration success.

MINING MARKET REVIEW continued

Lion Clock – 10 o'clock

In January 2020 the Lion clock was at 9 o'clock, with investors beginning to show interest in the exploration sector. Genuine success by explorers would likely be rewarded but fund raising by the sector was selective and challenging still. Global equity markets collapsed in February and into March in response to the proliferation of the COVID-19 pandemic – this could have brought about a premature midnight for the mining cycle, but it didn't because economic and equity market weakness was countered swiftly and aggressively by various forms of government stimulus.



Outlook toward the top of the boom

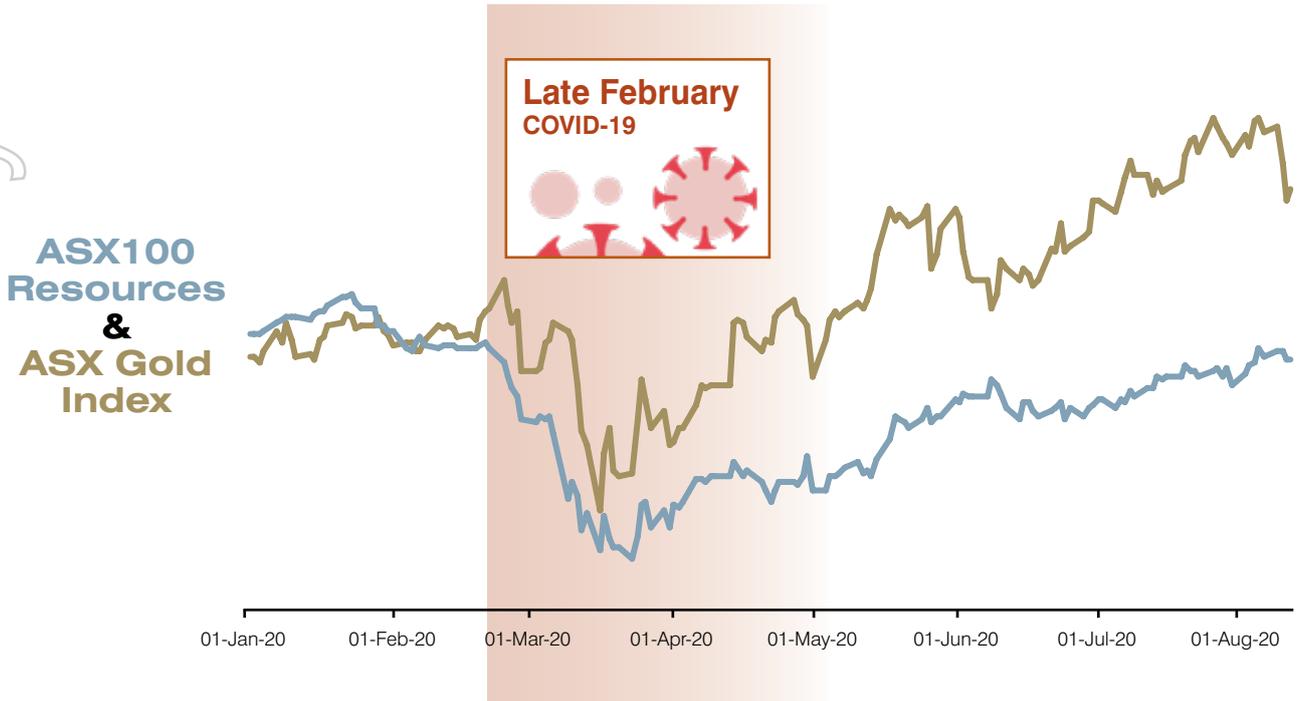
Equity markets responded to stimulus strongly and have put on positive performances since that appear to defy the outlook of a weakened economy. Gold has been a major beneficiary of the combination of uncertainty and stimulus, finding new record highs in August of 2020. With gold as a strong tailwind, the Canadian market has awoken and provided a surge of liquidity to the exploration sector. Explorers are now able to raise equity funds more readily than at any other time since mid-2011, indeed investors are clamouring into some stocks to the extent that valuations reflect potential rather than necessarily success.

Cinderella is famous for two things – she won the hand of the prince, but she was terrible at keeping an eye on the time. We don't know whether she realised that it was 10 o'clock, only that when midnight arrived it took her totally by surprise. As the Lion Clock moves to 10 o'clock, what expectations are there for the rest of the cycle?

Rather than anticipating an imminent end to the cycle, there is a strong expectation the mining sector has exciting years remaining. The Lion clock doesn't move at a steady pace, rather it reacts to indicators of liquidity and these tend to occur in irregular surges rather than a set tempo. The time between 10 o'clock and 12 midnight in historic cycles has lasted for years. And importantly for investors substantial capital returns are usually available through this stage, especially in the ranks of junior miners and explorers, as it is characterised by liquidity moving down into smaller companies as investors search for value. With exploration funds now being raised in the market and deployed widely, we expect to see discoveries take place and new projects developed as well as growth in the form of M&A to form larger companies.

Cinderella is famous for two things – she won the hand of the prince, but she was terrible at keeping an eye on the time.

MINING MARKET REVIEW continued



Pre-COVID Crash
January 2020

Post-COVID Crash
August 2020

Lion Clock



Liquidity

Investors seeking quality explorers

Investors warming to explorers

Rewarding discoveries

Pricing exploration potential

Strong preference for safe jurisdictions

Jurisdiction wariness diminishing

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MINING MARKET REVIEW continued

Growth Mindset and M&A

Growth appetite in the mining industry was muted through much of the period 2011 – 2015. Transactions were dominated by aspiring juniors purchasing operating assets cheaply from major miners, and these have become the new bastion of mid-tier miners such as Northern Star and Evolution. As the boom was getting underway through 2016 and 2017, there was far more activity of large miners investing in juniors than making takeovers – this reflected juniors representing good value (in the eyes of other miners) and there being no investing competition from the equity market. Deal size and tempo began to increase through 2018 and 2019, those years featuring the mega gold mergers of Barrick and Randgold, then Newmont and Goldcorp. Beneath the surface of announced deals, the frequency of enquiry around M&A has also surged in this time. Growth oriented mindsets have expanded, especially in the gold space where the commodity has invigorated margins and appetites most substantially.

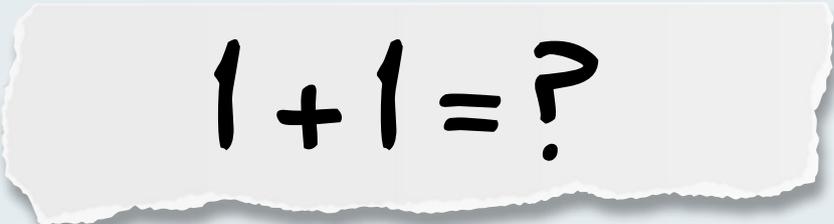
In days gone by, as mining booms progressed, there has often been an evolution of attitude toward growth – small deals give way to large ones as investor interest shifts to reward larger companies with greater / more diverse production profiles and (perceived) ability to capture efficiency in a larger organisation. The price to pay to be the winning suitor in a hot market for a handsome prize is to offer a premium over the market price for the target company. With history alone as a guide, large and generously priced takeovers might be an expectation of things to come, especially with growth appetite thriving within the gold sector. Even so, there are several factors that make it challenging to envisage substantial premia being justifiable for large acquisitions, and in fact the way that growth is being rewarded by the market may well motivate growth well below major miner scale.

- There is no precedent (yet) for large deals or premia. Most recent examples of mega deals have been nil / low premium combinations, and the largest miners are probably more 'rationalisers' than buyers, whilst still being open to small scale (compared to their capitalisation) external investment.
- In the realms of the largest miners, investors have shown they will reward value generation and cost discipline, there doesn't appear to be any notion of rewarding increased scale.
- The global mid-tier contains a number of reasonably fresh faces – companies that have grown over recent years. In most cases these mining companies are still guided by their founders whose mantra of growth through value oriented transactions has set the tone for their success to date.
- A sudden surge of interest from the investment market in earlier stage companies stands to challenge the ability for larger companies to acquire whole junior companies and still demonstrate a deep value proposition. Consequently, asking prices in project sales probably reflect market prices too.
- The memories of 2011 are still reasonably fresh in the memories of investors, who were so appalled at the largess of large deal making and capital investments by the mining industry they all but abandoned their mining investments for the next four years.

Perhaps we will see large acquisitions where premiums are offered and paid before the end of this boom. For the foreseeable future however, there is an easier reward for growth on offer for investors that stems from the structure of the investment market that has only recently evolved.

MINING MARKET REVIEW continued

New model for M&A – reward for critical mass


$$1 + 1 = ?$$

The premium which is potentially available for merging a smaller company into a major miner is nowhere near as significant as for successfully combining two juniors. Whilst we're not (yet) at a point where the investment market thinks Newmont + Newmont should = anything more than 2x Newmont, it doesn't mean that 1 + 1 won't equal 3 or 4. It is often the case that single asset companies don't quite meet the threshold criteria that larger institutional investors require to become shareholders, but putting two companies together can achieve all those in one step. And the market, led by large pools of managed money, is prepared to pay more for companies after they cross the threshold especially if they enter a relevant index. This phenomenon is especially true where Exchange Traded Funds (ETF's) are involved.

Equity ETF's are set up to provide a one stop investment solution for investors who want exposure to a sector of the market (say, gold miners) but don't want to manage it themselves, and the selection of companies the ETF can hold are defined, often by an index. If a new company appears in the index, then the ETF needs to buy it. In days gone by, managed funds that were motivated to hold stocks across an index could obtain a position over a period of time leading up to, or in a measured fashion after a company enters their investment universe or index. Often, a lump of buying interest could be satisfied in a capital raising.

The catch is, ETF's can't take fresh equity, so they need to buy it on the market. As a result, when an ETF 'needs to own' a company that has appeared in its guiding index, valuation becomes subsidiary to obtaining a position and the share price outcome is a simple equation of demand massively outstripping supply as shares are aggressively bought in the market. This penny has well and truly dropped, rewards in the form of trading valuations can provide a reward as significant as a doubling of the share price for successfully merged miners and this can be achieved at respective valuations they are mutually comfortable with, rather than taking a chance with a large initial premium. This sort of potential performance compares extremely favourably with conventional takeover premiums, where 50% would be an attractive figure. The attraction of this style of deal to junior miners is further enhanced by the comparative ease of arranging a merger with a peer rather than trying to set up a sale to a much larger suitor, and less susceptible to blockage by egos which is often the case when there is no obvious role for directors and senior management within acquirer companies. As more and more generalist investors divert funding to mining investments, the pool of funding available within managed structures such as ETF's is growing, not shrinking.

Creating a company that is capable of rating by ETF's might appear an overnight success but would practically need to be some time in the making. M&A by its nature needs to be conducted in secret so the time it takes is usually not obvious. Successful mergers need to be treated like jigsaw puzzles – easing pieces together that fit, rather than trying to force those together that don't. As Mark Bristow famously and eloquently pointed out – mixing cow shit with ice cream only results in shit flavoured ice cream. The qualities that would enhance the appeal of an asset for inclusion in the portfolio of an aspiring new 'index scale' miner no doubt include:

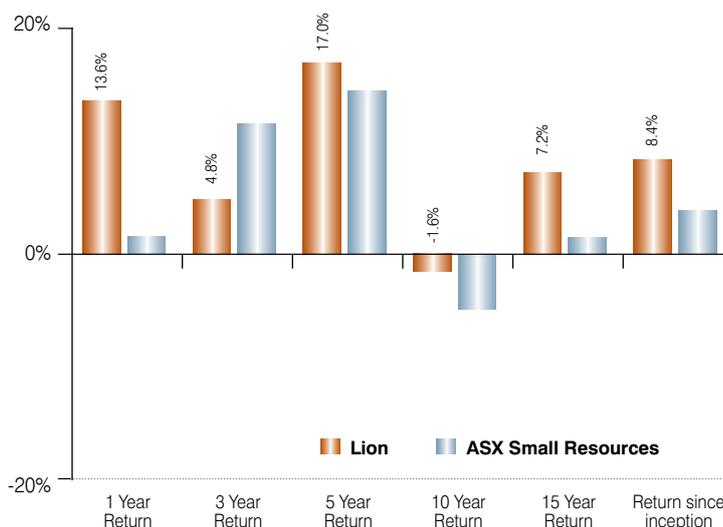
- Mine life (10 years good, more even better).
- Scale (in the case of gold, 100kozpa production capacity from a project is often regarded as 'entry level').
- Projects that are fully funded, and either at or close to production.
- Geographical proximity and manageability – local operating synergies are an obvious attraction, also ability to manage multiple assets across a sensible spread of time zones.

A feature of the market in recent years has been growth of companies with portfolios in 'safe' jurisdictions. As the market reduces its wariness for jurisdiction risk, it is quite likely that appetite for mid-tier miners with assets across places like Asia and Africa will grow, so appear the logical opportunities for consolidation of a new mid-tier company.

LION PERFORMANCE

Annualised Total Shareholder Return ⁹⁻¹⁴

Annualised TSR to 31 July 2020	Lion	ASX Small Resources
1 Year	13.6%	1.5%
3 Years	4.8%	11.5%
5 Years	17.0%	14.4%
10 Years	-1.6%	-4.9%
15 Years	7.2%	1.5%
Inception (23 yrs)	8.4%	3.8%



NOTES

1. Refer to Nusantara Resources Limited ASX Announcement, 16 June 2020, Awak Mas Ore Reserves Increase by 34% to 1.53m ounces.
2. Refer to One Asia Resources Limited news release 3 December 2014, (<https://www.lionselection.com.au/wp-content/uploads/2018/08/PANI%20JORC%20RESOURCE.pdf>).
3. Refer to J Resources 31 December 2018 Annual Report, (<http://www.jresources.com/investors/article/final-resources-reserves-compilation-2017-to-2018>).
4. PT Merdeka Copper Gold Tbk Quarterly Report: June 2020. (3 August 2020, <https://www.merdekacoppergold.com/en/download/activities-report-q2-2020/>).
5. Refer to Nusantara Resources Limited ASX Announcement, 29 June 2020, Awak Mas NPV Increases by 240% to USD517m.
6. Refer to Erdene Resource Development Corporation news release made 20 July 2020.
7. Refer to Erdene Resource Development Corporation news release made 7 July 2020.
8. Refer to Erdene Resources Development Corporation news release made 15 July 2020.
9. 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).
10. Methodology for calculating total shareholder return is based on MorningStar (2006), which assumes reinvestment of distributions.
11. Distributions made include cash dividends, shares distributed in specie as a dividend, proceeds from an off market buyback conducted in December 2008, and the distribution of shares in Catalpa Resources via the demerger of Lion Selection Limited in December 2009. Lion assume all distributions are reinvested, with all non-cash distributions sold and the proceeds reinvested on the distribution pay date.
12. Investment performance is pre-tax and ignores the potential value of franking credits on dividends that were partially or fully franked.
13. Past performance is not a guide to future performance.
14. Source: IRESS, Lion Manager.

SUMMARY OF INVESTMENTS AS AT 31 JULY 2020

Net Tangible Asset Backing

Lion Selection Group Limited (Lion) advises that the unaudited net tangible asset backing of Lion as at 31 July 2020 is 66.5 cents per share (after tax).

SUMMARY OF INVESTMENTS AS AT 31 JULY 2020				
	Commodity	June 2020 A\$M	July 2020 A\$M	July 2020 cps
Pani Joint Venture	Gold	40.3	60.7	40.5
<ul style="list-style-type: none">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 since November 2018, being the most recent arms-length transaction when Merdeka acquired its project interest in the Pani Joint Venture. (See page 2 for more details).				
Portfolio				
Nusantara Resources	Gold	15.7	16.8	11.2
Erdene Resources	Gold	4.3	7.8	5.2
Sihayo Gold	Gold	2.2	2.1	1.4
Celamin Holdings	Phosphate	1.0	1.1	0.7
Other		0.4	0.5	0.3
<ul style="list-style-type: none">Portfolio holdings measured at fair valueIncludes investments held directly by Lion and the value to Lion of investments held by African Lion.				
Net Cash		13.3	10.8	7.2
Net Tangible Assets		A\$77.2m	A\$99.8m	66.5cps

Capital Structure

Shares on Issue:	150,141,271		
Share Price:	46.0¢ps	31 July 2020	