



Lion Selection Group

QUARTERLY REPORT FOR THE 3 MONTHS ENDED 31 JANUARY 2017

- Investor sentiment swings back to mining resulting in ASX gold stocks, followed by resources generally, achieving substantial out-performance of all other ASX sectors during 2016.
- This has been most favourable for large capitalisation miners, whilst junior and micro-cap resources companies have underperformed their larger peers. This is a typical early cycle phenomena, and expect micro cap resources' time is close.
- Benefit registered to Lion NTA: 28.9cps on 31 Dec 2015 vs 38.4cps on 31 Dec 2016. NTA has not yet reflected successes announced by One Asia, which are expected to begin to crystalize in 2017.

SUMMARY

ONE ASIA – INDONESIA

Awak Mas 2.8Moz gold project:

- ASX listing of Awak Mas project planned for mid-2017.
- Martin Pyle and Rob Hogarth appointed to Awak Mas board, joining managing director Mike Spreadborough.
- Technical assurance and other documentation is progressing well.

Pani 2.4Moz gold project:

- KUD reunification – KUD Dharma Tani Marisa management teams and members united under a Special General Meeting held in December 2016.

Corporate:

- Oversubscribed equity placement raises A\$5m.

ASIAN LION

Lion purchases IFC and Altitude stakes in Asian Lion, streamlining Lion structure and increasing its stake in some key investments. Lion now holds 89.7% of Asian Lion.

ROXGOLD – BURKINA FASO

2016 production 77,157oz of gold, produced since first gold pour in May 2016.

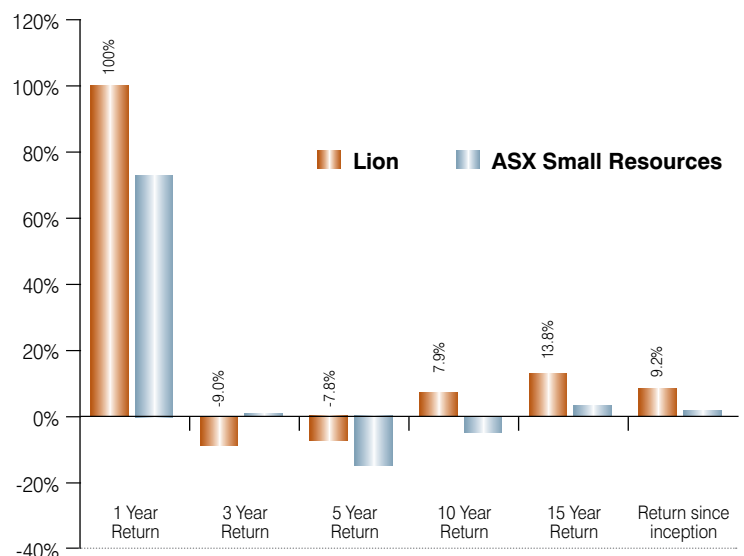
ERDENE – MONGOLIA

New zone discovered at Bayan Khundii in Southern Mongolia, multiplies the potential of the project.

LION PERFORMANCE

Annualised Total Shareholder Return ¹⁻⁶

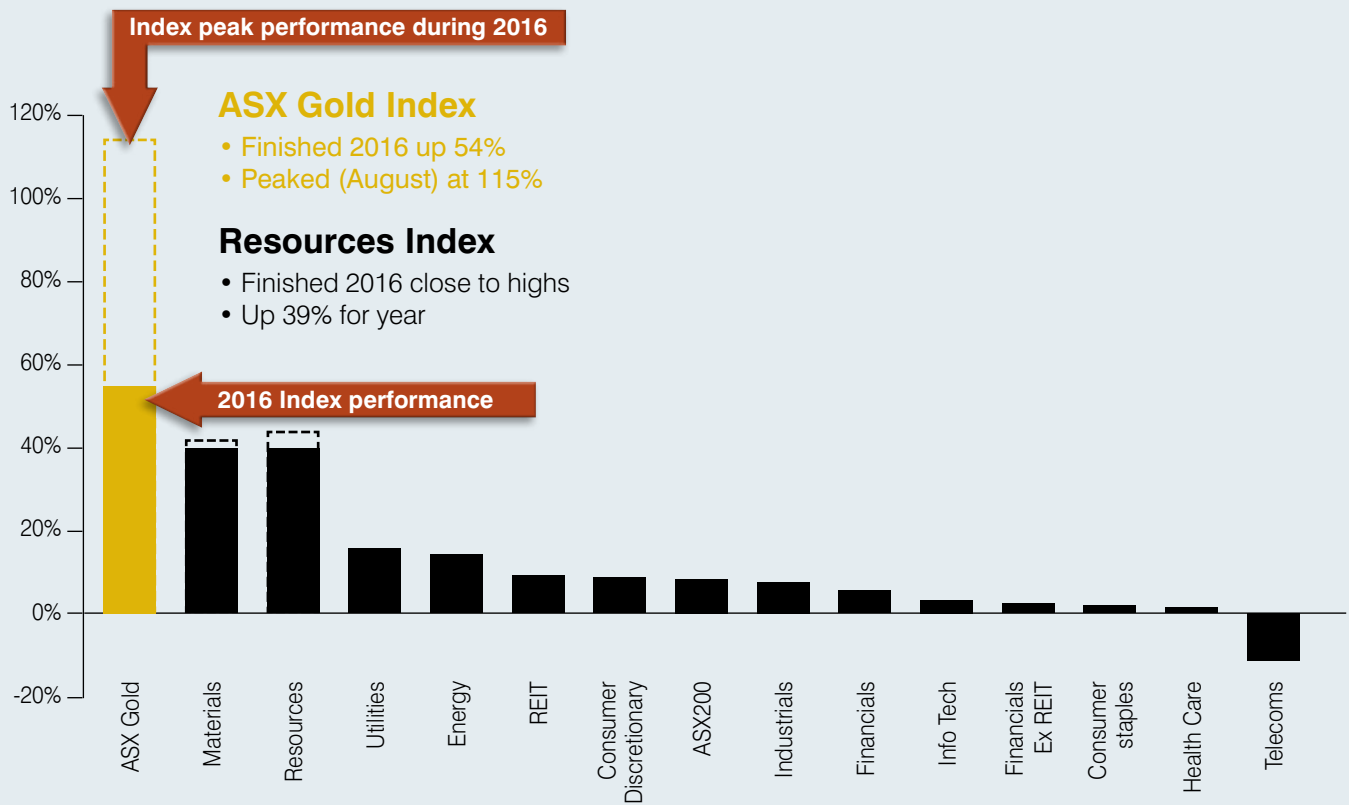
| Annualised TSR to 31 January 2017 | Lion | ASX Small Resources |
|-----------------------------------|--------|---------------------|
| 1 Year | 100% | 72.1% |
| 3 Years | (9.0%) | 0.4% |
| 5 Years | (7.8%) | (15.8%) |
| 10 Years | 7.9% | (6.0%) |
| 15 Years | 13.8% | 4.6% |
| Inception (19 yrs) | 9.2% | 2.9% |



(1). 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:LXS, 2013-present). (2). Methodology for calculating total shareholder return is based on MorningStar (2006), which assumes reinvestment of distributions. (3). 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. (4). Investment performance is pre-tax and ignores the potential value of franking credits on dividends that were partially or fully franked. (5). Past performance is not a guide to future performance. (6). Source: IRESS, Lion Manager.

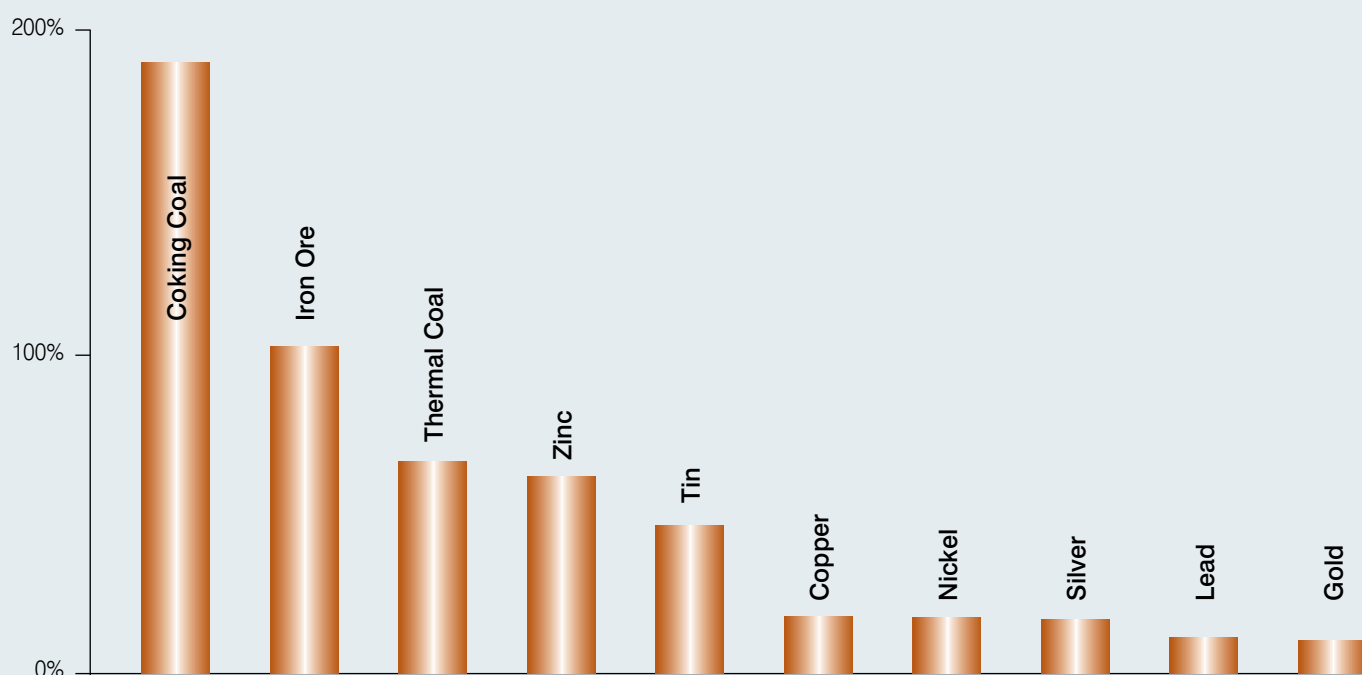
THE SECTOR

Being the start of a new year, it is a fitting time to review 2016 as a whole, and it was a bumper year for miners, with Resources but especially gold stocks being the best performers by a very convincing margin over the course of the year. Having started the year very strongly, gold stocks peaked in August and finished the year just ahead of the performance of the broader resourced indices. Over the timeframe of the quarter, performance of the gold sector was flat having hit a low in December, whilst the broader Resource sector grew steadily.



THE SECTOR

Performance from mineral commodities was universally positive during 2016, and it certainly looks like the down trends of the last 3-5 years in commodity prices have been broken. The biggest surprises were the price performances of bulk commodities (coal, iron ore), which generally exhibit much greater sensitivity to actual supply and demand with a much lesser overprint of speculation. The worst performer was gold, putting it in stark contrast to gold equities. We attribute this disparity to the gold sector generally being able to make a far better fist of a modest price increase, having addressed cost excess years earlier than the rest of the industry, as well as the optimism toward future gold price being reflected in equities.



A part explanation for the volatility experienced by gold stocks and gold price lies in US politics. Sentiment toward President Trump appears to have returned in part to that which was prevalent prior to the US election – Trump means uncertainty. The sense that Trump might be positive for interest rates through stimulus to business appears to have subsided. Gold is reflecting a market view that rates are on hold for longer.

Equity capital raising by miners went into a lull during the final quarter of 2016, which was foretold in the last quarterly report, on the basis that there had been a flurry of large capital raisings through the middle of the year, temporarily draining collective liquidity. The case study of a company called Dacian Gold illustrates starkly the drain that occurred in liquidity – Dacian launched an equity capital raising in early December targeting a total of A\$150m priced at \$2.75/share in order to partially fund the development of a gold project in Western Australia. This was re-priced two days after the initial announcement to \$2.50/share, and eventually the raising was down sized to raise only \$26m. Despite the apparent lack of equity investors at that point, Dacian announced in late December that A\$150m of debt had been secured, which provides an indication that independent project assessment by the banks has been sufficient to underpin a significant commitment by them. We conclude that Dacian was more a victim of the market at the time than any issues at the project.

THE SECTOR

Subsequent to the end of the quarter, Dacian successfully raised a further A\$110m, albeit priced at a much lower price of \$2.00/share. Whilst it is yet early in the year, indications from other capital raisings are that equity investors have regained an appetite for gold companies, which bodes well for funding of miners (and encouragingly, those at the smaller end of the capitalisation spectrum) during 2017.

The IPO market in 2016, but particularly the final quarter, exhibited a strong recovery from 2015. We regard IPO volumes as a strong indicator of investor interest, because in a poor market IPO's just can't get done. Investors who are avoiding the sector are extremely unlikely to invest in a company they don't know and have no access to track record (ie price, announcements). When investors risk appetite recovers, it is reflected in IPO's getting done. During 2015, only three IPO's of resources companies took place on ASX, and one was the compliance listing of MMG (no requirement to raise funds). In 2016, there were 10 resources IPO's and judging by the ASX website listing of pending IPOs, the pipeline is well stocked for 2017. Five of the 10 listings took place during the last quarter of the year. There were companies that failed to list during 2016, so the tally may well have been greater. Generally speaking, it appears the failures to list were asking for valuations of their businesses in excess of that the market was prepared to pay, so whilst risk appetite has recovered, it is clearly still highly discerning.

The effect of the rising market has been the most profound on gold producers and large capitalization miners, who have experienced the best performance (as a collective group) so far, and have been able to raise funds. The micro-cap non-producers have seen some benefit but so far collective capital appreciation, and capital raising has not matched their larger peers. History shows that the smaller stocks generally display the best capital appreciation later in the cycle, so the relative underperformance is normal. African proverbs are rarely analogous to investing, even so: "it is well known that elephants don't gallop but fleas can jump over 200 times their own height". We have seen the elephants of mining move with remarkable dexterity for their size, however the fleas have not yet jumped.

Even with only muted capital gains within the micro-cap miners, the effect has been felt on the Lion NTA already, having appreciated from 28.9cps on 31 December 2015, to 38.4cps on 31 December 2016. With the mining boom now well underway, we expect conditions in 2017 will be much more conducive to the market recognising successes and for further appreciation to the value of Lion's portfolio as a result.

The key contributors from the portfolio have been:

- Doray Minerals – sold during 2016, for proceeds of A\$8.3m of cash.
- Erdene Resources – new discovery in Mongolia saw the share price appreciate from C16c to C70c during 2016
- Roxgold Resources – successful development of a high grade gold mine in Burkina Faso, with ongoing exploration success as well as the fair wind of the gold market, appreciated from C70c to C121c in 2016
- EganStreet Resources – listed on ASX during 2016. Valuation in the NTA at the start of the year reflected the last raising price of 16c (reconstructed), and closed the year at 25c.

The successes reported by One Asia have not been demonstrated at all in the NTA, as the holding price is based on raising prices and did not change at all during 2016. With the planned listing of Awak Mas in Nusantara Resources during 2017, and the recommencement of project assessment work under the guise of our partners at Pani, it is highly likely that One Asia will begin to contribute to NTA appreciation during 2017.

INVESTMENT NEWS

Asian Lion

During the quarter, Lion purchased the interests of both the IFC (18%) and Altitude (9%) in Asian Lion Limited for a total of \$1m, taking Lion's interest in Asian Lion to 89.7%. This purchase sees a streamlining of Lion's structure and increases its stake in One Asia, Erdene and other investments in the Asian Lion portfolio.

One Asia Resources Limited

AWAK MAS GOLD PROJECT

- One Asia is working towards an ASX listing of its interest in the Awak Mas Project held by Awak Mas Holdings Pty Ltd in mid 2017. One Asia shareholders would receive shares in the listed entity as part of any listing process.
- Likely access to the local power grid confirmed, with electricity provider PT PLN completing a transmission survey to site.
- Technical assurance is progressing well led by the Awak Mas Managing Director, Mike Spreadborough.
 - Colin McMillan, GM Geology, working with CUBE Consulting undertaking a review of the resource and reserve incorporating the new geological model.
 - Minnovo reviewing and optimising the processing alternatives.
- Martin Pyle and Rob Hogarth appointed as independent non-executive directors for Awak Mas Holdings Pty Ltd.

PANI GOLD PROJECT

- KUD reunification – KUD Dharma Tani Marisa (KUD) management teams and members united under a Special General Meeting held in December 2016.
- The meeting followed the advice of the legal department of the Ministry of Cooperatives (Ministry) and was endorsed by the Ministry, the local Department of Cooperatives and the members of the KUD. The meeting was witnessed by representatives from the Head of the Regency including the Head of the local Police, Army and the local Cooperative Department.



- With the internal management dispute settled, Provident and One Asia consider this is a positive milestone towards being able to resolve the Pani IUP dispute and progress the Pani project. One Asia and Provident remain committed to the development of the Pani IUP in cooperation with the KUD and local community.

CORPORATE

- Oversubscribed equity placement raising A\$5.0 million @ A\$0.18 per share closed in January, including A\$3.4 million in new funding and bridge loan balance of A\$1.6m being reinvested into equity.
- Lion participated in this equity raising by investing \$850,000 at A\$0.18 per share in addition to converting its existing debt (A\$941,730) owed by One Asia into equity at A\$0.18 per share. Following these further investments by Lion Selection Group and its increased equity in Asian Lion, Lion Selection Group's direct holding in One Asia moved up from 31% to 35%; with its overall relevant interest in One Asia (including via Asian Lion's One Asia holding) being 36%.

INVESTMENT NEWS

Roxgold Inc

During the quarter Roxgold reported production figures for 2016, and provided guidance for 2017 for its Yaramoko Mine in Burkina Faso, West Africa.

Yaramoko commenced production in 2016, and produced 77,157 ounces of gold from 162,480 tonnes mined, between first gold poured in May and the end of the year. The mine is amongst the highest grade in the world with an average head grade for 2016 of 15.5g/t of gold. This sets the scene for Roxgold's first full calendar year of production, and guidance for Yaramoko has been provided at 105-115koz produced at an AISC of US\$740-790/oz.

Roxgold recently completed a campaign of drilling at Zone 55 designed to target areas below the current mine envelope. Results from this drilling program continued to confirm the continuity of Zone 55 below the current Resource. All holes drilled into Zone 55 at this time intersected the shear structure and will be incorporated in an updated resource model and LOM Plan.

At Bagassi South, an additional program of drilling is currently underway in both the QV1 and QV' structures which are expected to be completed in Q2 2017, and will be incorporated into an updated resource estimate in the second quarter.

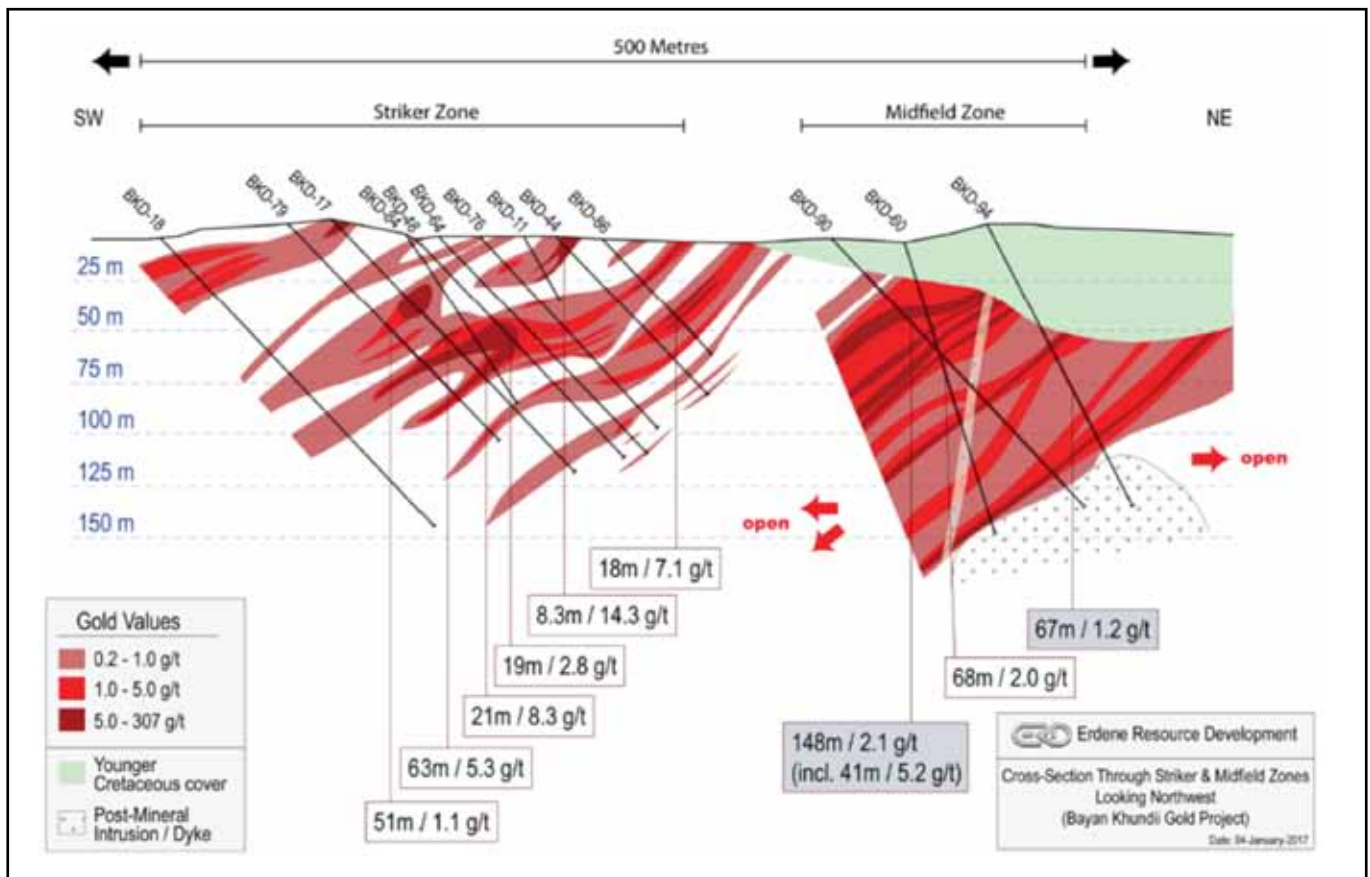
Erdene Resource Development Corp

Erdene is a TSX listed explorer focussed on Mongolia that Lion has enjoyed a rapid appreciation in capitalisation during 2016, as the market recognised the significance of Erdene's gold discovery at Bayan Khundii. Results presented throughout the year show a small but high grade and shallow gold deposit, which is attractive as a low strip open pit project. Lion's last quarterly report included a step out result that had intersected a new zone of mineralisation, some 170m north of the area drilled so far. In January, Erdene released the results of nine drill holes surrounding the step out hole, which confirmed the discovery of a new zone.

This news is excellent for investors in the company, as the new zone multiplies the size potential of the project. On the basis of the new results, the new zone also appears to have more consistent and thicker gold mineralisation. Most encouragingly, the new zone was discovered from drilling a geophysical anomaly under shallow cover.

Pictured below

Cross section through Bayan Khundii, looking Northwest. Striker Zone (left) has been drilled through 2015 and 2016, whilst the Midfield zone (right) was discovered in a step out hole in late 2016, and confirmed early 2017.





Lion Selection Group

Lion Selection Group Limited (Lion) advises that the unaudited net tangible asset backing of Lion as at 31 January 2017 is \$0.41 per share (after tax).

SUMMARY OF INVESTMENTS AS AT 31 JANUARY 2017

| | Commodity | Market Value A\$M | Portfolio % |
|---------------------------------------|-----------|----------------------|-------------------|
| Australia | | | |
| Egan Street Resources | Gold | 2.6 | |
| Other Australia | | 0.6 | 7% |
| African | | | |
| Roxgold | Gold | 9.2 | |
| Toro Gold | Gold | 1.0 | |
| Other Africa | | 1.6 | |
| Cash dedicated to Africa ¹ | | 1.0 | 29% |
| Asia | | | |
| One Asia Resources ² | Gold | 10.9 | |
| Erdene Resources | Gold | 7.1 | |
| Other Asia | | 0.8 | 43% |
| Americas | | | |
| | Coal | 0.5 | 1% |
| Uncommitted Net Cash | | 8.6 | 20% |
| Net Tangible Assets | | \$43.9m | 41¢/ share |

1. Includes committed cash of US\$0.6 million to AFL3.

2. One Asia at a value of A\$0.18/share.

Note: The above table includes investments held directly by Lion and the value to Lion of investments which are held by African and Asian Lion Funds

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ASX Code: LSX
As at 31 January 2017

Market Cap: \$43m
Issued Shares: 106m
Share Price: \$0.40