Lion Selection Group

QUARTERLY REPORT FOR THE 3 MONTHS ENDED 30 APRIL 2017

MARKET REVIEW

- ‘Trump Trade’ wearing off – gold equities benefiting.
- Exchange Traded Fund rebalancing – designed to track the market, but now moves it.
- Liquidity – Australian Mining IPO’s already more year-to-date than 2016.

SUMMARY

Nusantara Resources – Indonesia

- Proposed ASX listing mid-2017, prospectus being prepared.
- 100% Awak Mas Gold Project, Sulawesi, 1.74 moz.
- Grid power and new geological model catalyst for development plans.

One Asia – Demerger of Awak Mas Gold Project planned

- Pani Gold Project, 2.4 moz, Provident begins US$4m funding.
- Preliminary technical assurance program underway at Pani.

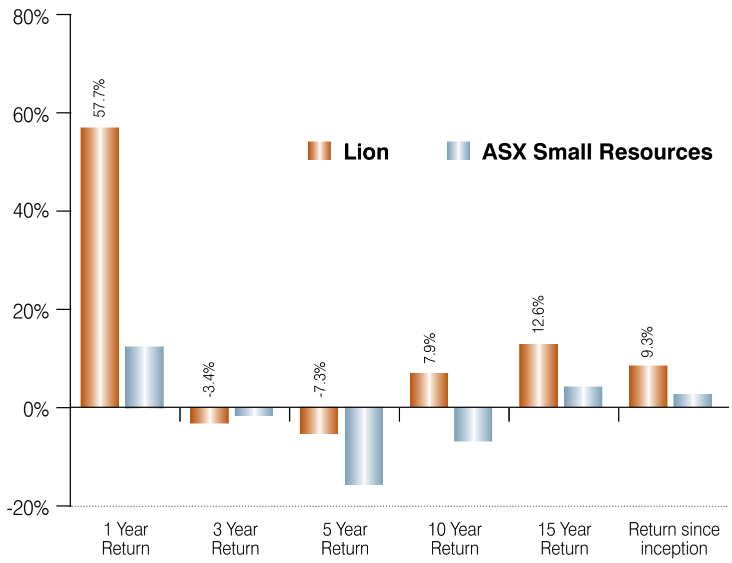
Erdene Resources – Further broad, high grade intercepts from Bayan Khundii in Southwest Mongolia.

EganStreet Resources – PFS near doubles forecast gold production from Scoping Study.

LION PERFORMANCE

Annualised Total Shareholder Return [1-6]

Annualised TSR to 30 April 2017	Lion	ASX Small Resources
1 Year	57.7%	12.1%
3 Years	-3.4%	-1.3%
5 Years	-7.3%	-16.2%
10 Years	7.9%	-8.4%
15 Years	12.6%	3.8%
Inception (19 yrs)	9.3%	2.5%



(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:LSX, 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

‘Trump Trade’ – wearing off

A key theme for global equity markets during 2017 has been a wavering of collective sentiment toward the ability of the Donald Trump administration to deliver on election promises, in particular those that are likely to benefit the US economy. From time to time, there has also been an overlay of potential conflict. Both factors have been influential over mining equities, particularly gold stocks.

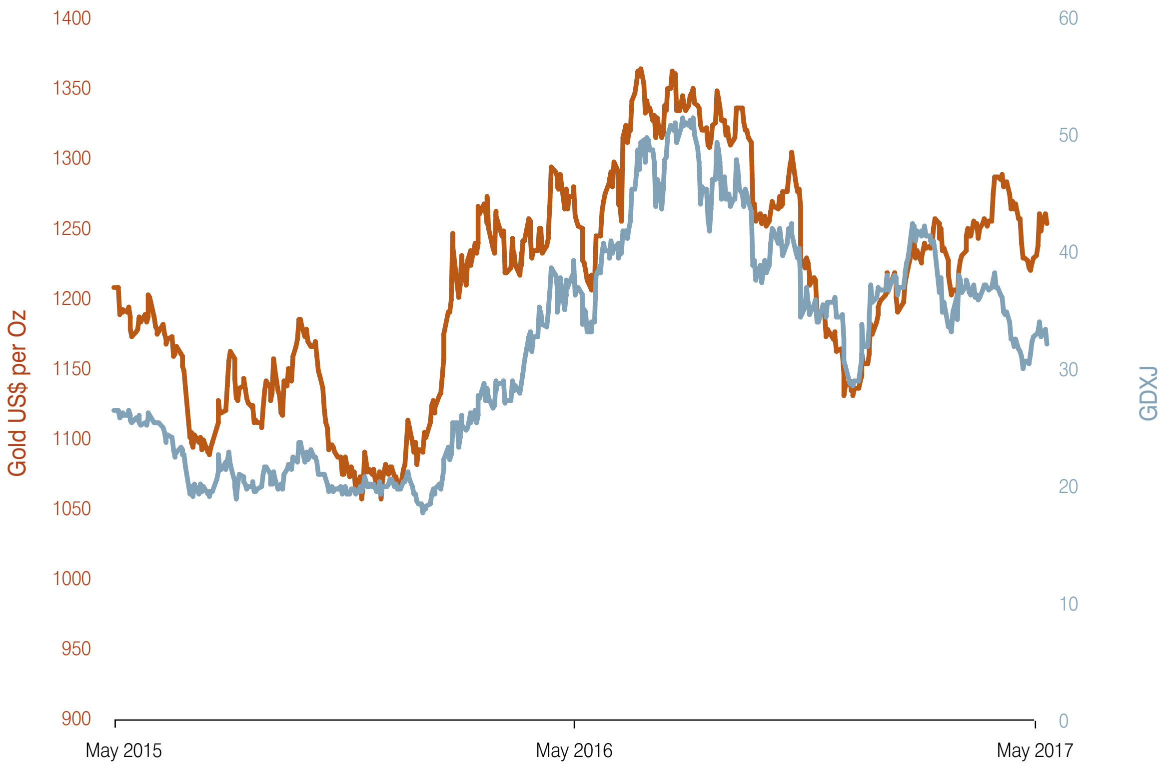
Lacking otherwise clear direction, markets that are already expensive after a protracted period of cheap money took a positive lead from the new President. Aside of his polarizing politics, Trump offered a ray of hope of cutting through stifling bureaucracy and stimulating economic activity. Bond markets began pricing increasing interest rates, and gold weakened in response. However, over the short term of the presidency, the quagmire of politics has proven boggier than first thought – dramatically reducing the effectiveness of the President to enact real reform. To keep busy, this has left Trump with a pile of executive orders (the most issued by a US President in such a short period since WWII) and tweeting. The outlook for rates no longer seems as imminently positive and the US market looks more and more to be priced on a promise that has half a chance of being broken. Performance of gold since the election of Donald Trump has been a rapid fall during November and December 2016 (the ‘Trump will prevail’ trade), and strengthening during 2017 (the ‘Trump might start a war’ trade) for a net flat result – although on a positive trajectory.

The GDXJ effect

Gold equities have experienced a substantial adjustment on top of the macro volatility, which has weighed on the gold sector as a whole. The story has a perverse twist to it – because of growing investor interest in gold miners, Exchange Traded Fund (ETF) manager Van Eck has experienced substantial inflows to their gold miner ETFs the GDX (major gold miners) and GDXJ (junior gold miners). These are physical ETFs, so the bigger they get the more stock they have to hold, and the GDXJ has reached a point where it can’t buy any more of the junior gold producers stocks in its target index for regulatory reasons (up against takeover thresholds). The solution has been to change the rules of what the GDXJ can hold (i.e. enlarge the reference index), with the consequence that the GDXJ needs to rebalance its holdings. The outcome – the GDXJ ETF has been selling down smaller gold producers and buying up medium sized gold producers, because it is now able to hold larger stocks. Far from tracking the index, the weight of money has depressed the price of especially junior gold miners!

Since March 2017, the GDXJ has been opening a wider underperformance gap to spot gold, which it normally tracks faithfully. Such a gap is hardly unprecedented, however in this instance the index has gone down whilst the gold price has gone up – which is highly irregular! The general intent of an ETF is that it tracks the behavior of an underlying market – however in this case the ETF is responsible for moving the market – the tail wags the dog.

THE SECTOR



It appears fairly clear that smaller gold producers will suffer net selling and price weakness via the rebalance. Larger producers are likely to benefit, at least from the GDXJ buying – however there is also expected to be some GDX rebalancing which may counteract this. There has also been a flow on effect – the market is well aware of the ETFs, and movements are evident in change of holding notices lodged with stock exchanges. It is not possible however to determine the difference between movements due to GDXJ rebalancing and buying / selling due to ETF fund inflow or redemptions. Many investors have stood back to allow selling to take place, and most have given up guessing what fundamental is driving a stock, resulting in a general lack of buyers. The pervasive assumption seems to be that there will be consequent weakness in the market, affecting buying of stocks irrespective of their inclusion in the index or not, and this is likely to persist until the rebalance is obviously complete.

Mining IPO's

The GDXJ effect does not seem to have interfered with liquidity in the microcap miner space. Using IPO volumes as a measure, 2017 is demonstrating a clear improvement in investor interest and liquidity over 2016. Year-to-date, there have been 11 IPOs of hopeful miners against ten in 2016 and three in 2015, marking a robust recovery in sentiment. According to the ASX website, there are nine further IPO's underway, not including IPOs that are planned but as yet have not been able to be publicised. Whilst some IPO's offers have been withdrawn, investor response to IPO's has been generally accepting – the issues getting deals away seems more to do with the valuation being sought for the listing company than investor appetite. Investor interest appears to be drawn not only to new opportunities that have not been publicly offered before, but there is also an attraction of backing a fresh team and vehicle that has no blemishes in its track record.

INVESTMENT HIGHLIGHTS

One Asia Resources Limited

AWAK MAS GOLD PROJECT

- One Asia is preparing a prospectus for the proposed demerger and ASX listing of the Awak Mas Project held by Nusantara Resources Limited (formerly Awak Mas Holdings Pty Ltd) (Nusantara) targeted for mid-2017. One Asia shareholders will receive shares in Nusantara as part of any listing process.
- Technical work completed resulting in a new resource estimate of 38.4Mt at 1.41g/t Au for 1.74 Moz, announced on 9 May 2017, based on the new and confirmed geological model.
- Environmental permit and AMDAL received in April 2017 opening the path for future project development.
- Availability of the local power grid for 2018 confirmed with electricity provider PT PLN.

PANI GOLD PROJECT

- Geological review and analysis of work to complete Feasibility Study continues.
- One Asia and Provident continue to work with KUD.
- Provident is now funding its US$4m commitment and until this is spent One Asia does not anticipate having further funding obligations with respect to the Pani Gold Project.

Erdene Resource Development Corp

Erdene Resources announced the first results for the company's 2017 drilling campaign at Bayan Khundii in Southwest Mongolia, which included a headline intercept of 80m at 6.0g/t gold and a separate 56m at 6.1g/t gold. Latest drilling fleshes out excellent results received in January 2017 from the Midfield Zone. Having raised C$13.8m in February, Erdene is well funded to continue to explore Bayan Khundii, and also plans to drill the nearby Altan Nar polymetallic deposit and select regional targets in an area that is shaping up as being geologically tremendously exciting.

On the back of the exploration success, Erdene's market value has risen substantially to be Lion's second most valuable investment.

EganStreet Resources

EganStreet Resources has completed a Pre-Feasibility Study (PFS) (16 May 2017) on the Rothsay Gold Project, having delivered a scoping study in December 2016. Key differences between the studies are summarised below, the highlights are a doubling of the ounces expected to be produced for only a very minor increase in initial capital, and a trebling of project free cash flow. The company now expects to complete a Definitive Feasibility Study and seek development funding before the end of the calendar year.

	Scoping Study December 2016	**PFS** May 2017
Gold Mined	106.2koz	210.7koz
Gold Produced	100.9koz	200.2koz
Life of Mine	3.75 years	5.5 years
Capex + Working Capital	A$20.5m + A$4.6m Total A$25.1m	A$21.7m + A$8.9m Total A$30.6m
All In Sustaining Cost	A$1056/oz	A$1020/oz
Life of Mine Free Cash Flow	A$26.7m	A$82.3m

The company continues to evaluate and explore the Rothsay Gold Field, which contains more than 12km of prospective structure, which has only been explored over a small portion. Historic workings over a great deal of the field are testament to the further prospectivity. Rothsay appears to be a low cost gold project with a low capital burden, and exciting upside to be unlocked.

Lion Selection Group

Lion Selection Group Limited (Lion) advises that the unaudited net tangible asset backing of Lion as at 30 April 2017 is $0.42 per share (after tax).

SUMMARY OF INVESTMENTS AS AT 30 APRIL 2017

	Commodity	Market Value A$M	Portfolio %
Australia			
Egan Street Resources	Gold	3.1	
Other Australia		0.6	**8%**
African			
Roxgold	Gold	7.8	
Toro Gold	Gold	1.0	
Other Africa		1.5	
Cash dedicated to Africa[1]		1.0	**25%**
Asia			
One Asia Resources[2]	Gold	10.9	
Erdene Resources	Gold	9.2	
Other Asia		0.8	**47%**
Americas	Coal	0.5	**1%**
Uncommitted Net Cash		**8.4**	**19%**
Net Tangible Assets		**$44.8m**	**42¢/ 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 30 April 2017

Market Cap:	$44m
Issued Shares:	106m
Share Price:	$0.41