Lion Selection Group

QUARTERLY REPORT FOR THE 3 MONTHS ENDED 31 JULY 2017

SUMMARY

20 Years of Lion

- Lion listed on ASX on 23 July 1997 marking the 20th anniversary of Lion as a listed investment company focused on investing in junior resources.
- During the 20 year history, Lion has been involved in countless mine developments across a range of commodities, and generated Total Shareholder Returns (TSR) of 9.0% pa over 20 years.

Sector themes

- GDXJ Effect – rebalancing complete, but the industry is trading on a lower ‘multiple’ to gold.
- Reporting season – miners are making money again.
- Juniors are being funded by major miners (largely for exploration) – growth appetite returning.
- Mining IPOs maintain a positive trend, against declining size and number of IPOs in the broader ASX.
- The new Mining Boom – reviewed to date.

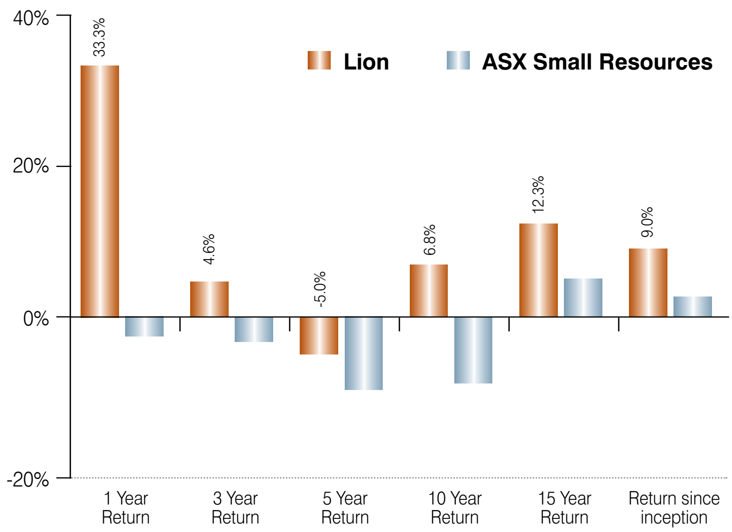
Nusantara Resources – Indonesia

- Successfully listed on ASX (first traded 2 August).
- Focus of MD Mike Spreadborough and management team is extension and assessment of 100% owned 1.74Moz Awak Mas Gold Project.

LION PERFORMANCE

Annualised Total Shareholder Return [1-6]

Annualised TSR to 31 July 2017	Lion	ASX Small Resources
1 Year	33.3%	-2.7%
3 Years	4.6%	-3.3%
5 Years	-5.0%	-9.7%
10 Years	6.8%	-8.8%
15 Years	12.3%	5.1%
Inception (20 yrs)	9.0%	2.7%



(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.

20 YEARS OF LION

Lion Selection Group was founded in 1997, and listed on ASX in July following raising $100m. Lion was, and remains today, a Listed Investment Company (LIC), focused on investing in mining juniors. Lion has no direct competitors in the LIC space, and very few competitors globally – there are none that have the same specific focus.

In 20 years, Lion has supported the development of more than 60 companies – a fairly focused population given the time span. Lion was an early shareholder in many companies that have gone on to become household names: Independence, Resolute, Mineral Deposits, Equinox, Red Back, Consolidated Minerals and Doray Minerals to name a few. Lion was instrumental in the early history of Catalpa Resources, which has become Evolution Mining, and many past and present Lion shareholders still hold Evolution shares that they received in the demerger of Lion's gold holdings (Catalpa shareholding and 30% JV interest in the Cracow Gold Mine) in 2009.

The most profitable investments for Lion have spanned various commodities and continents:

	EXIT
• Indophil (Philippines, Copper)	Sale to Xstrata/market
• Platmin (South Africa, Platinum)	Sale to Pallinghurst Resources
• Gallery Gold (Botswana, Gold)	Sale to IAM Gold
• Catalpa (Australia, Gold)	Sale into Evolution
• Allegiance Mining (Australia, Nickel)	Sale to MMG
• Mining Project Investors (Australia, Gold and Nickel)	Sale to LionOre
• East African Gold Mines (Tanzania, Gold)	Sale to Placer

The distributions that Lion shareholders have received over 20 years include:

• Dividends	96.7cps
• Value of off market buyback (2008)	81cps
• Shareholding in Evolution Mining	155cps immediately following distribution (Dec 2009: 222cps as at 31 July 2017)

Returns from mining investment are subject to the boom and bust of the mining cycle, and for that reason it is essential to maintain a watchful eye on liquidity conditions for a potential change of season. In junior miners specifically, there are various models for targeting a profitable investment:

- commodity price thesis;
- exploration discovery;
- corporate appeal.

There are countless examples of investors being rewarded from making the right guess when an example of one of the above plays out. Value uplift is often without question, but certainty on the event taking place is usually very low, so targeting investment with these in mind is speculative.

Lion takes a longer term view, aiming to identify projects that are likely to be developed and investing whilst the value of the company still reflects significant uncertainty. This approach is not without risk, however Lion makes judgement calls informed by experience around how likely a project is to be developed, in order to make an assessment and invest without speculating. As a company progresses from project assessment, to funding, to development and finally to cash production, the company is generally rewarded by the market for success with a re-rating from a risked price, to a price that is more reflective of the cash flow generative characteristics of the company – uplift which is far more dependable and manageable.

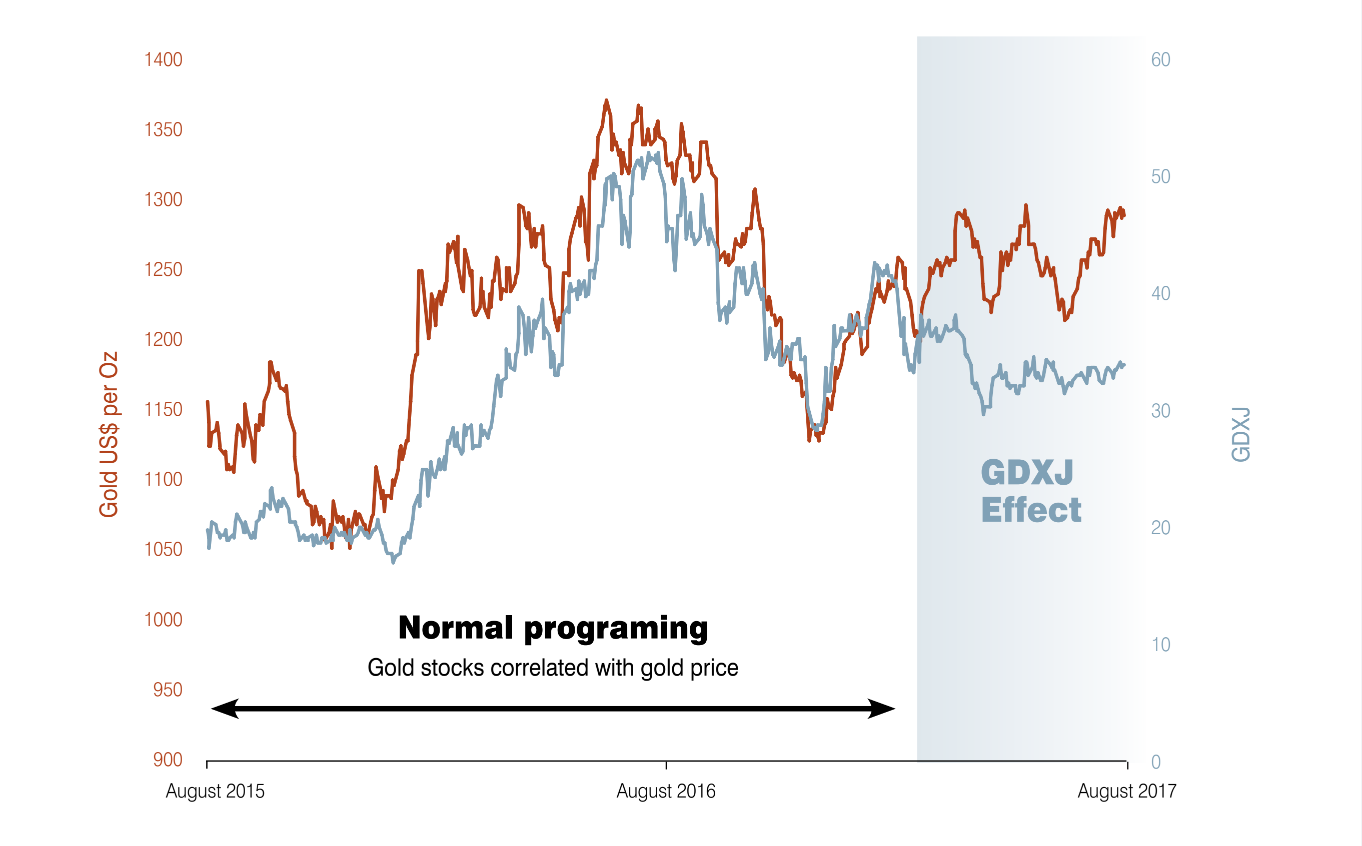
Lion's investment mantra has always been to provide funding at an early stage to assist companies along the development curve, and then exit following considerations of value after project development and the timing of the investment cycle. This model has served Lion and its shareholders well, and remains the focus for investment now and into the future.

THE SECTOR

GDXJ Effect – update

Trading of gold producers globally experienced a disruptive selloff during the first half of 2017. Rapid rebalancing of an Exchange Traded Fund managed by Van Eck out of North America, the GDXJ, which tracks a reference index of junior gold producers materially impacted many gold producers. The effect on gold equities was described in Lion's April 2017 quarterly report, broadly speaking gold producers which normally exhibit a strong correlation with the performance of gold, experienced a period of divergence brought about by selling of equities by the ETF for no other reason than to make room for some larger capitalisation stocks.

GDXJ rebalancing now appears to be largely complete, in that selling of equities by Van Eck in the affected stocks has subsided. Gold equities as measured by the GDXJ (reference index that determines the composition of the ETF) has not yet re-established a correlation to gold. This suggests that investors who would normally be buyers of gold equities are awaiting a clear signal that Van Eck's selling is done.



Miners are making money again

A striking feature of the recent reporting season has been profitability of miners. Having experienced declining liquidity and commodity price contractions during the bust, miners globally implemented cost discipline. Benefiting from reduced costs and a rebound in many commodities during the last 12 months, many miners have reported windfall gains. Cash profits have been applied to balance sheet repair and dividend payments – having implemented capital austerity there are few immediate investment requirements for this cash.

THE SECTOR continued

In comparison with historic mining downturns the most recent bust was long and deep, and in an effort to survive the industry as a whole cut back on a great deal of long term investment expenditure. On a short term basis, this has minimal impact, but the longer term effect is that future sources of production have been put into hibernation and will take longer to bring to production readiness – there is therefore a hole in the future production pipeline of the mining industry. Owing to the extended nature of the downturn, resuming assessment work is more than a matter of 'unpausing'. In many cases whole assessment teams were lost.

Whilst cash profitability has been met with a measure of approval by the investment market, who still have fresh in mind the years of commodity price boom that failed to produce much at all in the way of cash profits, the combined focus of miners and their owners will swing at some stage toward growth and re-populating the future production pipeline. As this takes place, cash piles are likely to be directed toward assessment works and acquisitions.

Funding of Juniors

The early, modest investment in growth has already appeared. Exploration budgets have begun to expand, although most exploration teams were so severely thinned out that physically deploying expanded budgets will require rebuilding of capacity. Large miners have recently begun investing selectively in equity of junior companies or in project level joint ventures. This is justified as prudent exposure to promising projects, representing a toe in the water. However these actions also betray a lack of internal capability, essential to reinvigorating a pipeline of growth opportunities.

This is an exceptionally positive indication for the mining cycle – growth appetite within the industry has been re-ignited. The industry is a step ahead of the investment market here – investors collective willingness to support early stage speculative ventures is not yet apparent – so the industry is providing for investment in juniors that the market isn't quite ready for yet.

IPOs of miners and in other industries

The trend of mining IPOs remains positive: year to date, there have been 16 mining IPOs, versus ten in 2016 and three in 2015. The most recent mining IPO in 2017 was Nusantara Resources, which raised A$16.2m – making it the largest gold IPO onto ASX since Dacian Gold listed in November 2012. In the same period, IPO interest in the broader market has waned. So in calendar year 2017, the market appetite for mining IPOs appears to be running opposite to the broader market trend.

Review of the Mining Boom to date

The mining market turned from Bust to Boom in January 2016, and since then mining indices have outperformed the rest of the market by a wide margin. Absolute performances have been eye watering – the ASX200 Resources index has put on 48% since the start of 2016. The smaller stocks even more impressive, the ASX Small Resources index has improved 65% in the same period, and a solid proportion of that performance is due to the high weighting of gold companies in the Small Resources index. Gold companies, which make up a large part of the mining market have been volatile, but never the less have collectively been stars of the show – the ASX Gold index is up 74% since the start of 2016.

Performances like these are highly uncharacteristic of other early boom-stage phases in history – in previous cycles as mining equities turned from bust to the early stages of boom, share price performances have been flat to mildly positive. Why different this time?

Review of the Mining Boom to date

In previous busts, the global major mining companies have had healthy balance sheets and could access industry best cash flows to opportunistically take advantage of weakened peers. In this way, major miners had usually been able to inject the first liquidity into a pummeled market. However, in 2011 when the market peaked, major miners had stretched balance sheets from taking on large amounts of debt to fund expansions or acquisitions – the kind of poorly timed capital allocations that have been the subject of activist shareholders in BHP recently. Financial stress began to bite the majors in 2015. Rather than buying projects in a weak market, they were sellers, and the markets followed their lead – the major miners put on the biggest falls of the mining community in 2015 as the market capitulated. There was no obvious buyer to arrest the fall. The market eventually changed direction when cost measures became effective and new dividend policies were announced in early 2016, but because the bust had been able to go on longer than it otherwise should have, miners had become severely oversold. In previous bust markets, miners have been sold down to a market weight of 10-11%. However in 2015 miners were sold down to 8% market weight – an unusually extreme low.

The performance of mining equities since the start of 2016 has contributed to miners market weight increasing to around 13% - an historically reasonably consistent weighting for circa 18 months into the early stages of a boom. Breaking down how investors weight their investment exposure toward miners further reveals a shift in allocation investors have made within the sector through the recovery as well. In June 2015 (just prior to capitulation), the large diversified global majors captured almost 75% of the ASX300 Metals and Miners Index, with the next largest allocation to gold companies at just under 10%. Fast forward to June 2017, and the allocation of the mining investors dollar toward the global majors had dropped to 60%. A great deal of the money looks to have moved into gold, now capturing almost 17%.

Performance of miners during the early stage of this boom appears to be explainable by miners market weighting returning to near normal levels, and the recovery in sentiment has featured gold companies capturing a larger portion of the investment dollar allocated to miners from the global majors.

INVESTMENT HIGHLIGHTS

Nusantara Resources Limited (ASX:NUS)

The Awak Mas Gold Project was demerged from One Asia Resources and listed on ASX on 2 August having raised $16.2m in its IPO.

Key Points

- 100% owned Contract of Work with the two main Indonesian Government approvals in place:
  - AMDAL/Environmental Permit (April 2017);
  - Construction Period/allows three years construction +30 years operation (July 2017).
- Grid Power – MOU signed with the State power company PLN to provide low cost power via a 35km/high voltage connection (August 2017).
- New geological model and 2012 JORC compliant 1.74Moz Resource (9 May 2017:
  - Opens up resource extensions;
  - Depth potential;
  - Multiple satellite targets.
- Q3 2017 8,000m drill program targeting Exploration Target of 0.3m-0.5Moz increase by January 2018 (Nusantara prospectus 15 June 2017).
- DFS and new ore reserve scheduled July 2018:
  - Simple metallurgy and large scale open pit mining: target 2.5Mtpa.

One Asia Resources Limited

Following demerger of the Awak Mas Gold Project, One Asia is left with its interest in the Pani Gold Project. One Asia's Indonesian joint venture partner, Provident, began its US$4.0m funding commitment earlier in 2017. Consequently, One Asia does not anticipate further funding obligations on Pani until ownership of the IUP is resolved.

An ongoing geological review is underway which is expected to include re-logging of drill core, identifying geological domains, sampling studies, re-assaying of remaining half core and re-assessing historic metallurgical work.

The relationship with the KUD, the local co-operative council and 100% owner of the Pani IUP, remains good following unification of the two sides of the KUD early in 2017. An ongoing CSR program is in place.

In addition to Pani being funded by Provident, One Asia costs have been further reduced by reduced staffing levels following the Awak Mas demerger and splitting of costs for the few remaining staff and office.

EganStreet Resources

Having completed a project update in May 2017, EganStreet has delivered high grade drilling results that have the strong potential to enhance the project.

Work completed during the first half of the year has contributed to a significant improvement in the geological understanding of the Rothsay Gold Project, and as such the company defined several near-mine targets for short term evaluation. Drilling has commenced to test some of these targets, and results from work completed so far were announced to the market in early August, with high grade gold results returned from RC drilling of shallow positions on three separate gold-hosting structures:

1. Gold mineralisation has been intersected on the structure that already hosts the main Resource (Woodley's Shear). This high-grade zone is a northern extension of the Resource, and is accessible via the existing decline, sitting just 50m below the surface and may provide an additional early source of high-grade production ore for the Rothsay Gold Project. The best results include 2m at 21.8g/t, 2m at 15.5g/t, 2m at 13.7g/t, 3m at 7.2g/t.

2. A new high grade discovery has also been made 40m east of Woodley's Shear, sitting in the hangingwall of the existing Resource. This area has been drilled by previous workers but mineralised intercepts were never cut or reported. Given the proximity to the planned mining area, this new discovery provides an attractive potential additional development. The best results include 4m at 10.3g/t, 1m at 29.0g/t, 4m at 6.8g/t, 2m at 12.3g/t.

3. Exploration drilling was conducted to test the accuracy of historic mapping, which interprets mineralised shears to be cut off by an intrusion at the south of the field. This drilling has demonstrated the mineralised shears persist further south than previously thought, and returned a significant intersection from the Clyde Ultramafic of 2m at 21.6g/t. The Clyde lode has also been historically mined, with underground workings including the second deepest shaft in the early 1900's and shallow open pits mined in the 1980's.

SUMMARY OF INVESTMENTS AS AT 31 JULY 2017

Lion Selection Group Limited (Lion) advises that the unaudited net tangible asset backing of Lion as at 31 July 2017 is $0.38 per share (after tax).

Note:

- The portion of NTA that applied to One Asia in April 2017 has been split in two, following the demerger of Nusantara Resources which has listed on ASX.
- The value shown below for Nusantara Resources (A$13.2m) reflects the value of Lion's historic investment in Nusantara including the value of shares received in the demerger from One Asia, as the NTA is reported for 31 July and whilst the demerger of Nusantara was complete it did not list on ASX until 2 August. The value contribution of Nusantara Resources to the Lion NTA in the future reflects the market price for Nusantara.
- One Asia Resources remains unlisted, and is carried in the NTA at a share price of 4cps (reduced from 18cps, as the Nusantara demerger was valued at 14cps).
- The number of shares on issue has increased, following an issue of shares to Lion Manager in order to settle a debt owed to Lion Manager by the Asian Lion Fund. The Asian Lion Fund reached the end of its fund life in 2016 however Lion Manager continues to provide investment management services with no further fee payable. Lion Selection Group has recently completed acquiring the remaining interests in the Asian Lion Fund, and now owns 100%.

	Commodity	Market Value A$M	Portfolio %
Australia			
Egan Street Resources	Gold	2.9	
Other Australia		0.6	**8%**
African			
Roxgold	Gold	7.1	
Toro Gold	Gold	1.0	
Other Africa		1.1	
Cash dedicated to Africa[1]		0.6	**23%**
Asia			
Nusantara Resources	Gold	13.2	
One Asia Resources[2]	Gold	2.5	
Erdene Resources	Gold	7.0	
Other Asia		2.3	**60%**
Americas	Coal	0.7	**2%**
Uncommitted Net Cash		**3.1**	**7%**
Net Tangible Assets		**$42.1m**	**38¢/ share**

1. Includes committed cash of US$0.4 million to AFL3.

2 One Asia at a value of A$0.04/share, after the inspecie distribution of Nusantara Resources.

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

Lion Selection Group Limited ABN 26 077 729 572
Level 2, 175 Flinders Lane, Melbourne Vic 3000
T: +61 3 9614 8008 F: +61 3 9614 8009 www.lsg.com.au
Enquiries:
Hedley Widdup – hwiddup@lsg.com.au
Jane Rose – jrose@lsg.com.au

ASX Code: LSX
As at 31 July 2017

Market Cap:	$44m
Issued Shares:	110m
Share Price:	$0.40