

## Quarterly Report for the 3 months ended 31 October 2014

### SUMMARY

#### Markets

- Markets for junior miners remain weak – many still need to raise money.
- Awaiting turnaround catalyst – muted news on exploration, M&A and weakening commodity prices.
- Some producing mining companies have delivered cost turnaround success – many without recognition.

#### One Asia Investment

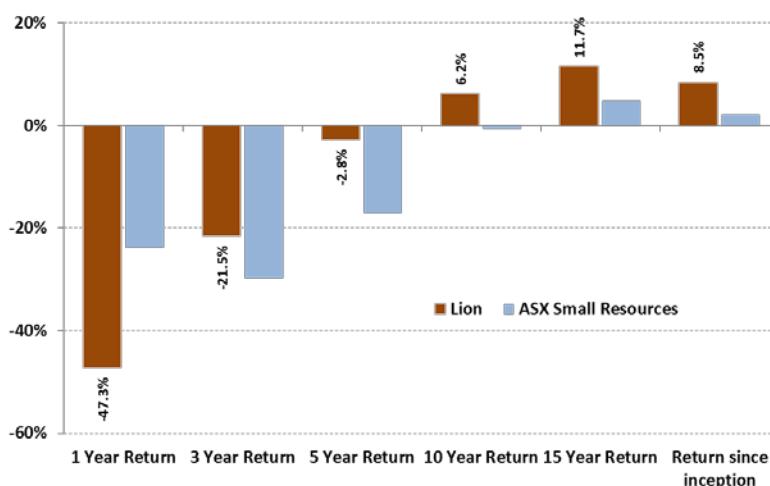
- One Asia arrangements with strategic partner.
- Board changes.

### LION PERFORMANCE

We place the greatest emphasis on long term returns (5+ years), as this timeframe best matches the investment timeframe approach used by Lion. Past performance is no guarantee of future performance, but we believe the sustained performance illustrated below endorses the Lion investment model which importantly has remained unchanged. Lion takes a portfolio approach to invest in companies with quality people and projects, with the advantage of being able to take a long term investment view, elements which are essential to generating excess returns from the small resources sector.

#### Annualised Total Shareholder Return<sup>123456</sup>

Annualised TSR to 31 October 2014	Lion	ASX Small Resources
1 Year	(47.3%)	(23.8%)
3 Years	(21.5%)	(29.7%)
5 Years	(2.8%)	(17.1%)
10 Years	6.2%	(0.7%)
15 Years	11.7%	4.8%
Inception (16 years)	8.5%	2.2%



<sup>1</sup> 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)

<sup>2</sup> Methodology for calculating total shareholder return is based on MorningStar (2006), which assumes reinvestment of distributions

<sup>3</sup> 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.

<sup>4</sup> Investment performance is pre-tax and ignores the potential value of franking credits on dividends that were partially or fully franked.

<sup>5</sup> Past performance is not a guide to future performance.

<sup>6</sup> Source: IRESS, Lion Manager

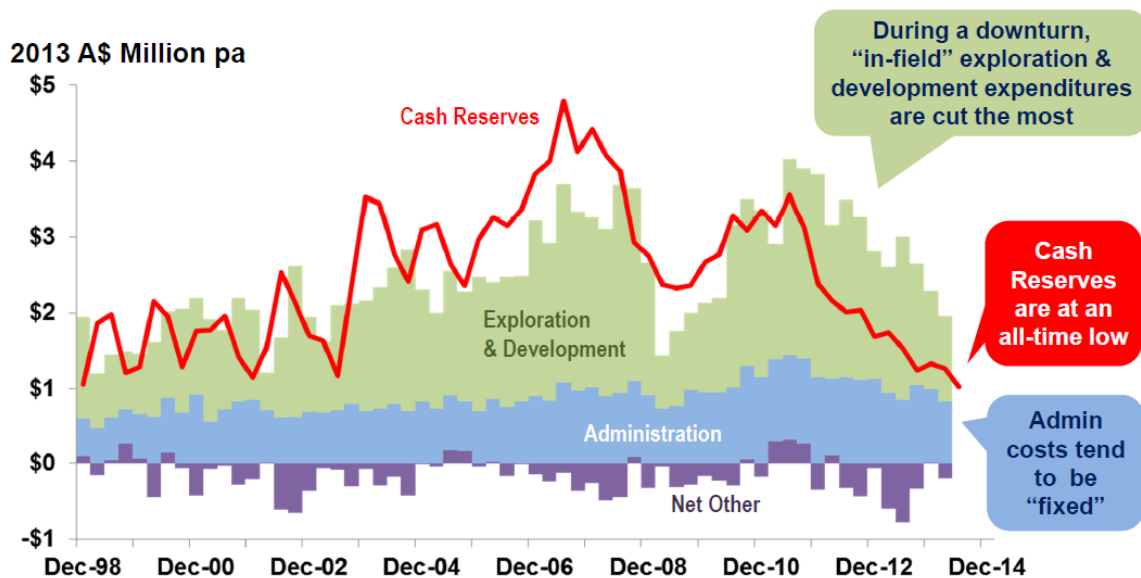
## THE SECTOR

Despite a glimmer of positive progress earlier this year, shares of most miners weakened further in the last quarter. A maelstrom of weakening commodity prices, the end of Quantitative Easing (#3), and the increasingly desperate junior funding situation resulted in Australia's small resources index being down 22% in the quarter. Importantly this decline was off an already severely reduced base, perhaps evidence that the mining cycle overshoots on the downside of the bust as well as the upside of the boom.

The cash position of pre-production miners has steadily declined, as illustrated by this chart courtesy of MinEx Consulting. The chart highlights that for the median ASX exploration company the funds available are sufficient to cover twelve months administration costs, but not much else with field work the main casualty. Many juniors are unwinding the unsustainable cost structures from the recent booms with the view of surviving what appears to be a natural selection event, so there is the capacity for these companies to last a little longer. However, even small stay-alive equity raisings are difficult to accomplish at present and extremely dilutive, most likely due to limited investor appetite to fund working capital rather than increasing the value of assets.

### Cash Reserves and Expenditures have dropped dramatically

MEDIAN Australian Junior Exploration Company : 1998-June 2014



Note: Survey based on a sample of 125 junior exploration companies listed on the ASX between 1998-2014

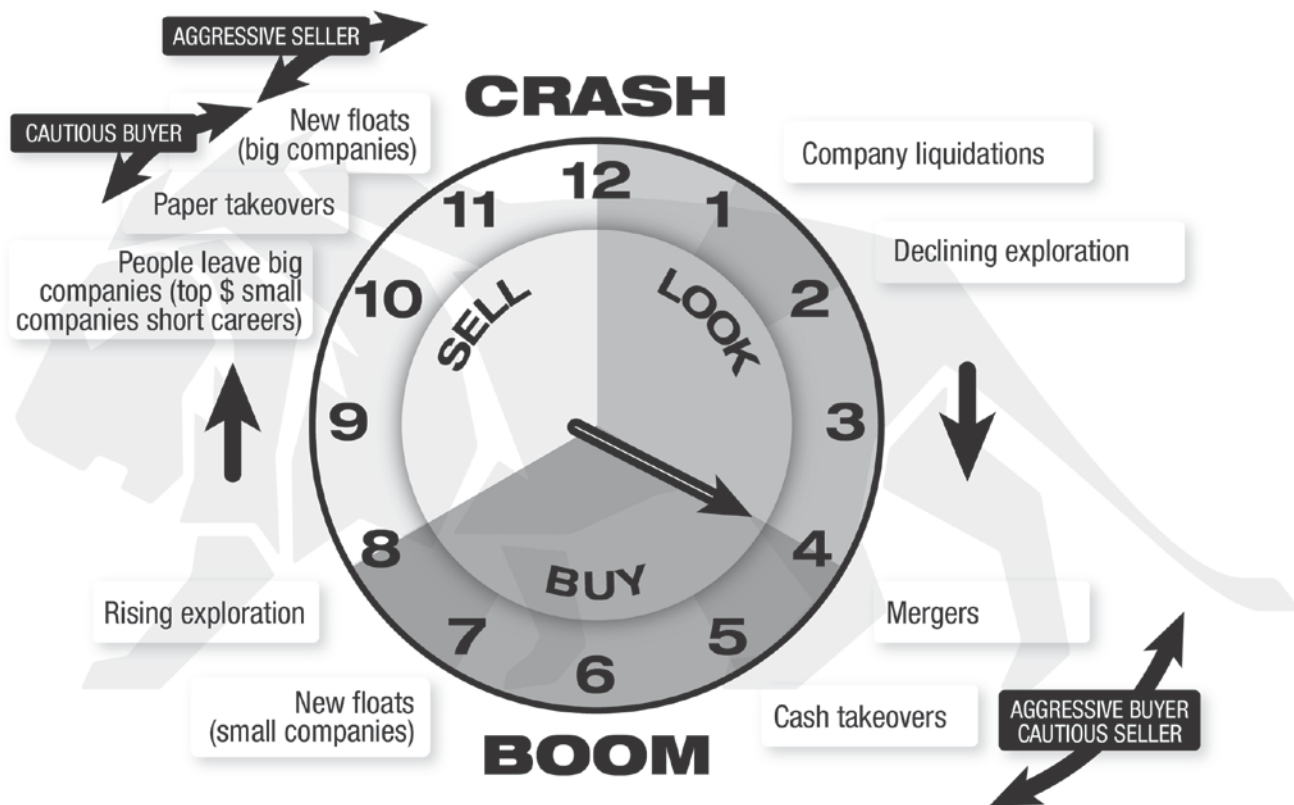
"Net Other" includes production and other costs less interest income, mine revenue, Government Assistance and R&D tax credits

Quarterly spend data has been multiplied by 4x to produce an annualised spend rate

Source: MinEx Consulting © September 2014

based on Quarterly Reports to the ASX

Notably in the realm of producing companies, many have been able to reduce their cost bases and take advantage of extremely competitive forces in the contracting space. Almost without exception these structural improvements to business profitability have gone unnoticed, with investors still gun shy, and uncertain about the longer term commodity price outlook. Conversely producers that have disappointed on managing their costs have been materially downgraded. Some producers have taken a contrarian view, using the weakness in the junior space to acquire projects and joint ventures cheaply as counterparties have been unable to raise funds. These deals are often beneath the radar and unlikely to excite the market due to their bargain basement nature.



The Lion Clock remains at 4 o'clock – suggesting we are in the early stages of a new mining cycle. Mining booms never start quickly, and the catalyst that will drive the cycle forward remains elusive. The mining cycle is seldom linear, and the current phase may be prolonged by limited liquidity in the sector. Liquidity is currently constrained by juniors needing to raise funds, majors selling assets, limited appetite for M&A and little exploration news flow due to budget constraints. It may be a slow (and painful) process to deal with these sector specific issues, and Lion remains in a strong position to support its investees through these testing times.

## INVESTMENT NEWS

### ONE ASIA RESOURCES LIMITED

Lion Selection Group and Asian Lion own a combined equity interest of 36% of One Asia Resources, an Australian unlisted public company. One Asia is focused on the development of two gold mines in Sulawesi, Indonesia.

As announced by Lion on 31 October 2014, during the quarter One Asia provided an update with respect to an agreed term sheet (subject to formal agreement), whereby Provident Capital Partners Pte Ltd could earn a 20% equity interest in One Asia in exchange for successful restructuring of the Pani IUP arrangements. This term sheet is yet to be formalised. We understand One Asia has been working closely with Provident in recent weeks as they seek to further understand the dynamics of the situation.

One Asia continues to take all actions necessary to protect and enforce its interest in the Pani gold project under the existing agreements with the KUD Dharma Tani (KUD). One Asia notes these arrangements remain in full force despite Indonesian media reports that the KUD had signed a co-operation agreement with a subsidiary of publicly listed Indonesian company J Resources. One Asia continues to progress studies on development options for the project and retains access to the Pani site.

Fiona Robertson has replaced John Quinn as Chairman of One Asia, with John Quinn resigning in October 2014.

## SUMMARY OF INVESTMENTS AS AT 31 October 2014

Lion Selection Group Limited (Lion) advises that the unaudited net tangible asset backing of Lion as at 31 October 2014 is \$0.53 per share (after tax).

	Commodity	Market Value A\$M	% Portfolio
<b>Australia</b>			
Doray Minerals	Gold	3.0	
Rum Jungle Resources	Phosphate	1.3	
Auricup Resources	Gold	1.5	<b>10%</b>
<b>Africa</b>			
Roxgold	Gold	3.1	
Toro Gold	Gold	1.0	
Kasbah Resources	Tin	1.2	
Other Africa		1.8	
Cash dedicated to Africa <sup>1</sup>		1.9	<b>16%</b>
<b>Asia</b>			
One Asia Resources <sup>2</sup>	Gold	29.6	
Asian Mineral Resources	Nickel	1.4	
Manas Resources	Gold	0.7	
Other Asia		1.7	<b>59%</b>
<b>Americas</b>	Iron Ore/Coal	0.5	<b>1%</b>
<b>Uncommitted Net Cash</b>		<b>8.2</b>	<b>14%</b>
<b>Net Tangible Assets</b>		<b>\$56.9m</b>	<b>53¢/ share</b>

<sup>1</sup> Includes committed cash of US\$1.4 million to AFL3.

<sup>2</sup> One Asia at a value of A\$0.75/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