



# Lion Selection Group

## QUARTERLY REPORT FOR THE 3 MONTHS ENDED 31 OCTOBER 2016

The resources sector has seen continued improvement with unexpectedly strong rises in some commodity prices and positive sentiment on demand from China. The recent pullback in gold price is not seen as a retreat, more volatility around a rising tide.

### SUMMARY

#### One Asia – Indonesia

- Awak Mas 2.8Moz gold project: following recent successes on geology, metallurgy and likely grid power availability, will seek ASX listing targeting further development, led by a new Managing Director.
- Pani 2.4Moz gold project: successful reconciliation of the KUD has led to agreement to hold a unified AGM, which is the first step in resolving the ownership dispute.

#### Roxgold – Burkina Faso

- Gold production achieving >100,000oz pa rate and step out exploration hole at depth has intercepted 23.8m at 20g/t gold.

#### Erdene – Mongolia

- Drilling under shallow cover has added to the Bayan Khundi gold discovery, which is near surface with high grade zones and excellent metallurgy.

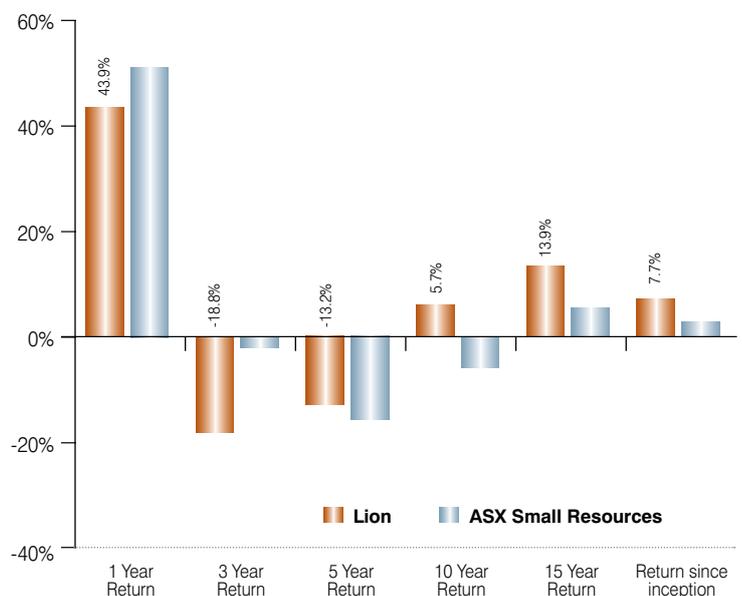
#### Eganstreet – Australia

- Successfully listed on ASX on 13 September.

### LION PERFORMANCE

#### Annualised Total Shareholder Return <sup>1-6</sup>

Annualised TSR to 31 October 2016	Lion	ASX Small Resources
1 Year	43.9%	53.1%
3 Years	(18.8%)	(2.6%)
5 Years	(13.2%)	(15.9%)
10 Years	5.7%	(5.2%)
15 Years	13.9%	5.9%
Inception (19 yrs)	7.7%	3.0%

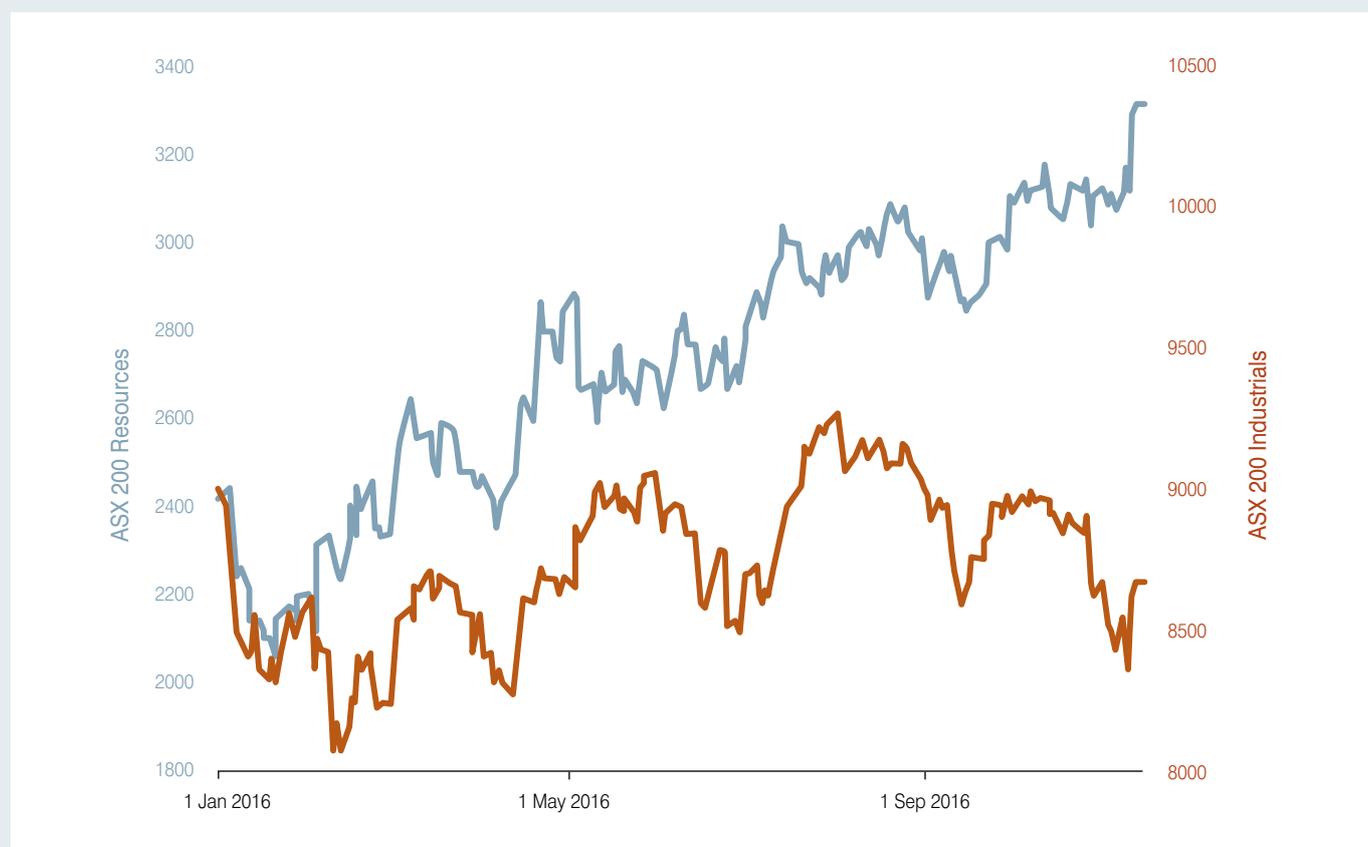


(1). Investment performance figures reflect the historic performance of Lion Selection Group Limited (ASX:LSG, 1997 – 2007), Lion Selection Limited (ASX:LST, 2007-2009), Lion Selection Group Limited (NSX:LGP, 2009-2013) and Lion Selection Group Limited (ASX:LSX, 2013-present). (2). Methodology for calculating 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

During the course of the quarter, mining equities have continued to perform strongly, although an important difference from previous quarters is that the key contributors have not been gold miners. Investor interest is spreading from gold companies to the rest of the mining market, as investors who have made profitable investments in gold recycle profits into other sectors of mining as the outlook for many commodities has improved, breaking negative trends.

Performance of miners during 2016 to date stands in stark contrast to the last few years, not only for a positive performance but for a substantial outperformance on the rest of the market. The ASX200 Resources Index is up 37.2% year to date, whilst the ASX200 Industrials is down 3.6%, an outperformance of 41%. This is the first sustained outperformance for more than five years.



Alongside a positive trend in mining equities during 2016 there has been a corresponding trend of increasing size and frequency of equity capital raisings. Like performance in the market, gold deals have led the way and represent the lion's share of deals completed. The third quarter of 2016 saw a substantial amount of mining equity capital raised, including several very large sized deals. These indicate a depth to the market beyond the price performances that have taken place, and are a reassuring indication that investor interest is robust. The flip side however is that following several large deals and substantial amounts raised in short periods, liquidity in the market may have been temporarily depleted, and may make for a quiet period in mining equity capital markets going in to Christmas.



The mining IPO market continues to reflect the improvement in investor interest. So far in 2016, there have been five new mining IPO's versus only two in 2015, and several expected to complete a listing before the end of the year. At the commencement of the year, there were no IPO's on the horizon, so these figures reflect a substantial turnaround. The pipeline continues to build, giving a strong sense that investor support is sufficient to provide a sense of encouragement to companies sounding the market and preparing to commit to the listing process. As flagged in the last quarterly report, Lion investee EganStreet Resources was admitted to the official list of ASX and traded for the first time on 13 September 2016. Returns for investors in EganStreet so far have been positive – the IPO was priced at 20c per share including 3 free options for every 2 shares subscribed. By the end of the quarter, shares were trading at 33.5cps and the options (which were also listed) at 10c: valuing the 20c of capital invested in the IPO at 48.5c – an attractive return for EganStreet shareholders but also an indication that investor interest has persevered beyond the IPO.

An inescapable overlay to capital markets during the quarter has been the US Presidential election. Throughout the lead up, sentiment in the market wavered according to which candidate was front runner. In the end, and after the completion of the quarter, Donald Trump was elected in a surprise result. More surprising were the gyrations in markets as the result took place.

The market had failed to predict a Trump victory, so as the votes were counted and the outcome became clear there were several strong corrections – one was gold which rallied strongly (by more than US\$40/oz). The rhetoric in the lead up had been all about Trump being extremely unpredictable and his personal propensity for conflict (at all levels) would bring uncertainty to financial markets – factors which should all be supportive of gold. However, gold gave up most of its gains after Trump's speech to claim victory, which was broadly viewed as conciliatory and positive for business in the US. Markets rushed to re-price their outlook according to a new optimism toward the strength of the US economy. Bond yields have strengthened as markets are pricing increases in interest rates, and gold has responded by moving in the opposite direction. Given stubbornly low inflation and the generally pessimistic outlook for the global economy generally in recent years, this is a remarkable turnaround in sentiment.

Aside of gold, most other metals have recorded gains as positive sentiment toward the Chinese economy and thus demand for metals, together with a positive view toward the US economy has taken the place of the pessimism of 2015. This sets the scene for strong investor support for miners into 2017.

## INVESTMENT NEWS

### One Asia Resources Limited

With mining equity markets relatively buoyant, the Board of One Asia has been evaluating strategic options for Awak Mas. Based on a number of positive results for the Awak Mas project, One Asia has considered a listing of the Awak Mas project is the most appropriate way to fund and manage a Definitive Feasibility Study (DFS) and ultimately develop the project. This pathway will also provide liquidity to shareholders.

An ASX listing of the Awak Mas project will either be by way of reverse takeover (RTO ie vending the project in exchange for shares in a listed entity) or separate IPO.

In order to advance the development of the Awak Mas project, One Asia anticipates undertaking an equity issue to provide pre-listing funding. In June 2016, One Asia arranged a USD 1 million bridging loan from several lenders. These lenders (including Lion) have indicated their intention to convert the facility in the upcoming equity raising.

One Asia has announced the appointment of Mike Spreadborough as Managing Director to lead the development of the Awak Mas project. Mike is a mining engineer with extensive project development and operating experience, most recently as Chief Operating Officer of Sandfire Resources NL. With more than 25 years' experience at a senior operational and corporate executive level, Mike is extremely well positioned to advance and ultimately develop the Awak Mas project.

Prior to Sandfire Resources, Mike was Chief Operating Officer at Inova Resources Ltd (formerly Ivanhoe Australia), General Manager – Coastal Operations for Rio Tinto and General Manager – Mining for WMC and later Vice President – Mining for BHP Billiton at the world-class Olympic Dam Mine in South Australia. He holds a Bachelor of Mining Engineering from the University of Queensland and an MBA from Deakin University, as well as a WA First Class Mine Manager's Certificate of Competency and is a member of the Australian Institute of Company Directors.

The Awak Mas technical team has been bolstered by the appointment of Colin McMillan. Colin has an impressive career as a senior geologist with Newcrest Mining for almost 30 years, culminating



in six years as General Manager of Geology at Newcrest's Gosowong Gold Mine in Indonesia. Additionally, Colin lead the team responsible for the discovery of the world class Telfer Deeps and Ridgeway deposits owned by Newcrest and has extensive experience with epithermal deposits in Indonesia.

A technical and commercial team is in the process of being assembled to plan and complete the DFS once the company is listed.

### AWAK MAS GOLD PROJECT

The national power grid is being expanded into the region around Awak Mas and PLN, the national power provider, has confirmed grid power will be available in 2017/18. The ability to connect local power to site will significantly increase confidence in future feasibility work by reducing development risk for power supply. A survey and economic assessment for the delivery of power to the project site is planned, after which One Asia will be able to assess the benefits.

One Asia's Awak Mas recent geological review confirms that it is a high level, low sulphidation epithermal deposit, with site visits from a number of leading geologists confirming this interpretation. There is a sub-vertical control to mineralising fluids. Gold mineralisation occurs in these 'feeder

## INVESTMENT NEWS

structures' and where the mineralising fluids have migrated laterally into conformable shallow dipping permissive strata. There is a late stage hydrothermal overprint that has enhance gold grades down some of the major structures. Mineralisation appears to be visually recognisable which could provide grade control benefits through selective mining techniques.

The epithermal model has Awak Mas as a high-level expression of an intrusive source which opens potential for higher grade gold at depth. This warrants further investigation.

During the quarter, the One Asia undertook a review of the previous metallurgical work process flowsheet. The conclusions of this review were positive, noting that the work to date was of a high standard. The report also recommended re-examining processing alternatives due to the improved gold price and revised geological interpretation. Such options include whole of ore cyanide leaching (CIL) that may improve recoveries and simplify the processing circuit, and the possibility that the ore may be amenable to heap leach processing.

The next stage of work on the project is anticipated to commence shortly focused on assurance of the technical work to date and to understand options to optimise processing technique leading into a DFS.

### PANI GOLD PROJECT

#### KUD Management Case

On 17 November 2016, a public meeting took place with the two KUD management teams reconciling and agreeing to hold a united AGM prior to the

end of the year. The reconciliation meeting was witnessed by the Governor of Gorontalo, the Head of the Provincial Police and the Head of Agency for Forestry and Mining for the Province as reported in the Gorontalo Post on 18 November.

One Asia and its partner in Pani, Provident, consider this a major milestone as the opposing factions within the KUD have come together in support of the further development of the Pani project. One Asia notes it continues to receive strong support from the members of the KUD and local community and is hopeful that a successful KUD unification will end the internal legal battles within the KUD and ultimately the Pani IUP dispute. One Asia and Provident remain committed to the development of the Pani IUP in cooperation with the KUD and local community.

#### Geological Review

As reported last quarter a geological review of Pani was initiated. This work is continuing and is focused on reviewing the geological model, database validation and sampling techniques.

Further investigations are ongoing to validate current observations and findings.

The work plan for the development of a Bankable Feasibility Study for the project continues to be formulated and will be initiated once the KUD Management dispute is closed.



## INVESTMENT NEWS

### Roxgold Inc

Lion Selection Group has an indirect equity interest in Roxgold, via African Lion. During the Quarter Roxgold reported excellent production and exploration progress at its Yaramoko Mine in Burkina Faso, West Africa.

#### PRODUCTION

Roxgold declared commercial production had been achieved during the third quarter of 2016. Reported production (from June 2016 to 30 September 2016) was 45,390ozs at an average mill feed grade of 16.4g/t gold. This confirms Yaramoko as one of the highest grade gold mines globally with cash operating costs of US\$350/oz and all in sustaining costs of US\$707/oz. Average metallurgical recovery was 98.4%. The project was delivered under budget and six weeks ahead of schedule. Final capital cost was US\$107 million.

Yaramoko is an underground gold mine, initial production was from development mining with the proportion of ore provided from stoping operations continuing to grow. Ore extraction from early stope mining has been extremely encouraging, with clean breakages to the hanging wall contacts, making for lower than expected dilution. The photograph below shows a development face at Yaramoko with the clearly observable quartz vein that hosts gold mineralisation.

#### EXPLORATION

##### Yaramoko

The mineralised system at Yaramoko is contained within a shear structure called the 55 Zone. Current mine design is from surface to 430m vertical depth. A drilling program, with three surface diamond drill rigs, commenced in October to further define and extend the Inferred Resource at depth. This has extended mineralisation to 960m vertical depth, some 530m below the base of current design. Step out hole YRM 426, the deepest hole to ever intersect the 55 Zone intersected an exceptional 23.8m x 20.1 g/t. True thickness of this intersection is 10.6m – more than double the average width of the current mining blocks. The current drilling program is approximately 30% complete and current and awaited drill results will be incorporated into an updated Resource estimate in Q1 2017.

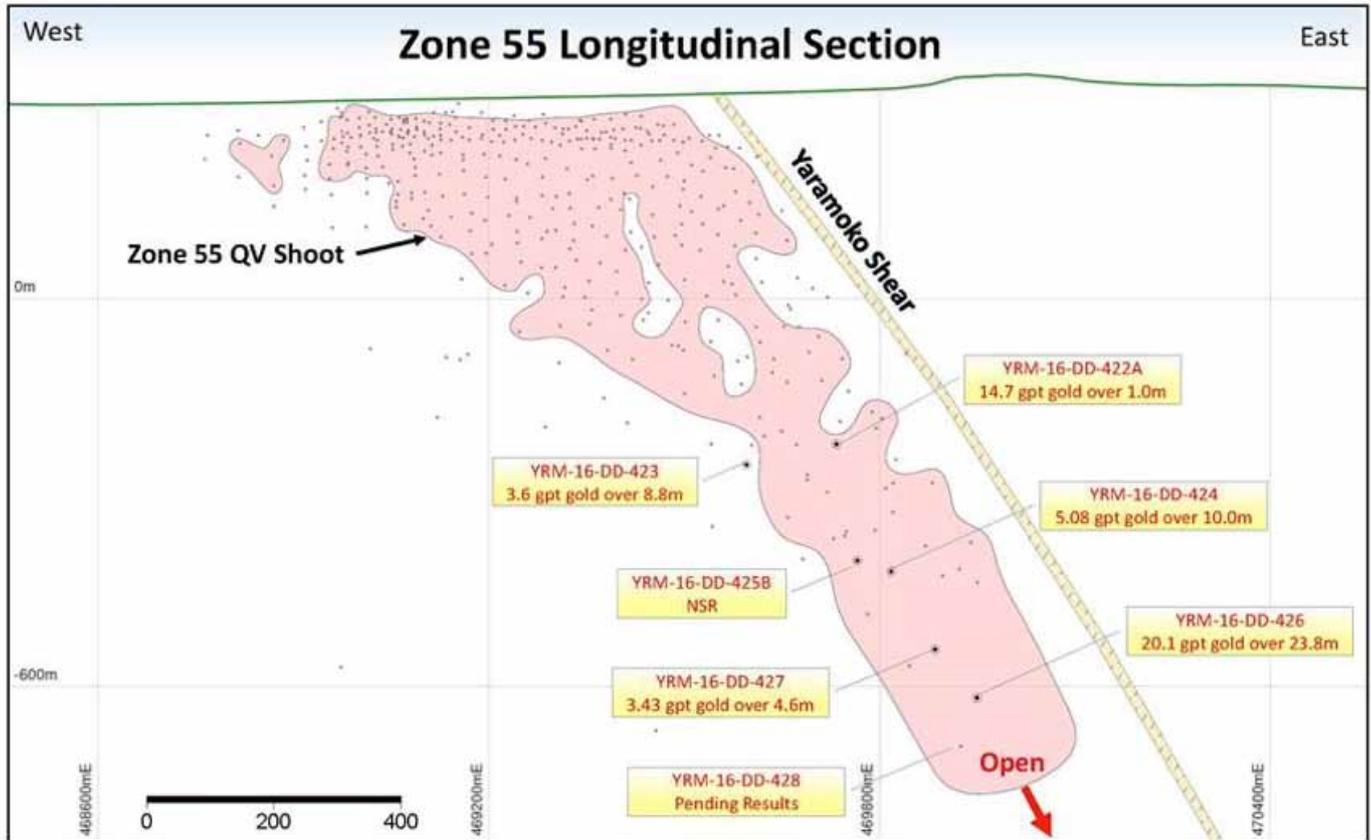
The long section on page 7 shows the outline of the 55 Zone and the location of recent drilling.

##### Bagassi South

Roxgold is targeting a satellite deposit at Bagassi South located approximately 2kms from Yaramoko. The current Resource at Bagassi is 220,000ozs @ 12.1 g/t and drilling of this project has also recommenced with results expected in early 2017.



## INVESTMENT NEWS



### Erdene Resource Development Corp

Lion Selection Group has both a direct and indirect (via Asian Lion) interest in Erdene Resource Development Corp, a TSX listed explorer focussed on Mongolia. Lion originally backed Erdene as a highly capable team with long experience in Mongolia, and therefore an excellent understanding of both the geology and regulations, combined with a promising ground position. In late 2015 Erdene made a virgin discovery of gold at Bayan Khundi, in South-Western Mongolia, and has conducted several phases of drilling to begin to outline a compact, high grade and shallow epithermal gold system. During mid-2016 an independent geological evaluation was conducted by renowned consultants with expertise in epithermal and porphyry mineral deposit systems. This provided insights into the geology and mineralizing processes that led to the formation of Bayan Khundii (and neighbouring Altan Nar deposit) and was the basis for planning a new phase of drilling which was commenced in September 2016.

Drilling has been a combination of infill and step out holes, and has not only increased confidence in the continuity of gold zones and the broad extent of

lower-grade mineralization, it has also pushed the boundaries of the mineralized system at depth and along strike, and made a discovery of a new zone under shallow cover, 170m north of the main (Striker) zone.

Selected best results include:

- BKD49: 116m at 2.0g/t gold, including 24m at 7.5g/t gold (infill)
- BKD60: 123m at 1.3g/t gold, including 30m at 3g/t gold (intersection of a new zone of mineralisation 170m north of the known zone)
- BKD86: 58m at 2.5g/t gold (extends the main Striker zone to the North)
- BKD77: 65m at 6.3g/t gold (extends the Striker zone at depth to the South)

In Lion's view Bayan Khundi is an exciting discovery. Erdene remains well funded, with sufficient working capital to fund remaining 2016 drilling and overheads through Q1-2017 following warrants exercise in early November. Cost management of both overheads and exploration expenses has been excellent, resulting in a large proportion of the cash Erdene has raised being invested into carefully thought out exploration activities.



## Lion Selection Group

Lion Selection Group Limited (Lion) advises that the unaudited net tangible asset backing of Lion as at 31 October 2016 is \$0.40 per share (after tax).

### SUMMARY OF INVESTMENTS AS AT 31 OCTOBER 2016

	Commodity	Market Value A\$M	Portfolio %
<b>Australia</b>			
Egan Street Resources	Gold	4.4	
Other Australia		0.4	<b>11%</b>
<b>African</b>			
Roxgold	Gold	8.8	
Toro Gold	Gold	0.9	
Other Africa		1.5	
Cash dedicated to Africa <sup>1</sup>		1.2	<b>29%</b>
<b>Asia</b>			
One Asia Resources <sup>2</sup>	Gold	9.1	
Erdene Resources	Gold	3.6	
Other Asia		1.5	<b>33%</b>
<b>Americas</b>	Iron Ore/Coal	0.3	<b>1%</b>
<b>Uncommitted Net Cash</b>		<b>11.0</b>	<b>26%</b>
<b>Net Tangible Assets</b>		<b>\$42.7m</b>	<b>40¢/ share</b>

1. Includes committed cash of US\$0.7 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 October 2016**

Market Cap:	\$37m
Issued Shares:	106m
Share Price:	\$0.35