



Quarterly Report for the 3 months ended 30 April 2010

From the Managing Director

Australia's long term growth prospects have been damaged by the announcement from the Australian Government of its intention to introduce a Resource "Super Profits" Tax. If introduced, this tax is expected to apply to LSG's Australian focused investments including Havilah Resources and Exco Resources, however it is not expected to apply directly to LSG itself. The uncertainty and economic barriers created will make it difficult for LSG to invest in new Australian-based projects.

What we are seeing in terms of Australian resource projects being put on hold is just the beginning.

Baillieus Stockbroking notes the proposed Resources Super Profits Tax is likely to have stopped in its tracks Australian resources development, representing a potential loss of:

- 270 major resource projects in Australia undergoing feasibility studies;
- total capital value of \$320 billion requiring financing; and
- employment of around 120,000 people during the construction phase.

Our own analysis indicates that the effective tax rate (including royalties) for a typical gold project increases from 38% to around 56%, although this is dependent on the detail in the proposed legislation.

Introduction of similar tax regimes around the world tells the story. In some countries where LSG

has previously considered investments, the proposed "super profits" taxes (such as Mongolia and Zambia's windfall profits tax) have immediately triggered a sovereign risk red alert, ceasing further and new investments, and selling where possible.

Worldwide reaction is perhaps best illustrated by Zimbabwean Government mining officials this month when one of our team visited there, amused by Australia's downfall into third-world populist style mining policies.

We have reviewed the impact of the exploration tax refund, but believe that the negative value impact of the Resource Super Profits Tax more than outweighs the tax refund, and the reduced ability to borrow means greater dilution for shareholders. Critically, the biggest impact for investing is that otherwise economic projects will not get developed due to lower profits.

Shareholder Sale Facilities

LSG has initiated two share sale facilities designed to allow shareholders with less than 5,000 shares (with a value equal to or above \$A500) or an unmarketable parcel of shares (i.e. a parcel of shares with a value of below \$A500) to sell their shares cost effectively and simply and to assist the company in reducing costs associated with servicing smaller holdings. Shareholders in these categories have been contacted directly with the appropriate forms, with the last date for the forms to be received at the LSG share registry is 4 June 2010.

Investment Update

MINDORO RESOURCES LTD **(LSG 4.0%, ASIAN LION 7.5%)**

In February 2010, LSG and Asian Lion made investments of US\$0.5m each in TSX-listed Mindoro Resources Limited (Mindoro), purchasing shares for CAD10cps with attaching warrants exercisable at CAD15cps. The share price of Mindoro at 30 April 2010 was CAD27cps.

Mindoro operates in the Philippines and its most developed project is its Agata nickel laterite project which is currently being assessed for direct shipping ore potential.

Howard Walker from LSG has been appointed to the Mindoro Board. In addition, Jon Dugdale, formerly of Asian Lion, has been appointed President and CEO of Mindoro.

ERDENE RESOURCE DEVELOPMENT CO **(ASIAN LION 3.7%)**

During the quarter Asian Lion made an investment of US\$1.0m in Erdene Resource Development Corporation Limited (Erdene), a TSX listed company, purchasing shares for CAD31cps. The share price of Erdene at 30 April 2010 was CAD56cps.

Erdene has a number of projects, including coal joint ventures with Xstrata Coal in Mongolia and Canada, and a molybdenum project in Mongolia. Erdene has an early mover advantage in Mongolia, having been exploring there since 2002. The company is exploring for high quality thermal and metallurgic coal in joint venture with Xstrata (75% Xstrata/25% Erdene), with exploration being funded through to feasibility by Xstrata.

The Canadian Donkin Coal project is also in joint venture with Xstrata Coal (75% Xstrata/25% Erdene), and Xstrata Coal has indicated that it intends to develop the Donkin Coal Project based on sales into the coking coal market. This decision has initiated a number of key elements of the project including civil construction, engineering and pre-feasibility studies, environmental assessment studies and consultation with government officials. Erdene's interest in the project is funded through to 2011.

Additionally, Erdene owns the Zuun Mod molybdenum deposit, located within 200 km of China's border, and has announced measured and indicated resources of 180Mt grading 0.054% Mo plus inferred resource of 185Mt grading 0.051% Mo.

COPPERBELT MINERALS **(LSG 2.1%, AFL2 4.1%, AFL3 2.9%)**

Copperbelt Minerals has entered a conditional sale and purchase agreement with Golden Champion (owned 60% by Zijin Mining Group and 40% by the China Africa Development Fund) in relation to its

Democratic Republic of Congo (DRC) assets. The transaction is subject to the receipt of the consent of the applicable PRC government and regulatory authorities and DRC consents.

DRC officials have reportedly raised some concerns about the proposed transaction which the parties are seeking to address.

The value of the conditional offer is approximately US\$280M, or an equivalent of US\$26.55 per Copperbelt share, being 26% above the current valuation maintained by LSG of US\$21/Copperbelt share. The impact of the conditional offer on LSG's NTA is 1.3 cents per share after tax or 2.5 cents per share before tax, including indirect holdings through the African Lion funds. If the transaction proceeds as anticipated, it is expected that LSG will receive A\$9.4M (after taxation) for its combined interest in Copperbelt.

KASBAH RESOURCES LIMITED (AFL2 10.2%)

Following on from AFL2's investment in Kasbah Resources, African Lion 3 has agreed to purchase 14.5 million shares in Kasbah (ASX listed) at 7.5 cps, with 7.25 million options exercisable at 25 cps. This placement was alongside the International Finance Corporation (part of the World Bank) and Traxys, a major metal and concentrates marketer and trader with tin experience. This transaction is expected to be settled in May 2010.

During the quarter, Kasbah had some outstanding drill results at its Achmmach tin project in Morocco, including AD035 delivering an interval of 57m @1.1% tin from 325m alongside historical underground workings. Further drilling is anticipated to clarify the nature of the deposit.

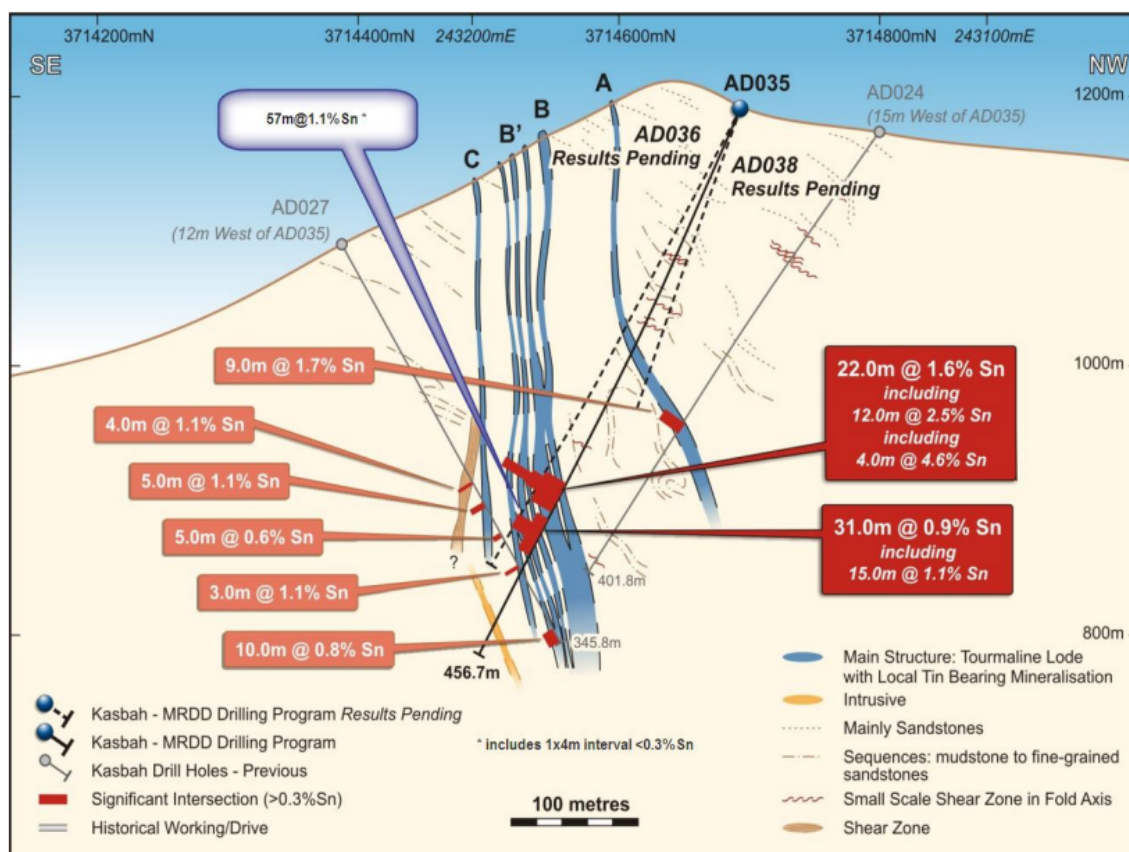


Figure 3

AD035 cross section – Achmmach Tin Project

HUMMINGBIRD RESOURCES LIMITED

(AFL3 3.5%)

African Lion 3 invested US\$1M in unlisted Hummingbird Resources Limited (Hummingbird) at GBP35 per share. Hummingbird is the largest holder of mineral exploration licences in the eastern part of Liberia, a unexplored region of Birimian age geology - a province that is known to be highly prospective for the discovery of large scale gold (and associated mineral) deposits. Hummingbird has sought to capitalise on this prospect through systematic and extensive exploration over the last four years.

As well as strong Liberian experience, Hummingbird's board has recently been strengthened by the appointment of Ian Cockerill as Director/Special Adviser. Hummingbird's current strategy is to list on the most appropriate recognised stock exchange in Q4 2010 in order to realise shareholder value.

CANACO RESOURCES INC

(AFL3 1.2%)

In December 2009, African Lion 3 invested US\$0.5M in TSX-listed Canaco Resources Limited (Canaco) at CAD35cps, including 700,000 warrants at 45 cps. Canaco's Handeni gold project in Tanzania has recently had some exciting drill results, including drilling intercepts from Magambazi:

- 21.7m @ 6.79g/t Au, including 9.5m @ 12.75 g/t Au (MGZD0045); and
- 21.2m @ 4.80g/t Au, including 11.0m @ 7.90 g/t Au (MGZD0043).

The Magambazi Lodes are now defined over a 440m strike and the system remains open down dip, down plunge and along strike to the north.

As at 30 April 2010, Canaco's share price was CAD69cps.

EXCO RESOURCES LIMITED

(LSG – 8.1%)

Exco Resources announced in April 2010 that its White Dam gold project commenced production which is expected to ramp up to approximately 50,000 oz pa.

At the company's Cloncurry Copper Project (CCP), Exco continued work on the Definitive Feasibility Study (DFS) for the CCP with geological modeling of the resource complete, metallurgical testwork program ongoing and pit optimisations underway. The DFS is scheduled for completion in late 2010, and in parallel the company continued with its Environmental Impact Study approvals process.

HAVILAH RESOURCES NL

(LSG – 18.6%)

Havilah announced that it has completed its Kalkaroo feasibility study, and the feasibility report was now being evaluated by peer reviewers and partner Glencore International with the view to deciding whether to proceed to project development funding.

In addition, Havilah announced initial drill and metallurgical results in relation to the Lilydale Iron Project (magnetite), with assay results from 29 – 33% Fe and recoveries of up to 35% of 70% Fe magnetite in Davis Tube test results on drill chip samples. The concentrate contains very low levels of impurity elements such as SiO₂, Al₂O₃, P and Ti. Havilah has announced that it is in ongoing negotiations with potential funding partners in relation to this project.

SUMMARY OF INVESTMENTS – 30 April 2010				
Commodity		Holding	Investment \$m	Market Value A\$m
Direct Investments				
Copperbelt Minerals	DRC – Copper	2.1%	2.6	4.5
Exco Resources	Copper/gold	8.1%	6.6	7.7
Havilah Resources	Gold/base metals	18.6%	4.3	7.0
Other – investments less than 2% of Net Assets			2.7	3.4
Total Direct Investments			16.2	22.6
African & Asian Lion				
African Lion Funds		24.8%	4.2	5.7
• Copperbelt Minerals ³	DRC – Copper	7.1%	2.2	3.8
• Kasbah Resources	Morocco – Tin	10.2%	0.3	0.4
• Other including cash committed				1.6
Asian Lion Fund		42.9%	6.7	5.3
• Asian Mineral Resources	Vietnam – Nickel/Copper	13.6%	2.0	1.9
• Mindoro Resources	Philippines – Nickel	7.5%	1.8	1.5
• Other including cash committed				1.9
Total African & Asian Lion				11.0
Committed Cash - to African Lion 3 and Asian Lion				26.1 ¹
Net Cash				17.3
Net Tangible Assets – before tax				77
NTA per share before tax				\$0.88 ²

¹ Lion holds US\$23 million cash as part of its hedging policy.

² The NTA from a theoretical disposal of LSG's investment portfolio at market prices based on accounting carrying value was \$0.88 per share prior to estimated tax on gains, and \$0.88 per share after estimated tax on gains from such disposal.

³ Based on US\$21/share valuation. See Copperbelt Minerals section in relation to conditional proposal from Zijin and CADF.