

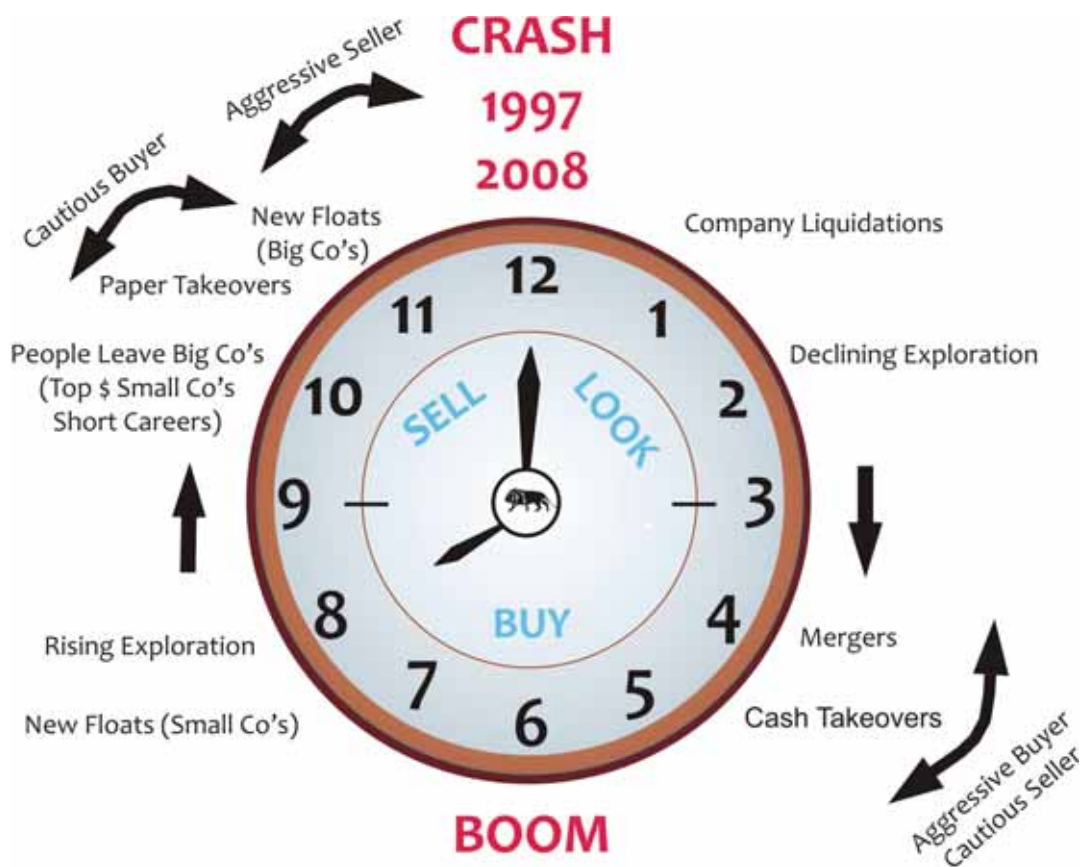


**Lion Selection Group**

## Quarterly Report for the 3 months ended 30 April 2011

### Key Points

- **Pan Asia Resources (ASIAN LION 22.6%)**
  - Lion's share of this investment is \$1.6m representing a value in Lion's NTA of 2cps;
  - scoping study indicates 150,000 oz gold pa x 8 year initial life;
  - currently valued at cost, and planned IPO late 2011 could add several cents per share to Lion's NTA.
- Lion Selection Group has continued investing in the recent downturn which we view as a correction.
- The Glencore IPO and other proposed large global raisings indicate approaching peak of cycle conditions. The clock moves to 8 o'clock!



## Sector Outlook

Lion has used the early 2011 pull-back as a buying opportunity. We are seeing a flow of opportunities but not all are at attractive prices. Some sectors are fully priced and political risk considerations for Australia have risen with uncertainty on mining and carbon taxes.

Growth of the Chinese economy followed by India and the resulting increased demand for commodities is a once in a century positive event for Australia and the mining sector. We expect a further decade or more of good times for miners but anticipate sizeable market corrections – maybe another cycle or two!

## Manager's Activities

Lion's investment manager, Lion Manager Pty Ltd, has been actively focused on investment activities. Accordingly, site visits were made over the quarter to South Africa, Namibia, Guinea, Zambia, Uganda, the Philippines, Kyrgyzstan and most Australian states. On a daily basis multiple target and investee company meetings have been undertaken as part of the process of investor diligence and to assist investees where possible.

The focus on active investment has meant Lion no longer hosts regular shareholder briefings, with savings both in cost and time but potentially resulting in lower visibility to Lion shareholders. This does not appear to have resulted in any loss of market turnover and there has been a small improvement in discount to NTA for Lion shares. Lion and the Manager are both committed to providing the best possible service to shareholders and ways to increase our visibility to shareholders via the website are being examined. We would welcome your feedback as these initiatives are introduced.

## Lion Model for Shareholders

There has been no change in Lion's investment model since listing in 1997 – with 56 winners and only 19 losers since inception, we know it works! And works as follows:

- niche early stage mining investor;
- 50/50 gold/metals and bulks;
- 50/50 Australia/overseas;
- buy early cycle; sell late cycle;
- return profits to shareholders as dividends/distribution (approximately \$400m was returned from the last cycle).

Early stage mining investment is risky and we believe that the Lion model has been successful because:

- dedicated specialist team involved;
- active management;
- portfolio approach;
- long term buy and hold strategy.

The Lion model is designed for patient investors, rather than traders, and those happier with a portfolio than speculators seeking to "cherry pick". We believe that the current cycle starting in 2008 will be shorter than the previous 1997-2008 cycle and investors will not have to be patient for quite as long before seeing a payback.

# Investments

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

Copperbelt Minerals entered into a conditional sale and purchase agreement with China Africa Development Fund (CAD Fund) for the sale of substantially all of its assets that was due to expire on 31 May 2011. Lion is awaiting an update on the company from Copperbelt including confirmation of the status of the agreement.

The value of the CAD Fund conditional offer is approximately US\$282m before costs, or an equivalent of approximately US\$24 per Copperbelt share. At a valuation of US\$24/share, LSG's direct and indirect holdings in Copperbelt would equate to approximately 9 cents per LSG share before taxation should the transaction successfully conclude (compared with 6 cents per LSG share based on a valuation of US\$16/share).

Given the on-going nature of this transaction, LSG will be keeping its valuation of Copperbelt under review and will advise shareholders of developments in a timely manner.

## **YTC RESOURCES LTD (LSG 4.1%)**

LSG continued to invest in YTC during the quarter, with both a further on-market investment and participation in YTC's A\$25m placement to take the total investment in YTC to A\$4m at 39cps. LSG now holds 4.1% of YTC.

## **MITHRIL RESOURCES LIMITED (LSG 3.8%)**

Following the successful completion of its \$12m raising, Mithril has commenced an aggressive exploration program and is poised for discovery in the coming months. Mithril's nickel-copper sulphide exploration program is focusing on its core project, Huckitta, in the Northern Territory.

## **ASIAN LION LIMITED (LSG 62.8%)**

Asian Lion continues to assess opportunities and has made follow-on investments in Sihayo Gold and Mindoro Resources during the quarter.

**SIHAYO GOLD LIMITED (LSG 1.9%; ASIAN LION 4.3%)**

Asian Lion continued to invest in Sihayo, with participation in Sihayo's A\$15m placement and further on-market investment taking Asian Lion's total investment in Sihayo to A\$5.6m at an average of 19cps. Lion has invested an additional A\$2.0m at 16cps.

Earlier in the quarter Sihayo recommenced drilling at its Tambang Tinggi gold / copper prospect located in the South Area of Sihayo's Contract of Work in North Sumatra, Indonesia. Significant gold results have been achieved in the first six holes of this new drilling program. The fifth hole in the new program, TTDD010, has intersected bonanza grade gold at a depth of 18 metres. TTDD010 delivered an outstanding intersection of 10m @ 39.2 g/t Au from 18m including 2m @ 193 g/t Au from 20m. TTDD006 delivered a significant intersection of 30m @ 3.90 g/t Au from 104m including 12m @ 8.60 g/t Au from 122m. Sihayo is focused on delineating a new JORC compliant resource over the Tambang Tinggi prospect to add to its existing JORC compliant resource of 15.7Mt at 2.8g/t containing 1,402,000 ounces at its Sihayo Pungkut Gold Project. Finalisation of the Definitive Feasibility Study has been delayed to allow inclusion of the new resource.

**PAN ASIA RESOURCES CORPORATION (ASIAN LION 22.6%)**

In March 2011, Pan Asia commenced infill drilling at its Awak Mas gold project in Sulawesi, Indonesia. An additional drill rig is en route to site to commence exploration on areas outside of the current mine area where past work from 1999 has identified significant inferred resources of gold.

Based on its recent scoping study, Pan Asia sees the Awak Mas project as capable of producing 1.2 million ounces of gold over eight years at an average of 150,000 ounces of gold per annum, using a 4Mtpa processing plant.

Detailed work on the mine plan has indicated higher grade material present during the early years of production and suggests that the first three years a higher production rate of gold will be forthcoming (up to 175,000 oz pa) enabling a quicker return of capital and enhancing overall project economics. Further optimization work in this area is planned.

At Pan Asia's Pani gold project (also in Sulawesi, Indonesia), the company has received appropriate approvals from the Indonesian Ministry of Mines and Energy for the project and is subsequently processing necessary permitting from the Ministry of Forestry in Indonesia to enable the drilling program to commence.

Recent meetings by Pan Asia with local stakeholders regarding the Pani project have been well received.

**AFRICAN LION 3 LIMITED (LSG 23%)**

AFL3 has been actively investing with new investments made in Ghana and Senegal during the quarter. AFL3 continues to identify and assess quality resource projects.

| SUMMARY OF INVESTMENTS – 30 April 2011                   |                             |              |                   |                           |
|--|-----------------------------|--------------|-------------------|---------------------------|
|  | Commodity                   | Holding      | Investment<br>\$m | Market<br>Value<br>A\$m   |
| <b>Direct Investments</b>                                |                             |              |                   |                           |
| Copperbelt Minerals <sup>3</sup>                         | DRC – Copper                | 2.0%         | 2.6               | 3.0                       |
| Manas Resources  | Kyrgyz - Gold               | 2.8%         | 1.0               | 1.2                       |
| Mithril Resources  | Copper/Gold/Nickel          | 3.8%         | 1.0               | 1.4                       |
| Mindoro Resources  | Philippines –Gold & Nickel  | 6.4%         | 2.5               | 2.8                       |
| Sihayo Gold  | Indonesia - Gold            | 1.9%         | 2.0               | 2.7                       |
| YTC Resources  | Gold/base metals            | 4.7%         | 3.7               | 6.4                       |
| Other – investments less than 2% of Net Assets           |                             |              | 1.3               | 2.9                       |
| <b>Total Direct Investments</b>                          |                             |              | <b>14.1</b>       | <b>20.4</b>               |
| <b>African &amp; Asian Lion</b>                          |                             |              |                   |                           |
| <b>African Lion Funds</b>                                |                             | <b>23.2%</b> | <b>6.6</b>        | <b>9.8</b>                |
| • Copperbelt Minerals <sup>3</sup>                       | DRC – Copper                | 6.9%         | 2.2               | 2.4                       |
| • Kasbah Resources                                       | Morocco – Tin               | 12.7%        | 1.4               | 2.8                       |
| • Other including cash                                   |                             |              |                   | 4.6                       |
| <b>Asian Lion Fund</b>                                   |                             | <b>62.8%</b> | <b>17.0</b>       | <b>17.0</b>               |
| • Asian Mineral Resources                                | Vietnam – Nickel/Copper     | 11.5%        | 3.0               | 2.3                       |
| • Erdene Resources                                       | Mongolia – Coal/Base Metals | 3.7%         | 0.6               | 2.5                       |
| • Kentor Gold  | Kyrgyz - Gold               | 4.1%         | 1.5               | 2.1                       |
| • Manas Resources  | Kyrgyz - Gold               | 5.6%         | 1.3               | 1.5                       |
| • Mindoro Resources                                      | Philippines – Nickel        | 8.4%         | 3.8               | 2.3                       |
| • Pan Asia Resources Corp                                | Indonesia - Gold            | 20.1%        | 1.6               | 1.5                       |
| • Sihayo Gold  | Indonesia - Gold            | 4.0%         | 3.1               | 3.6                       |
| • Other including cash                                   |                             |              |                   | 1.2                       |
| <b>Total African &amp; Asian Lion</b>                    |                             |              |                   | <b>26.8</b>               |
| <b>Committed Cash</b> - to African Lion 3 and Asian Lion |                             |              |                   | <b>14.3<sup>1</sup></b>   |
| <b>Net Cash</b>  |                             |              |                   | <b>26.8</b>               |
| <b>Net Tangible Assets – before tax</b>                  |                             |              |                   | <b>88.3</b>               |
| <b>NTA per share before tax</b>                          |                             |              |                   | <b>\$1.00<sup>2</sup></b> |
| <b>NTA per share after tax</b>                           |                             |              |                   | <b>\$1.00<sup>2</sup></b> |

<sup>1</sup> Committed cash of US\$15.6m to AFL3 and Asian Lion. LSG holds US\$10 million cash as part of its hedging policy.

<sup>2</sup> The NTA from a theoretical disposal of LSG's investment portfolio at market prices based on accounting carrying value was \$1.00 per share prior to estimated tax on gains, and \$1.00 per share after estimated tax on gains from such disposal.

<sup>3</sup> Includes Copperbelt Minerals at a value of US\$16/share.

## Corporate

### Substantial Shareholders – 30 April 2011

|                         |        |
|-------------------------|--------|
| Lion Manager Group      | 19.83% |
| Select Asset Management | 16.49% |
| Mark Creasy             | 5.06%  |