

LION SELECTION GROUP LIMITED

Annual General Meeting

Chairman's Address 2011

2011 has been a year of volatility in world equity markets, the nature of which we have not seen before. With the constant threat of European governments defaulting on massive debt, the US economy in a state of flux and quantitative easing measures producing more paper money, the value of those currencies has been impacted and the price of gold has moved even higher.

Meanwhile, factors such as the introduction of an Australian Mining Tax and the 2012 Carbon Tax are creating uncertainty for investors looking to Australia. High labour costs in Australia along with infrastructure shortages and increased power costs are driving both explorers and investors offshore. Unfortunately, these cash grabs have also found their way to other countries, with Australia held up as the precedent.

On a positive note, this market uncertainty has presented an increase in pre-IPO opportunities which Lion, with a strong cash position, can take

advantage of. Lion's investment in One Asia Resources (through the Asian Lion Fund) is an example of this and we are seeing many more of a similar kind. Lion is considering how best to position itself to capture these opportunities and exploit the Lion model of patient equity investing, buying early in the cycle, selling late in the cycle and returning profits to shareholders.

Despite market turmoil, Lion's NTA has remained relatively strong. Earlier in the year, Lion completed the sale of its holdings in Exco and Havilah and some other legacy investments which generated \$24 million of cash. This, together with existing cash holdings, enabled the company to make some key new investments in companies such as Doray Minerals, Sihayo Gold and YTC Resources. These investees have had some excellent exploration results and have shown resilience through the fluctuating markets.

Lion Manager continues to diligently manage both the African and Asian Lion Funds as well as providing investment recommendations and management services to Lion. Asian Lion has now completed its active investment period, and will continue to manage its existing portfolio.

African Lion 3 has been actively seeking investment opportunities and has invested a further US\$13.3 million in 2011. With a further \$50 million of

funds to invest, African Lion continues to identify and assess quality resources projects.

With \$35m cash, \$10m of which is committed to African and Asian Lion, and an array of excellent early stage opportunities before us, Lion remains in full investment mode and accordingly no dividend has been declared.

In my report to you last year, I commented on – the price of gold, the old gold standard, and the world's confusion over sovereign debt. The international situation is worse this year than last, the price of gold is up over 30%, and no one knows what will become of Europe.

The World Gold Council recently reported the continued acceleration of gold buying, noting central bank buying of gold this year could reach 500 tonnes. Total central bank gold purchases in the third quarter of 2011 were almost 7 times higher than a year earlier, with many new central bank buyers seeking to diversify their holdings of foreign exchange. Such a reversal of form from selling to buying, since central bank buying began in the third quarter of 2009, boding well for gold going forward.

When in 1997, we launched Lion Selection Group Limited as a Pooled Development Fund, we inserted Selection into the name because the model we sought to follow would be that of the African Mining House, a vehicle with which we were familiar, along the lines of the enormously successful Selection Trust.

The model of detailed due diligence and risk assessment, cornerstone patient equity capital coupled with unparalleled dealflow continues to attract top tier investors and investees. The winners to date are a testament to this approach.

Over time it became apparent that the restraints imposed by the Pooled Development Fund rules made this structure too difficult. We sought to escape these restrictions and formed initially, AuSelect and later relinquished PDF status altogether.

There have been a number of corporate transactions over the years and, in a sense, we have come full circle, back to 1997, still having \$86 million on our balance sheet, even after distributing \$400 million to our shareholders. Something like a return of \$29 million per year, compared with the original \$100 million raising.

Lion Manager has definitely proved itself as a manager of mining funds, and now manages about \$200 million, including African Lion, Asian Lion, and the Lion Selection Group's assets. With many favourable opportunities coming into sight, it now seems an appropriate time to hand over the reins to a new Chairman, to see the Company into what I am certain will be an exciting future as a growing mining investment company.

In the 2009 demerger, the amount payable to Directors was reduced to \$100,000 per annum, as fees. It was anticipated that this could be a smaller operation than when Lion Selection Group was first launched in 1997, when the limit was set at \$250,000. Now that we seem to have come full circle, there is a need for the flexibility to appoint further non-executive independent directors as and when appropriate. Accordingly I look for your support in the 4th Resolution, to increase the aggregate fees to \$200,000.

In conclusion, I want to say, I have enjoyed my 15 years as the servant of the Board, for the support of my colleagues, and you our shareholders. It

has been a pleasure to work with Robin Widdup and his team in Lion
Manager, and I hope to maintain an association in the years to come.
Thank you all very much.

Ewen Tyler