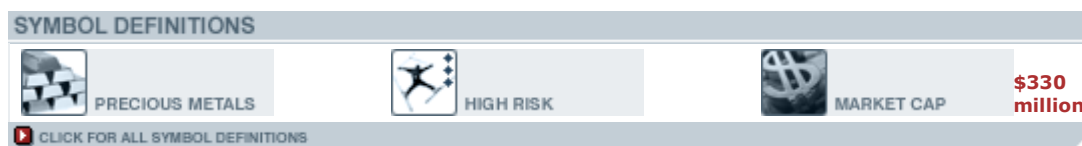


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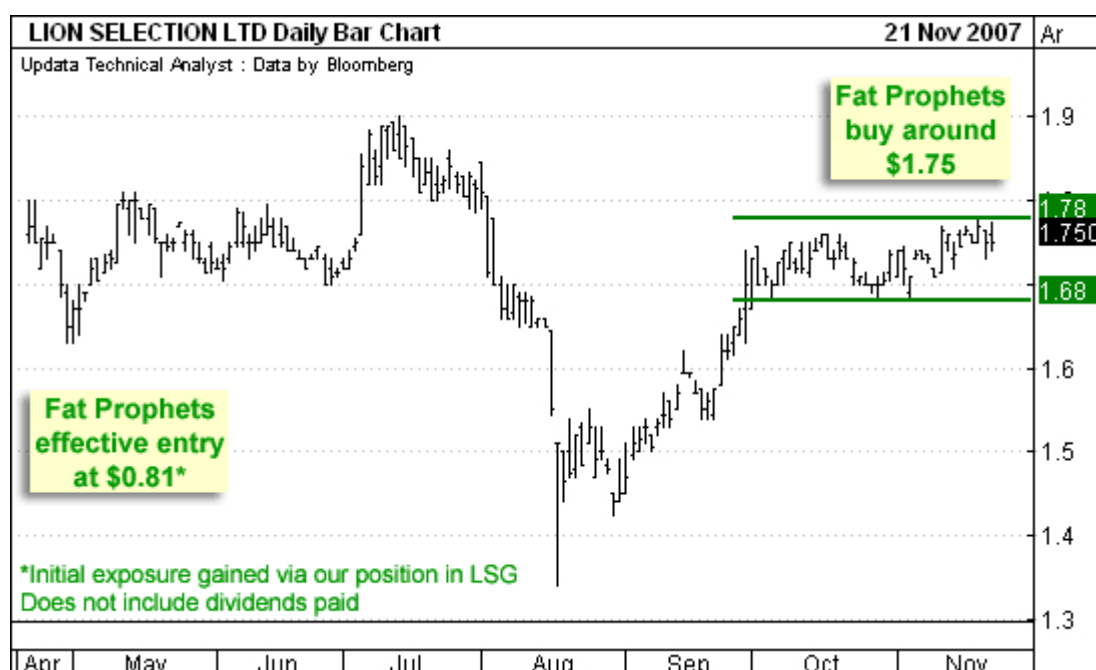
Lion Selection

Buy LST around \$1.75
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Discount presents buying opportunity


Despite the ongoing bull market in gold and base metals, investment company Lion Selection Limited has been a disappointing performer. Lion persistently trades at a discount to its net tangible assets (NTA), much to the frustration of investors. This scenario is not necessarily peculiar to Lion, as many investment companies (in both the resources and industrials sector) trade at discounts to NTA. In Lion's case however it is more the magnitude of the discount that we believe presents a buying opportunity for investors.

"With the share price currently around that level, investors who buy Lion are picking up the Cracow operations for free."

Fat Prophets gained exposure to LST via the merger between AuSelect and Lion Selection Group. Our effective initial entry price is \$0.81.



From a charting perspective, the outlook for LST is encouraging. Despite an increase in volatility between June and August, the share price has recovered firmly over the past three months, and looks well supported to continue higher in the weeks ahead.

More recently, the share price has been contained between \$1.78 and \$1.68 over the past seven weeks. Although we cannot rule out additional consolidation in this range in the near term, given the proximity of support at \$1.68, we believe that downside risks are limited.

A clear break above \$1.78 will return focus to the July high of \$1.90, with higher levels achievable in due course.

As a brief reminder to Members, Lion Selection is a mining company with a diversified investment portfolio ranging from junior explorers through to producing miners. It invests in companies with gold and other metal projects in Australia, Africa and South East Asia. The investment portfolio is complemented by a 30% interest in the Cracow Gold Mine, one of the lowest cost gold mines in Australia.

The strategy is to provide funding at an early stage to assist the companies along the development curve, and exit following considerations of value after project development and the timing of the investment cycle. Lion aims to invest only in small and medium enterprises with outstanding people and excellent value and growth potential.

Now let's turn our attention to the current discount prevailing in Lion's market price. The magnitude of the discount is apparent by viewing Lion's recently released NTA for the month ending October. For the first time, Lion has split out the value of the company's investment portfolio from the 'operations' arm.

The NTA of Lion's investment portfolio, excluding operations (which represents the 30% stake in the Cracow gold mine), was \$1.74 as at 31 October. With the share price currently around this level, investors are effectively paying nothing for Lion's 30% stake in Cracow.

So what is Cracow worth? Netting out the debt, Lion values Cracow at around \$56 million. On a fully diluted basis, this represents around 28 cents per Lion share. But this method is not an accurate reflection of Cracow's value.

Newcrest Mining owns 70% of Cracow, so the value of the mine is a part of Newcrest's overall market value. However, Newcrest is putting its 70% share of the mine up for sale, so investors should soon get a feel for the market value of the operations.

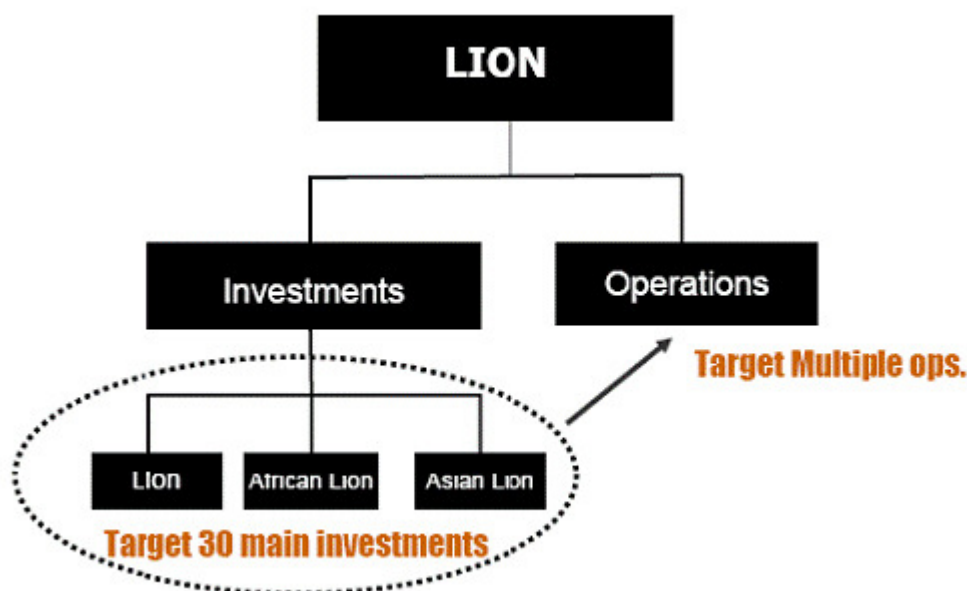
As owner of the remaining 30%, Lion has an option to match the best bid and is in a good position to either take 100% ownership, or sell its existing stake at an attractive price.

Newcrest MD Ian Smith recently proved some indication as to the potential value of Cracow, when he said at the company's AGM that "we wouldn't be interested in anything below \$200 million, and that's certainly the entry point."

Including associated bank debt, Lion currently values its 30 percent stake at \$69 million. This indicates the operations' enterprise value is around \$230 million. In the current gold market environment, and compared to Newcrest's hopes, we would view this as a very conservative valuation.

Cracow is a high-grade, low-cost mine, with cash operating costs currently around A\$350 per ounce cash cost and annual production of around 110,000 ounces of gold. In a recent presentation, Lion suggested the potential at Cracow to achieve a cash margin of A\$450-A\$650 per ounce (assuming current gold prices of around A\$900). This translates into operating cash flow of around \$21 million based in Lion's 30% share.

There is no doubt Lion would like to purchase Newcrest's stake and gain 100% ownership of Cracow. In fact, Lion's longer term strategy, outlined in the chart below, hints at this objective.



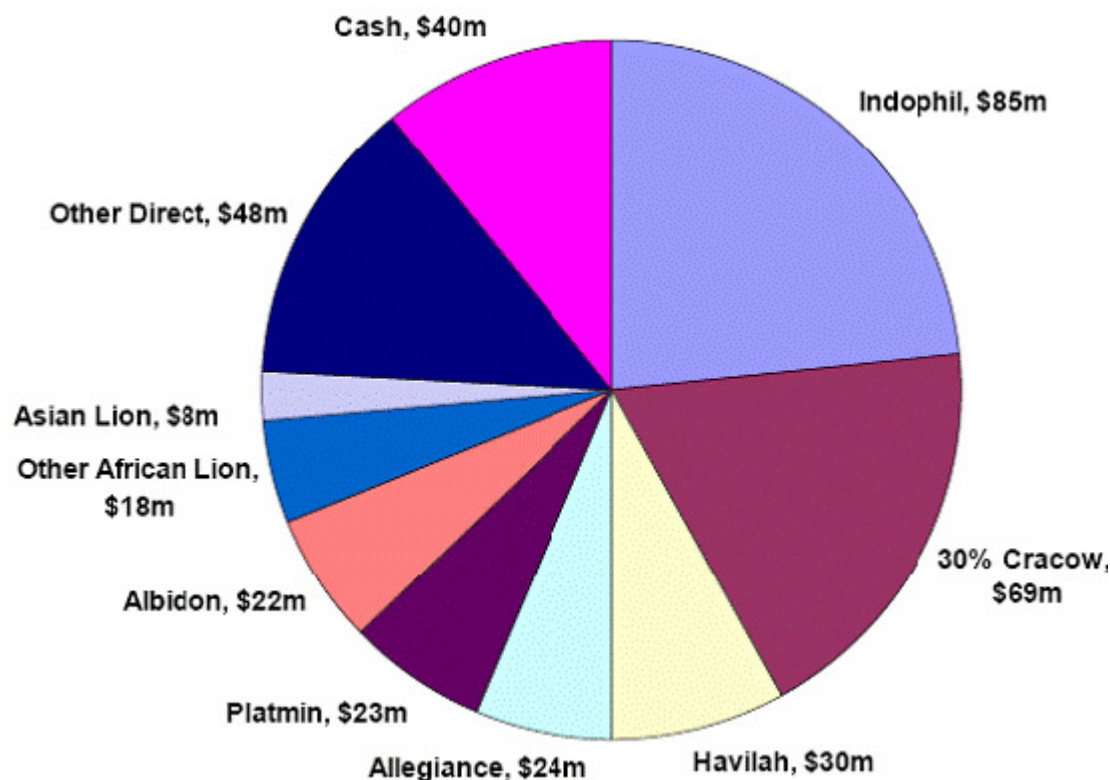
Lion aims to maintain, or substantially increase, ownership of its best investments as they mature through to the production stage. At this point, the assets will be producing cashflow and sit under the 'operations' section of the Lion structure.

In this way, Lion will achieve a greater balance of capital hungry investments and cash producing operations. If all goes according to plan, we believe the market will begin to price the company much closer to its net asset value.

An investment in Lion is best illustrated in the pie chart below. The biggest individual investment is in Indophil, which owns around 35% of Tampakan, one of the largest copper-gold deposits in the world, located in The Philippines. Lion's next largest exposure is Cracow.

The primary change to the chart is that Lion recently sold out of Canadian listed platinum company, Platmin, for a substantial gain. The African Lion funds invested around US\$9.8 million in Platmin in 2003, and recently sold their stake for US\$101.6 million, booking a profit of US\$91.8 million on the sale.

As an investor in the African Lion funds, Lion Selection received a distribution of around US\$29 million on the sale. Consequently, Lion's current cash balance is approximately \$70 million.



Across the range of investments, gold makes up around 50% of the portfolio in terms of funds invested, followed by copper at 33% and nickel at 10%. This heavy weighting towards gold is a major attraction in our view, as the price looks set to hit record highs above US\$850 per ounce during 2008. Lion obviously shares Fat Prophets very strong outlook on gold.

While there is some risk that Lion's discount to NTA will persist, we believe the company continues to represent good long-term value.

Accordingly, Lion Selection will remain firmly held within the Fat Prophets Mining & Resources portfolio. For those Members without current exposure, we recommend Lion Selection as a buy at around \$1.75.

Disclosure: Interests associated with Fat Prophets declare a holding in LST

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