



## Lion Selection Group Limited

### Quarterly Report for the 3 months ended 31 October 2006

#### KEY POINTS

- Dividend**
  - 10 cents per share cash AND 16.7 cents<sup>#</sup> in AuSelect shares, to be paid on 15 December 2006.
  - Both cash and AuSelect shares are tax free, and 50% franked.
  - A presentation of the future strategy and vision for Lion, combined with how shareholders can handle the AuSelect in specie shares is planned for the Lion AGM on 8 December 2006 in Melbourne and 12 December in other cities.
  
- Indophil**
  - Pre-Feasibility Study completed on the Tampakan project in the Philippines at 210,000 tonnes of contained copper per annum.
  - Xstrata elected to sole fund.
  
- Havilah**
  - Copper mineralisation extended at Kalkaroo.
  
- View**
  - Bronzewing Gold Project to restart in second quarter of 2007 at 120,000 ounces per annum.

<sup>#</sup> The actual value of the in specie dividend will be advised on the payment date of the dividend, and will depend on AuSelect's share price.

#### INVESTMENT SUMMARY TABLE

Investment	ASX Code	Country/Activity	LSG Holding %	Amount Invested \$m	Market Value or Cost of Unlisted* \$m
<b>At 31/10/2006</b>					
<b>Listed Investments</b>					
AuSelect Limited**	AUS	Australia – mining investment	13.4	19.3	19.2
Allegiance Mining	AGM	Australia – nickel	7.3	6.1	17.4
Austindo Resources	ARX	Indonesia – gold	18.4	10.9	10.1
De Grey Mining	DEG	Australia – gold	6.7	3.4	1.8
Exco Resources	EXS	Australia – copper/gold	10.7	4.1	4.5
Havilah Resources	HAV	Australia – gold/base metals	19.0	2.4	12.0
Indophil Resources	IRN	Philippines – copper/gold	17.3	11.6	50.9
Lafayette Mining	LAF	Philippines – polymetallic	13.5	10.2	9.7
Leviathan Resources	LVR	Australia – gold	16.4	10.8	7.4
View Resources	VRE	Australia – gold/nickel	7.9	4.5	3.0
Westonia Mines	WEZ	Australia – gold	43.8	10.3	12.9
Other (including unlisted investments)				0.6	0.5
<b>Total Investments</b>				<b>94.1</b>	<b>149.3</b>
Net Cash					63.7
<b>Total Net Assets</b>					<b>213.0</b>
Net Tangible Asset (NTA) before tax (cents per share)					212.8
Net Tangible Asset (NTA) after tax (cents per share)					204.5

\* For NTA purposes, the value of listed investments is at market and unlisted investments at last issue price.

\*\* Lion holding includes 7.7 million options in AuSelect exercisable at \$1.20 per share and maturing in April 2009.



## EXPLANATORY NOTE ON 15 DECEMBER 2006 DIVIDEND PAYMENT

On 9 November, the directors of Lion were pleased to announce an aggregate dividend of 26.7 cents\* per share resulting from profitable exits from Sedimentary Holdings Ltd (Sedimentary) and Gallery Gold Limited.

Lion shareholders will receive two separate dividends which are both tax free in the hands of shareholders:

1. Four (4) AuSelect shares for each twenty-seven (27) ordinary Lion shares held, which at the closing price on 8 November is equivalent to 16.7 cents\* per Lion share. These AuSelect shares were acquired as a result of Lion's acceptance of AuSelect's offer for Sedimentary.
2. 10 cents per share cash dividend.

The aggregate dividend value is 26.7 cents\* per share (equivalent).

It is estimated that both dividends will be 50% franked. Shareholders can elect to treat Lion dividends as tax exempt or to treat the franked amount of the dividend as assessable income in order to receive the benefit of the attached franking credits.

The dividend will be paid on 15 December 2006 to shareholders registered at the close of business on 21 November 2006 ("record date"). Lion shares went ex dividend as at 15 November 2006.

Payment of the dividend confirms Lion's policy to return a substantial proportion of crystallised profits on sale of investments to shareholders.

**\* The actual value of the in specie dividend will be advised on the payment date of the dividend, and will depend on AuSelect's share price.**

## INVESTEE UPDATE

### INDOPHIL RESOURCES NL - PHILIPPINES/COPPER & GOLD (LION – 17.3%)

- In October, Indophil announced that the \$27 million Pre-Feasibility Study (PFS) for the Tampakan Copper Gold Project in southern Philippines has been delivered on time and on budget. The key results of the PFS are:

Resources (0.3% copper cut-off)	2 billion tonnes containing: 11.6 million tonnes of copper 14.6 million ounces of gold
Mining rate	30 million tonnes per annum
Average production	210,000 tonnes of copper per annum 218,000 ounces of gold per annum
Capital cost	US\$1.4 billion (plus US\$0.5 billion other infrastructure costs)
Cash operating cost	< US\$0.70 per pound of copper
Long term operating cost	< US\$7.00 per tonne of ore milled



- Xstrata Copper holds an option to acquire a 62.5% interest in the Tampakan Project. On 1 November, Xstrata advised Indophil of its decision, under the terms of its option agreement, to sole fund further work to advance the project study process, prior to Xstrata making a decision to exercise its option. Indophil will continue to manage the project. Xstrata must determine its position on the option exercise as soon as possible but no later than 31 December 2007. Xstrata must pay Indophil approximately A\$50 million if the option is exercised prior to 31 December 2006, and approximately A\$60 million after that and prior to 31 December 2007.
- Subsequent to quarter end, Indophil announced that Mr Dick Potts will join the Board of Indophil. Mr Potts will replace Mr Peter Maloney, the Lion nominee on the Indophil Board. Mr Maloney is stepping down as a result of work commitments with Lion. Mr Potts, a mining engineer by profession, has over 40 years experience in the minerals industry and has held senior management and consulting roles with a number of companies, including Rio Tinto plc, Pasminco Mining Limited and Mount Isa Mines Holdings Limited.

## HAVILAH RESOURCES NL - SOUTH AUSTRALIA/GOLD & BASE METALS (LION – 19.0%)

### Kalkaroo Copper Gold Project

- During and subsequent to the quarter, Havilah announced several positive assay results from West Kalkaroo. Best results include:

KKRC126	45 metres	@	0.30% Cu	0.46g/t Au	from 123 metres
KKRC127	81 metres	@	0.48% Cu	1.6g/t Au	from 78 metres
KKRC128	80 metres	@	0.78% Cu	0.58 g/t Au	from 105 metres
KKRC130	27 metres	@	1.18% Cu	2.03 g/t Au	from 123 metres
KKRC131	33 metres	@	0.43% Cu	1.6 g/t Au	from 138 metres

Potential ore grade copper gold mineralisation has now been intersected on five drill section lines at West Kalkaroo, extending the mineralised strike length to over 500 metres. A high proportion of the intersections are of oxidised material, with appreciable native copper metal often present.

### Mutooroo Copper Cobalt Project

- In October, Havilah signed a Memorandum of Understanding to form a joint venture with Heilongjiang Resources Limited (HJR) to carry out a feasibility study on the Mutooroo copper cobalt deposit, and then develop a mine. The feasibility study, covering additional drilling, metallurgy and mining studies, will be carried out by HJR for an initial investment of \$3 million and thereafter HJR will fund 100% of the mine development until production, for a maximum share in mine output of 50%. Initial funds have been advanced and feasibility drilling work is scheduled to commence in November.

### Portia Gold Project

- At Portia, a trial open pit is being planned to take bulk samples for the assessment of coarse-grained gold mineralisation in bedrock below 50 metres of overburden. Samples are currently being washed to determine accurate gold contents in sixteen drillholes that test the floor of the proposed trial open pit.



Curnamona Energy Limited (Havilah holding 50.6%)

- Curnamona has reported that drilling at its Oban prospect, located 60 kilometres north of the Honeymoon uranium deposit, continues to generate economically significant uranium intersections. All recent holes contain anomalous uranium levels, with a peak value of 0.09% eU<sub>3</sub>O<sub>8</sub>, confirming a wide area of uranium mineralised sands.

**VIEW RESOURCES - AUSTRALIA/GOLD & NICKEL (LION – 7.9% pre-placement)**

Bronzewing – gold (Production start expected second quarter of 2007)

- In October, View announced financing to fund the re-start of the Bronzewing Gold Project in Western Australia, with a \$16.5 million Project Loan Facility with Investec Bank (Australia) and in November a further \$20 million equity was raised via a placement and share purchase plan. Lion participated above its pro-rata interest in the issue, investing \$2.2 million, bringing Lion's interest in View to 9.5%.

- During the quarter, the feasibility study into re-commissioning of Bronzewing was completed. The key results of the study are:

Annual production	2.3 million tonnes per annum
Recovered ounces	451,000 ounces over 4 years (120,000 ounces per annum)
Cash cost	\$578/oz
Total project finance costs	\$36.5 million (\$15 million required up front)
Aggressive exploration	\$4 million in project finance

- Bronzewing resources total 11.62 million tonnes at 2.0 g/t gold for 738,000 ounces, and reserves total 7.8 million tonnes at 1.9 g/t gold for 482,000 ounces. Further key targets have been identified adjacent to the existing infrastructure and mines.

Kambalda - nickel

- Drilling at Carnilya Hill as part of the exploration joint venture with Mincor during and subsequent to quarter end intersected the following highly encouraging intercepts:

CMD002W1	4.9 metres	@	1.9% Ni
CMD010	1.5 metres	@	2.62% Ni
CMD011	2 metres	@	4.35% Ni

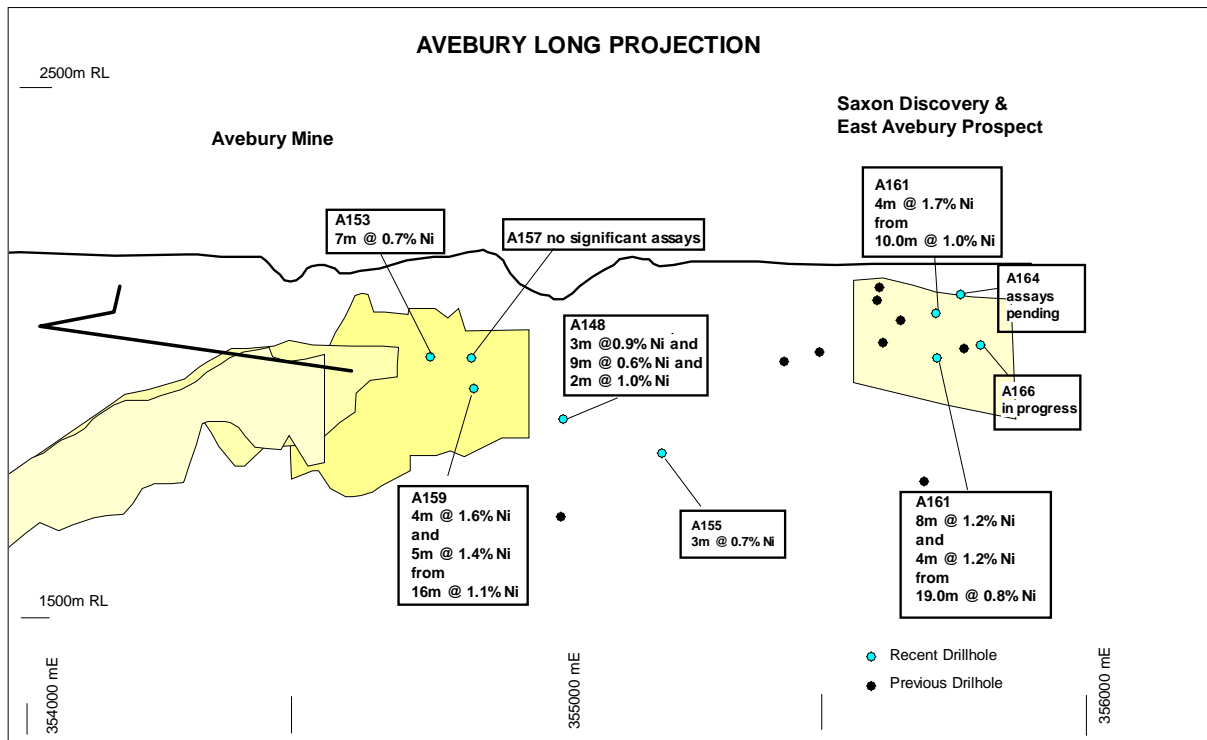
These results, and the previously announced 11 metres at 6.9% nickel, have established continuity of mineralisation over a minimum of 550 metres down plunge of the existing mine workings and demonstrate the excellent potential of the Carnilya Hill ore body. Preliminary feasibility study work is underway and a resource estimate is expected for early in 2007. Production is possible in late 2007 as all infrastructure is in place.



**ALLEGIANCE MINING NL – AUSTRALIA/NICKEL (LION – 7.3%)**

- Project construction continued during the quarter at the Avebury Nickel Project in western Tasmania. Both ball mills are under contract, the crushers are being ordered and critical path components are in the final stages of firm quotes to the EPCM Engineering firm, Metplant. Electricity and roads infrastructure are complete, and the water storage dam 80% complete and on schedule. Mine dewatering is proceeding.
- The Avebury mine is scheduled to start production in the third quarter of 2007.
- Appointment of the mining contractor is in the final stage of negotiations.
- An off-take agreement with Jinchuan Nickel Group Limited of China covering the sale-purchase of 8–10 years of nickel concentrate production, totalling approximately 70,000 tonnes of nickel, was executed in April 2006. Payment terms attract a premium due to the high grade of the concentrates. Operational arrangements for delivery of concentrates from Avebury to Burnie Port in Tasmania are at the firm quotation stage.
- A new discovery, Saxon, of nickel sulphide mineralisation was reported. Saxon is located 800 metres east of the Avebury Mine and 150 metres to the south of East Avebury deposit. After intersecting East Avebury, Hole 161 was extended to the south and intersected the new Saxon mineralised zone:

	Intersection (m)	True width (m)	% Ni
	8.0	6.0	1.2
and	10.0	7.0	1.0
total zone:	19.0	13.0	0.8





- In October, Allegiance raised \$4.8 million via a Share Purchase Plan and Jinchuan Group Ltd exercised \$7 million of share options taking Allegiance's cash position to \$54.6 million.

#### Queensland – Cloncurry Copper Project

- In September, Exco appointed Lycopodium Engineering Pty Ltd to assist in a scoping study. Initial findings are anticipated in the December quarter, ahead of recommencing feasibility studies in early 2007.
- During the quarter, Exco finalised the acquisition from Haddington Resources Limited, of Cloncurry tenements over an area of 400 km<sup>2</sup>, containing five priority copper gold target areas. Exco also agreed terms with Matrix Metals Limited for the acquisition of the Mt Colin copper deposit. Indicated and Inferred Resources in the Cloncurry district have increased as a result of these acquisitions to 278,768 tonnes of contained copper and 282,400 ounces of contained gold.
- Diamond drilling recommenced during the quarter at E1 East. Past programs have intersected wide mineralisation, closely associated with folded ironstone, yet to be closed off by drilling along strike and down dip. Best results include:

EMDT231	68 metres	@	1.19% Cu	0.33 g/t Au	from	198 metres
EMMD013	78 metres	@	1.23% Cu	0.38 g/t Au	from	64 metres
EMMD014	186 metres	@	1.06% Cu	0.33 g/t Au	from	56 metres

#### South Australia – White Dam Gold Project

- Exco commenced detailed groundwater exploration, water supply engineering and pipeline design at White Dam. Preparation of the Mining and Rehabilitation Program (MARF) continued during the quarter with finalisation of the MARF dependent on completing the water exploration program.
- A two million tonne per annum heap leach process plant was acquired for the project in August. A detailed review of the plant commenced during the quarter, with confirmation that only minor refurbishment is required for re-commissioning. Exco engaged Ascentis Operations Limited to develop an implementation plan for the refurbishment, transport to site, construction and commissioning of the plant.

#### Corporate

- Exco raised in excess of \$9.2 million via the exercise of listed options and an associated \$1.6 million capital raising to underwriters. Lion invested \$100,000 in this capital raising.

### **WESTONIA MINES LIMITED - WESTERN AUSTRALIA/GOLD (LION – 43.8%)**

- Following the completion of the feasibility study into the redevelopment of the Westonia Gold Mine last quarter, Westonia is implementing a number of initiatives which are expected to incrementally improve project economics. Discussions are continuing with potential financiers.



- On 10 November, Westonia announced an underwritten renounceable rights issue, to raise \$6.1 million before costs. The rights issue offers 1 new share for every 4 shares held, at an application price of 10 cents per share. The majority of funds raised will be applied to the dismantling and transportation of the Big Bell plant to the Westonia mine site, as well as to plant site rehabilitation at Big Bell.
- Westonia reported success at the near-mine Greenfinch and Golden Point prospects during the quarter.
  - Drilling at Greenfinch to quarter end and subsequent geological modelling has produced an Inferred Resource to approximately 130 metres depth of 1.71 million tonnes at 1.3 g/t gold for 72,900 ounces (0.7 g/t cut off grade). Infill drilling at Greenfinch to upgrade to Indicated Resources, and strike extension drilling, commenced subsequent to quarter end.
  - At the Golden Point prospect, a four hole RC drill program intercepted narrow, high grade mineralisation in close proximity to the underground decline. Westonia expects to drill test the strike and down-dip extension potential of these holes prior to the end of 2006.
- In October, Westonia announced that Mr John Rowe had joined the Board as a Non Executive Director. Mr Rowe brings a wealth of geological and business development skills to the company.

#### **LAFAYETTE MINING LIMITED - PHILIPPINES/POLYMETALLIC (LION – 13.5%)**

- At the Rapu Rapu polymetallic mine in the Philippines, process plant commissioning is proceeding with encouraging results.
- On 24 August, Lafayette received regulatory approval to commence the third and final stage of the Temporary Lifting Order (TLO) test run. This stage allowed the processing plant to ramp up progressively to full capacity and produce both copper and zinc concentrates.

On 14 September, Lafayette announced that a 60 day extension of the test run had been granted, allowing Lafayette to generate more data to demonstrate the efficacy of its environmental management systems under 'steady state' commercial operating conditions, and time to prepare and present a robust case for the granting of a Permanent Lifting Order (PLO). A further 30 day extension was announced by Lafayette on 9 November.

- In late September, a severe typhoon struck the eastern and northern parts of the Philippines. Fortunately, the only damage suffered by Rapu Rapu was to non-critical areas. Despite the direct hit of the typhoon, all critical operational areas, including the tailings dams and processing plant, were undamaged.
- Subsequent to the end of the quarter, Lafayette announced that the process plant was performing satisfactorily and that a total of 1,200 tonnes of marketable concentrates had been stockpiled.



- Various initiatives have been completed and others are in train to address working capital issues arising from the delays associated with the TLO process. These include standby loan facilities totalling US\$18 million, precious metal hedge restructures and rollovers, and the settlement of base metal forward sale contracts maturing at the end of September 2006, with the drawdown of additional project debt of US\$13.5 million.
- In October, Lafayette announced the terms of a convertible note issue, that will provide additional working capital and funding for an accelerated exploration program to extend mine life. Shareholder approval for the issue has been obtained and the transaction documents are under negotiation.
- Lafayette continues to stockpile commercial grade copper and zinc concentrates.
- Lafayette remains confident that a PLO will be granted in the near future, while in the meantime Lafayette continues to operate normally under the authority of the TLO.

#### **DE GREY MINING LIMITED – AUSTRALIA/GOLD (LION – 6.7%)**

- An aggressive exploration drilling program undertaken, combined with geophysical and geochemical work, has extended the known Volcanogenic Massive Sulphide (VMS) style mineralisation at the Turner River province, south of Port Hedland in Western Australia. Several prospects within the belt could emerge as resource drilling targets.
- First results from diamond drilling at Orchard Tank were received with the best results being:

WADH003    3.9 metres @    8.21% Zn    748 g/t Ag    5.23% Pb    3.08 g/t Au    0.61% Cu    from    277 metres

- In addition, assay results from an RC pre-collar at Orchard Tank produced encouraging high grade gold mineralisation.

WADH005    6 metres @    45.8 g/t Au    66 g/t Ag    from    193 metres

- An Electro Magnetic (VTEM) survey was completed to scan the VMS belt over a 75 kilometre strike length for any near surface massive sulphide targets. Several anomalies were identified.
- In the coming quarter, De Grey will complete a 2,500 metre diamond drilling program, 13,000 metre RAB program and 2,000 metre RC program aiming to extend the understanding of the VMS mineralisation at the known occurrences, and to scope up new drilling targets.
- In September, De Grey completed a placement, raising \$2 million and, subsequent to quarter end, raised a further \$2.4 million, at 11 cents per share pursuant to a share purchase plan. Lion invested \$275,000 in the placement.



### LEVIATHAN RESOURCES LIMITED – AUSTRALIA/GOLD (LION – 16.4%)

- On 9 October, Perseverance Corporation (Perseverance), a Victorian based gold operator, announced an off-market takeover offer to acquire all of the shares in Leviathan. Under the offer, Leviathan shareholders will receive 1.7 Perseverance ordinary shares for each Leviathan ordinary share, which implies a value of 56.1 cents per share based on the closing price of Perseverance shares of \$0.33 on 6 October 2006.
- Lion entered into a Pre-bid Acceptance Agreement with Perseverance over its 16.4% shareholding in Leviathan. At 56.1 cents per share, Lion's stake is valued at \$7.5 million, compared with a purchase price of \$10.8 million. If the offer is successful, and Perseverance acquires all of the shares in Leviathan, Lion will hold an interest of approximately 3.2% in Perseverance.

Stawell Gold Mine (LVR – 100%)	Sept Qtr 2006	June Qtr 2006	March Qtr 2006	Dec Qtr 2005
Quarterly production				
Ore treated - tonnes (million)	0.19	0.20	0.19	0.21
Ore - grade (g/t Au)	4.7	4.5	4.6	5.0
Recovery (%)	90	92	91	92
Gold (000's ounces)	26.6	26.6	24.9	29.6
Cash cost (A\$/oz)	459	476	501	462

### AUSTINDO RESOURCES CORPORATION NL – INDONESIA /GOLD (LION – 18.4%)

- Austindo reported that further investigation into the total project cost for the Cibaliung Gold Project in Indonesia had been undertaken, and that significant additional costs have been identified. Subsequent to quarter end, Austindo advised that additional equity in the order of US\$20 million will need to be raised to complete the development of the project.
- Decline development at Cibaliung, which commenced in July, has not advanced at a satisfactory rate. An alternate plan to undertake limited hand held mining operations while decline development continues is being investigated. Subsequent to quarter end, Austindo advised that decline development continued to progress at an unsatisfactory rate. Remedial work will need to take place to address the causes of the delay. This remedial work and the consequent delay in the development of the decline will have a significant cost impact on the project.
- A first gold pour is currently contemplated for May 2007.
- An independent review of cash operating costs at Cibaliung confirmed a US\$215 per ounce average cost over the life of the current project.
- Diamond drilling at Cibaliung commenced in the quarter with the objective of identifying additional resources. Narrow mineralised vein intersections were drilled at Ramada, located within two kilometres of the Cibaliung mine site.



- Regional exploration was undertaken during the quarter, with encouraging results received from continuous-chip sampling at the Trenggalek Project in East Java. Austindo anticipates drill testing will commence in early 2007. Anglo American has commenced drilling at the Aisajar Project in Papua, exploring for copper gold porphyries, under the strategic alliance with Austindo.

#### AUSELECT LIMITED – AUSTRALIA/MINING INVESTMENT (LION – 13.4%)

- In July, AuSelect Limited, an ASX listed resource investment company, announced its intention to acquire Sedimentary by way of a scrip takeover offer for all of the issued shares in Sedimentary Holdings Ltd. Under the offer, Sedimentary shareholders receive 2 AuSelect shares for every 9 Sedimentary shares held. During the quarter, Lion accepted AuSelect's offer, and as a result received approximately 14.8 million shares in AuSelect.
- Subsequent to quarter end, Lion announced that Lion shareholders would receive an in specie dividend of AuSelect shares, on the basis of four AuSelect shares for every twenty-seven Lion shares held, in addition to a 10 cents per share cash dividend. More information on the Lion dividend is provided in this report.

#### ANNUAL GENERAL MEETING

The 2006 Lion Annual General Meeting will be held in Melbourne on Friday 8 December. The meeting will commence at 10am in the Telstra Theatre, Telstra Conference Centre, Level 1, 242 Exhibition Street (Corner of Lonsdale and Exhibition St), Melbourne, Victoria.

#### INVESTMENT BRIEFINGS

The joint Lion and AuSelect investment briefings, which were originally planned for November, will now be taking place in Sydney, Brisbane, Adelaide, Perth and New Zealand commencing Tuesday 12 December 2006. The briefing presentation for Melbourne will be given at the Lion AGM on Friday 8 December 2006 (details above). An invitation to the briefings, including details of the dates, times and venues, will be sent out to shareholders with this quarterly report.

#### SHAREHOLDER INFORMATION

<i>Issued shares:</i>	<i>100.1 million</i>	<i>Share price at quarter end:</i>	<i>\$1.82</i>
<i>Quarter High:</i>	<i>\$1.87</i>	<i>Quarter Low:</i>	<i>\$1.70</i>
<i>Volume traded:</i>	<i>8.3 million</i>	<i>NTA after tax:</i>	<i>\$2.05</i>

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Any resource estimates provided within this quarterly report were sourced from relevant investee company quarterly reports and announcements.