



# Lion Selection Group

QUARTERLY REPORT FOR THE 3 MONTHS ENDED 31 JANUARY 2018

## SUMMARY

### SECTOR THEMES

- Liquidity is flowing, exploration is being funded and activity is increasing.
- Market risk appetite has clearly returned to mining.

### INVESTMENT HIGHLIGHTS

#### One Asia Resources

- Pani ownership dispute resolved.
- Lion agrees to buy 33.3% of Pani JV.

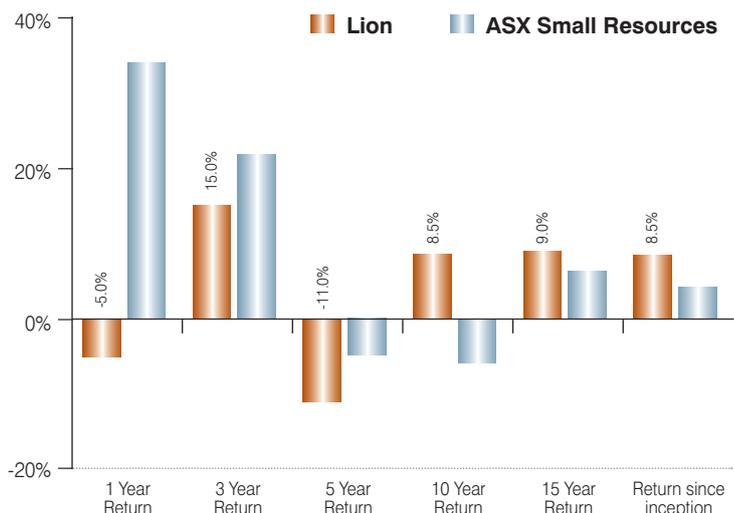
#### Nusantara Resources

- Drill results for the first 37 holes in a 70 hole program increase Resource to 2 Moz and identified new potential to the East of Awak Mas.

## LION PERFORMANCE

### Annualised Total Shareholder Return <sup>1-6</sup>

Annualised TSR to 31 January 2018	Lion	ASX Small Resources
1 Year	-5.0%	34%
3 Years	15.0%	21.7%
5 Years	-11.0%	-4.9%
10 Years	8.5%	-5.9%
15 Years	9.0%	6.4%
Inception (20 yrs)	8.5%	4.3%

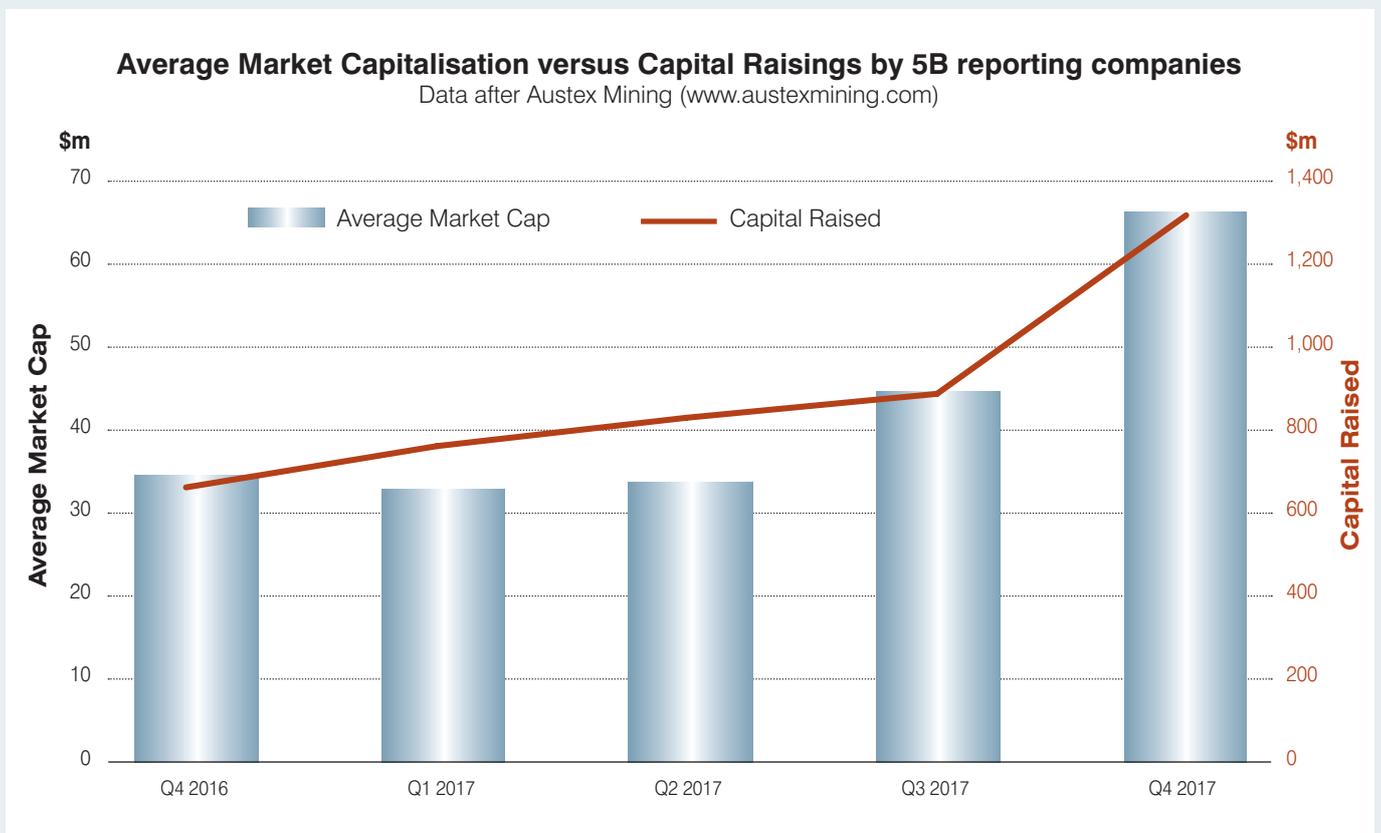


- Investment performance figures reflect the historic performance of Lion Selection Group Limited (ASX:LSG, 1997 – 2007), Lion Selection Limited (ASX:LST, 2007-2009), Lion Selection Group Limited (NSX:LGP 2009-2013) and Lion Selection Group Limited (ASX:LSX, 2013-present).
- Methodology for calculating total shareholder return is based on MorningStar (2006), which assumes reinvestment of distributions.
- Distributions made include cash dividends, shares distributed in specie as a dividend, proceeds from an off market buyback conducted in December 2008, and the distribution of shares in Catalpa Resources via the demerger of Lion Selection Limited in December 2009. Lion assume all distributions are reinvested, with all non-cash distributions sold and the proceeds reinvested on the distribution pay date.
- Investment performance is pre-tax and ignores the potential value of franking credits on dividends that were partially or fully franked.
- Past performance is not a guide to future performance.
- Source: IRESS, Lion Manager.

# MINING SECTOR THEMES

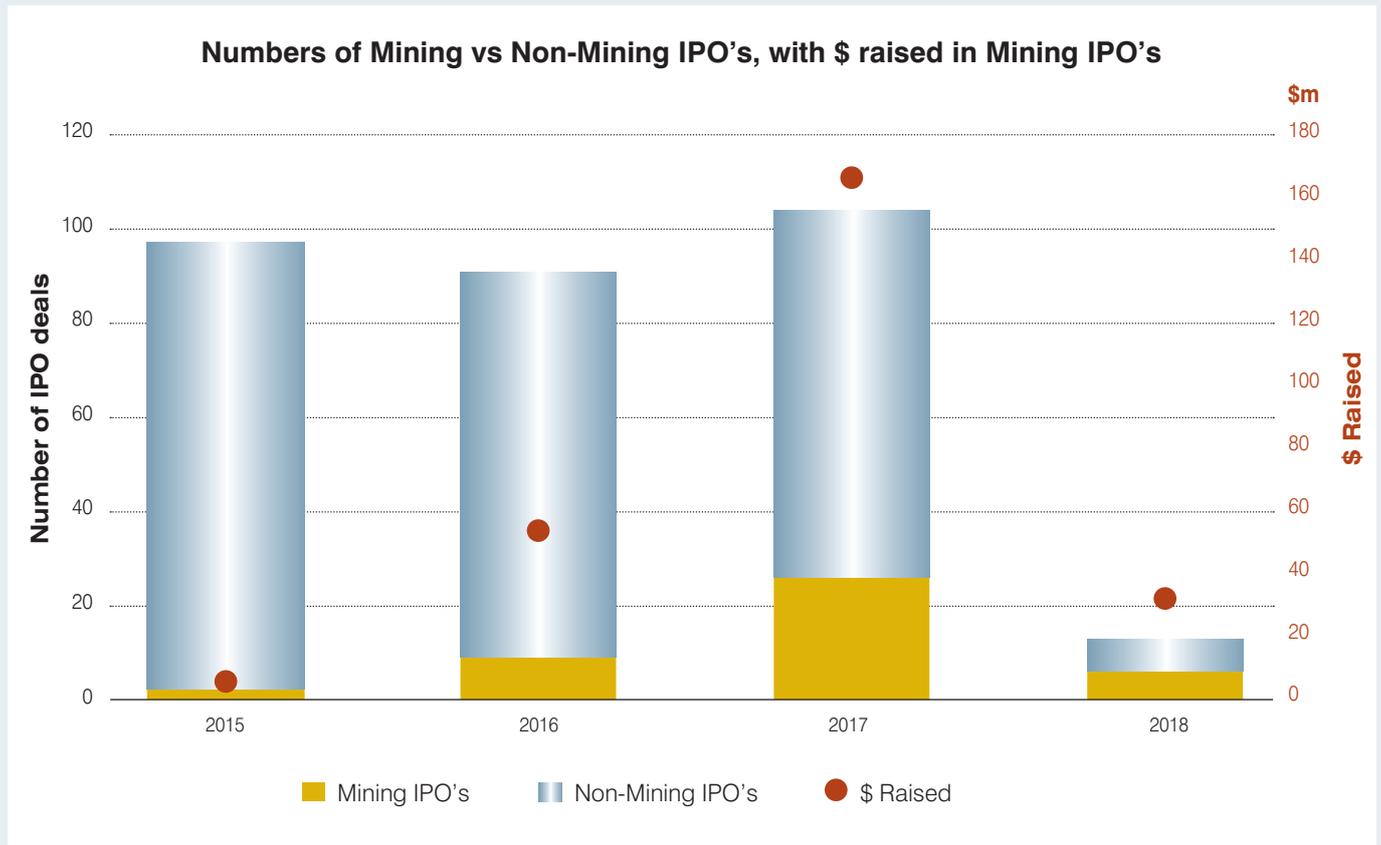
## Liquidity is flowing

2016 was the year the mining sector ended the bust, and commenced the boom, with money flowing from investors back into the sector seeking especially large cap and gold miners. 2017 was the year risk appetite re-emerged, as investor interest worked its way down to smaller capitalization stocks. In roughly mid-2017, the global exploration spotlight shone on the Pilbara region of WA, where gold nugget finds whipped up investors' excitement about a potentially vast, Witwatersrand style gold target in Australia's iron ore heartland. Whilst some of the excitement has abated, this seems to have been a spark that re-ignited appetite for risky exploration ventures. Using data for companies that report quarterly cash flows via appendix 5B (non-producing explorers) courtesy of Austex Mining ([www.austex.com](http://www.austex.com)), average size of explorers increased markedly during the final quarter of 2017, along with a substantial jump in the amount of fresh equity capital raised by these companies.



From the start we have seen to 2018, there is every reason to think these trends will continue. There have been a number of successfully executed, and by all reports well supported, capital raisings in the junior mining space. Market response to news from explorers also appears to have been positive, and there has been a flurry of new listings via IPO of exploration companies. Already in 2018, there have been six mining IPO's (46% of all IPO deals!), raising \$32.5m which is quickly approaching the total amount raised for 2016. Liquidity, clearly, is flowing well.

## MINING SECTOR THEMES continued



### Risk money

Whilst observations directly within the mining market are encouraging, it can be useful to observe other areas where risk money is at work. Since 2015, not only has the number of mining IPO's increased, the proportion of all IPO's that are for miners has also increased. In the same time frame, numbers of IPO's for other similarly early stage businesses (no revenue, and reliant on successful investment of raised capital to better understand the earnings potential of the business) such as the various technology companies has remained more or less constant. Risk money certainly appears to be warming toward miners preferentially on this basis.

Perhaps the most talked about theme of 2017 was the emergence and massive price appreciation of crypto currencies. The biggest name in crypto is Bitcoin, which closed 2017 more than 100x more valuable that it had started the year – an impressive appreciation for any asset – even more so as there have been very few examples of such extreme changes in purchasing power of any currency (although, crypto seems far more to be traded than spent). Investor behavior toward crypto currencies have been fascinating to observe alone for the spectacle it provides – the appreciation in the timeframe has been described as a bubble, and surpassed all the recorded historic asset bubbles including the greatest of all (until now) – tulip mania of 1636/37. That the bubble was able to inflate so rapidly in 2017 certainly suggests that there has been a meaningful amount of money looking for opportunities to take on some risk whilst chasing a return.

## MINING SECTOR THEMES continued

It has also been interesting to observe the behavior of crypto (Bitcoin as a proxy) with respect to gold. A great deal of the 'chat room' or twitter chatter about Bitcoin revolves around being an alternative to conventional currencies, particularly the US\$. Similar sentiments attach themselves to gold, which has had a negative correlation to the US\$ over time – presumably the respective pools of money contain overlap. From January to September 2017, gold and Bitcoin exhibited increasingly similar trends, but then for the last four months of 2017 Bitcoin assumed the ascendancy whilst gold weakened. In 2018, the tables have turned and Gold has strengthened against an apparent collapse in the price of Bitcoin. These events beg the question – did money seek out Bitcoin as a proxy for shorting the US\$, only to become overheated and the bet was shifted to gold?



## INVESTMENT HIGHLIGHTS

### One Asia Resources Limited

#### Pani IUP

- Ownership dispute resolved.
- Work program underway.
- Lion has agreed to buy One Asia's 33.3% joint venture interest in Pani.

Following resolution of the Pani IUP ownership dispute with J Resources in December 2017, site and technical activity has increased. First work consists of review and confirmation studies focused on geology and metallurgy, which will be followed by a feasibility study. It is estimated US\$10m will be required to fund this work, with One Asia required to fund its 33.3% share. Detailed agreements are being finalized for the operation and management of the joint venture.

Lion has agreed to purchase One Asia's 33.3% joint venture interest in the Pani JV, and shareholder meetings of both companies are planned for early April 2018 to approve the transaction. Lion shares and options are being offered to One Asia, conditional on in-specie distribution of most of these to One Asia shareholders. Should the transaction proceed, Lion issued capital will increase from 126.6m shares currently, to 150.0m shares and 15.5m options with 50c exercise price and two year term. Alternatives are being considered to cancel the shares that Lion will own in itself as a result of its 35% shareholding in One Asia.

### Nusantara Resources Limited

#### Progress on planned July 2018 DFS

- Resource increase: now stands at 2.0Moz (vs 1.74Moz in May 2017)

Nusantara has announced two increases in Resource following receipt of assay results from 37 of the 70 hole diamond drilling program. A further Resource update is forecast for April 2018 on completion of remaining holes and assays.

#### Mining transformed: 0.7Moz increase in US\$1200/oz pit shell to 1.8Moz

- Good indication of potential mining inventory
- Expect high conversion to ore reserve

#### Higher gold recovery: 90% up to 94%

- Change to whole of ore leaching (CIL)

#### Low cost site power

- 30MVA power line to be installed for production
- Grid power from nearby Rante Balla available for construction

#### Exploration success: Eastern high wall

- Three holes testing the Awak Mas eastern high wall demonstrate potential for extending the deposit eastward. Further results awaited, April 2018.

### EganStreet Resources

EganStreet Resources has continued to progress toward a definitive feasibility study and development decision during the quarter, announcing an expanded high grade gold Resource (now 307koz at 10.9g/t) and subsequent high grade intersections (0.42m at 110g/t, 1.97m at 20.4g/t).

The company has 48.1m listed options (EGAO) exercisable at 25cps that expire on 13 March 2018. Up to \$12m could be raised through the exercise of the options, which would put the company in a strong position to consider project funding alternatives. When Lion conducted a capital raising in September 2018, part of the anticipated use of proceeds was to enable Lion to have the required liquidity to exercise 7.7m options.

### Erdene Resource Development Corp

Drilling activities in Southern Mongolia continued for Erdene Resources, centred on the high grade and shallow Bayan Khundii gold project. Infill drilling results through the quarter included an intercept (over 1m) of 2200g/t gold. Follow up results from Altan Arrow, which is a new prospect to the north of Bayan Khundii, included 2m at 70g/t and several zones of surface anomalism in rock chips and soil samples – presenting an exciting target for potential new discovery in a region which is clearly prospective.

# SUMMARY OF INVESTMENTS AS AT 31 JANUARY 2018

## Net Tangible Asset Backing

Lion Selection Group Limited (Lion) advises that the unaudited net tangible asset backing of Lion as at 31 January 2018 is \$0.34 per share (after tax).

The NTA includes a positive movement in One Asia Resources, reflecting the implied valuation for the Pani transaction.

Improvement in One Asia are offset by softening in several larger holdings, Nusantara and Erdene.

<b>SUMMARY OF INVESTMENTS AS AT 31 JANUARY 2018</b>			
	<b>Commodity</b>	<b>Market Value A\$M</b>	<b>Portfolio %</b>
<b>Australia</b>			
Egan Street Resources	Gold	4.0	
Other Australia		0.4	<b>11%</b>
<b>African</b>			
Roxgold	Gold	6.7	
Toro Gold	Gold	1.5	
Other Africa		1.2	
Cash dedicated to Africa <sup>1</sup>		0.5	<b>22%</b>
<b>Asia</b>			
Nusantara Resources	Gold	9.0	
One Asia Resources <sup>2</sup>	Gold	5.4	
Erdene Resources	Gold	4.0	
Other Asia		2.0	<b>47%</b>
<b>Americas</b>			
	Coal	0.7	<b>2%</b>
<b>Uncommitted Net Cash</b>		<b>7.5</b>	<b>18%</b>
<b>Net Tangible Assets</b>		<b>\$42.9m</b>	<b>34¢/ share</b>

1. Includes committed cash of US\$0.3 million to AFL3.

2. One Asia at a value of A\$0.09/share.

Note: The above table includes investments held directly by Lion and the value to Lion of investments which are held by African and Asian Lion Funds.

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**ASX Code: LSX**  
**As at 31 January 2018**

Market Cap: \$48.1m  
Issued Shares: 126.6m  
Share Price: \$0.38