

### Comments

**Price Target:** \$2.10/sh

LST continues to trade at a 25-30% discount to its underlying Net Tangible Assets ('NTA') which in our view is excessive based on the quality of its underlying investments, quality management and strategic value of some of its investments.

Post merger with Auselect, LST has a 30% interest in the low cost Cracow gold mine which produces ~ 100koz at an operating cost of A\$350-400/oz which is currently valued at ~ \$58m book value – arguably this could be worth considerably more than this.

LST is in a strong position to acquire the remaining 70% interest in the Cracow JV due to its pre-emptive right after Newcrest Mining announced its intention to sell this interest through a tender process.

Ownership of 100% of Cracow would transform LST into an operating mining company with an recurring earnings stream and has the potential for a market re-rating as LST becomes rated more as an earnings multiple story than the traditional NTA.

If you assume the remaining 70% of Cracow is acquired for ~ \$140m, Cracow could contribute ~40% of the total NTA up from currently ~ 15%.

African Lion continues to perform well and the recent disposal of its Platmin investment netted a profit in excess of \$100m – or 10x the original investment. Approximately \$30m flowed to LST from this transaction.

In addition a small number of poorly performing assets have been sold. In recent times the bid for Allegiance Mining by Zinifex is a positive with LST holding ~ 39m shares in AGM.

### Investment Case

We see little downside in LST at current prices and significant upside if it can acquire the remaining 70% of Cracow at a good price.

Quality domestic gold assets are hard to find and we rate Cracow highly. In FY'07 it produced ~120koz at an operating cost of \$318/oz and as LST has closed out the associated hedge book current margins are ~ \$550-600/oz. This implies potential EBITDA of \$55-60m pa.

Whilst formal reserves are a modest 3-4yrs these types of underground epithermal gold deposits often occur in clusters and usually mine life significantly exceeds formal reserves.

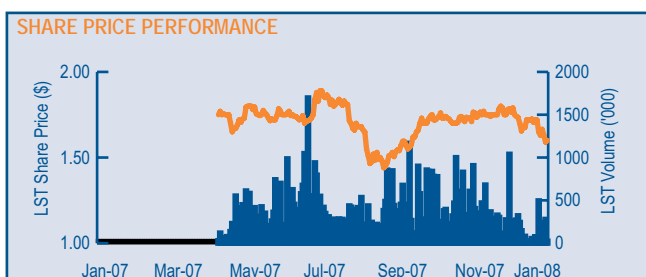
LST is in the box seat with its pre-emptive right as we believe it would be difficult for another party to pay a significant premium to acquire only 70% of the asset. In addition it also has market risk as we understand the pre-emptive does allow a reasonable period for of time LST to make a decision. Alternatively LST may have the option to sell should an outrageous bid be made.

Whilst difficult to do a formal valuation on every asset in LST portfolio, its major investment Indophil we value at \$2.12/sh, +100% above its current price. Just based on this valuation and assuming the other investments remain stable implies a LST NTA of ~ \$2.70/sh – or 60% above the current price.

We maintain our Buy recommendation. LST is a low risk way to play the junior/mid resource end of the market. Since the end of July'07 LST has fallen ~ 18%, versus a 3% decrease in the underlying NTA's (\$2.16 to \$2.10) making the current price an excellent entry point.

TOP 20 SHAREHOLDERS		AS AT 31 DECEMBER 2007	
Shareholders	Shares (m)		(%)
1 Cogent Nominees Pty Limited	14.01		7.33
2 HSBC Custody Nominees (Australia) Limited	9.78		5.12
3 Mr Mark Gareth Creasy	9.16		4.79
4 National Nominees Limited	7.95		4.16
5 Citicorp Nominees Pty Limited	7.58		3.97
6 HSBC Custody Nominees (Australia) Limited	7.46		3.90
7 J P Morgan Nominees Australia Limited	6.92		3.62
8 CS Fourth Nominees Pty Ltd	4.86		2.54
9 ANZ Nominees Limited	4.57		2.39
10 Credit Suisse Securities (Europe) Ltd	4.50		2.36
11 Citicorp Nominees Pty Limited	3.74		1.96
12 The Australian National University	2.60		1.36
13 UBS Nominees Pty Ltd	2.13		1.11
14 Bond Street Custodians Limited	2.00		1.05
15 Mirrabooka Investments Limited	2.00		1.05
16 HSBC Custody Nominees (Australia) Limited	1.76		0.92
17 HSBC CusTody Nominees (Australia) Limited	1.70		0.89
18 Mr Mark Gareth Creasy	1.23		0.64
19 Mr Robin Anthony Widdup + Mrs Janet Widdup	0.82		0.43
20 Mr James Vincent Chester Guest	0.65		0.34
<b>TOTAL</b>	<b>95.40</b>		<b>49.93</b>

MARKET STATISTICS			
Share Price	\$1.60 A\$/sh	<b>Directors</b>	
Issued Capital		Ewen Tyler AM	Non Exec Chair'n
FPO Ord Share	191m	Robin Widdup	Managing Dir
Options ex 26/4/09 @ \$1.50/sh	5.8m	John F O'Reilly	Non Exec Dir
		Graham R Freestone	Non Exec Dir
Market Capitalisation	\$305m	Alistair Croll	Non-Exec Dir
	(fully diluted)		
Net Tangible Assets	\$370m	<b>Shareholders</b>	
NTA/share	\$2.02/sh	Select Asset Mgt	8.5%
Cash	\$68m	Creasy	5.4%
Debt	nil		



# Lion Selection Limited

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SECURITIES LIMITED

AUSTRALIAN RESEARCH

At 8/01/2008	Code	Country/Commodity	Lion Selection Holding %	Investment (\$m)	Market Value (\$m)
<b>DIRECT INVESTMENTS</b>					
Allegiance Mining	AGM	Australia - nickel	5.0	5.2	40.6
Exco Resources	EXS	Australia - copper/gold	10.5	5.4	7.6
Havilah Resources	HAV	Australia - gold/base metals	19.0	4.2	28.9
Indophil Resources	IRN	Phillipines - copper/gold	25.7	22.6	84.9
View Resources	VRE	Australia - gold/nickel	9.0	8.7	7.0
Westonia Mines	WEZ	Australia - gold	44.4	14.6	16.1
Other	Investments <2% of Net Assets & includes ARX, DEG and LAF			44.8	14.5
<b>TOTAL DIRECT INVESTMENTS</b>				<b>105.5</b>	<b>199.6</b>
<b>AFRICAN AND ASIAN LION</b>					
<b>African Lion Funds</b>			<b>27.4</b>	<b>8.9*</b>	<b>51.7</b>
Albidon	ALB	Zambia - Ni	5.7	3.3	34.7
Sphere Investments	SPH	Mauritania - iron ore	1.9	1.4	9.5
Other including cash committed					7.5
<b>Asian Lion Fund</b>			<b>32.4</b>	<b>8.0</b>	<b>12.5</b>
Total invested (including cash)				3.4	4.7
Cash committed				4.7	7.8
<b>TOTAL AFRICAN &amp; ASIAN LION</b>				<b>17.0</b>	<b>64.2</b>
<b>NET CASH</b>					<b>69.8</b>
<b>TOTAL INVESTMENTS and CASH</b>					<b>333.6</b>
<b>Net Tangible Assets (NTA) after tax &amp; diluted for options (cents per share)</b>					<b>1.73c</b>
OPERATIONS - 30% Cracow (including project debt)**					56.5
<b>TOTAL NET ASSESTS</b>					<b>390.5</b>
Net Tangible Assests (NTA) before tax and diluted for options (cents per share)					202.9c
<b>Net Tangible Assests (NTA) before tax and diluted for options (cents per share)</b>					<b>202.9c</b>
For NTA purposes, all listed investments at market price.			Ordinary shares on issue 191.003m*		
*Lion investment remaining in the African Lion Funds after capital returned			Options on issue 5.818m		
** NTA Value for 30% of Cracow based on accounting carrying value.					

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