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Lion Selection Ltd (LST \$1.55) Buy

Initiation of Coverage

Investment Highlights

Lion Selection Ltd ('LST') offers exposure to a diverse range of small/mid size resource companies spread across a range of commodities, countries and development pipeline.

Post the merger with Auselect the new Lion is a more simple structure composed of its direct investments, its 30% interest in the low cost Cracow gold mine and cash.

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

During the period July'03 –July'05 LSG traded at a premium to NTA principally due to its inclusion in the ASX 200 and its unlisted investment in East Africa Gold Mines, subsequently taken over by Placer Dome at a multiple of LST's entry price. We believe this can occur again.

Whilst difficult to do a formal valuation on every asset in LST portfolio, its major investment Indophil we value at \$1.45/sh, some 60% above its current price. Just based on this valuation and assuming the other investments remain stable implies a LST NTA of ~ \$2.24/sh – or 50% above the current price.

We like the new Lion strategy of two main investment arms: its direct investments and operations. Over time the operations arm is likely to grow as investments mature and/or corporate opportunities present themselves. This will see recurring earnings/cashflow and enable LST to be valued more on Price to Earnings basis than NTA.

In addition to its main 6 investments, there are some smaller companies with some excellent growth prospects including Copperbelt Minerals (exploring in the Congo), Birim (gold in Ghana) and Mindoro (Cu-Au porphyry in Philippines). Historically it has some 'ten baggers' including Sphere Investments, Albidon, Gallery Gold and Platmin.

We initiate coverage with a Buy recommendation and a price target of \$2.10/sh. It is a low risk way to play the junior/mid resource end of the market. Since the end of July'07 LST has fallen ~ 20%, versus an 11% decrease in the underlying NTA's (\$2.16 to \$1.94) making the current price an excellent entry point.

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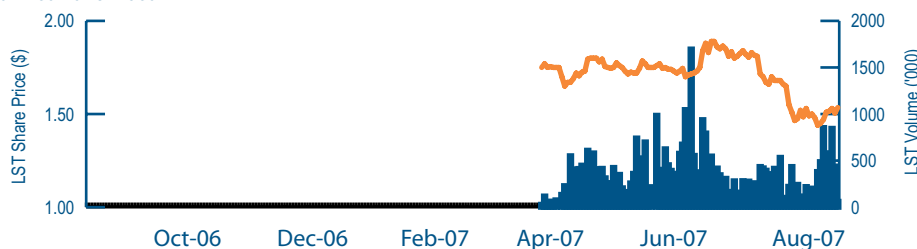
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Market Statistics

Issued Capital		Cash	\$40m
FPO Ord Share	191m	Debt	nil
Options ex 26/4/09 @ \$1.50/sh	5.8m	Year Low – High	\$1.34- \$1.90
Market Capitalisation	\$296m (fully diluted)	Average daily turnover	0.36m
Net Tangible Assets	\$370m	Major Shareholders – Select Asset Mgt	8.5%
NTA/share	\$1.94/sh	Colonial	6.5%
		Creasy	5.4%

Share Price Performance



Executive Summary

Following the merger with Auselect in April'07, Lion Selection Ltd is a larger, more simplified company that continues to trade at a significant discount (30%) to Net Tangible Assets. Our view is this discount is unwarranted especially in light of the quality of its key underlying assets, track record of performance and strong management team.

The new Lion vision is to become "diversified mining company with a portfolio of high quality junior resource investments, which will complement and drive developments of a core holding of larger investments and operations to provide capital growth and cash flow".

The strategy involves greater co-investment across its three investment divisions (Lion, African Lion and Asian Lion) with the longer term aim of some investments maturity into the production cycle which could move through into the operations/royalties stream. Clearly LST are not operators and would look to bring in the necessary operational expertise to implement this strategy.

The merger with Auselect was done at prevailing share prices with no premium. Since then LST has seen some selling of non core assets and a reducing of some positions at good prices. This does demonstrate that the new Lion will take a more active role in managing its investments.

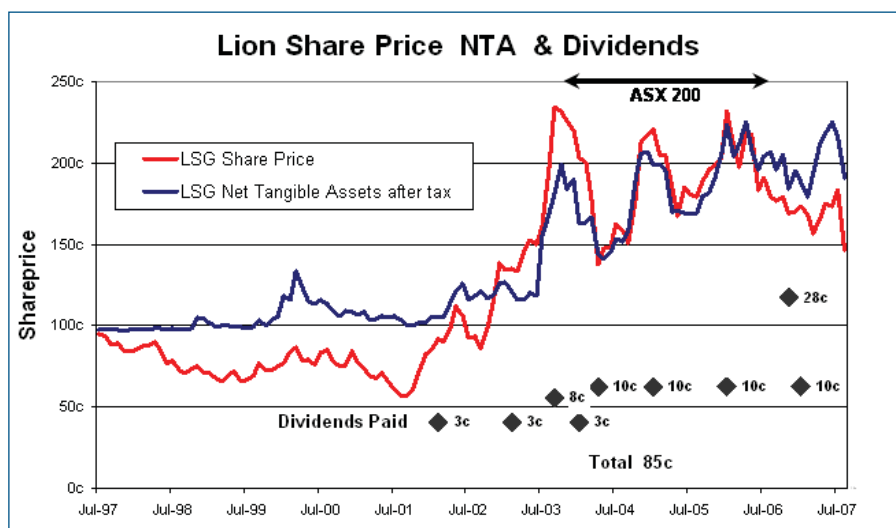
Post merger six investments dominate the portfolio including the 30% interest in the high quality Cracow Gold mine in QLD. LST has almost \$40m in cash to fund further opportunities. The six investments plus cash account for some 80% of the total NTA of LST with a further 20 investments held directly or indirectly making up the remainder.

Its major investment, Indophil Resources comprises approximately 25% of the total value of LST. We are very positive on IRN as a company and have a valuation of \$1.45/sh based on a long term copper price of US\$1.60/lb. This suggests a price target of some 70% upside to the current IRN price. The leverage for LST is significant with every 2 cps movement in the IRN price equating to ~ 1cps.

Just based on IRN's valuation of \$1.45/sh suggests LST's NTA increasing by \$0.38/sh or \$2.20-2.25/sh, assuming its other major investments remain at steady.

As shown from the chart below the current discount to NTA is the largest it has been since early CY'03, or since the start of the resources bull market run and appears at odds with the new larger simplified structure. In addition LST has some interesting investments at the smaller end such as Copperbelt Minerals, which could well be 'ten baggers' over the next 2-3 yrs.

We recommend LST as Buy for investors looking for diverse exposure to the smaller end of the resource sector across a range of commodities and projects at different stages of development. All investments by LST require a significant amount of due diligence, often 2-3 months and management do have a proven track record of performance.



Valuation

We do not forecast earnings for LST but have valued some of its major investments including Indophil Resources, Allegiance Mining and the Cracow Gold mine.

Based these valuations and other investments remaining stable we see LST NTA increasing to ~ \$2.20-2.25/sh which forms the basis of our share price target of \$2.10/sh – a more modest 5% discount to NTA.

Company	No. Shares (m)	Price (\$)	Value (\$m)	Euroz Val'n \$/sh	Euroz View
Indophil Resources	97	0.90	87.3	1.45	Upside: Euroz valuation of \$1.45/sh and potential to be a 50mtpa operation versus 30mtpa prefeasibility estimates
Allegiance	38.8	0.65	25.2	0.57	Fair: Valuation is \$0.57/sh and appears reasonably priced of FY'09 PER of 6-7x
Albidon	6.7	2.5	16.8	n/a	Fair: Appears reasonably priced with some uranium upside
Platmin	1.95	8.7	17	n/a	Upside: Re-rating once it moves into production and potential corporate target
Havilah	15.1	1.8	27.2	n/a	Upside: Glencore involvement gives credibility tick
30% Cracow			68	75	Upside: Unhedged low cost gold producer with excellent exploration upside
Cash			40.7	40.7	
Other Investments			90.8	90.8	
Total Value			373	431.0	
NTA			1.96	2.26	

LST Investment Track record

Lion Selection was established as a Pooled Development Fund and raised \$100m in an IPO in 1997. Since this time the \$100m has grown into \$312m and some 85 cps in dividends have been paid.

African Lion ("AFL 1") was established in 1999 and US\$34m was raised to invest in African resource companies with the backing of 5 major shareholders including Lion, CDC Group, Investec Bank, Proparco and EIB. The performance of African Lion has been exceptional with the US\$34m worth ~ US\$166m after some 'ten baggers' in its portfolio including East African Gold Mines (taken over by Placer Dome), Sphere Investments, Albidon, Platmin. Lion has 29.8% of AFL1.

Following the success of AFL 1, AFL 2 was launched in 2004 raising some US\$35m from predominantly the same group of shareholders. This has currently grown to ~ US\$99m. Lion has a 23.7% interest in AFL 2.

Auselect floated in 2004 after raising \$50m with the view to being a more active trader than Lion Selection Group due to the restrictive PDF status. Auselect was successful in acquiring Sedimentary Resources ('SED') with its major asset being a 30% interest in the high quality Cracow gold mine. Auselect grew its investments from \$50m to \$166m at the time of merger with LSG.

The rationale behind the merger of LSG and AUS was to create a larger more relevant listed entity as both companies assets are made largely of listed investments.

Other benefits include

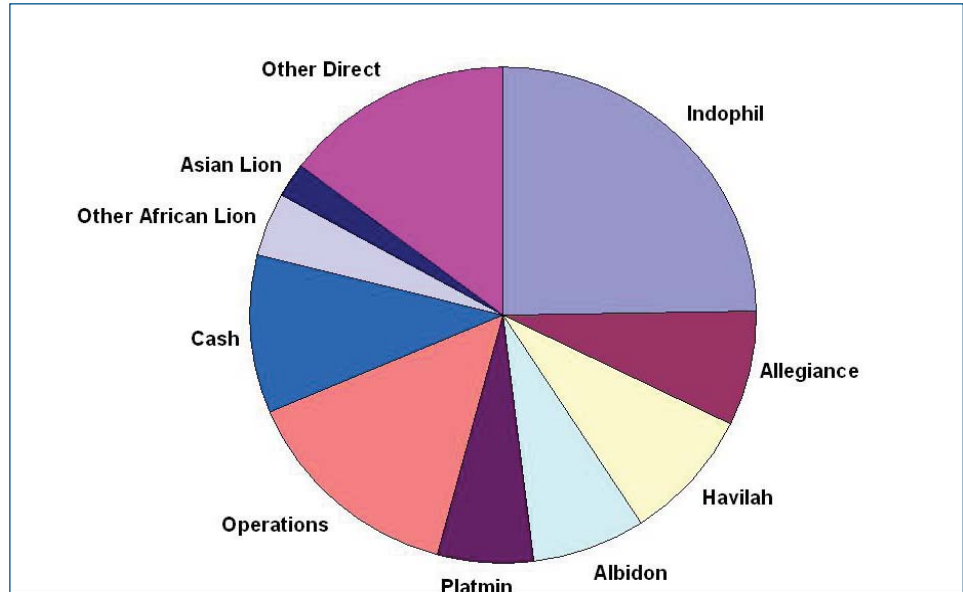
- Larger more diverse asset portfolio across the project development spectrum.
- Access to new investment and resource opportunities through its increased size, strong

balance sheet and financial capability.

- Removal of constrictive PDF status for LSG shareholders.
- Board and Management to focus solely on New Lion performance.

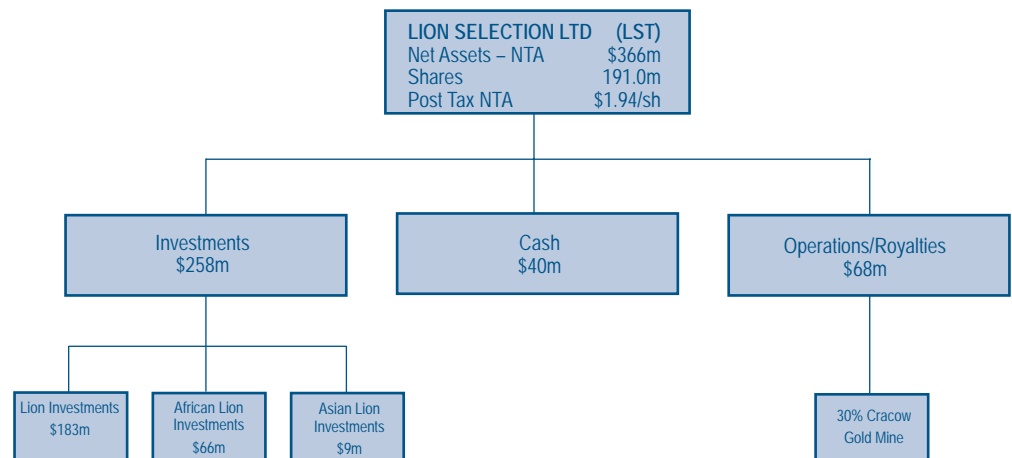
At the time of the merger, the combined NTA pre tax was \$361m, this has subsequently grown to ~\$418m by the end of July'07 and following the recent market volatility has fallen to the current ~\$370m.

Current Investments



Lion Selection Structure

The new LST structure is outlined below



Key Investments

Indophil Resources NL (LST 25.8% NAV \$88m @ \$0.90/sh) Euroz valuation: \$1.45/sh

- The key asset for IRN is the 34.1% interest (increasing to 37%) in the Tampakan Copper/Gold project located on Mindano Island in the Philippines.
- Xstrata are the major JV partner and manager of the project.
- A prefeasibility study has been completed demonstrating Tampakan is a viable project with t'put of 30mtpa producing 210kt of Cu pa at an operating cost of US\$0.70/lb. Capex of US\$1.4bn plus and additional US\$0.5bn in infrastructure.
- A bankable feasibility study is due by the end of CY'07 early/CY'08.
- We estimate Tampakan can produce EBITDA of \$430m pa at a copper price of US\$1.60/lb with IRN's 37.5% generating EBITDA of \$160m in FY'12 – putting it on a EV/EBITDA of <2x (this assumes equity raising of \$200m @ \$1.20/sh to fund the development).
- Our valuation is \$1.45/sh and we see significant upside to the current price. The recent appointment of Richard Laufman as CEO we view as highly positive due to his previous knowledge of the project (at WMC) and as a Non Executive Director of IRN since 2003.
- In addition his experience as MD of Ballarat Goldfields will be invaluable as Tampakan progress through to development and beyond.
- IRN has some \$100m in cash or \$0.30/sh and we believe this will be used to look for other advanced development opportunities in SE Asia

Cracow Gold Mine (LST 30% - NAV \$68m) Euroz valuation \$74m

- The Cracow gold mine is a low cost fully developed underground operation and produces 100-120koz of gold per annum. Newcrest Mining ('NCM') is the operator and in FY'07 production was 116koz @ \$344/oz – making it one of the lowest cost producers in Australia.
- During the Q LST closed out its forward sale contracts (63koz @ \$664/oz) at a total cost of \$9.7m. The forwards were replaced with equivalent put options.
- An inferred resource of 200koz was defined at Kilkenny, which is located adjacent to the current mining area.
- We believe the Cracow project is a non-core asset for NCM in the scheme of their overall portfolio. LST has a pre-emptive right should NCM decide to sell its 70% interest which depending on price could represent a very good outcome for LST.
- The exploration upside looks impressive and is typical of these epithermal type vein system
- We have modelled in a six yr mine life at Cracow producing ~ 110koz @ \$350-370/oz pa and using our gold price assumptions of US\$675/oz escalating at 1% pa this equates to a total NPV of \$185m – or \$55m for LST share. With a nominal \$20m for remaining resource and exploration our total valuation for LST 30% interest in \$75m – slightly above LST value.

Havilah Resources (LST 19.0% NAV\$28m @ 1.80/sh) Euroz Valuation N/A

- HAV is focussed on the Kalkaroo Copper project and signed a heads of agreements with Glencore to fund a \$14m feasibility study. Glencore subsequently may acquire a 14% participating interest in the JV and the right to metals offtake by funding the mine development.
- HAV have defined a mineable ore envelope of 85mt @ 0.51 g/t Au and 0.45% Cu from a total resource of 105mt.
- HAV also has interest in the listed Curnamona Energy (48.2%) and Geothermal Resources Ltd (HAV 63.6%) and a 100% interest in the Portia gold project where recent drilling intersected 56m @ 4 g/t.
- The participation of Glencore adds some credibility to the project and provides the financial backing should feasibility be positive.

Allegiance Mining (LST 5.6% NAV \$25.5m @ \$0.65/sh) Euroz valuation \$0.55/sh

- The Avebury nickel project is on track for initial production in 1st Q CY'08, a slight delay from previous estimates.
- AGM is fully funded following a \$45m placement to Jinchuan (@ \$0.85/sh) and with debt facilities of US\$45m in place.
- We have modelled AGM as an 8 yr operation (current rsv ~ 5yrs) producing some 8kt of Ni pa at a C1 operating cost of <US\$3.00/lb. Our NPV@ 10% dcf is ~\$400m or \$0.55/sh and hence we believe it is fair value at current prices.
- It trades on FY'09 PER of 6x which is comparable with other mid cap nickel produces and there remains some development risk as it builds towards first production.
- LST sold ~ 5m shares @ +\$0.90/sh in June/July.

Albidon Ltd (LST 5.6% indirect interest \$24m @ \$2.50/sh) Euroz Valuation N/A

- ALB is developing the Munali Nickel Project with first production on track for mid CY'08 at a rate of 8.5-9kt of Ni pa.
- All conditions precedent have been met for initial drawdown of the senior debt facility of US\$60m, including hedging of 9020t of Ni @ US\$10.7/lb covering the period June'09 to Dec'13. This is a good outcome regarding the current nickel market forward rates.
- We do not have a formal valuation for ALB but note the stock has been as high as \$3.50/sh in the past year. In addition it does have some uranium potential and recently concluded a JV with African Energy.

Platmin Ltd (African Lion 10.3% - LST 2.7% \$30m) Euroz Valuation N/A

- Platmin has completed a feasibility study on the Pilanesberg Project in Sth Africa and the board has approved the development of this project. The project is planned to deliver 250koz pa over a 16 yr mine life at an average operating cost of ~ US\$500/oz (3PGE + Au) generating an operating margin of 46%.
- Platmin also expects to complete a feasibility study on the M'Platele project by the end of CY'07 where a current inferred resource of 12.6moz of PGM has been defined. This is expected to increase with infill drilling.
- Platmin has total resources of ~ 16moz (attributable) in the Bushveldt and is in a strong position to develop two projects. With Lonmin as a major shareholder (22%) we believe there is potential

Platmin will become a corporate target due to scarcity of quality PGM projects and robust outlook for the metal prices.

- Whilst we have no formal valuation for Platmin we do note the stock has been as high as C\$11.00/sh (currently ~ C\$7.50/sh).

At 31/08/2007	Code	Country/Commodity	Lion Selection Holding %	Investment \$m	Market Value \$m
DIRECT INVESTMENTS					
Allegiance Mining	AGM	Australia - nickel	5.7%	5.2	25.3
Havilah Resources	HAV	Australia - gold/base metals	19.0%	4.2	26.3
Indophil Resources	IRN	Philippines - copper/gold	25.8%	22.6	85.3
View Resources	VRE	Australia - gold/nickel	9.0%	8.7	10.1
Westonia Mines	WEZ	Australia - gold	44.4%	14.6	10.3
Other (Investments <2% of Net Assets & includes Austindo, DeGrey, Exco, Lafayette & Perseverance)				60.0	29.5
TOTAL DIRECT INVESTMENTS				115.2	187.4
AFRICAN & ASIAN LION					
African Lion Funds					
Albidon	ALB	Zambia - Ni	5.7%	3.3	16.7
Platmin - TSX	PPN	South Africa - PGMs	2.7%	3.5	16.9
Sphere Investments	SPH	Mauritania - iron ore	2.0%	1.1	11.7
Other including cash committed					8.6
Asian Lion Fund			32.4%	8.4	9.1
Total invested (including cash)				2.5	3.2
Cash committed				5.9	5.9
TOTAL AFRICAN & ASIAN LION				17.4	74.6
OPERATIONS - 30% Cracow (including project debt)					67.9
NET CASH					40.3
TOTAL NET ASSETS					370.0
Net Tangible Assets (NTA) after tax & diluted for options (cents per share)					\$1.94/sh

For NTA purposes, all listed investments at market price. Ordinary shares on issue 190.979m

* Lion investment remaining in the African Lion Funds after capital returned Options on issue 5.842m

Directors

Ewen W J Tyler AM (Non Executive Chairman)

Mr Tyler has a degree in Geology and over 40 years experience in the resource sector. He was a founding director of Ashton Mining Limited and remained an executive director until his retirement in 1990.

Robin Widdup – Managing Director

Robin is a geologist by training and has worked in the Zambian copper belt, for the National Coal Board in the United Kingdom and for Mount Isa Mines in Australia. He joined J B Were & Son as a mining analyst in 1986 and subsequently became Manager of Resource Research. Robin left J B Were in early 1997 to establish Lion Selection Group.

John F O'Reilly (Non Executive Director)

Mr O'Reilly was until April 2005 Head of Technology for Rio Tinto Plc and prior to that held the position of Head of Gold and Other Minerals. He is a director, and formerly Chief Executive Officer, of Lihir Gold Limited and was responsible for the construction and operation of the Lihir gold project from 1993 to 1998. Mr O'Reilly has over 39 years experience in the mining industry.

Graham R Freestone BEd (Hons) (Non Executive Director)

Mr Freestone, aged 59, has a broad based finance, corporate and commercial background obtained over 30 years in executive roles in the natural resources industry in Australia and internationally. He has held various senior finance positions with the Shell Group, Acacia Resources and AngloGold.

Management Team

The Lion Team is responsible for implementing Lion's investment strategy and managing its investments on a daily basis. The Lion team implements the investment strategy for the Australian listed company Lion Selection Limited (ASX: LST).

Robin Widdup MD and CEO of LST

(See description above)

Mike Brook

Mike joined African Lion in March 2001 from institutional broking firm JB Were & Son, where he was a resource analyst for eight years. Prior to this Mike held mine geology positions, including Chief Geologist at the Mt Isa Copper operations. Mike has responsibility for new investments across the Lion Group.

Chris Melloy

Chris is a mining engineer with experience in both operations and finance. He spent 11 years with MIM's Mount Isa operations in planning, operating and senior management roles followed by 10 years as a mining analyst researching the base metals sector for J B Were & Son.

Peter Maloney

Peter has held senior executive positions with financial and commercial responsibility with several Australian companies including WMC Limited, FH Faulding & Co and Santos Limited. Peter joined Lion as Chief Financial Officer and Company Secretary in October 2003.

African Lion

Tim Markwell

Tim is a geologist with a background in Finance and Investment. He has worked with Golder Associates, DJ Carmichael, BHP Billiton and most recently LinQ Capital. Tim has responsibility for the running of African Lion 2 Limited and African Lion Limited and is supported by the Melbourne based Lion Management team. Tim joined the Lion Team in January 2007.

Asian Lion

Jon Dugdale

Jon is a geologist who spent 7 years in exploration and mine geology at WMC. Jon then joined Mining Project Investors (MPI) in 1993, spending 12 years with the group in WA and then Victoria, prior to the takeover where Jon moved to Leviathan Resources. Jon joined Lion in July 2006 and will initially be focused on the development and growth of Asian Lion.

Top 20 Shareholders

LION SELECTION LIMITED		as at 31 July 07	
No.	Shareholder	shares (m)	(%)
1	Cogent Nominees Pty Limited	14,303,233	7.49%
2	Mr Mark Gareth Creasy	10,383,752	5.44%
3	National Nominees Limited	8,576,253	4.49%
4	HSBC Custody Nominees (Australia) Ltd	8,326,715	4.36%
5	HSBC Custody Nominees (Australia) Ltd	7,563,579	3.96%
6	HSBC Custody Nominees (Australia) Ltd	6,848,181	3.59%
7	Citicorp Nominees Pty Limited	6,271,578	3.28%
8	ANZ Nominees Limited	5,256,319	2.75%
9	J P Morgan Nominees Australia Limited	4,787,292	2.51%
10	Citicorp Nominees Pty Limited	3,794,961	1.99%
11	The Australian National University	3,643,189	1.91%
12	UBS Nominees Pty Limited	2,261,916	1.18%
13	HSBC Custody Nominees (Australia) Ltd	1,929,226	1.01%
14	Mirrabooka Investments Limited	1,741,593	0.91%
15	Mr Robin Anthony Widdup	1,462,316	0.77%
16	Invia Custodian Pty Limited	1,275,201	0.67%
17	HSBC Custody Nominees (Australia) Ltd	1,217,542	0.64%
18	Fortis Clearing Nominees P/L	1,073,603	0.56%
19	Mr H.G. Walker & Mrs E. Walker	676,621	0.35%
20	Mr James Vincent Chester Guest	647,561	0.34%

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