



LION SELECTION GROUP LIMITED

Lion Selection Group Limited

Quarterly Report for the 3 months ended 31 January 2007

PROPOSED MERGER

- **Proposed merger of Lion with AuSelect Limited.**
- **Scheme booklets to be dispatched to shareholders on 28 February 2007.**
- **Shareholder meeting – 3 April 2007.**

KEY POINTS

- **Dividends**
 - 10 cents (unfranked) dividend payable on 23 February 2007.
 - 10 cents per share and 17.7 cents in AuSelect shares paid on 15 December 2006 (cash and AuSelect shares 50% franked).
- **Indophil**
 - Xstrata to pay \$50 million to exercise 62.5% Tampakan option on 30 March 2007.
- **Allegiance**
 - Another nickel discovery: Bison.
- **Havilah**
 - Trial open pit proposed at Portia to sample high grade, nuggetty gold mineralisation.

INVESTMENT SUMMARY TABLE

Investment	ASX Code	Country/Activity	LSG Holding %	Amount Invested \$m	Market Value or Cost of Unlisted* \$m
At 31/01/2007					
Listed Investments					
AuSelect Limited Options**	AUS	Australia – mining investment	N/A	0.0	2.6
Allegiance Mining	AGM	Australia – nickel	6.8	6.1	30.7
Austindo Resources	ARX	Indonesia – gold	18.4	10.9	4.6
De Grey Mining	DEG	Australia – gold	6.7	3.4	1.9
Exco Resources	EXS	Australia – copper/gold	10.7	4.1	5.5
Havilah Resources	HAV	Australia – gold/base metals	19.0	2.4	20.0
Indophil Resources	IRN	Philippines – copper/gold	17.3	11.6	47.6
Lafayette Mining	LAF	Philippines – polymetallic	13.5	10.2	10.9
Perserverance Corporation	PSV	Australia – gold	3.2	10.8	8.4
View Resources	VRE	Australia – gold/nickel	8.7	6.7	7.8
Westonia Mines	WEZ	Australia – gold	43.8	12.9	20.1
Other (including unlisted investments)				0.6	0.5
Total Investments				79.7	160.6
Net Cash					39.4
Total Net Assets					200.0
Net Tangible Asset (NTA) before tax (cents per share)					199.8
Net Tangible Asset (NTA) after tax (cents per share)					187.6

* 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. Lion's 10 cent dividend payable 23 February 2007 is assumed paid for the purposes of this table.

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PROPOSED MERGER – LION SELECTION GROUP AND AUSELECT LIMITED

- In December 2006, the Directors of Lion and AuSelect Limited announced that they have agreed, subject to shareholder approval, to merge the two companies (the Recommended Merger) to form a new company, Lion Selection Limited (New Lion).
- The Recommended Merger will result in the formation of a diversified mining company with a portfolio of high quality junior resource investments, which will complement and drive development of a core holding of larger investments and operations to provide capital growth and cash flow.

The Recommended Merger at a Glance:

- Is a merger of equals based on relative net tangible asset (NTA) contributions.
- Will be implemented by way of two schemes of arrangement – the Lion scheme and the AuSelect scheme – importantly allowing both groups of shareholders to vote on the Recommended Merger.
- Terms will be based on the pre-tax NTAs of both companies calculated 5 days prior to the scheme meetings (the Calculation Date).
- The pre-tax NTAs are based on the share price of Lion's and AuSelect's listed investments and, in the case of the Cracow gold mine and exploration assets, (recently acquired by AuSelect through its acquisition of Sedimentary Holdings), the market value of that transaction.
- Based on the pre-tax NTAs of Lion and AuSelect as at 31 December 2006, the shareholders of Lion and AuSelect would receive:

Lion:	1 New Lion share for each Lion share held and 61 New Lion options for every 1,000 Lion shares held
AuSelect:	788 New Lion shares for every 1,000 AuSelect shares held
- The final terms of the Recommended Merger will be released to ASX on the Calculation Date and will also be available on the Lion (www.lionselection.com.au) and AuSelect (www.auselect.com.au) websites.
- No changes are envisaged to directors and management.

Timing

- The Lion shareholder meeting will be held at 10.00am on Tuesday 3 April 2007 at the Telstra Theatre, Telstra Conference Centre, Level 1, 242 Exhibition Street, Melbourne.
- The Scheme Booklet will be dispatched to shareholders on 28 February 2007.
- If the schemes of arrangement are approved by Lion's shareholders and AuSelect's shareholders respectively, Lion intends to seek court approval of the scheme at a further hearing in the Supreme Court in Melbourne which is expected to be held on or about 13 April 2007.
- On the basis of the Court Hearing taking place on 13 April, the last day Lion shares trade on the ASX with an entitlement to participate in the Lion Scheme will be 16 April 2007.



INVESTEE UPDATE

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

- Following Xstrata Copper's decision in November 2006 to sole fund further work at the Tampakan copper gold project in the Philippines, Xstrata advised Indophil in December that it was exercising its option to acquire a 62.5% interest in the Tampakan resource. Indophil and Xstrata are now working through a period of transition, with management handover scheduled for 30 March 2007. As part of the option agreement, Xstrata will pay Indophil approximately A\$50 million. The beneficial ownership in Tampakan will be Xstrata 62.5%, Indophil 32.5% and Filipino partner, Alsons Corporation 5%.
- In October 2006, Indophil announced the completion of the Pre Feasibility Study (PFS), confirming the Tampakan deposit as a two billion tonne resource containing 11.6 million tonnes of copper and 14.6 million ounces of gold at a 0.3% copper cut-off grade. Following the PFS completion, Indophil continue to work with Xstrata to develop the work program, including a definitive feasibility study to advance Tampakan.
- During the quarter, an Environmental Impact Statement (EIS) covering the Tampakan concession area was completed and submitted to the Philippine authorities. The EIS is part of the documentation required for a Declaration of Mining Feasibility.
- Indophil reported a number of Board and management changes. On 15 November 2006, Indophil announced that Mr Richard (Dick) Potts had joined the Board of Indophil, replacing Mr Peter Maloney, the Lion nominee on the Indophil Board. On 8 December, Indophil announced that Mr Kyle Wightman was joining the Indophil Board as a Non Executive Director.
- Geological cross sections of Tampakan showing the 0.3% copper cut-off contour were released for the first time and show a large expansion of the mineralised envelope compared with previous Tampakan sections, shown at a 0.5% copper cut-off.

ALLEGIANCE MINING NL – AUSTRALIA/NICKEL (LION – 6.8%)

- In January 2007, mining of nickel sulphide ore commenced. During the quarter, mining contractor Barmenco Limited was selected and commenced mine development to deliver up to one million tonnes of ore per annum at full production. The North Avebury development drive has produced ore from the main North Avebury ore body, with the development ore being stockpiled in readiness for mill commissioning scheduled for late 2007.
- The processing plant site has been cleared, levelled and drained in preparation for construction of the plant, planned for completion in October 2007. Mill throughput of 0.9 million tonnes per annum is anticipated producing over 8,500 tonnes per annum nickel in concentrate.
- All infrastructure components including roads, grid hydroelectrical power, dewatering pump station and pipelines, water management systems and office and accommodation completed.
- Surface drilling undertaken during the quarter increased the depth extension of the North Avebury zone by at least 100 metres below the nearest intercept as a result of an intersection of 5.6 metres at 1.2% nickel. Mine resources may be increased during mining.



- The new Saxon discovery is likely to be a new line of lode parallel to the East Avebury line of lode, within two kilometres of the Avebury mill. Infill drilling commenced to delineate resources at East Avebury-Saxon.
- A more recent discovery at Bison located only 250 metres southeast of the Avebury mine was reported subsequent to quarter end and it is considered to be an additional line of lode with two zones comprising 7 metres at 1.5% nickel and 24 metres averaging 0.7% nickel. Follow-up drilling is in progress.

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

Corporate

- In January 2007, Havilah announced a pro-rata non-renounceable entitlements issue to Havilah shareholders to raise up to \$9.4 million, via the issue of 7.3 million new shares at \$1.30 per share plus one attaching option for every two shares issued exercisable at \$1.60. Funds raised will be primarily used to complete tasks in preparation for a trial open pit at Portia to test high grade but nuggetty gold mineralisation below 60 metres of clay. On 21 February, Lion announced it had taken up its full entitlement of \$1.8 million in the rights issue.

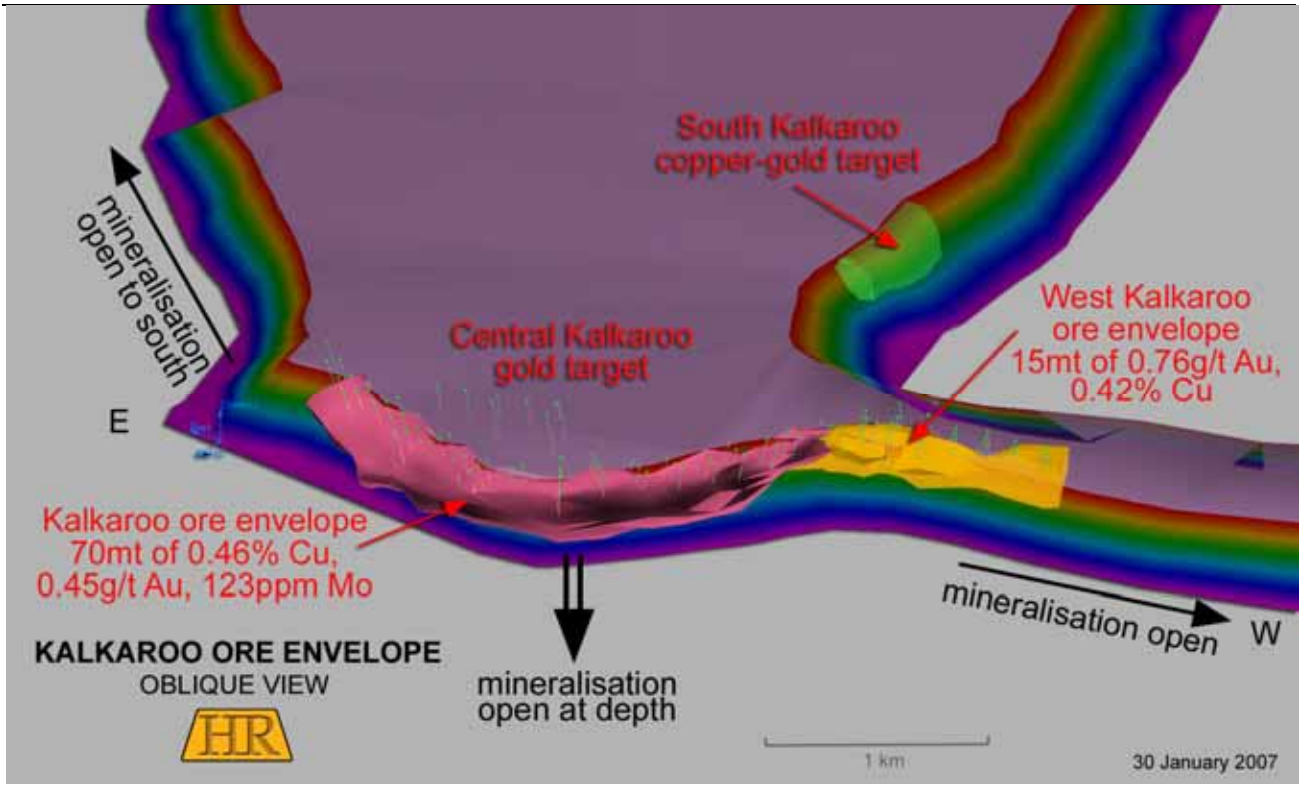
Portia Gold Project

- Samples from 20 drill holes on a 20m x 20m grid in the floor of the proposed pit were washed and hand picked. Best results include:

PTAC191	26 metres	@	15.4 g/t Au	from	75 metres
PTAC193	13 metres	@	33.5 g/t Au	from	84 metres
PTAC197	25 metres	@	14.5 g/t Au	from	74 metres
PTAC205	26 metres	@	9.0 g/t Au	from	76 metres

Kalkaroo Copper-Gold Project

- Havilah reported a 28% increase in the total resource from 85 million tonnes (Measured) to 108 million tonnes (Measured and Indicated) of combined copper, gold and molybdenum mineralisation. 85 million tonnes at a grade of 0.51 g/t gold and 0.45% copper have been estimated in a mineable ore envelope. The increased resource was achieved as a result of a 25 hole RC drilling program completed over a two month period on West Kalkaroo, partly supported by a PACE grant from the South Australian government.
- West Kalkaroo remains open to the west and at depth on all drill sections.



PERSEVERANCE CORPORATION LIMITED – AUSTRALIA/GOLD (LION – 3.2%)

- In October 2006, Perseverance, a Victorian based gold operator, announced a takeover offer to acquire all of the shares in Leviathan and this proceeded to compulsory acquisition in January 2007. Leviathan shares ceased trading and were subsequently removed from the ASX on 25 January 2007.
- Acquisition of Leviathan’s Stawell Gold Mine, adds to Perseverance’s operation at the Fosterville Gold Mine, east of Bendigo in Victoria. Upon completion of the acquisition, Perseverance will produce in excess of 200,000 ounces of gold annually and control the largest tenement holding in Victoria.
- Gold production for the consolidated operations was 48,901 ounces at a cash cost of \$458 per ounce.

Quarterly production	Dec Qtr 2006	Sept Qtr 2006
Stawell Gold (000's ounces)	26.8	26.6
Stawell Cash cost (A\$/oz)	464	459
Fosterville Gold (000's ounces)	22.1	20.4
Fosterville Cash Cost (A\$/oz)	450	488

- The Fosterville mine is based on an integrated open pit and underground mining operation and the treatment of approximately 800,000 - 1,000,000 tonnes per annum of ore and will produce 90,000 to 130,000 ounces of gold per year for approximately 8 to 10 years.



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

- On 8 February 2007, the Secretary of the Department of Environment and Natural Resources (DENR) announced a final lifting order (FLO) terminating all proceedings against Rapu Rapu Processing Inc, confirming that all conditions and requirements set by the DENR have been fully complied with. The FLO authorised RRPI to immediately resume production of copper and zinc concentrates from the Rapu Rapu base metals plant.
- Lafayette reported initial estimates of the cost (US\$6 million) and time (6-8 weeks) to repair critical damage resulting from Supertyphoon Reming which struck the eastern and northern parts of the Philippines in late November. No injuries were sustained at the Rapu Rapu minesite, however damage significantly affected offices, accommodation buildings and wharf facilities. Importantly, all environmental structures were undamaged and a safe freeboard level was maintained in the tailings dam. Routine production of on-specification copper and zinc concentrates had been established during November, prior to the Supertyphoon.
- Lafayette moved immediately following Reming to establish a US\$10 million multi option, working capital facility with project banks to fund the restoration program and provide a working capital buffer. This, together with revenue received and receivable from the sale of stockpiled concentrates, and expected insurance cover provides sufficient funding to bridge the production delay.
- Project stakeholders have demonstrated continuing support in a tangible manner with the implementation of stockpile financing arrangements with the project offtaker, LG International, and the management of base and precious metal forward sale commitments with the hedge banks, as well as support for the reconstruction effort from Leighton Contractors. In mid-February the reconstruction was proceeding to schedule and budget. All damage including the wharf is expected to be repaired by May 2007.
- In mid February, financial completion of the previously announced US\$15 million convertible note with Singapore fund SEASAF and others was finalised. This funding will protect the working capital position during ramp up in the first quarter of 2007 and provides US\$3 million for accelerated near mine and regional exploration.

VIEW RESOURCES - AUSTRALIA/GOLD & NICKEL (LION – 8.7%)

Bronzewing – gold

- View raised \$22 million equity via a placement and share purchase plan in November 2006. Lion participated above its pro-rata interest in the issue, investing \$2.2 million, bringing Lion's interest in View to 8.7%. This added to View's establishment in October of a \$16.4 million bank debt facility with Investec Bank (Australia). The Bronzewing project located in the northeast Goldfields of WA is now fully funded.
- Production at Bronzewing is expected to commence in the second quarter of 2007.
- Hedging:
 - 150,000 oz put options acquired at minimum \$830/oz.
 - 175,000 oz forward sales at \$900/oz.
 - 23MI of fuel below feasibility study price, over first crucial 18 months of the project.



- In January 2007, View mobilised two exploration drill rigs to the Bronzewing site, initially focusing on the Corboys deposit and important near mine targets.
- In February, the underground mining contract was awarded. Major supply and service contracts are being tendered and negotiated.

Carnilya Hill – nickel (30% View)

- Mincor completed their spend requirement of \$2.5 million to earn-in 70% of Carnilya Hill on the Kambalda nickel belt during November 2006.
- Drilling has now tested over 750 metres down plunge from the existing underground workings with potentially ore grade intersections returned within a 550 metre long zone. Focus has now switched to defining a JORC compliant resource by March 2007 and a feasibility study targeting an early restart of underground mining.

EXCO RESOURCES NL – AUSTRALIA/COPPER & GOLD (LION – 10.7%)

Queensland – Cloncurry Copper Project

- During the quarter, Exco announced an initial Inferred Resource estimate for E1 East, which forms part of the larger E1 camp at the Cloncurry Copper Project of 8 million tonnes at 0.83% copper and 0.26 g/t gold. Total resources at the Cloncurry project from ten separate deposits have increased, as a consequence of the E1 East resource, to a total of 34.8 million tonnes containing 355,768 tonnes of copper and 347,900 ounces of gold.
- A scoping study for Cloncurry is scheduled for completion in February 2007.
- Encouraging exploration has been undertaken during the quarter at Monakoff East, Kangaroo Rat, Notlor, Turpentine and the Brumby prospect. Subsequent to quarter end, the following high grade intersections were also reported from Mount Colin drilling:

EMCR002	11 metres	@	3.45% Cu	6.31 g/t Au	from	7 metres
EMCR009	16 metres	@	3.47% Cu	0.45 g/t Au	from	74 metres
EMCR012	36 metres	@	4.03% Cu	0.62 g/t Au	from	151 metres

South Australia – White Dam Gold Project

- In November 2006, a resource of 1.78 million tonnes at 1.28 g/t gold for 73,000 ounces was announced at the new Vertigo deposit located at the White Dam Gold Project. The mineralisation is still open and additional drilling is planned to increase the resource base. The total project resource is now 9.1 million tonnes at 1.13 g/t gold containing 330,400 ounces. Exploration drilling is underway to further evaluate the Vertigo and White Dam extensions, as well as further drilling at White Dam North.
- Pending completion of necessary approvals, Exco is targeting gold production in late 2007 at around 50,000 ounces per annum from a heap or dump leach operation.

Corporate

- In late January, Exco advised of the proposed spin out of the company's uranium assets, into a new entity that will raise funds for exploration and development work, and seek a separate



listing on the ASX. Uranium potential within Exco's tenements includes known prospects in Queensland and South Australia with significant levels of uranium mineralisation identified in association with current copper-gold resource.

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

- The first diamond drilling program targeting base and precious metals Volcanogenic Massive Sulphide (VMS) style mineralisation at the Turner River province, south of Port Hedland in Western Australia was successfully completed in December 2006. Results from the nine hole, 2,099 metre program are encouraging. Best results from the program include:

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
WADH012	4.9 metres @	12.7% Zn	331 g/t Ag	7.31% Pb	2.54 g/t Au	0.35% Cu	from	514 metres
WADH011	4.9 metres @	2.00% Zn	126 g/t Ag	1.05% Pb	0.73 g/t Au	0.03% Cu	from	537 metres
WADH010	1.8 metres @	3.45% Zn	124 g/t Ag	1.47% Pb	0.73 g/t Au	0.06% Cu	from	372 metres

High grade mineralisation at Orchard Tank – Acacia has been identified in a steeply west plunging shoot to a vertical depth of 450 metres and is open west along strike below 250 metres and down dip. Targeted infill RC and diamond drilling to be undertaken in the first half of 2007 will determine if further drilling to define a resource is warranted.

- Core samples from Orchard Tank have been dispatched for metallurgical test work with results expected in March.
- An Induced Polarisation (IP) geophysical survey was completed in November 2006 over a 5.8 kilometre strike length around and along the strike of known VMS prospects at Orchard Well and this identified several distinct anomalies at depth. A large number of targets have now been identified regionally along the 75 kilometres of prospective felsic volcanic rocks.
- During the quarter, De Grey raised \$2.4 million by issuing approximately 22 million shares, at 11 cents per share pursuant to a Share Purchase Plan. Subsequent to quarter end, De Grey announced completion of a placement of 26.8 million new shares at an issue price of 12.5 cents, to raise \$3.35 million. These funds will allow De Grey to enter the next phase of activity at the Turner River Project. Lion invested \$0.2 million to maintain its 6.7% shareholding.

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

- During the quarter, Westonia completed a renounceable rights issue, raising \$6.1 million to disassemble and relocate the Big Bell plant to the Westonia Gold Mine in Western Australia. The rights issue was over-subscribed and Lion took up its entitlement.
- Westonia awarded a \$5.2 million fixed lump sum price contract for the disassembly, relocation of the Big Bell plant, and rehabilitation of the original plant site. The dismantling and relocation of the Big Bell plant commenced in January 2007.
- Near-mine exploration at Greenfinch shows that the tenor of assay grades from the resource infill drilling supports those previously reported. The latest results include a best intercept of 4 metres at 57.4 g/t gold from 106 metres. Resource and reserve estimations for Greenfinch are expected to be completed during February 2007.
- An airborne survey of the remainder of Westonia's regional tenements is scheduled to occur in March 2007, with drill testing of priority targets to start in the June 2007 quarter.

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

- Ongoing problems with the decline development, including a collapse burying the tunnel boring machine, has resulted in significant delays to project development. An alternative plan for the decline, using conventional drilling and blasting with a different mining contractor, is being reviewed. Until the review is finished, the final cost to complete the access to the orebody, and timing of the first gold pour, cannot be accurately stated. The gold plant construction is approximately 80% complete, however the contractor has demobilised and all other major works on site have been put on hold in order to conserve cash until additional finance is arranged.
- Additional debt and equity is being sought to complete the project. Conditional approval has been given by ANZ, the project financier, for a further US\$5 million. At this time the company estimates additional equity in the order of US\$20 million will be required.
- The company has recently drawn on a US\$5 million bridging facility provided by the major shareholder PT Austindo Nusantara Jaya, the Chief Operating Officer Mr Hermani Soeprapto, Non-Executive Director Mr John Carlile, and AuSelect Limited.

DIVIDENDS

At the 2006 AGM, the directors of Lion were pleased to announce a dividend of 10 cents per share, to be unfranked. The dividend was paid on 23 February 2007 to shareholders registered at the close of business on 2 February 2007. The Ex Dividend date for this dividend was 29 January 2007.

On 15 December 2006, Lion paid a 27.7 cents per share dividend. This dividend consisted of a 10 cents per share cash component, and an in specie dividend of four (4) AuSelect Limited shares for each twenty-seven (27) ordinary Lion shares (rounded up to the nearest whole number of AuSelect shares) worth 17.7 cents per Lion share. This dividend was 50% franked.

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

SHAREHOLDER INFORMATION

<i>Issued shares:</i>	<i>100.1 million</i>	<i>Share price at quarter end:</i>	<i>\$1.73</i>
<i>Quarter High:</i>	<i>\$1.96</i>	<i>Quarter Low:</i>	<i>\$1.62</i>
<i>Volume traded:</i>	<i>18.4 million</i>	<i>NTA after tax:</i>	<i>\$1.88</i>

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