



LION SELECTION GROUP LIMITED

## Lion Selection Group Limited

### Quarterly Report for the 3 months ended 30 April 2006

#### KEY POINTS

- **Indophil**      ■ *Huge resource increase announced at the Tampakan copper gold project.*
- **Gallery/IAMGOLD**      ■ *80% of IAMGOLD holding sold.*  
    ■ *\$38 million pre-tax profit anticipated.*
- **Allegiance**      ■ *Avebury nickel concentrate shipments forecast to commence in the first half of 2007.*
- **De Grey**      ■ *Possible new base metal discovery at Orchard Well, Western Australia.*
- **Lafayette**      ■ *Awaiting Filipino Government approval to restart Rapu Rapu project (Cu-Au-Zn-Ag).*
- **Resource Sector**      ■ *Lion is well positioned to benefit from strong but volatile metal prices which we expect to continue for the next few years.*

#### INVESTMENT SUMMARY TABLE

Investment	ASX Code	Country/Activity	LSG Holding %	Amount Invested \$m	Market Value or Cost of Unlisted* \$m
<b>At 30/04/2006</b>					
<b>Listed Investments</b>					
AuSelect Options#	AUS	Australia – mining investment	na	0.0	2.3
Allegiance Mining	AGM	Australia – nickel	10.0	6.1	16.7
Austindo Resources	ARX	Indonesia – gold	18.1	9.1	12.2
De Grey Mining	DEG	Australia – gold	6.8	3.1	1.6
Exco Resources	EXS	Australia – copper/gold	14.6	4.1	6.1
IAMGOLD	IGD	International – gold	na	10.6	30.5
Havilah Resources	HAV	Australia – gold/base metals	19.0	2.4	10.6
Indophil Resources	IRN	Philippines – copper/gold	21.5	11.6	51.9
Lafayette Mining	LAF	Philippines – polymetallic	15.2	10.2	16.9
Leviathan Resources	LVR	Australia – gold	16.5	10.8	12.7
Sedimentary Holdings	SED	Australia – gold	23.7	8.1	15.7
View Resources	VRE	Australia – gold/nickel	8.7	4.6	3.7
Westonia Mines	WEZ	Australia – gold	43.8	8.5	18.4
Other (including unlisted investments)				0.6	0.5
<b>Total Investments</b>				<b>89.8</b>	<b>199.9</b>
<b>Net Cash</b>					<b>42.1</b>
<b>Total Net Assets</b>					<b>242.0</b>
<b>Net Tangible Asset (NTA) before tax (cents per share)</b>					<b>241.7</b>
<b>Net Tangible Asset (NTA) after tax (cents per share)</b>					<b>225.2</b>

\* For NTA purposes, the value of listed investments is at market and unlisted investments at the lower of cost or net realisable value.

# Lion holds 7,697,600 options in AuSelect Limited exercisable at \$1.20 per share, maturing on 24 April 2009.

Note: the NTA above is after providing \$2.3 million for the Manager's Performance Incentive calculated as at 30 April 2006.

Lion Selection Group Limited

ABN 26 077 729 572

Level 4, 15 Queen Street, Melbourne Victoria 3000

Telephone: +61 3 9614 8008 Facsimile: +61 3 9614 8009 Email: lionselection@lsg.com.au

www.lionselection.com.au



## INVESTEE UPDATE

### INDOPHIL RESOURCES NL - PHILIPPINES/COPPER & GOLD (LION – 21.5%)

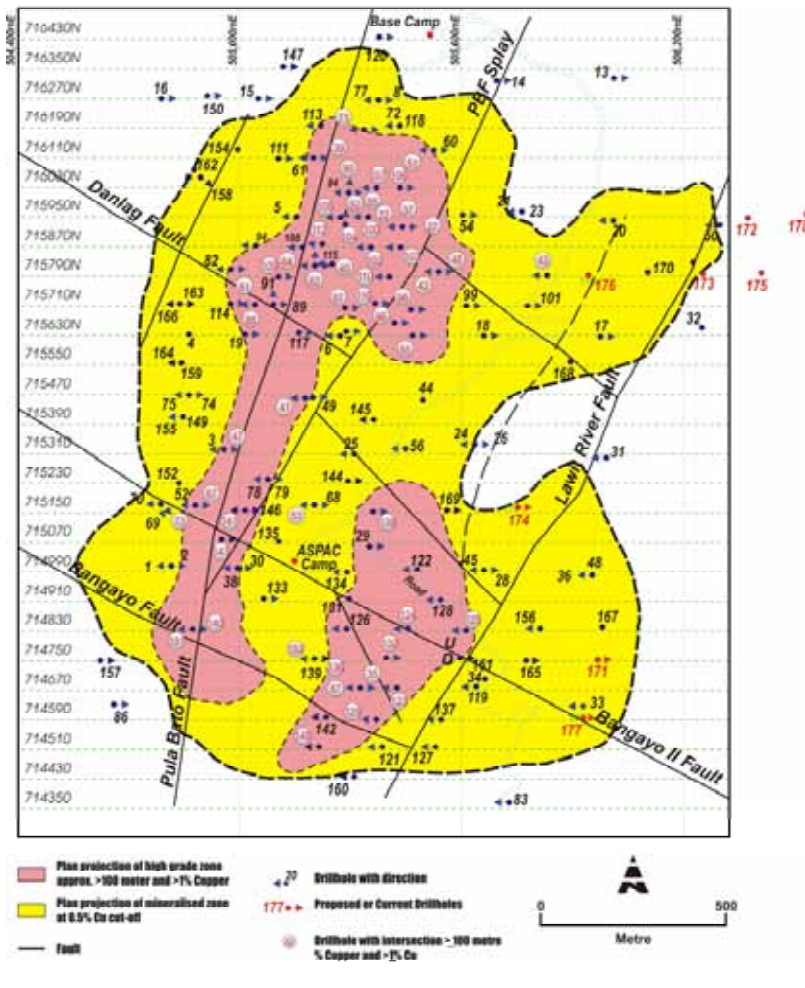
- Indophil has reported a new resource estimate for the Tampakan Copper-Gold project in southern Philippines during the quarter, delivering a 47% increase in resource tonnes, at 0.3% copper cut-off grade, as compared with estimates announced in November 2005.

Resource	Mt	Cu %	Au g/t	Contained Cu (Mt)	Contained Au (Moz)
Measured, Indicated & Inferred	1,970	0.59	0.23	11.6	14.6

- The increase in resource is due mainly to the drilling of 27 additional holes totalling 9,300 metres and an extension of the conceptual pit shell. It has added significant tonnage on the north, east and west sides of the deposit, where mineralisation remains open.
- Indophil believes the exploration potential within the new pit shell could add a further 2 to 5 million tonnes of copper metal, and 2 to 7 million ounces of gold to the Tampakan resource.
- Exploration work commenced on a number of targets close to Tampakan.
- The Pre-Feasibility Study, focussing on geology, mining, metallurgy and infrastructure, remains on schedule.
- Following the end of the quarter, Indophil announced a share placement at 85 cents per share to raise \$57.5 million. The issue was placed with Australian and overseas institutional and professional investors, and was heavily oversubscribed. Additionally, Indophil announced a share purchase plan at the same price.
- During the quarter, Indophil announced the appointment of Mr Louis Irvine of Xstrata Copper as a new Director to the Board. Xstrata Copper holds an option to acquire a 62.5% interest in the Tampakan project.



## TAMPAKAN PLAN PROJECTION OF MINERALISATION AND DRILL HOLE LOCATION



### IAMGOLD CORPORATION LIMITED (PREVIOUSLY GALLERY GOLD) – BOTSWANA & TANZANIA/GOLD

- On 13 March 2006, IAMGOLD Corporation, a medium sized Canadian gold company, acquired all of the fully paid ordinary shares in Gallery Gold. IAMGOLD listed on the ASX on 27 March, and Lion's holding of 108 million Gallery shares, were transferred to 4.9 million IAMGOLD shares. As at 31 May 2006, Lion has sold 4.0 million IAMGOLD shares for approximately A\$49 million at an average Gallery equivalent price of 55.7 cents, and holds 0.9 million IAMGOLD shares.
- The sale of IAMGOLD shares is 80% complete, with \$38 million pre tax profit anticipated.

### ALLEGIANCE MINING NL – AUSTRALIA/NICKEL (LION – 10.0%)

- Subsequent to the end of the quarter, Allegiance announced the successful trial milling of a 5,000 tonne ore parcel to the Hellyer Mill. Following this outcome, engineering investigations have indicated that the process plant capacity at the Avebury nickel project in western Tasmania can be increased by 50% to 900,000 tonnes of ore per annum without a major increase in capital cost.



- Allegiance has executed an off-take agreement on favourable terms with Chinese company, Jinchuan Nickel Group Limited (Jinchuan), for the sale of nickel-in-concentrates produced from Avebury. As part of this agreement, Jinchuan will provide financial and technical support to the Avebury project, and in early May, provided an A\$5 million subordinated loan to expedite project development. Jinchuan have also been granted 25 million unlisted options, exercisable at 28 cents, to expire in June 2007.
- Project implementation has progressed during the quarter, with grid electricity and the upgraded all weather road connected to the Avebury site. Underground mine accesses have been established in readiness for both the ventilation raise and the services shafts.
- Exploration drilling at Avebury concentrated on testing for new ore environments and near mine resource extensions in the West Viking and North Avebury areas. Eleven diamond drill holes for 3,174 metres were completed during the quarter, including Burbank, located 3 kilometres west of Avebury.

Best results included:

Hole	Intersection (m)	True width (m)	% Ni	Zone
A136	8.0	4.0	1.6	Pink Eye
A136	8.0	4.0	1.2	South Viking
A141A	20.0	12.0	0.9	South Viking

- The updated resource statement in the Allegiance Annual Report indicates a 12% expansion resulting from the drilling between December 2005 and mid March 2006. The Resource is now 114,000 tonnes of nickel above a cut-off grade of 0.7% nickel (10 million tonnes @ 1.14% nickel).
- Allegiance's cash balance stood at \$3.6 million at March 31. During the first week of May, Allegiance completed a capital raising of A\$51.2 million at 31 cents per share to provide the equity component of the future project finance. The capital raising was oversubscribed, reflecting the current strong market conditions.

#### DE GREY MINING LIMITED – AUSTRALIA/GOLD (LION – 6.8%)

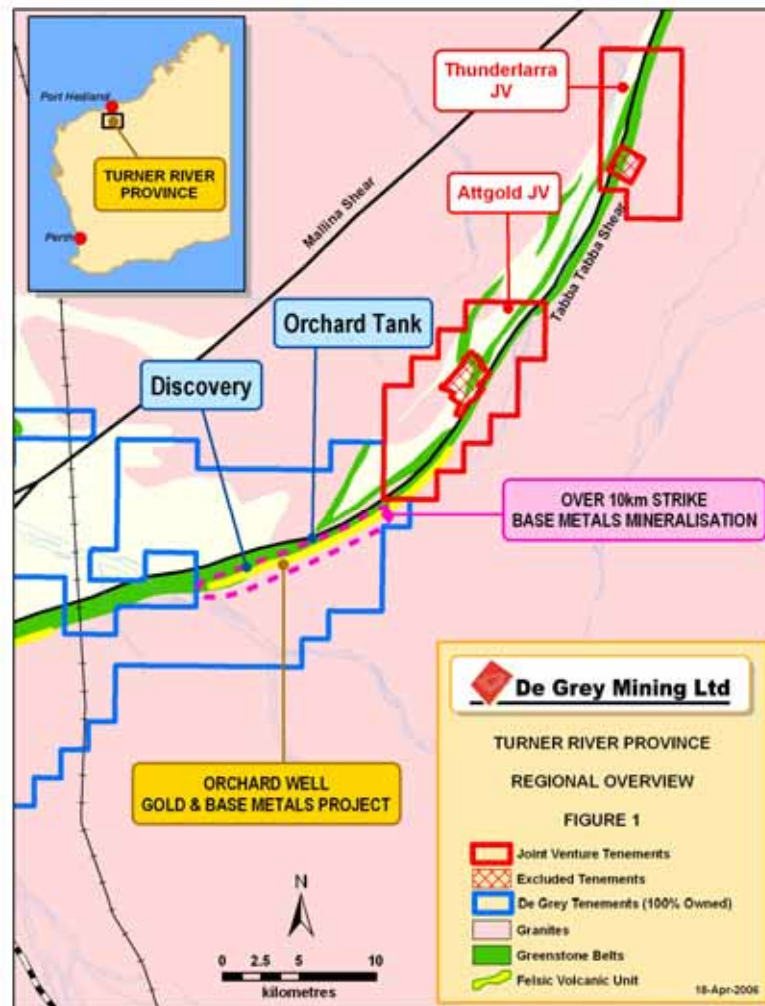
- Exploration activities were delayed during the quarter by wet weather at the Turner River province, south of Port Hedland in Western Australia.
- A RAB drilling program has been completed, targeting base metal geochemical anomalies within the felsic volcanics at Orchard Well. This program has now identified base metal mineralisation over 10 kilometres of strike length.
- Subsequent to quarter end, De Grey reported high grade intersections of zinc, lead, silver, gold and copper within a wide zone of disseminated sulphides on two sections over a 40 metre strike length at the Discovery gossan. Best results include:

WARC024	17 metres @	4.64% Zn	1.84% Pb	124 g/t Ag	0.80 g/t Au	0.17% Cu	from	165 metres
including	4 metres @	12.04% Zn	4.19% Pb	294 g/t Ag	1.15 g/t Au	0.35% Cu	from	166 metres
WARC022	16 metres @	3.79% Zn	1.81% Pb	167 g/t Ag	1.19 g/t Au	0.16% Cu	from	165 metres
including	3 metres @	11.23% Zn	5.62% Pb	308 g/t Ag	2.20 g/t Au	0.27% Cu	from	175 metres
WARC023	2 metres @	9.90% Zn	2.95% Pb	435 g/t Ag	1.92 g/t Au	0.24% Cu	from	119 metres

The grade and width of mineralisation has increased with depth.



- Over 10 kilometres of felsic volcanic units with the potential to host base metal mineralisation have been mapped in other parts of the Turner River Province.
- During the quarter, De Grey announced that Mr Craig Oliver was appointed to the Board as non executive director. Mr Oliver replaces Mr Michael Baker, a co-founder of De Grey who has retired from the Board. Subsequent to the end of the quarter, De Grey announced the appointment of Mr Darren Townsend as Managing Director, effective 1 June. Mr Townsend replaces Mr Denis O'Meara, the founder of the company who will remain as non executive director.



### LAFAYETTE MINING LIMITED - PHILIPPINES/POLYMETALLIC (LION – 15.2%)

- Lafayette is awaiting Filipino Government approval to commence commissioning of the Rapu Rapu base metals plant. A decision is imminent.
- On 23 March 2006, Mr David Baker was appointed as the new Managing Director of Lafayette, replacing Mr Andrew McIlwain. Mr Baker is an experienced investment banker with a strong background in project finance in the resources sector.



- During the quarter, Lafayette announced board and management changes, with the introduction of a new Filipino partner to oversee operational and administrative activities in the Philippines. Mr Carlos G (Sonny) Dominguez has joined as Chairman, President and Chief Executive Officer of Lafayette's operational arm, Lafayette Philippines Inc, and has also joined the board of Lafayette Mining Limited. Mr Dominguez has held a number of senior roles in the Filipino Government and in the private sector. In addition, Mr Robin Widdup, Managing Director of Lion Selection Group and AuSelect Limited, has joined the board of Lafayette Mining Limited.
- On 23 March 2006, Lafayette announced a range of funding initiatives totalling A\$42 million, at 11 cents per share, to strengthen the Company's financial position following the delay in base metal production. As part of this A\$42 million capital raising, Lion Manager Pty Ltd, Lion Selection Group's management company, agreed to take a placement of A\$2 million. This is funded largely from anticipated post tax proceeds of the Lion Manager's performance incentive triggered earlier this year. Other components of the raising consisted of an A\$11 million placement by ABN AMRO Morgans to domestic and international investors and institutions, a placement of A\$5.5 million to an overseas institution, and an A\$3 million placement to AuSelect Limited. Rapu Rapu joint venture partners, LG International and KORES, will contribute US\$4.81 million of subordinated debt, as a soft loan. Credit approval was also obtained from the Rapu Rapu banking syndicate in respect of a US\$10 million project stand-by facility and a restructuring of principal repayments and associated forward sales contracts.
- Work required to satisfy all of the technical remedial requirements imposed by the Filipino authorities, following the two discharges of process water late in 2005, has been completed and a submission for restart was lodged with the relevant authorities on 20 March 2006.
- The response of the Filipino authorities to the submission to restart was delayed by a commitment on the part of the President to obtain the results of a Presidential Fact Finding Commission (FFC), before ruling on the merits of the submission. Whilst the delay is disappointing, the FFC has completed its public hearings and reported on 19 May 2006. Lafayette expects the regulator to confirm permission to restart during the week ending 2 June 2006, following a detailed review and commentary on the FFC report.
- Endorsements for the resumption of operations have been secured from all levels of the community in the provinces of Albay and Sorsogon, including all leading government officials and other peak business, environmental and social groups.

#### **AUSTINDO RESOURCES CORPORATION NL – INDONESIA /GOLD (LION – 18.1%)**

- Construction continued at the Cibaliung gold project in Java. Gold production is scheduled to begin in the first quarter of 2007.
- During the quarter, dismantling of the Mount Olympus gold processing plant in Western Australia was completed and the majority of the plant was transported to Port Hedland ready for shipping to site in Indonesia. Aker Kvaerner has substantially completed pre-engineering for the plant relocation and PT Petrosea were engaged to provide detailed engineering in respect of the re-erection of plant on site.
- At Cibaliung, preparation of the Box Cut was substantially completed in anticipation of the arrival of a road header to commence decline development. In addition, bulk earthworks were initiated, upgrading of public access roads was undertaken and Project Camp facilities were commissioned.



- In April 2006, Austindo announced that it had successfully undertaken a placement of 218 million shares at 5.5 cents per share to raise A\$12 million. The funds will be used for a significantly increased exploration program in Indonesia, working capital purposes and to fund modest cost overruns associated with the development of Cibaliung. Lion has committed \$2.4 million to the placement which will take Lion's holding in Austindo to 18.4%.
- Austindo announced that a new exploration area, Trenggalek, in East Java has been granted. Trenggalek is prospective for low sulphidation epithermal gold/silver deposits similar to Cibaliung, and is the fourth gold project Austindo is undertaking in Indonesia to further the Company's growth strategy.

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

- Following new drilling data, Westonia has remodelled the resource and announced a new Mineral Resource estimate. Compared to the Mineral Resource estimate in the 2004 Feasibility Study, the new resource has resulted in a more than 10% increase in contained metal within the "bankable" Indicated resource category. The 2006 resource estimate, at 0.70 cut-off grade, is reported as:

	<b>Million tonnes</b>	<b>Gold (g/t)</b>	<b>Thousand oz</b>
<b>Measured</b>	12.1	1.36	529
<b>Indicated</b>	9.2	1.37	404
<b>Inferred</b>	5.0	1.3	204

- Following the remodelling of the resource estimate, Westonia has commenced the rework of the Feasibility Study. As part of this rework, Westonia will review the projected costs associated with relocating the Big Bell plant aimed at reducing capital, improve operating margins and/or commission in an earlier timeframe. This work is scheduled to be completed by the end of the June 2006 quarter.
- Subsequent to quarter end, Westonia announced a successful placement of 23.5 million shares at 17 cents per share to existing and new institutional and sophisticated investors, raising \$4 million. This placement was undertaken by Austock Corporate Finance Limited and funds raised will be used for the completion of the feasibility study, ongoing exploration and working capital. Lion have committed to invest \$1.77 million for 10.4 million shares in this placement and is subject to shareholder approval. Lion's holding in Westonia following this placement will remain at 44%.

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

- Subsequent to the end of the quarter, Havilah reported on several of its projects.
  - Havilah has undertaken further detailed 3D analysis of previous drilling in the Kalkaroo area to identify zones of shallower cover where oxide copper and gold resources are likely to exist. An attractive exploration target has been located at West Kalkaroo, where cover depth ranges from 10-40 metres and previous drilling indicates potential for an extensive blanket of low grade oxide copper mineralisation. A two month drilling program commenced on this target in early May.



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- Discussions are continuing with several companies concerning participation in the development of the Kalkaroo and Mutooroo deposits. A number of Chinese groups continue to express an interest in purchasing the copper-cobalt concentrate from Mutooroo.
- At Portia, several high grade intersections were obtained from the gold bearing layer at the base of the Tertiary cover sequence. Best results include:

PTAC 180	2 metres	@	17 g/t Au	from	80 metres
PTAC 183	3 metres	@	12 g/t Au	from	79 metres
PTAC 184	2 metres	@	16 g/t Au	from	79 metres

Havilah is currently undertaking a mining scoping study for Portia with the objective of determining if the known 60-80,000 ounce base of Tertiary gold resource could be mined economically at current gold prices.

- In March, Havilah announced that the Initial Public Offering of shares in Geothermal Resources Limited, had closed with a total subscription amount of approximately \$3 million. On 20 March, Geothermal Resources shares commenced trading on the ASX with a code GHT. Havilah retains a 63.6% controlling interest in Geothermal Resources.

**SEDIMENTARY HOLDINGS LIMITED – AUSTRALIA/GOLD (LION – 23.7%)**

- Revenue from the Cracow Gold mine in Queensland increased by 26% on the previous quarter with 9,100 ounces of gold sold at an average price of \$733.50 per ounce. Processing at Cracow continued at tonnage levels above nameplate capacity with quarterly gold production of 8,261 ounces attributable to Sedimentary. Production was sourced mainly from development and stoping ore from the Royal Shoot with the first development ore from Crown being hauled during March.

Quarterly production (Sedimentary's share)	Mar Qtr 2006	Dec Qtr 2005	Sept Qtr 2005	June Qtr 2005
Ore treated - tonnes (000's)	25	24	19	20
Ore - grade (g/t Au)	11.2	12.2	12.2	11.7
Recovery (%)	95	94	94	90
Gold (000's ounces)	8.3	9.1	6.8	6.2
Cash cost (US\$/oz)	259	255	307	310

- Surface drilling continued to expand the high grade Kilkenny zone of mineralisation. A significant new result, as reported below, added further potential to Kilkenny both up dip toward surface and to the south. High grade mineralisation has now been intersected on two sections over a vertical extent approaching 200 metres.

**CBK204** 6.4 metres 4.3 metres (estimated true width) @ 23 g/t Au from 608 metres

- During the quarter, NuStar Mining Limited's (SED holding 16.5%) proposed merger with emerging Canadian gold producer Intrepid Mineral Corporation advanced. Meetings to approve the merger are expected to be held prior to 30 June 2006.



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**EXCO RESOURCES NL - AUSTRALIA/COPPER & GOLD (LION – 14.6%)**

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Queensland

- On 21 April, Exco exercised its options to acquire 100% of the Notlor prospect tenements for 0.7 million shares and a 2% Royalty. Drilling results from Notlor North announced during the quarter include:

ENRC023	63 metres	@	0.81% Cu	0.41 g/t Au	from	18 metres
ENRC029	84 metres	@	1.72% Cu	1.12 g/t Au	from	surface
including	42 metres	@	2.85% Cu	1.68 g/t Au	from	24 metres

The close proximity and easy access from Notlor to the Great Australia leases provides good scope for inclusion of new resources at Notlor into the Cloncurry copper project mine schedule.

- Follow up drilling is scheduled in May at the Notlor, E1 East and Brumby prospects.
- Subsequent to the end of the quarter, a mining lease was granted at E1 North, which lies eight kilometres east of Xstrata's Ernest Henry copper treatment plant.

South Australia

- During the quarter, drilling was completed on step-out resource extensions to the east of the White Dam gold deposit and further exploration was undertaken at the Vertigo prospect, 800 metres south-west of White Dam. Results from both projects have been positive with the White Dam mineralisation extended to the east and significant new high grade mineralisation identified at shallow depths at Vertigo. Best results include:

White Dam	WDRC295	6 metres	@	1.96 g/t Au	from	10 metres
Vertigo	VG 058	14 metres	@	2.14 g/t Au	from	18 metres
	VG 061	12 metres	@	1.82 g/t Au	from	24 metres
	VG 065	6 metres	@	3.44 g/t Au	from	0 metres

An updated resource model to include these new results will be completed in the coming quarter.

Corporate

- In April, Exco announced the appointment of Mr Michael Anderson to the position of Managing Director. Mr Anderson takes over from Mr Alasdair Cooke who will remain an Executive Director. Mr Anderson has over fourteen years experience in the mining industry, most recently with Gallery Gold as Group Manager Business Development.
- On 11 April, Exco completed a \$700,000 fundraising through the issue of 3.5 million shares at 20 cents each for the continuation of feasibility work at the White Dam gold project and the Cloncurry copper projects. Lion invested \$100,000 in this issue.



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

### Corporate

- During the quarter, View announced board and management changes. Mr Tim Gooch was appointed as Chief Executive Officer, taking over from former Managing Director Mr Derek Lenartowicz who resigned from the Company. Mr Gooch previously held the position of Chief Operating Officer with View for the last 18 months. Mr Mike Ralston has also joined the management team as Chief Financial Officer. The Board has been strengthened by the addition of Mr Peter Stancliffe as Chairman and Mr Gerrit de Nys as a non executive director. Lion supports these management and board changes. Prior to this announcement, Lion had reduced its holding in View from 14.8 million shares to 13.8 million shares.
- Subsequent to the end of the quarter, View announced a private placement of 15 million shares at 20 cents per share to sophisticated investors and institutions to raise \$3 million. These funds will be used for a major exploration program, corporate costs, strategic regional opportunities, to identify and develop further resources, and complete acquisitions and the feasibility study.

### Bronzewing - gold

- Following a definition and in-fill drilling program for the potential Cockburn underground development, a revised resource model was announced as part of the Bronzewing re-commissioning Feasibility Study. The undiluted Indicated and Inferred Resource estimate has been defined as 2.5 million tonnes for 354,000 ounces at 4.5 g/t gold, at 3 g/t cut-off. Of this total, Indicated Resources total 243,000 ounces at 4.5 g/t gold.
- The Feasibility Study work is close to completion and a bankable document is being prepared.
- Subsequent to quarter end, View announced a three month review on the restart of Bronzewing to assess a number of strategies, including the possibility of changing emphasis from underground to open pit at Cockburn. View has now revised its production timeline, with go ahead on the project aimed for the second half of 2006, with first gold production targeted for the first half of 2007.

## **LEVIATHAN RESOURCES LIMITED – AUSTRALIA/GOLD (LION – 16.5%)**

- Gold production in the March quarter was affected by several days of shutdowns due to bushfires close to the mine site and by the mining of lower grade stopes during the quarter. The grade of ore mined from underground is expected to improve to average around 5.0 g/t gold over the year, as mining shifts to higher grade stopes during the second half. Increased cash costs in the March quarter of \$501 per ounce reflected lower gold production and should fall in the second half as grades increase over the rest of the year.

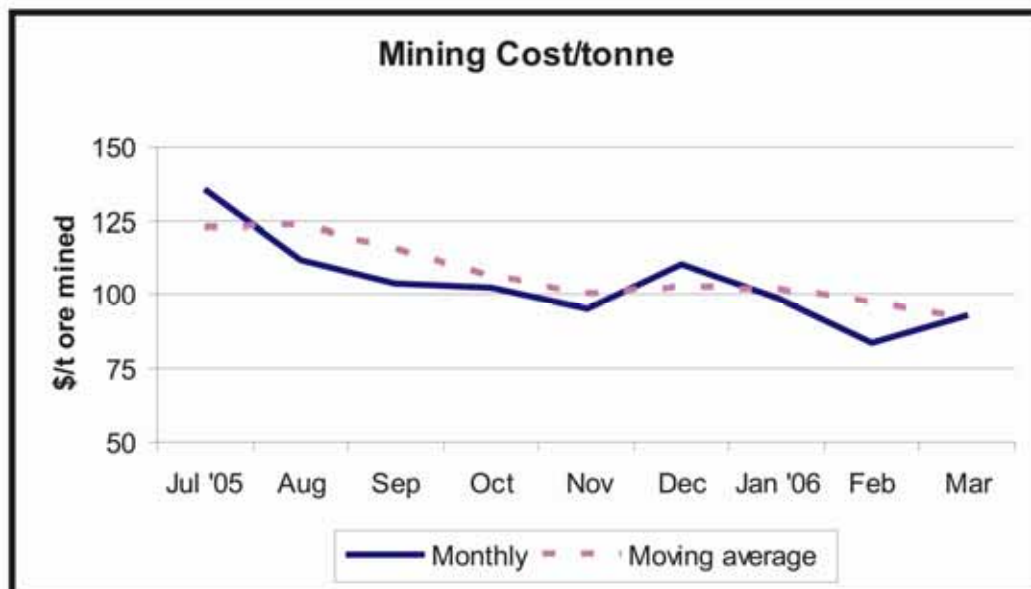


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Stawell Gold Mine (LVR – 100%)	March Qtr 2006	Dec Qtr 2005	Sept Qtr 2005	June Qtr 2005
<b>Quarterly production</b>				
Ore treated - tonnes (million)	0.19	0.21	0.17	0.17
Ore - grade (g/t Au)	4.6	4.9	5.7	5.9
Recovery (%)	91	92	94	94
Gold (000's ounces)	24.9	29.6	29.7	30.3
Cash cost (A\$/oz)	501	462	446	431

- Whilst \$ per ounce costs increased during the quarter, there have been significant decreases in \$ per tonne operating costs since July 2005.

**STAWELL GOLD MINE OPERATING COSTS**



**MANAGER'S PERFORMANCE INCENTIVE**

As at 30 April, the Lion Manager performance incentive was calculated at \$2.3 million, and this figure is updated as required on Lion Selection Group's website [www.lionselection.com.au](http://www.lionselection.com.au). As part of a \$42 million capital raising by Lafayette, the Manager agreed to take a placement in Lafayette of \$2 million. This is funded largely from anticipated post tax proceeds of the Manager's performance incentive.

**LION INVESTMENT BRIEFINGS**

In April, Lion Selection Group made its series of bi-annual investment briefings to shareholders and interested parties in Melbourne, Sydney, Adelaide, Brisbane and Perth. A copy of the presentation is available on Lion Selection Group's website [www.lionselection.com.au](http://www.lionselection.com.au) under the Company Calendar section. The next series of investment briefings will be made in October. Further details and invitations will be sent out later this year.



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## SHAREHOLDER INFORMATION

<i>Issued shares:</i>	<i>100.1 million</i>	<i>Share price at quarter end:</i>	<i>\$2.12</i>
<i>Quarter High:</i>	<i>\$2.34</i>	<i>Quarter Low:</i>	<i>\$1.895</i>
<i>Volume traded:</i>	<i>19.4 million</i>	<i>NTA after tax:</i>	<i>\$2.25</i>

Further enquiries:  
**Brooke Robertson**  
Investor Relations Manager  
Lion Selection Group Limited  
Email: [lionselection@lsg.com.au](mailto:lionselection@lsg.com.au)

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