



Quarterly Report for the 3 months ended 31 July 1998

KEY POINTS

Financial

- NTA per share was 98.2 cents and cash backing was 79.9 cents per share at the end of the quarter.

Investments

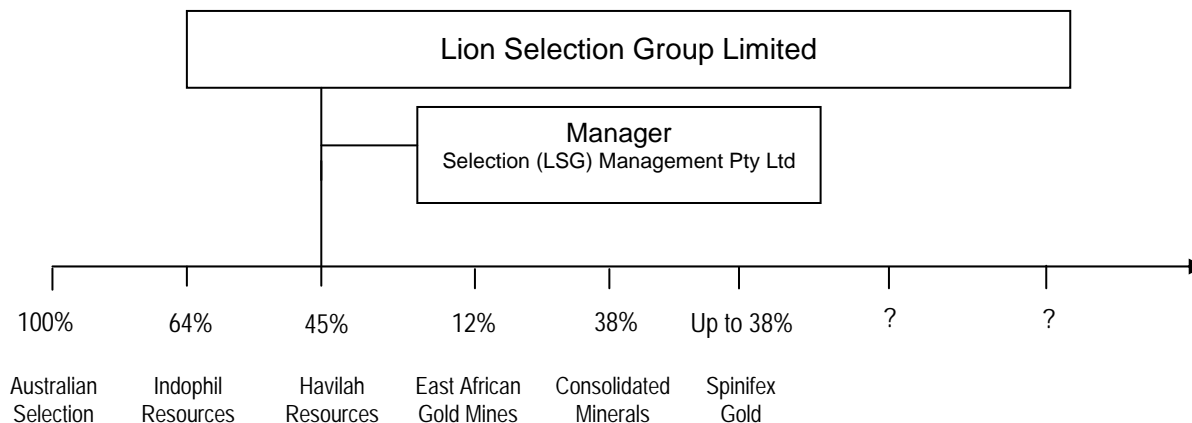
- **Indophil** received approval of a Mineral Production Sharing Agreement (MPSA) at Labo (De Jesus) and initiated grid based field exploration during July. The company also agreed to acquire the Nabunturan property with a granted Exploration Permit (EP) from WMC Limited. The area covers 60.75 square km of highly prospective ground in Davao Del Norte on the island of Mindanao.
- Planning work for selecting and prioritising drilling targets at the Highlands Rocks project in the Northern Territory was completed by **Havilah**. Drilling of key targets will commence in the October quarter.
- Lion acquired approximately 7.0 million shares in **East African Gold Mines Limited** for \$7.3 million to attain a 11.8% shareholding. EAGM's wholly-owned subsidiary, Afrika Mashariki Gold Mines Limited, holds two Mining Licences in the North Mara region of Tanzania and plans to develop a 140,000 oz pa mining operation.
- Lion subscribed \$5m for 25,000,000 shares (38%) in **Consolidated Minerals Limited**, owner of the Woodie Woodie manganese project in Western Australia. The capital raised by Consolidated Minerals will be used to recommence operations at Woodie Woodie.

STOP PRESS

On 25 August Lion announced that it has agreed to subscribe \$6 million for 50 million shares and 25 million free attaching options in **Spinifex Gold NL** to acquire a 34.8% interest. This will bring Lion's total shareholding in Spinifex up to 38.0%.



COMPANY STRUCTURE



INVESTMENTS

Indophil Resources NL (Lion – currently 63.8%)

The Philippines election in May created the expected degree of uncertainty throughout the country as the new administration was established. In spite of a number of changes to officials in local government, clearances of Indophil's properties progressed well.

The Secretary of the Department of Environment and Natural Resources (DENR) has approved the Labo (De Jesus) MPSA. The agreement has been signed but final release has been withheld pending Securities and Exchange Commission (SEC) approval of Indophil's application for an increase of its authorised capital. This is well advanced. Extensive geological and geochemical survey work is in progress at Labo.

Compilation of data continued at Buda and Northern Sierra Madre and preliminary work at Indophil's other properties progressed satisfactorily. Exploration was completed at Alabat Island. Two anomalous zones were discovered but these were attributed to mineralisation that would not be economic and the option was terminated.

The divestment of the Alabat Island project was balanced by the planned acquisition of the Nabunturan property from WMC Limited. The Nabunturan project area covers 60.75 square kilometres in the Davao Del Norte province on the island of Mindanao. An EP has been granted for the property. Execution of a Share Sale Agreement giving effect to the acquisition is imminent. This highly prospective property is within a strongly mineralised area. Previous WMC reconnaissance has defined a number of gold anomalous catchments that require further investigation.

Lion increased its interest in Indophil to 63.8% by investing a further \$750,000 for 3.75 million as part of its existing option agreement.



Havilah Resources NL (Lion – currently 44.8%)

Havilah's active exploration program in South Australia continued in the July quarter, although some drilling programs were delayed due to unseasonably heavy rain. Drilling is now expected to commence at Mount Victor during the October quarter.

Considerable planning work was completed for the proposed drilling program at the Highlands Rocks project in the Northern Territory. Drilling targets were selected and prioritised and preliminary drilling is expected to commence in the next quarter.

East African Gold Mines Limited (Lion - 11.8%)

On 3 July, Lion announced that it had acquired approximately 7.0 million shares in East African Gold Mines Limited (EAGM) for \$7.3 million. EAGM is associated with Mr Geoff Stewart, founder of the former North Flinders Mines Limited. The company holds two Mining Licences in Tanzania through its wholly owned subsidiary Afrika Mashariki Gold Mines Limited (AMGM).

Exploration of the licence areas at Nyabirama and Nyabigena by AMGM over the past five years has delineated a significant gold resource. A definitive feasibility study has been completed and AMGM is now proceeding with a bankable feasibility study. Current parameters support a 1.8 million tonnes per annum operation producing 140,000 oz pa at a cash cost of US\$210/oz with a mine life of 8-10 years. The latest combined resource estimate has increased contained gold by 7% to 2.05 million oz from 20.1 million tonnes at 3.1g/t gold.

The Manager continues to view Tanzania as a sound investment area, in spite of the recent bombing of the US Embassy in Dar es Salaam. The country has high geological prospectivity and a relatively secure political and economic environment.

Consolidated Minerals Limited (Lion - 38%)

On 23 July, Lion announced that it intended to invest \$5 million for 25,000,000 shares in Consolidated Minerals Limited (CML). One free option attaches to every two shares acquired.

CML went into administration in October 1997. Lion's investment was conditional upon CML shareholder approval and the successful implementation of a Deed of Company Arrangement (DOCA) to recapitalise the company. CML shareholder approval for the transaction was obtained on 21 August 1998 and settlement of the DOCA took place on 24 August 1998, releasing the company from administration.

A new board of directors has been appointed. The Board intends to recommission the Woodie Woodie manganese mine as soon as possible and then to focus on exploration to extend the present resource base.

The weak Australian dollar and a new all weather road from the mine site to the port loading facility should significantly enhance CML's operating performance.

Australian Selection Pty Ltd (Lion - 100%)

Australian Selection Pty Ltd remains relatively cashed up (55%) and will take advantage of the current poor resource sector sentiment to enhance the investment portfolio.



FINANCIAL POSITION

- At the end of the quarter the Net Tangible Asset backing was 98.2 cents per share. This assumes that the Group's unlisted investments are valued at cost.
- Cash held at quarter end was approximately \$80 million (79.9 cents per share), the majority of which has been placed by the Manager in a range of bank-backed securities, in accordance with the Pooled Development Fund Act.

GENERAL

Investment Climate

The already depressed resource sector fell even further during the July quarter. Current market conditions provide a favourable investment climate for Lion and the company remains a rare source of capital for small resource and exploration companies.

Investment Strategy

A number of new opportunities were reviewed within Lion's investment criteria. The Manager continued detailed evaluation of potential investments on the priority list, focusing on opportunities with high quality management and with projects that are close to development or with exposure to advanced exploration.

Website Development

Development of the Lion website continued throughout the quarter. The site was officially launched on 5 August and can now be viewed at:

www.lionselection.com.au

Construction of additional sections of the site is continuing and shareholders should visit regularly to view any new developments.

Enquiries regarding Lion's website should be directed to:
Judith Russell, tel: (03) 9614 8008, email: jrussell@lsg.com.au

Shareholder Briefings

The second round of Shareholder Briefings will be held in Australia and New Zealand in October. Details of the dates, venues and times are listed in the Company Calendar at the end of this report.

All shareholders are invited to attend but are not required to RSVP to the company. If you have any queries please contact Judith Russell, tel: (03) 9614 8008.

Annual General Meeting

The Annual General Meeting of Lion Selection Group Limited will be held at the ASX Theatre in Melbourne on Wednesday 2 December from 3.30pm - 5.30pm.



COMPANY CALENDAR

Shareholder Briefings

Date	City	Location	Time
Thursday 15 October	Melbourne	Media Centre, Ground Floor Australian Stock Exchange 530 Collins Street	5.30pm
Monday 19 October	Christchurch	First Edition Room Parkroyal Christchurch cnr Durham & Kilmore Streets	2.30pm
Tuesday 20 October	Wellington	Kent Room Novotel Wellington Hotel 345 The Terrace	10.30am
	Auckland	Raffles Room Stamford Plaza Hotel Albert Street	5.30pm
Wednesday 21 October	Brisbane	Auditorium, Level 6 Riverside Centre 123 Eagle Street	10.30am
	Sydney	Sussex Room Parkroyal at Darling Harbour 150 Day Street	5.30pm
Thursday 22 October	Adelaide	Torrens 2 & 3 Hindley Parkroyal Adelaide 65 Hindley Street	10.00am
	Perth	The Board Room Novotel Langley Perth 221 Adelaide Terrace	6.00pm

Annual General Meeting

Date	City	Location	Time
Wednesday 2 December	Melbourne	ASX Theatre Ground Floor 530 Collins Street	3.30pm

For further enquiries:

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