



26 September 2008

Dear Shareholder,

On 19 May 2008, Lion announced the Lion Plan which involved the sale of key investments in Indophil and Cracow and a major cash return to shareholders. The Lion Plan was voted upon at a general meeting of shareholders on 23 June 2008, with overwhelming support for a major cash return.

Following the sale by Lion of part of its shareholding in Indophil Resources NL (Indophil), realising \$82 million in cash, your Directors are pleased to announce the implementation of the next stage of the Lion Plan by returning a minimum of \$150 million cash to shareholders via an Off-Market Buy-Back.

Under the Off-market Buy-back the Company will purchase shares at a discount to Net Tangible Assets (NTA) of not more than 5%. This Off-market Buy-back could be increased should further funds become available prior to implementation, or by way of further buy-backs if the funds become available at a later time.

The Off-market Buy-back has been determined to be the most appropriate method available to return cash both for shareholders participating in the Buy-back and those remaining. Lion's share price in recent time has traded at a discount to its NTA of approximately 20%. An Off-market Buy-back, with shares bought back at a small discount to NTA will have a positive "step-up" affect on the NTA of remaining shares, following the Buy-back. Additionally, participation in an Off-market Buy-back is optional, enabling shareholders who wish to retain their investment in Lion the ability to do so. A decision to participate in the Off-market Buy-back is not required until the offer period opens following shareholder and regulatory approval.

This Off-market Buy-back is the key mechanism to return cash to shareholders and your Directors recommend you vote in favour of the resolution put forward in the attached notice of meeting. Lion Directors intend to participate in the Off-market Buy-back with respect to all of their eligible shares.

With regulatory approval, Lion can commence distribution to shareholders of a Buy-back Booklet which will give all shareholders an opportunity to offer part or all their holding to be bought back at a small discount to the NTA of your shares. Should the Off-market Buy-back be over-subscribed, acceptances will be scaled back on a pro-rata basis.

Additionally, the current On-market Buy-back of up to \$10 million is continuing with approximately \$7.1 million of shares bought back to date.

Other options for returning cash were considered by Lion, but they were considered to be less efficient than the Buy-back arrangements proposed.

Lion is in the process of applying for a Class Ruling from the Australian Taxation Office to confirm the tax treatment for the Company and shareholders if an Off-market Buy-back is undertaken. The ruling will address the extent to which the distribution will be treated as a dividend or capital. Shareholders who have their shares bought back through the offer will not have to pay brokerage.

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Following a successful implementation of the Buy-back Program, Lion will continue to have a portfolio of early stage mining and exploration company investments. At that time your Directors intend to review Lion's structure, considering market conditions and the competitive viability of Lion, including reviewing its fixed costs in light of the fact it will be a smaller company with a reduced cash position.

The Directors' current objective is for Lion to remain as a well-funded, ASX listed, resource investment company that is attractive to all investors but principally targeted at retail investors.

Indophil

With respect to Lion's actions regarding its holding in Indophil, there have been press reports and other comments made that Lion has acted irresponsibly. Lion has acted at all times with Lion shareholders interests in mind. Because the partial sale of our Indophil holding forms a material component of the funds to be used in the Buy-back, your directors would like to make some comments in this letter on the decisions taken.

Indophil, in which Lion held 97 million shares, was the subject of conditional competing takeover offers from two parties, Xstrata Queensland Limited (Xstrata) and Stanhill Resources Pty Ltd (Stanhill), both for \$1.28 cash per Indophil share. Xstrata elected to allow its takeover offer to lapse without its conditions being met, leaving only the Stanhill conditional offer for Indophil.

Following Xstrata's offer lapsing, Lion had reason to believe that irrespective of Lion's actions, Xstrata intended to build a blocking stake of more than 10% in Indophil to prevent Stanhill acquiring 90% acceptance for its offer. In the event that Stanhill was unable to meet this offer condition and did not waive the condition, Indophil shareholders would not receive the Stanhill cash offer of \$1.28 per share. The 90% acceptance threshold was an important condition for Stanhill's offer, with 90% also identified in the Bidder's Statement as being a condition to obtain financing for its offer. Lion understood that Stanhill did not intend to waive this condition. This belief was subsequently validated when the Stanhill takeover offer for Indophil closed without waiving its 90% acceptance condition.

Accordingly, Lion Directors determined that it was in the best interest of Lion shareholders to accept an offer made by Xstrata for the majority of Lion's Indophil holding at \$1.17 per share.

As you can imagine the decision to sell part of Lion's holding was not taken lightly by Directors, but taken with Lion shareholder value solely in mind. Following Lion's partial sale of its Indophil holding, which was unequivocally in the best interest of Lion shareholders, Lion remains an Indophil shareholder with 26.8 million shares.

Yours sincerely,

Ewen W J Tyler AM
Chairman