

# FIRST SUPPLEMENTARY TARGET'S STATEMENT AND NOTICE OF MEETING AND EXPLANATORY STATEMENT

This document is the First Supplementary Target's Statement to Lion Selection Limited's ("Lion") Target's Statement in relation to the offer by Indophil Resources NL ("Indophil") for the fully paid ordinary shares and options in Lion (the "Indophil Offer"). A copy of this First Supplementary Target's Statement was lodged with ASIC on 13 June 2008.

This First Supplementary Target's Statement is to be read together with the Target's Statement dated 23 May 2008 (**Target's Statement**) and lodged with ASIC on the same date. Unless the context requires otherwise, defined terms in the Target's Statement have the same meaning in this First Supplementary Target's Statement. This First Supplementary Target's Statement prevails to the extent of any inconsistency with the Target's Statement.

This document is also to be read as a supplement to Lion's Notice of Meeting and Explanatory Statement dated 19 May 2008 (**Notice of Meeting**).

**The Takeovers Panel had concerns with disclosure in Lion's Target's Statement dated 23 May 2008, Notice of Meeting and Explanatory Statement dated 23 May 2008 and an ASX announcement dated 15 May 2008 relating to the Xstrata Queensland Limited pre-bid agreement. In particular, the Panel was concerned with Lion's disclosure in the "wrap section" of its Target Statement in that it did not highlight and cross reference the risks associated with the Lion Plan, its disclosure in relation to the fees payable to Lion Manager Pty Limited in the current financial year and following the implementation of the Lion Plan and the disclosure of its ability to accept a higher bid for shares the subject of the pre-bid agreement with Xstrata Queensland Limited. This document corrects and clarifies previous disclosures as accepted or required by the Panel.**

## CONTENTS

1.	PURPOSE OF THIS DOCUMENT.....	2
2.	BACKGROUND .....	2
3.	OBJECTIVES FOR LION'S PLAN .....	2
3.1	OBJECTIVES FOR THE CASH RETURN .....	2
3.2	OBJECTIVES FOR THE FUTURE OF LION .....	3
4.	UPDATE TO FIGURES USED IN THE LION PLAN FOR MARKET MOVEMENT AND TRANSACTION COSTS.....	3
4.1	COMPOSITION AND VALUE OF LION FOLLOWING THE PROPOSED CASH RETURN .....	4
4.2	TRANSACTION FEES & LION MANAGER PERFORMANCE FEE .....	4
5.	RISKS ASSOCIATED WITH LION'S PLAN.....	5
6.	XSTRATA PRE-BID ACCEPTANCE AGREEMENT .....	7
7.	LION AND ITS PREDECESSORS .....	9
8.	FEES PAYABLE TO LION MANAGER.....	10
9.	ARRANGEMENTS WITH LION MANAGER FOLLOWING COMPLETION OF LION PLAN .....	11
10.	SENSITIVITY TABLES .....	11
11.	COMMITMENT OF US\$19M TO AFRICAN LION 3 .....	12
12.	THE INDOPHIL OPTION OFFER.....	12

## 1. PURPOSE OF THIS DOCUMENT

The purpose of this First Supplementary Target's Statement, is to:

- (i) Update Shareholders on feedback from Lion Shareholders since the Lion Plan was announced and how the Lion Plan and future of Lion may evolve with the benefit of this feedback;
- (ii) To clarify for Shareholders the potential impact of transaction and other costs to the potential value of the Lion Plan; and
- (iii) To clarify certain elements of Lion's Plan as set out in the Target's Statement and Notice of Meeting dated 19 May 2008.

## 2. BACKGROUND

On 19 May 2008, Lion announced its Plan to realise a superior outcome for its Shareholders and Optionholders, compared with the Indophil Offer. Under this Plan, which is detailed in Section 3.3 of the Target's Statement, your Directors intend to:

- Generate approximately \$200 million in cash through the proposed sale of Lion's key investments in Indophil and Cracow at attractive values and through the planned realisation of the African Lion's stake in Albidon.
- Create cash reserves of approximately \$300 million through the combination of these asset sales, and existing cash reserves.
- Provide a major cash return to Shareholders of at least \$267 million or \$1.35 per share.
- Retain and actively manage a portfolio of investments in early stage mining and exploration companies.
- Explore all initiatives to ensure full value is recognised for the remaining portfolio.

Lion notes that Lion's Plan is subject to risks which are highlighted in both the Target's Statement (section 3.5.4) and this Supplementary Target's Statement (section 5).

## 3. OBJECTIVE FOR LION'S PLAN

### 3.1 Objectives for the Cash Return

- (a) Since announcing the Lion Plan and despatching the detailed documents to Shareholders, Lion has spoken with a significant number of its retail and institutional Shareholders.
- (b) The response from many Lion retail Shareholders has been to express a desire to remain invested in Lion and, as a consequence, to remain exposed to the resource markets and benefit from a continuation of Lion's investment track record.
- (c) A number of Lion institutional Shareholders have expressed a desire not to hold shares in a smaller Lion and would prefer to effectively sell their Lion shares for cash.
- (d) As indicated in the documents sent to Shareholders, the Company is exploring a number of different alternatives to determine the most effective method to return cash to Shareholders having regard for the various legal, accounting and tax implications. Some of these methods may require separate Shareholder approval.
- (e) This review is still underway but in light of the feedback received from Shareholders to date, the Company will aim to provide a mechanism that allows Shareholders the choice to either:
  - (i) maintain all (or some) of their investment in the Lion vehicle rather than receive a return of cash (or to receive a reduced return of cash); or
  - (ii) if possible, receive cash for all of their investment in Lion.
- (f) The details of how this cash is to be returned or this choice would be provided have not yet been finalised and Lion cannot guarantee that it will be possible to give Shareholders this choice. As stated in the Notice of Meeting, the ultimate method will be advised to Shareholders once the proposed Indophil, Cracow and Albidon sales have been finalised and the review of the alternative methods completed.
- (g) Shareholders should also be aware that the ultimate method chosen may result in tax being payable by Lion Shareholders in the financial year in which they receive the return of cash.

### 3.2 Objectives for the future of Lion

- (a) Lion's aim is to remain as a well-funded, ASX listed, resource fund that is attractive to all Shareholders but principally targeted at retail Shareholders. Lion will continue with its history engaging the Lion Manager to **actively invest and manage** a portfolio of early stage mining and exploration investments which it has successfully undertaken in the past.
- (b) Lion will continue to have access to and invest in a range of unlisted institutional funds (for example African Lion and Asian Lion) managed by the Lion Manager that are otherwise not available to retail investors.

### 4. UPDATE TO FIGURES USED IN THE LION PLAN FOR MARKET MOVEMENT AND TRANSACTION COSTS

Market prices for Lion's portfolio have moved since the reference date used in Lion's Target's Statement. The table below illustrates the potential value of Lion's Plan using share prices as at 6 June 2008. (Shareholders should note that the share price may have changed since 6 June 2008. See also the sensitivity table in section 10.) This table has also been updated to include an estimate of the possible transaction costs involved with the Lion Plan and advisory costs associated with the takeover defence (see further comment and analysis below in relation to these costs and see also section 4.2 below regarding Lion Manager fees).

The potential cash generation is summarised in the table below:

Potential Cash Generation		
Indophil	\$97m	Assuming Lion receives \$1.00 per share for its entire Indophil holding. <b>Lion may realise above \$1.00 per share for some or all of its Indophil shareholding (see section 6 below).</b> The market price of Indophil shares on 6 June 2008 <sup>(1)</sup> was \$1.075 per share.
30% Cracow Interest	\$65m	Cash component of consideration.
Albidon	\$41m	Based on the closing market price of \$4.32 per share on 6 June 2008 <sup>(1)</sup> . Lion expects that any mechanism for divestment of this interest would be designed to maximise sale proceeds. These sale proceeds are not expected to be affected by any transaction costs.
<b>Total</b> <sup>(2)</sup>	<b>\$203m</b> <sup>(3)</sup>	

(1) Shareholders should note that the share prices may have changed since 6 June 2008. See also the sensitivity table in section 10.

(2) Lion does not expect to pay tax on the disposal of the 30% Cracow Interest and Indophil shareholding at these prices. In addition, tax is not expected to be payable on the receipt of distributions from African Lion's potential sale of its interest in Albidon.

(3) This total cash generation assumes Lion is successful in selling its Indophil and Cracow investments and the African Lion funds are successful in selling their Albidon investment as contemplated in the table above. You should refer to the risks described in section 5 below and section 3.5.4 of the Target's Statement. Also refer to section 8 in relation to additional fees payable to Lion Manager relating to African Lion.

This could generate value for Lion Shareholders as follows:

Pro-forma Lion Portfolio Before Cash Return to Shareholders		
Current Direct Investments	\$56m	NTA as at 6 June 2008 <sup>(1)</sup> .
African/Asian Lion	\$27m	NTA as at 6 June 2008 <sup>(1)</sup> , excluding Albidon.
Beadell Shares	\$15m	Share component of the 30% Cracow Interest sale at the issue price of those shares.
Cash	\$301m <sup>(4)</sup>	Current cash of \$98m as at 31 May 2008 and cash generation from asset sales of \$203m <sup>(3)</sup> .
Costs	(\$4m)	Includes a performance fee to Lion Manager of \$0.6 million based on 6 June 2008 <sup>(1)</sup> closing price of LST (\$1.815 per share) continuing through to 31 July 2008. See the tables in 4.2 below for more detail, and for a range of the possible performance fee payable to Lion Manager.
<b>Total Lion NTA Value</b>	<b>\$395m</b> <sup>(5)</sup>	
<b>Total NTA Value per Lion Share</b>	<b>\$2.05</b> <sup>(5), (6)</sup>	<b>Fully diluted for Options.</b>

(1) Shareholders should note that the share prices may have changed since 6 June 2008. See also the sensitivity table in section 10.

(2) Lion does not expect to pay tax on the disposal of the 30% Cracow Interest and Indophil shareholding at these prices. In addition, tax is not expected to be payable on the receipt of distributions from African Lion's potential sale of its interest in Albidon.

(3) This total cash generation assumes Lion is successful in selling its Indophil and Cracow investments and the African Lion funds are successful in selling their Albidon investment as contemplated in the table above. You should refer to the risks described in section 5 below and section 3.5.4 of the Target's Statement. Also refer to section 8 in relation to additional fees payable to Lion Manager relating to African Lion.

(4) Includes US\$19 million which has been committed to African Lion 3 over a 5 year period.

(5) Refer to section 4.1 ("Composition and value of lion following the proposed cash return") below for a range of potential resulting Lion share prices for a range of possible discounts to NTA that Lion might trade at following the proposed cash return to Lion Shareholders.

(6) Based on 5.8m options being exercised, raising \$9 million.

#### 4.1 Composition and value of lion following the proposed cash return

After implementation of the proposed transactions and cash return to Lion Shareholders, Lion will have a portfolio of early stage mining and exploration company investments, consisting of:

Pro-forma Lion Portfolio following proposed Cash Return to Shareholders	
Direct Investments	\$71m
African/Asian Lion Funds	\$27m
Cash	\$40m <sup>(1)</sup>
<b>Total NTA</b>	<b>\$137m<sup>(2)</sup></b>
<b>NTA per share (fully diluted)</b>	<b>\$0.70<sup>(2)</sup></b>

<sup>(1)</sup> Includes US\$19 million of which has been committed to African Lion 3 over a 5 year period.

<sup>(2)</sup> Using closing market values as at 6 June 2008. Based on 5.8m options being exercised, raising \$9 million.

After ordinary business costs and anticipated costs associated with Lion's response to Indophil's bid and Lion's Plan and the potential Lion Manager Performance fee as set out in section 4. Shareholders should note that the share prices may have changed since 6 June 2008. See also the sensitivity table in section 10.

The Lion Directors are cognisant that investment vehicles typically trade at a discount to their NTA and the above plan may not unlock the full value inherent in the remaining portfolio. As such, the table below demonstrates the potential share price that Lion could trade at for a range of discounts to NTA.

Discount to NTA	0%	10%	20%	30%
Theoretical Lion Share Price Following Cash Return <sup>(1) (2)</sup>	\$0.70	\$0.63	\$0.56	\$0.49
Cash Return <sup>(1)</sup>	\$1.35	\$1.35	\$1.35	\$1.35
<b>Total</b>	<b>\$2.05</b>	<b>\$1.98</b>	<b>\$1.91</b>	<b>\$1.84</b>

<sup>(1)</sup> Based on 5.8m options being exercised, raising \$9 million.

<sup>(2)</sup> After ordinary business costs and anticipated costs associated with Lion's response to Indophil's bid and Lion's Plan and the potential Lion Manager Performance fee as set out in section 4.2.

Whilst Lion acknowledges the discount to NTA that investment vehicles typically trade, the Lion Directors will explore all initiatives to ensure full value is recognised for the remaining Lion vehicle.

#### 4.2 Transaction Fees & Lion Manager Performance Fee

All references made to the Lion Plan throughout its Target's Statement have been made explicitly prior to costs, as the costs are considered to be immaterial. It is not possible to definitively predict the transaction costs that might arise from the Lion Plan, and Directors note that most costs that might be incurred during the process of implementing the Lion Plan arise from Lion's ordinary course of business and Lion's response to Indophil's Bid, as opposed to Lion's Plan itself. Nonetheless, the table below estimates the possible transaction costs that might impact the total estimated NTA of Lion following completion of the Lion Plan.

Legal, corporate advisory, professional, printing and postage and other fees	Fees	Fee per Lion Share (Fully Diluted)
- as a consequence of Lion's response to Indophil's offer	\$2.5m	1.3 cents
- as a consequence of Lion's Plan	\$0.5m	0.2 cents
<b>Total</b>	<b>\$3.0m</b>	<b>1.5 cents</b>

The table above excludes any performance fee potentially payable to Lion Manager as a result of its Management Agreement with Lion, which is not considered to be transaction costs of either Lion's response to Indophil's Offer or the implementation of Lion's Plan. However, it is possible that either the Indophil Offer or the Implementation of the Lion Plan could result in an appreciation of Lion's share price triggering the payment of a performance fee, which may impact the cash available after the implementation of the Lion Plan as analysed above. The basis for determining the entitlement of Lion Manager to, and the amount of, the annual Lion Manager performance fee (if any) is described in Annexure 1 of Lion's Target's Statement. The amount is dependent on the highest average 60 days of the daily volume weighted average share price of Lion on ASX during any financial year. Lion's current financial year will end on 31 July 2008. The amount of any annual performance fee for this financial year would be payable by Lion to Lion Manager by 21 August 2008.

The performance fee (excluding GST) that would be payable for a range of share prices of Lion are presented in the table below.

Share Price for remainder of Financial Year	Performance Incentive	Per Lion Share (Fully Diluted)	Total Value per Lion Share <sup>(2)</sup>
\$1.76	Nil	Nil	\$2.05
\$1.80	\$0.4m	0.2 cents	\$2.05
\$1.815 <sup>(1)</sup>	\$0.6m	0.3 cents	\$2.05
\$1.90	\$1.6m	0.8 cents	\$2.04
\$2.00	\$2.8m	1.5 cents	\$2.04
\$2.05	\$3.5m	1.8 cents	\$2.03

<sup>(1)</sup> Lion's closing share price on 6 June 2008. Shareholders should note that the share prices may have changed since 6 June 2008. See also the sensitivity table in section 10.

<sup>(2)</sup> The total values assume the Lions shares trade at a 0% discount to NTA following the proposed cash return to shareholders. Refer to section 4.1 "Composition and value of Lion following the proposed cash return" above for a range of potential resulting Lion share prices for a range of possible discounts to NTA that Lion might trade at following the proposed cash return to Lion shareholders.

An annual performance fee may be triggered irrespective of the actions of the Indophil Offer or the implementation of Lion's Plan. Depending on Lion's subsequent share price movements and cash returns, a performance fee may be payable for the 31 July 2009 financial year, but this is considered unable to be reliably estimated. Under the Indophil Offer, a termination fee could also become payable to the Lion Manager as set out in section 5 of Lion's Target's Statement. The termination fee payable would be \$6.02 million assuming the Lion Manager is terminated by Indophil, based on a 3 month notice period and excluding payments for assets and intellectual property. Such termination fee is not expected to be payable under the Lion Plan.

## 5. RISKS ASSOCIATED WITH LION'S PLAN

Lion's Plan (including the proposal to make a cash return to Shareholders) is subject to risks. As stated on page 38 of the Target's Statement, if one or more of the various steps involved in the Plan are not successfully implemented, the amount of cash generated (and thus the cash return to Lion Shareholders) may be materially affected.

The risks are described in section 3.5.4 of the Target's Statement and section 9 of the Notice of Meeting. Following is an updated statement of these risks.

The numbers presented in this Supplementary Target's Statement and the Target's Statement are indicative only and are based on the assumptions provided.

(i) Lion may not be able to complete the sale of its 30% Cracow Interest for various reasons, including:

- A risk mentioned in the Target's Statement was that Beadell may not be successful in having the transaction approved by Beadell shareholders. This is no longer a risk as the transaction was approved by Beadell shareholders at its general meeting on 28 May 2008.
- Beadell may not be successful in raising from the equity or debt markets the \$285 million cash required to complete the acquisitions from Newcrest and Lion.

Beadell has disclosed the following in relation to this proposed fund raising. Beadell has engaged Merrill Lynch and Morgan Stanley to act as joint lead managers to the proposed equity capital raising to fund the acquisition of Cracow from Newcrest and Lion. Subject to market conditions, Beadell proposes that the capital raising is to be extended only to institutional investors. Beadell has reserved the discretion to revise its offer strategy in light of market conditions and other relevant factors.

Beadell stated in its Investor Presentation dated June 2008 that the risks associated with the availability and terms of debt financing are:

- The debt financing is not expected to be done by the time the equity capital is intended to be raised. There is a risk that Beadell is unable to successfully complete the targeted A\$50 million debt financing or that it cannot complete the debt financing on satisfactory terms.

- The indebtedness of Beadell and its subsidiaries and the conditions imposed on Beadell by its financing arrangements could materially and adversely affect Beadell's operations.

Beadell has indicated that it will not commence its capital raising until after Lion Shareholders have approved the sale of the 30% Cracow Interest at Lion's general meeting on 23 June 2008. Lion understands that Beadell intends to complete its capital raising within a short period after that approval. Accordingly, the Lion Directors believe that whether or not this issue remains a risk in relation to the Lion Plan will be known within a few weeks.

Lion does not have any further information concerning Beadell's proposed fund raising to assist Lion Shareholders and Optionholders to assess this risk.

- Newcrest may not exercise the option under the Newcrest Option Deed in the event Beadell does not complete its acquisition of the 30% Cracow Interest. This issue only arises if the sale of the 30% Cracow Interest to Beadell is not completed.
- (ii) If Lion's sale of the 30% Cracow Interest to Beadell is completed, there is the risk that the Beadell shares issued to Lion as part of the consideration for that sale trade at a discount to the effective issue price paid by Lion for those shares. In addition, Lion has agreed that it will not transfer or dispose of any of the Beadell shares to be issued to it for a period of 12 months from the date of their issue.
- (iii) Lion may not be able to sell its interest in Indophil at or above \$1.00 per share for various reasons, including:
- The conditions of Xstrata's takeover offer for Indophil may not be fulfilled and Xstrata may be unprepared to waive them. Xstrata's announcement regarding its proposed bid states that its offer for Indophil will be subject to the condition that the 50.1% acceptance condition under Indophil's takeover offer for Lion is not satisfied or waived by Indophil. Xstrata has indicated that it does not intend to waive this condition should the 50.1% acceptance condition of Indophil's bid be satisfied. Accordingly if the 50.1% acceptance condition of Indophil's bid is satisfied Xstrata's bid would lapse.
- Xstrata's proposed takeover offer is to be subject to other conditions. If any of those other conditions are not satisfied and if Xstrata is not willing to waive that condition, Xstrata would be entitled not to proceed with its bid.
- In the event Xstrata's takeover offer for Indophil is unsuccessful, there is a risk that no other third party, with an interest in Lion's holding, will emerge.
  - Indophil's share price may fall in the event Xstrata's takeover offer does not get traction and/or lapses.
  - Lion may not be able to sell all or any of its Indophil shares on market at or above \$1.00 despite the fact that the current market price is above \$1.00.
- (iv) A potential source of the cash to be returned to Lion Shareholders is Lion's share of the proceeds of sale by African Lion of their investment in Albidon. A risk is that African Lion may be unsuccessful in realising its investment in Albidon.

The African Lion funds have notified Lion that they intend to sell their interest in Albidon. Albidon has appointed Royal Bank of Canada to assist Albidon to assess potential corporate opportunities, and there has been significant market speculation that a number of globally significant companies are reviewing Albidon in this regard. Lion understands that African Lion has not entered into any sale agreement in relation to their Albidon investment. Albidon is not currently the subject of a takeover offer and Lion cannot control the process that the African Lion funds intend to run in order to sell their investment. Whether or not the sale will occur depends on whether Lion Manager, as manager of African Lion, can negotiate a sale of the Albidon shares in accordance with the African Lion shareholders' instructions or whether a takeover offer for a consideration acceptable to African Lion is made for Albidon.

In the event the African Lion funds do sell their interest in Albidon (or any part thereof), the distribution to Lion of its indirect share of proceeds is mandatory under the African Lion shareholder agreements. Thus, African Lion cannot retain the cash proceeds for its own purpose.

- (v) The timing of the implementation of all of the steps in Lion's Plan is generally outside of Lion's control. None of the steps will be implemented before the Lion shareholder meeting on 23 June 2008.

There is the risk that there may be a delay in the completion of the sale of Lion's 30% Cracow Interest, the sale of Lion Indophil's shares, and the sale of the African Lion fund's Albidon shares. As noted above, there is a risk some or all of these assets may not be sold. The timing of any cash return by Lion to its shareholders will depend on the timing of the completion of the above sales. Some of the possible means of returning cash to Lion Shareholders may require Lion Shareholder approval, and there could be a delay in convening any necessary Lion Shareholder meetings and obtaining any necessary approvals.

- (vi) Lion may trade at a discount to NTA post the implementation of the Plan and be unsuccessful in implementing arrangements that remove any discount to NTA that might be experienced post implementation of Lion's Plan. See further section 4.1 for details of the possible discount to NTA post the implementation of the Plan.
- (vii) The sale of assets at values outlined in the Lion Plan is not anticipated to result in tax being payable by Lion. There is a risk that Lion may not have sufficient tax losses available to offset any capital gain on the sale of key investments as contemplated in the Plan, especially if Lion sells its interest in Indophil at a price in excess of \$1.00 per Indophil share.
- (viii) Lion shareholders may not approve elements of the Lion Plan. Some possible means by which cash might be returned to shareholders would require Lion further shareholder approval. There is the risk that Lion shareholders might not give the necessary approvals.
- (ix) Lion has had discussions with the Lion Manager regarding reducing the fees payable under the Management Agreement following implementation of the Lion Plan as the size of Lion (and investments to be managed) would be reduced. Lion Manager has indicated a willingness to reduce its fees following the implementation of the Lion Plan. It is expected that an agreement on a reduction in fees will not be reached until after implementation of the Lion Plan when the size of Lion is known. Lion has no right to compel the Lion Manager to accept any changes to the Management Agreement. There is a risk that Lion and Lion Manager will not be able to reach agreement on these matters and that Lion will be obliged to continue to pay the fees applicable under the current agreement or to terminate the current agreement and pay Lion Manager the termination fees which are triggered by such termination. The Lion Directors believe that the risk that Lion Manager would not agree to a meaningful reduction in its fees is minimal. See the summary of the Management Agreement in Annexure 1 to the Target's Statement for more information concerning the fees payable under current the management agreement or on termination of that agreement.

## 6. XSTRATA PRE-BID ACCEPTANCE AGREEMENT

Lion has entered into a Pre-Bid Acceptance Agreement with Xstrata under which Lion has agreed to accept Xstrata's proposed bid for Indophil shares at not less than \$1.00 per share. The obligation to accept applies only in respect of 67,691,281 Indophil shares held by Lion, representing 17.76% of Indophil's issued shares (**17.76% Holding**).

The obligation does not extend to the further 29.2 million Indophil shares held by Lion, representing a further 7.6% of Indophil's issued shares (**7.6% Holding**).

A summary of that agreement is contained in annexure 2 to Lion's Target's Statement.

Resolution 1 set out in Lion's Notice of Meeting is to approve the sale of the 17.76% Holding to Xstrata pursuant to this agreement at not less than \$1.00 per share.

In Lion's announcement to ASX on 15 May 2008, Lion stated that "*Lion benefits from any increase in Xstrata's offer and the opportunity exists to accept any higher competing offer under certain circumstances*". The reference to "*under certain circumstances*" should have been to "*under certain limited circumstances*". Those limited circumstances are described in this section 6.

Indophil stated in its announcement to ASX on 27 May 2008 (and repeated in its letter to Lion shareholders sent on 30 May 2008) that Lion has "*no ability to accept a higher competing offer*".

Indophil also stated in its announcement to ASX on 5 June 2008 and its letter to shareholders of the same date that "If Lion shareholders vote in favour of the resolution regarding the sale of Indophil shares, they will only be able to participate in any overbid by another party if Xstrata also pays more".

These statements by Indophil also need clarification. The correct position is as follows.

#### **Higher competing offer announced before the Lion general meeting on 23 June 2008**

The circumstances in which Lion may accept a higher competing offer for Indophil shares which is announced before the Lion general meeting on 23 June 2008 are described in section 5.4 of the Notice of Meeting and in the paragraph 6 of the summary on pages 75 and 76 of Lion's Target's Statement.

Briefly, if a higher competing offer by a third party is announced before the meeting and Xstrata does not announce an intention to at least match that offer, the Lion directors may change their recommendation that shareholders vote in favour of resolution 1. Lion is to ensure that the Lion Directors' do not change their recommendation in any other circumstances. The higher competing offer must be for a cash consideration which is at least 1 cent higher than Xstrata's offer and must not be subject to any conditions which are more onerous than the conditions to which Xstrata's offer is subject to at the time. Any matching announcement by Xstrata must be made within 5 business days of the announcement of the higher competing offer or at least 24 hours before the commencement of Lion's general meeting, whichever is earlier.

In general, if resolution 1 is not passed (whether because of a change of directors' recommendation or for any other reason), then the Pre-Bid Acceptance Agreement will automatically terminate on 28 June 2008. If the agreement terminates, Lion would be free to accept the third party's higher competing cash offer, or to sell any of the 17.76% Holding to any other person or on-market, subject to any necessary shareholder approval under resolution 2 being passed.

#### **Higher competing offer announced after the Lion general meeting on 23 June 2008**

Subject to any necessary shareholder approval under resolution 2 being passed, if a higher competing offer for Indophil shares is announced after the Lion general meeting, Lion would be able to accept that offer in respect of the 17.76% Holding in any of the following circumstances:

- (a) if resolution 1 is not passed at the general meeting for any reason on or before 28 June 2008 (and the Indophil Offer has not lapsed or been withdrawn by that date and Indophil has not waived the relevant conditions to the Indophil Offer to enable Lion to sell the 17.76% Holding to Xstrata);
- (b) if Xstrata had failed to make its offers for Indophil shares by 15 July 2008 (as provided for in the Pre-Bid Acceptance Agreement);
- (c) if Xstrata has made its offers by that date, but its offers do not become (and are not declared by Xstrata to be) unconditional. Xstrata has announced that its offers will be subject to a number of conditions, including the following:
  - (i) Xstrata obtaining a relevant interest in 90% of Indophil's shares and Indophil's securities convertible into shares;
  - (ii) The 50.1% minimum acceptance condition in the Indophil bid for Lion not being satisfied or waived;
  - (iii) Indophil not declaring its bid for Lion to be unconditional.

Lion expects that Xstrata will reserve the right to declare its offer free from these conditions. However, Xstrata announced on 5 June 2008 that if the 50.1% minimum acceptance condition of Indophil's bid for Lion is satisfied, Xstrata will not waive condition (ii) above; accordingly, Xstrata's bid for Indophil would lapse in that event.

If the circumstances described in (a) and (b) above do not apply and Xstrata's bid for Indophil has become (or Xstrata is able to declare it to be) unconditional, it would be open to Xstrata to require Lion to accept Xstrata's offer for Indophil in respect of the 17.76% Holding.

It would then be open to Xstrata to sell the 17.76% Holding into the higher competing offer at a profit for itself (assuming that the higher competing offer is or becomes unconditional). Alternatively, Xstrata could retain the 17.76% Holding as a blocking stake to prevent the competing bidder from acquiring 100% of Indophil.

In either case, Lion would receive \$1.00 per share for the 17.76% Holding – which is the amount on which Lion has based the value of its Plan on pages 28 and 29 of the Target's Statement and section 4 of this Supplementary Target's Statement. This price represents:

- a 30% premium to the 30 day volume weighted average share price of Indophil on ASX of \$0.77 leading up to the announcement of Xstrata's proposed bid;
- a 53% premium to the 30 day volume weighted average share price of Indophil on ASX of \$0.53 leading up to Indophil's announcement of its bid for Lion; and
- a multiple of 4.3 times the average cost of Lion's investment in Indophil of \$0.23 per share.

Lion does not consider that it will have "lost out" if it is required to sell the 17.76% Holding at \$1.00 per share to Indophil in those circumstances.

It is important to note that Lion will not be required to sell the 17.76% Holding to Xstrata at \$1.00 if the 50.1% minimum acceptance condition to Indophil's bid for Lion is satisfied.

#### **Other circumstances in which Lion may sell Indophil shares at more than \$1.00**

The description above relates only to the circumstances in which Lion may accept a higher competing offer in relation to the 17.76% Holding.

Lion will be able to sell some or all of its Indophil's shares for more than \$1.00 in the following additional circumstances (provided that, if at the relevant time, the Indophil Offer for Lion is still open, resolution 2 is passed at the Lion general meeting):

- If Xstrata increases its bid, Lion will be entitled to receive that higher price for any of its Indophil shares if it accepts the Xstrata offer for those shares.
- If a third party makes a higher competing offer, Lion will be entitled to accept that offer in respect of any of the 7.6% Holding.
- Lion is free to sell the 7.6% Holding to any third party at a higher price outside a takeover bid (provided that the third party is permitted to acquire the shares under the 20% takeovers threshold).
- Lion is free to sell the 7.6% Holding on market at any price above \$1.00 that it can secure. Lion notes that the closing price on ASX on 6 June 2008 was \$1.075. Shareholders should note that the share prices may have changed since 6 June 2008. See also the sensitivity table in section 10.

## **7. LION AND ITS PREDECESSORS**

Throughout the Target's Statement and this Supplementary Target's Statement, references to Lion includes Lion Selection Limited, and its wholly owned subsidiaries Lion Selection Group Limited (**LSG**) and AuSelect Limited (**AuSelect**), unless otherwise noted.

The Lion Directors consider that the history prior to the 2007 merger of LSG and AuSelect is considered useful and meaningful in evaluating Lion Selection Limited given the similar investment strategy, common Boards of Directors and the engagement of Lion Manager.

Lion Selection Limited was incorporated in January 2007 and listed on ASX in April 2007. It became the holding company of LSG and AuSelect as a result of 2 interdependent schemes of arrangements (**2007 Merger**).

LSG was listed on ASX in July 1997 following an initial public offering that raised \$100 million. It was established to provide equity capital and a range of management services to carefully selected small and medium enterprises within the regulation of the pooled development fund scheme. As a registered pooled development fund (**PDF**) LSG and its shareholders received Australian taxation benefits, but certain restrictions applied in relation to LSG's activities. Lion Manager has been LSG's investment manager since the time of LSG's float in 1997. LSG ceased to be a PDF as part of the 2007 Merger.

AuSelect was established as a wholly owned subsidiary of LSG at the time LSG was first listed on ASX. AuSelect is a resource investment company and was never a PDF. AuSelect was listed on ASX in May 2004 after an initial public offering under which Lion sold its shares in AuSelect to the public and AuSelect raised \$50 million. LSG's shareholders were given a priority discount entitlement to acquire shares under that offer. Lion Manager has been AuSelect's investment manager since the time of AuSelect's float in 2004.

While LSG and AuSelect were both listed on ASX, they had the identical Boards of Directors.

At the time of the 2007 Merger a significant proportion of LSG's shareholders were also shareholders of AuSelect.

Today LSG and AuSelect are wholly owned subsidiaries of Lion. Both LSG and AuSelect purchased shares in Indophil prior to the 2007 Merger, and AuSelect acquired Cracow prior to the 2007 Merger. AuSelect is the shareholder in the African Lion funds.

## 8. FEES PAYABLE TO LION MANAGER

### Lion Management Fee Arrangements

The current annual management fee is \$2.76 million per annum (plus GST). This fee reflects the current size of Lion, and Directors note that this fee is lower than industry standards based on Lion's funds under management reflecting the fact that part of Lion's portfolio includes the African Lion funds and Asian Lion, in respect of which Lion Manager receives management fees from those funds. Similarly, Lion's directors believe the performance fee arrangements with Lion Manager also reflect that Lion Manager receives performance incentives with respect to the African Lion funds and Asian Lion.

Robin Widdup is the Managing Director of Lion. He is also the Managing Director of (and indirectly owns 40% of the shares of) Lion Manager. Mr Widdup does not receive any directors' fees or salary from Lion. Rather, he is remunerated by Lion Manager.

Lion Manager is entitled to a performance fee if certain performance hurdles are met, as set out in section 5.1(c) of the Target's Statement. No Lion Manager performance fee has accrued to date in respect of the current financial year which will end of 31 July 2008. Lion's maximum 60 day moving average share price is the key determinant of whether a performance fee is triggered and for what amount. Lion's share price has been influenced by both Indophil's bid, the subsequent announcements of elements of Lion's Plan and the Xstrata offer for Indophil. See the table in section 4.2 for analysis of possible performance fee outcomes. Lion Directors note that this analysis is not dependent on the implementation of the Lion Plan and that the actual fee (if any) payable will depend on movements in Lion's share price.

### African Lion

Lion is a minority shareholder in African Lion funds, and all arrangements with Lion Manager are on an arms length basis between Lion Manager and the relevant African Lion fund. Those arrangements are contained in a management agreement, the terms of which were approved by all shareholders of the funds, including Lion. The other shareholders in the funds include the European Investment Bank, Proparco (French Government), CDC Group plc (British) and Investec Bank Ltd.

The fee arrangements with respect to the African Lion Funds and Asian Lion are set out below. The Lion Directors believe that the generally accepted private equity/ venture capital industry standard is approximately a 2% management fee and 20% performance fee above a hurdle rate. Lion Manager's higher level of performance fee in AFL3 was instigated by the relevant funds' shareholders (other than Lion), who insisted that the performance fee go to the Lion Manager and not to Lion, to ensure Lion Manager is appropriately incentivised. However Lion retains a significant performance fee in the first 2 African Lion funds and Asian Lion.

	Lion Manager On-going Management Fee (% Of Committed Capital)	Lion Manager Performance Fee (Carried interest above 8% hurdle rate)	Lion Performance Fee (Carried interest above 8% hurdle rate)
African Lion	Cost Reimbursement	1%	10%
African Lion 2	2%	10%	10%
African Lion 3	2%	20%	0%
Asian Lion	2%	10%	10%

Lion notes that the fees payable to Lion Manager at the time of establishment of Asian Lion and AFL2 were less than 2% and had a 1% performance fee. These fees were increased to the level shown in the table above at the instigation of the funds other shareholders.

The decision to sell Albidon by the African Lion funds' Investment Committees pre-dates both the announcement of Indophil's bid, and the formulation of the Lion Plan. The sale of Albidon is not within Lion's control, and is not therefore subject to shareholder approval at Lion's General Meeting.

All references to funds expected to be received from the African Lion funds with respect to the Albidon sale reflect the net amount expected to be received by Lion. No material transaction-specific costs are expected to be incurred by the African Lion funds in relation to the sale of the Albidon shares or the receipt by Lion of its share of the sale proceeds.

The amount receivable by Lion resulting from the sale of Albidon also includes a fund performance related component due to Lion. As highlighted in the table above, unlike other shareholders in the African Lion funds, Lion benefits from a carried interest of 10% in both AFL and AFL2 representing a fund performance incentive normally reserved for fund managers. Lion received this carried interest in recognition of its function in initiating the funds, and results in Lion potentially receiving an extra \$10 million (included in the \$41 million for Albidon, based on the assumptions noted in section 4) from the sale of Albidon over and above the amount otherwise receivable based on Lion's committed capital to the funds. The amount payable to Lion Manager from the African Lion funds from the proceeds of the Albidon sale is on the same basis as that payable to Lion (that is by virtue of benefiting from a carried interest as disclosed in the table above) and would be \$5.8 million based on Albidon's 6 June 2008 share price<sup>(1)</sup> the amount being lower due to the lower carried interest participation in AFL. In addition, Lion has received \$10 million in "performance incentive" distributions to date with respect to other investment sales by African Lion to date. Lion Manager has received \$0.8 million on the same basis. The incentive amount payable to Lion and the Lion Manager are due to the exceptional returns generated by AFL and AFL2 under the management of Lion Manager.

<sup>(1)</sup> Shareholders should note that the share prices may have changed since 6 June 2008. See also the sensitivity table in section 10.

## **9. ARRANGEMENTS WITH LION MANAGER FOLLOWING COMPLETION OF LION PLAN**

Following the completion of Lion's Plan including the distribution of all funds from Lion Plan asset sales, Lion Manager has advised Lion that, subject to no change of control in Lion, it will enter into discussions with Lion to adjust the remuneration Lion Manager receives under the Management Agreement in line with normal market terms, and reflecting the reduced size of Lion. Lion Manager has provided guidance to Lion that its objective is a fee reduction of a minimum of \$1 million per annum. Lion notes that as with existing fee arrangements with Lion Manager, the negotiations for the new fee will take account of the fact that Lion Manager will continue to receive management fees from its agreements with the African Lion funds and Asian Lion, investments in which form part of Lion's portfolio. There is no right in the Management Agreement for Lion (or any person that might control Lion) to unilaterally amend the Management Agreement, and therefore there is no obligation on Lion Manager to accept such a reduction.

Lion Manager is also entitled to an annual performance incentive described in section 5.1 (c) (ii) of the Target's Statement. Lion and Lion Manager have not yet had any discussions regarding the continuance of this performance fee or any changes to the manner in which it is to be calculated.

Lion (and its predecessor companies) and Lion Manager have negotiated new fees and amended fee arrangements a number of times. The protocol established for these negotiations has been:

- (a) The negotiations are between Lion's independent directors and a representative of Lion Manager.
- (b) Robin Widdup abstains from the negotiations due to the fact that he is a director of both Lion and Lion Manager. The Lion Manager representative at the negotiations has been Chris Melloy.
- (c) Either Lion or Lion Manager may seek legal advice or expert opinion on the appropriate level of fees during these negotiations at each party's prerogative.

Lion and Lion Manager intend to maintain this protocol for all future negotiations of fees, including the negotiation of fees as outlined in Lion's Target's Statement and this Supplementary Target's Statement. In particular, Robin Widdup has not been involved (either for Lion or Lion Manager) in the negotiations referred to above and will not be involved in any future such negotiations.

## **10. SENSITIVITY TABLES**

The "Total Value per Lion Share" quoted above could be improved by an increase in the sale price of either Indophil or Albidon, or negatively impacted by applying a discount to NTA or higher performance fee payment to Lion Manager. The table below provides an update in this regard.

Total Value per Lion Share from Lion Plan quoted above	\$2.05 <sup>(1)</sup>	
For every \$0.20 that the Indophil Sale Price is higher than \$1.00 per Indophil share <sup>(1)</sup>	\$0.10 <sup>(2)</sup>	Subject to higher bid from Xstrata or another bidder. See section 6 for further detail.
For every \$0.50 that the Albidon Sale Price is higher or lower than \$4.32 per Albidon share <sup>(1)</sup>	+/- \$0.02	Sale process by African Lion funds, see section 5 (iv) for further detail in relation to the sale process.
For every 10% that the Lion share price after the cash distribution is at a discount to NTA of the remaining Lion portfolio of \$0.70 per share <sup>(1)</sup>	(\$0.07)	The remaining Lion entity may trade at a discount to NTA, see section 4.1 for further detail.
For every \$2 million that the costs are higher than \$4 million <sup>(1)</sup>	(\$0.01)	It is possible that the performance fee payable to Lion Manager or the transaction costs may be higher than estimated. See section 4.2 for further detail.

<sup>(1)</sup> As per the assumptions noted in section 4.

<sup>(2)</sup> Pre-tax. Whilst Lion does not expect to pay tax on the sale of its Indophil shareholding at \$1.00 per share, tax may be payable at prices above this level.

## 11. COMMITMENT OF US\$19M TO AFRICAN LION 3

On 29 May 2008, Lion announced the formal commitment of US\$19 million to African Lion 3 over a 5 year period for a 10 year fund. As such, all references to the \$40 million that is to be retained by Lion following completion of the proposed asset sales and return of cash to Lion Shareholders should be qualified by the addition of the statement: "US\$19 million of which has been formally committed to African Lion 3 over a period of 5 years". This update is required for statements made in the Target's Statement on pages 3, 4 and 29.

## 12. THE INDOPHIL OPTION OFFER

On page 17 of the Target's Statement Lion indicated that the Option Offer is subject to a non-waiveable condition that the Share offer becomes successful. This statement was not accurate. The conditions of the Option Offer which cannot be waived by Indophil are as follows (see clauses 7.1(g) and 7.5 on pages 77 and 78 of Indophil's Bidder Statement:

"that the Share Offer for the Lion Shares:

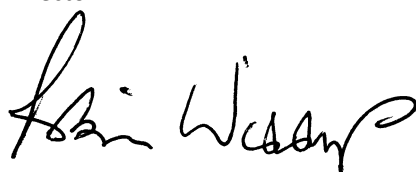
- (i) becomes or is declared unconditional;
- (ii) becomes subject only to conditions of either or both of the following kind:
  - (A) conditions that relate only to the happening of an event of circumstance referred to in section 652C(1) or (2) of the Corporations Act; or
  - (B) the condition required by section 625(3) of the Corporations Act."

**DATED** 13 June 2008

**SIGNED** for and on behalf of Lion Selection Limited by Ewen W J Tyler and Robin Widdup being two directors of Lion Selection Limited who are authorised to sign by a resolution unanimously passed at a meeting of the directors of Lion Selection Limited.



Director



Director