

# NOTICE OF GENERAL MEETING and EXPLANATORY STATEMENT

General Meeting to be held at Telstra Theatrette, Telstra Conference Centre,  
Level 1, 242 Exhibition Street (Corner of Lonsdale and Exhibition Streets)  
Melbourne, Victoria

Friday 31 October 2008 at 10.00am

- Lion Plan approved 23 June was to return \$1.35 – 1.50/share (\$267-295m) to shareholders.
- This Initial Off-market Buy-back will return \$150m.
- Off-market Buy-back chosen because it is more effective than capital return or dividend in returning cash to shareholders.
- This vote allows Lion total flexibility to buy back 75% of Lion's shares and repay the full amount of the Lion Plan.

This Notice of General Meeting and Explanatory Statement should be read in its entirety. If shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser without delay.

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## NOTICE OF GENERAL MEETING

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Notice is given that a General Meeting of the shareholders of **Lion Selection Limited ABN 53 123 217 112** ("the Company") will be held as follows:

Date: Friday 31 October 2008

Time: 10.00am

Place: Telstra Theatrette, Telstra Conference Centre, Level 1, 242 Exhibition Street, Melbourne

This Notice of Meeting should be read in conjunction with the accompanying Explanatory Statement. A Proxy Form accompanies this Notice.

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### **SPECIAL BUSINESS**

#### **Resolution 1 – To approve the Buy-back of up to 75% of ordinary shares**

To consider, and if thought fit, pass the following ordinary resolution:

That the Company authorises and approves for the purposes of section 257C of the Corporations Act 2001 and all other purposes:

The Buy-back of up to a total of 143 million of its issued ordinary shares (minus any ordinary shares bought back on-market during the 12 months prior to the date of this General Meeting) by Buy-back agreements under either or both of:

- (1) One or more Off-market Buy-backs; and
- (2) One or more On-market Buy-backs,

as detailed in the Explanatory Statement which accompanies this Notice of General Meeting.

Dated: 26 September 2008

**By order of the Board**

Craig Smyth  
**Company Secretary**

## NOTES

These Notes form part of the Notice of Meeting.

### Right to vote

The Directors have determined that, for the purpose of voting at the meeting, members are those persons who are the registered holders of shares at 7.00pm (Melbourne Time) on 29 October 2008.

### Appointment of proxies

Each member entitled to vote at the general meeting may appoint a proxy to attend and vote at the general meeting.

A proxy need not be a member of the Company and can be an individual or a body corporate.

A body corporate appointed as a member's proxy may appoint a representative to exercise any of the powers the body may exercise as a proxy at the general meeting. The representative should bring to the meeting evidence of his or her appointment, including any authority under which the appointment is signed, unless it has previously been given to the Company.

A member entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise.

### Lodgment of proxy documents

For an appointment of a proxy for the meeting to be effective:

- the proxy's appointment; and
  - if the appointment is signed by the appointor's attorney – the authority under which the appointment was signed (eg a power of attorney) or a certified copy of it,
- must be received by the Company at least 48 hours before the meeting.

The following addresses are specified for the purposes of receipt of proxies:

#### By mail:

Computershare Investor Services Pty Limited  
GPO Box 242, Melbourne Vic 3001

#### By fax:

+61 3 9473 2555

#### In Person:

Computershare Investor Services Pty Limited  
Yarra Falls  
452 Johnston Street, Abbotsford Vic 3067

### Bodies corporate

A body corporate may appoint an individual as its representative to exercise any of the powers the body may exercise at meetings of a company's members. The appointment may be a standing one. Unless the appointment states otherwise, the representative may exercise all of the powers that the appointing body could exercise at a meeting or in voting on a resolution.

The representative should bring to the meeting evidence of his or her appointment, including any authority under which the appointment is signed, unless it has previously been given to the Company.



# Explanatory Statement

This Explanatory Statement is intended to provide shareholders of the Company with information to assess the merits of the proposed resolution contained in the accompanying Notice of Meeting.

## Approval to buy back up to 75% of ordinary shares (ordinary resolution)

### 1 Overview

#### 1.1 Introduction

Lion currently has significant cash reserves and is proposing to return a substantial amount of cash to shareholders via an Off-market Buy-back and/or an On-market Buy-back (the **Buy-back Program**). Shareholder approval is required to conduct the Buy-back Program.

This document contains details of the Buy-back Program for the purpose of obtaining shareholder approval for the Buy-back Program. By voting in favour of the Buy-back Resolution, shareholders are not committing themselves to participate in any Buy-back. If the Buy-back Program proceeds, no shareholder will be required to sell any of their shares through the program, if they do not wish to do so.

#### 1.2 The Lion Plan

On 19 May 2008, Lion announced the Lion Plan, which included:

- a proposed sale of Lion's key investments in Indophil Resources NL and Cracow , and
- a subsequent major cash return of up to \$1.50 per share (representing approximately \$287 million in total). This was to be funded out of existing cash reserves and the proceeds of sale of Cracow, Lion's shareholding in Indophil and Lion's indirect shareholding (through the African Lion funds) in Albidon.

Shareholders approved the Lion Plan at a general meeting held on 23 June 2008.

Lion stated that following implementation of the Lion Plan, Lion Directors would explore all initiatives to ensure full value is recognised for the remaining Lion vehicle.

Lion's stated intention was to return a significant portion of its cash reserves to shareholders by one or a combination of dividend, return of capital or share Buy-back; the ultimate method to be determined following a review of the alternatives from a legal, accounting and tax perspective. The amount to be returned was expected to vary depending on the timing and the outcome of the proposed sale transactions.

#### 1.3 Update on the Lion Plan

On 8 September 2008 Lion sold 70.1 million Indophil shares at \$1.17 per share realising approximately \$82 million in cash. Lion holds a further 26.8 million Indophil shares.

Lion was not able to complete the proposed sale of Cracow as the purchaser was unable to secure the necessary funding due to difficult market conditions.

Lion also did not receive funds from African Lion as proposed in the Lion Plan, due to the unsuccessful sale by African Lion of its holdings in Albidon as a result of difficult market conditions.

#### **1.4 Existing On-Market Buy-back Program**

On 7 July 2008 Lion announced an On-market Buy-back program under which it could purchase up to 10% of the Company's shares on market over a 12 month period. This did not require shareholder approval. The Lion Board set a limit of \$10 million for the on market Buy-back, which represented approximately 3% of the Company's shares. No shares will be bought back on-market at any time that the discount to NTA is less than 10%. The Directors reserve the right to vary this restriction. This On-market program is still in operation and, as at 25 September 2008, 4.7 million shares (or 2.5% of issued capital) have been bought back under that program for a total cost of \$7.1 million.

#### **1.5 Cash Reserves**

As at 25 September 2008, the Company has the following cash reserves (after \$7.1 m already spent under the Existing On-market Buy-back Program):

Proceeds of the recent sale of Indophil shares	\$82m
Other cash reserves	<u>\$98m</u>
Total as at 25 September 2008	<u>\$180m</u>

Taking into account the Company's existing investment commitment (such as Asian Lion and African Lion 3) and other expenditure requirements, the Directors consider that it would be appropriate to return up to \$150 million of these cash reserves to shareholders.

If further assets are sold, the cash received may also be available for distribution to shareholders.

#### **1.6 Buy-back Program**

The Lion Directors believe it is in the best interest of shareholders that the Company has maximum flexibility in conducting the Buy-back Program and the terms of the Buy-back Resolution are intended to give the Board this flexibility.

#### **1.7 Size of Buy-back Program – 75% Buy-back Limit**

Lion seeks shareholder approval to Buy-back up to 143 million shares, which is approximately 75% of Lion's issued shares at the time the Existing On-market Buy-back Program commenced (75% Buy-back Limit). This limit includes the shares which have already been bought back under the Existing On-Market Program.

The maximum amount which might be spent on the Buy-back program is not expected to exceed \$240 million.

The 75% Buy-back Limit represents a maximum number of shares that may be bought back, rather than the number that will definitely be bought back. The number of shares actually bought back will depend on a range of factors including the total amount of funding available for the Buy-back Program, the extent to which shareholders are willing to sell shares under the Buy-back Program, and an assessment by the Directors of the value to the Company in buying back shares at the relevant prices which can be achieved.

Shareholder should be aware that the shares for which they accept the buy-back offer may be scaled back if the total number of shares for which all shareholders accept the Initial Off-market Buy-back offer is greater than the maximum number of shares to be bought back under the Initial Off-market Buy-back.

### 1.8 Pricing of Buy-back program

It is envisaged that the Buy-back price of the Off-market Buy-back will be set at a discount, not more than 5% to the prevailing average daily NTA. This is likely to result in a Buy-back price which is higher than the current market price. Further details are provided in Section 4.

Any extension of the On-Market Buy-back will be carried out in a similar manner to the current On-Market Buy-back.

### 1.9 Historical share price and NTA information

The closing price of the Company's ordinary shares on ASX on 25 September 2008 was \$1.40. The Company's highest and lowest market sale prices, average monthly closing prices and end of month Net Tangible Asset backing (NTA) during each of the preceding six months were as follows:

Period	Low (\$) <sup>1</sup>	High (\$) <sup>1</sup>	Average daily closing price (\$) <sup>2</sup>	End of Month NTA	Average Daily closing price Discount to End of Month NTA
February 2008	1.27	1.495	1.36	1.82	-25%
March 2008	1.21	1.575	1.38	1.76	-22%
April 2008	1.425	1.545	1.49	1.78	-16%
May 2008	1.40	1.90	1.68	2.09	-20%
June 2008	1.80	1.95	1.84	2.12	-13%
July 2008	1.505	1.855	1.65	1.97	-16%
August 2008	1.47	1.60	1.54	1.89	-19%
September 2008 <sup>3</sup>	1.33	1.53	1.43	n/a	n/a

Notes:

1. Based on trading of ordinary shares during normal ASX trading hours, generally from around 10.00am to 4.00pm.
2. Calculated as the average of the closing prices of the Company's ordinary shares on ASX for each trading day over the relevant month.
3. Prices for September are taken up to and including 25 September 2008.

The market price and the Buy-back price of shares at the time of any Buy-back may be significantly lower or higher than the Company's historical share price and this will affect the maximum number of shares that can be bought back.

### 1.10 Eligible Shareholders

The Company may buy back on-market the shares held by any shareholder who offers their shares for sale through ASX while the Company is buying-back shares on-market.

In relation to an Off-market Buy-back, any shareholder who holds shares on the record date set for the relevant Buy-back offer, will be eligible to participate, except that the Company may for regulatory reasons exclude shareholders whose registered address is outside of Australia, New Zealand, United Kingdom, United States of America, Hong Kong and Singapore.

### 1.11 Directors' recommendation

Each of the Company's Directors recommends that shareholders vote in favour of the Buy-back Resolution. The Buy-back Resolution is considered by the Company's Directors to be the most appropriate method of distributing surplus capital to shareholders. In addition, following the overwhelming vote in favour of a cash return to shareholders at the 23 June 2008 shareholders meeting, the Directors are cognisant that in the current market shareholders would like the opportunity to receive a significant cash return for their shareholding in Lion.

Advantages and disadvantages of Off-market and on-market Buy-backs, are described in sections 4 and 5 below.

The interest of each Director in the share capital of the Company as at 25 September 2008 as notified by the Directors of the Company to the ASX in accordance with section 205G of the Corporations Act is:

Name	Shares	Options
Ewen Tyler	31,926	1,220
John O'Reilly	94,980	3,660
Graham Freestone	15,941	Nil
Robin Widdup	1,500,316	25,102

Lion's Directors have advised that they intend to participate in the Initial Off-market Buy-back with respect to the eligible Lion shares that they hold at that time.

## 2 Shareholder approval sought for Buy-back Program

A Buy-back of shares in a company listed on ASX which exceeds 10% of the issued capital in any 12 month period requires shareholder approval under the Corporations Act 2001. Since the Company

may Buy-back more than 10% of its shares under the Buy-back Program, the Company is seeking shareholder approval of the Buy-back Program by way of the Buy-back Resolution.

The Buy-back Resolution will be approved if more than 50% of votes cast at the General Meeting are in favour of the resolution, subject to ASIC granting the relief referred to in Section 13 below.

### **3 Reasons for the Buy-back Program**

The resolution to approve the cash return of up to \$1.50 per share as part of the Lion Plan was approved by shareholders at the general meeting on 23 June 2008. 95% of the votes cast on that resolution were in favour of the cash return.

As discussed in section 1.5 above, Lion has significant cash reserves which are available to be returned to shareholders as per the Lion Plan. The Board considered other potential uses of surplus capital, and considered a range of alternative ways of returning capital to shareholders.

The Company currently has insufficient retained earnings to declare a dividend and the Company has no material franking credits. Therefore a dividend either franked or unfranked cannot be paid. A capital return to all shareholders was also considered by the Board. However, a capital return does not give shareholders the choice to retain their current level of investment in Lion (if they wish) and could have left a considerable number of shareholders with an unmarketable parcel.

The Board determined that the most appropriate method available to return cash is through an Off-market Buy-back offered to all eligible shareholders and potentially supplemented by an on-market Buy-back. The Board considers that a Buy-back is an effective means of returning surplus capital to shareholders and will enable the Company to maintain an efficient capital structure. Implications of the Buy-back Program for the Company's financial position are set out in Section 7 below.

The Board concluded that giving the company the ability to conduct either the Off-market Buy-back or the expanded On-Market Program (or both) gives the company the flexibility to choose the most advantageous method of returning surplus cash to shareholders having regard to the prevailing market and business conditions at the time. An Off-market Buy-back, with shares bought back at a discount to NTA will have a positive affect on the NTA. The major advantages and disadvantages of the Buy-back Program are set out in more detail in Section 4 and 5 below.

## **4 Proposed Off-market Buy-back**

### **4.1 Initial Off-market Buy-back**

Following regulatory and shareholder approval, Lion intends to implement an Initial Off-market Buy-back, at a discount to NTA of not more than 5%. The Buy-back price will be set by applying a discount to the average daily closing NTA in the final week of the offer period. The discount and the basis on which the NTA is to be calculated will be set out in the Buy-back Booklet.

Accordingly, the Buy-back price will be determined by reference to a formula, rather than on the basis of process within a stated range at which shareholders offer their shares. This discount to NTA basis could result in a price higher than the market price now or at the time of the Buy-back offer. The Company may set a maximum share price above which it will not buy back shares.

It is intended that the Initial Off-market Buy-back amount will be \$150 million. However, if before the Buy-back Booklets are dispatched to shareholders the Company has disposed of other assets, the Company may consider increasing that amount.

The Initial Off-market Buy-back involves the Company offering to Buy-back from each eligible shareholder ordinary shares at the Buy-back price as described above. Eligible shareholders may accept the offer in respect of some or all of their shares, if they wish. Detailed terms including the actual discount to be used and tax consequences will be set out in a separate Buy-back booklet to be mailed to shareholders. The Buy-back Booklet, when sent, will set out details of the offer, including the timetable and the total amount available for buying back shares under the Initial Off-market Buy-back (these details have not yet been determined).

#### **4.2 Eligible shareholders**

Subject to certain exceptions (as set out below), the Company will invite all shareholders who are registered on the record date for determining entitlements to participate in the Initial Off-market Buy-back.

Shareholders resident in Australia, UK, New Zealand, the United States of America, Hong Kong and Singapore and potentially other countries as well (to be detailed in the Buy-back Booklet when it is prepared) will be eligible to participate. Shareholders in other foreign countries will not be eligible to participate unless they can demonstrate to the Company's satisfaction before the end of the offer period that they can lawfully participate in the Initial Off-market Buy-back either unconditionally or after compliance with such conditions as the Company in its absolute discretion regards as acceptable and not unduly onerous. Details of eligibility will be include in the Buy-back booklet.

#### **4.3 Scale-back of allocations**

If the total number of shares for which all shareholders accept the Initial Off-market Buy-back offer is greater than the maximum number of shares to be bought back under the Initial Off-market Buy-back, the acceptances will be scaled back on a pro rata basis in accordance with rules set out in the Buy-back Booklet.

#### **4.4 Timing**

The Board's intention is to dispatch the Buy-back Booklets to shareholders as soon as possible to shareholders, subject to regulatory approvals. This is anticipated to be before the general meeting, meaning that the Buy-back would be conditional on shareholder approval.

The Off-market Buy-back will be open for at least three weeks.

#### **4.5 Other Off-market Buy-backs**

The Directors reserve the right to conduct one or more other Off-market Buy-backs over a twelve month period, subject to the 75% Buy-back Limit.

#### **4.6 Advantages of Off-market Buy-back Program**

The Board considers the benefits of conducting the proposed Off-market Buy-back Program compared to an On-market Buy-back or capital return or selling shares on the market are as follows:

- all eligible shareholders have an equal opportunity to participate;

- the Off-market Buy-back process allows shareholders to accept for any portion, all or none of their shares;
- the Off-market Buy-back process should allow the Company to buy back a greater number of shares within a shorter period than under an On-market Buy-back;
- remaining shareholders will benefit from an increase in the NTA as a result of the Off-market Buy-back;
- it may narrow the gap between the share price and the NTA until the end of the offer period;
- the Off-market Buy-back process should enable shareholders to sell a large volume of shares without depressing the market price of ordinary shares; and
- shareholders will not have to pay brokerage or appoint a stockbroker to sell their shares in the Off-market Buy-back.

#### **4.7 Disadvantages of Off-market Buy-back Program**

Potential disadvantages of conducting the proposed Off-market Buy-back Program are as follows:

- there will be a reduction in the number of shares on issue, which may decrease liquidity on the ASX;
- the Company's weighting in S&P/ASX indices may decrease and the Company could be excluded from S&P/ASX indices such as the ASX300 (further details of the impact of inclusion of the Company in S&P/ASX indices are set in section 7.8 below);
- if the Off-market Buy-back is oversubscribed (or the 20% limit discussed in section 6 is triggered), accepting shareholders may have the number of shares sold by them scaled back.

### **5 Proposed continuation and possible expansion of on-market Buy-back**

Lion is currently buying shares back on market via an On-market Buy-back. Lion may wish to continue this On-market Buy-back and, if the Buy-back Resolution is passed, may Buy-back more than 10% of its shares on-market. As at 25 September 2008, the Company has bought back 4.7 million shares (or 2.5% of issued capital) under the Existing On-Market Buy-back for an aggregate price of \$7.1 million. Lion notifies ASX of details of the shares bought back under the On-market Buy-back (including the number of shares bought back, the price paid and the price limit) on a daily basis.

#### **5.1 Advantages of On-Market Buy-back Program**

The Board considers the benefits of conducting the On-market Buy-back Program are as follows:

- Provides a transparent and efficient platform for shareholders to realise cash for their shares in a timely manner.
- all shareholders have an opportunity to participate, and can choose whether and to what extent they participate;
- it provides additional liquidity to Lion shares on the ASX market; and
- buying back shares on market at a discount to NTA increases the NTA of remaining shares held by shareholders.

## 5.2 Disadvantages of On-Market Buy-back Program

Potential disadvantages of conducting the On-market Buy-back Program are as follows:

- there will be a reduction in the number of shares on issue, which may subsequently decrease liquidity on the ASX;
- the Company's weighting in S&P/ASX indices may decrease and the Company could be excluded from S&P/ASX indices such as the ASX300 (further details of the impact of inclusion of the Company in S&P/ASX indices are set in section 7.8 below); and
- shareholders are likely to have to pay brokerage or appoint a stockbroker to sell their shares in the On-Market Buy-back.

## 6 Potential effect of the Off-market Buy-back on the control of Lion

According to substantial holder notices, Lion has four shareholders who have significant (>5%) holdings, namely:

- Carrousel Capital (14.7%)
- Laxey Partners (10.3%)
- Select Asset Management (9.3%)
- Mr Mark Creasy (5.4%)

The potential size of the Buy-back Program and subsequent cancellation of shares could significantly increase the percentage holdings of any shareholder that does not participate in the Off-market Buy-back.

If an Off-market Buy-back will result in any shareholder increasing their voting power to 20% or more, Lion will reduce the number of shares to be bought back under the Off-market Buy-back (using the scale back mechanism described in section 4.3 above) to ensure that the relevant shareholder's voting power does not exceed 20%.

In addition the owners and employees of the Lion Manager are shareholders in Lion. Should they not participate in the initial Off-market Buy-back, their aggregate voting power in Lion after the Off-market Buy-back would remain below 10%.

## 7 Financial effects of the Buy-back Program on Lion

### 7.1 Pro-forma Balance Sheet

The following table sets out the pro-forma consolidated balance sheet post completion of the initial Off-market Buy-back and possible further Buy-back.

<b>Lion Selection Limited</b>	Jul-08		Note	Share buyback - Tranche one (Note e)	Pro Forma Tranche One	Possible sale of assets (Note f)	Share buyback - Tranche two (Note h)	Pro Forma Tranche Two
Pro Forma Consolidated Balance Sheet 23 September 2008	Audited Accounts	Material Adjustments						
<b>Current Assets</b>								
Cash and cash equivalents	103,743	75,835	a, b	(150,000)	29,578	71,706	(71,706)	29,578
Trade and other Receivables	2,452				2,452	(1,443)		1,009
Financial assets	128,456	(103,483)	b, c		24,973			24,973
Inventories	1,877				1,877	(1,877)		-
Other Current Assets	2,222				2,222	(2,216)		6
<b>Total Current Assets</b>	<b>238,750</b>	<b>(27,648)</b>		<b>(150,000)</b>	<b>61,102</b>	<b>66,170</b>	<b>(71,706)</b>	<b>55,567</b>
<b>Non Current Assets</b>								
Property, Plant and Equipment	7,950				7,950	(7,950)		-
Mine Development	49,721				49,721	(49,721)		-
Financial assets	81,777	(20,303)	d		61,474	(11,979)		49,495
Deferred tax assets	6,475				6,475	(1,289)		5,186
<b>Total Non Current Assets</b>	<b>145,923</b>	<b>(20,303)</b>		<b>-</b>	<b>125,620</b>	<b>(70,939)</b>	<b>-</b>	<b>54,681</b>
<b>Total Assets</b>	<b>384,673</b>	<b>(47,951)</b>		<b>(150,000)</b>	<b>186,722</b>	<b>(4,769)</b>	<b>(71,706)</b>	<b>110,248</b>
<b>Current Liabilities</b>								
Trade and Other Payables	4,090				4,090	(1,503)		2,587
Provisions	630				630	(608)		22
<b>Total Current Liabilities</b>	<b>4,720</b>	<b>-</b>		<b>-</b>	<b>4,720</b>	<b>(2,111)</b>	<b>-</b>	<b>2,609</b>
<b>Non Current Liabilities</b>								
Provisions	700				700	(700)		-
Deferred tax liabilities	11,753				11,753	(11,527) (Note g)		226
<b>Total Non Current Liabilities</b>	<b>12,453</b>	<b>-</b>		<b>-</b>	<b>12,453</b>	<b>(12,227)</b>	<b>-</b>	<b>226</b>
<b>Total Liabilities</b>	<b>17,173</b>	<b>-</b>		<b>-</b>	<b>17,173</b>	<b>(14,338)</b>	<b>-</b>	<b>2,835</b>
<b>Net Assets</b>	<b>367,500</b>	<b>(47,951)</b>		<b>(150,000)</b>	<b>169,549</b>	<b>9,569</b>	<b>(71,706)</b>	<b>107,412</b>
<b>Equity</b>								
Contributed equity	250,748	(6,176)	a	(150,000)	94,572		(71,706)	22,866
Reserves	1,958				1,958	(1,958)		-
<b>Retained profits/(accumulated losses)</b>								
Retained profits/(accumulated losses)	114,792	(41,775)	b,c,d		73,017	11,527		84,544
<b>Total parent entity interest</b>	<b>367,498</b>	<b>(47,951)</b>		<b>(150,000)</b>	<b>169,547</b>	<b>9,569</b>	<b>(71,706)</b>	<b>107,410</b>
<b>Total minority interest</b>	<b>2</b>	<b>-</b>		<b>-</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>2</b>
<b>Total Equity</b>	<b>367,500</b>	<b>(47,951)</b>		<b>(150,000)</b>	<b>169,549</b>	<b>9,569</b>	<b>(71,706)</b>	<b>107,412</b>

Lion Pro Forma Balance Sheet Notes:

- a Cash reduced for existing on-market Buy-back program to 23 September 2008
- b Cash and Investment balance adjusted to reflect sale of 70 million Indophil shares at \$1.17/ share. The sale proceeds compares with the mark to market of the Indophil shares at 31 July 2008 of \$1.325/ share.
- c Investment balance adjusted to reflect market price of Indophil shares held as at 23 September. Actual result will vary depending on movements in fair value.
- d Investment balance adjusted to reflect market price of investments held as at 23 September.
- e Initial Off-market Buy-back as contemplated in the Notice of Meeting and Explanatory Statement. This assumes treatment as 100% capital component. Result will change to the extent that the Buy-back consideration is ruled to be a "dividend", with Retained Earnings reduced for any dividend component.
- f Possible impact of sale of certain assets at book value (including the sale of Lion's interest in the Cracow Mining Joint Venture using 31 July 2008 balances) or receipt of dividends from African Lion.
- g Reversal of deferred tax liability associated with the Lion's interest in the Cracow Joint Venture, including associated Income Statement income tax benefit.
- h Possible further Buy-back(s) as contemplated in the Notice of Meeting and Explanatory Statement. Amount is dependent on available funds and Buy-back price (maximum Buy-back is 75% of share capital). This assumes treatment as 100% capital component which is subject to ATO Class Order. Result will change to the extent that the Buy-back consideration is ruled to be a "dividend", with Retained Earnings reduced for any dividend component.

## 7.2 No adverse impact on solvency

The Directors are satisfied that, having regard to the total number of shares that can be bought under the Buy-back Program and the amount of cash that will be spent, the Company will remain solvent and will continue to be able to pay its debts as and when they fall due. The Directors will not proceed with any Buy-back unless they are satisfied at the relevant time that it would not materially adversely affect the financial position of the Company.

## 7.3 Impact on NTA and EPS

The precise impact on the Net Tangible Assets per share ("NTA") and earnings per share ("EPS") of any Buy-back Program cannot be determined until it is completed and will depend on the number and timing of any shares bought back and the volume weighted average Buy-back price. However, it is expected that the impact on NTA will be positive. Buying back shares at a discount to NTA will increase the NTA of the shares remaining.

## 7.4 Impact on ordinary shares on issue

Percentage of total shares bought back	Number of shares bought back (million) <sup>1</sup>	Number of shares remaining (million) <sup>2</sup>
40.0%	76	115
50.0%	96	95
60.0%	115	76
70.0%	134	57
75.0%	143	48

Notes:

1. Based on 191 million shares outstanding as at the announcement of the Existing On-Market Program on 7 July 2008. 4.7 million shares, representing 2.5% of issued capital, have been purchased under the Company's Existing On-Market Program up to 25 September 2008. The Company may buy back up to a total of 19 million shares under the Existing On-Market Program.
2. The Company also has options on issue which, if exercised, would result in the issue of a further 5.6 million shares.

## 7.5 Impact on Lion Options

A Buy-back of any of the Company's shares will not affect of the terms of the Lion Options currently on issue. The exercise price and expiry date of the options will remain unchanged.

Lion has currently 5.6 million listed Options and no unlisted options. These Options expire on 28 April 2009 and have an exercise price of \$1.51 per option. Every Lion option exercised converts to one Lion ordinary share.

Any shares issued before the relevant record date for an Off-market Buy-back as a result of the exercise of Options will be eligible to participate in the Off-market Buy-back (subject to the exceptions described in section 4.4 above).

### **7.6 Impact on liquidity of Lion shares**

A Buy-back may decrease the Company's ASX free float which may reduce ASX trading volumes and liquidity in the Company's shares. However, it is not possible to determine the extent of any potential decrease in liquidity at this time.

### **7.7 Impact on inclusion of the Company in S&P/ASX indices**

Lion is currently included in the S&P/ASX300 Index.

Eligibility for inclusion in S&P/ASX indices is at the discretion of the Standard & Poor's Australian Index Committee and is based on criteria which include (among other criteria):

- the size of a company's free float market capitalisation;
- a stock's liquidity relative to the liquidity of peers of a similar size; and
- a minimum free float of 30% of total issued ordinary shares.

A company's weighting in S&P/ASX indices is generally based on the size of the company's free float relative to the weightings assigned to other companies included in an index. The weighting of a company in an index may be reduced if the relative liquidity of its shares is significantly lower than companies in the index with free float capitalisation of a similar size.

Any Buy-back Program will reduce the Company's free float market capitalisation. Further, any Buy-back Program is likely to decrease liquidity and the size of the free float as a percentage of total issued shares.

Any Buy-back Program is likely to therefore decrease the Company's weighting within S&P/ASX indices and could result in the exclusion of the Company from S&P/ASX indices.

## **8 Future Plan for Lion**

Following 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 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 Director's 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.

Lion's dividend and distribution policy will be determined by the Directors at the time having regard to the earnings, financial and taxation position and investment requirements of Lion.

## 9 Proposed arrangements with the Lion Manager

Lion's independent directors and the Lion Manager have agreed in principle terms for an amended management agreement reflecting the change in nature of Lion's structure following the proposed buy back, and possible further elements of the Lion Plan.

Lion's independent directors have resolved that Lion will not buy back more than \$160 million of shares without the amended management agreement being approved by shareholders (if required) and executed.

## 10 Australian tax considerations

The Australian tax implications for shareholders will depend on the applicable Buy-back mechanism by which the shareholder disposes of their Lion shares. Each shareholder should obtain specific tax advice on the treatment of the Buy-back Program taking into account their particular circumstances.

- **Off-market Buy-back:** The Company is in the process of applying for a Class Ruling from the Australian Taxation Office to confirm the tax treatment 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. Full details will be put in the Buy-back booklet. If the Company proceeds with the Off-market Buy-back, general information on the tax implications of successfully participating in the Off-market Buy-back will be set out in the Buy-back Booklet sent to shareholders in relation to the Off-market Buy-back.
- **On-market Buy-back:** The tax treatment for the selling shareholder of selling shares into any on-market Buy-back is the same as for any other on-market share sale. The implications for shareholders depend on the specific circumstances of the shareholder.

Information on any Class Ruling sought by the Company will be posted on the Company's website as received. Shareholders will not be individually notified of the issue of the Class Ruling. Any Class Ruling will be published by the Australian Taxation Office on its website.

## 11 Regulatory Approvals

### 11.1 Foreign Acquisitions and Takeovers Act (the Act)

Under the Act, the Treasurer may make divestment orders in relation to shares held by certain persons if following the Buy-back a foreign person has a controlling interest in the Company. Relevantly, a person will have a controlling interest if they and their associates have control of, or interests in, 15% or more of the Company's shares. Shareholders who are foreign persons should take their own advice in relation to the implications of any Buy-back for them.

### 11.2 ASIC relief

The proposed Off-market Buy-back Program does not technically comply with the requirements under the Corporations Act for an equal access Buy-back. Accordingly, it would be treated as a selective Buy-back for the purposes of the Corporations Act, and, rather than requiring approval by ordinary resolution of shareholders, it would require approval by a special resolution on which no votes are cast by persons whose shares are proposed to be bought back or their associates. However, Lion has sought from ASIC an exemption under subsection 257D(4) of the Corporations Act to permit it to:

- conduct the Buy-back similarly to the conduct of an equal access scheme;
- use the scale-back mechanism described above;
- rely on the approval of the Buy-back by an ordinary resolution of its shareholders (on the same basis as would be required for an equal access Buy-back in excess of the 10/12 limit).

### 11.3 ATO Class Ruling

As well as an ASIC exemption, the Company is in the process of applying for a Class Ruling confirming the tax position for shareholders. The Company will not necessarily wait to receive a final Class Ruling before proceeding with an Off-market Buy-back. Further details of the Class Ruling process will be contained in the Buy-back Booklet.

### 11.4 ASX waiver

Before proceeding with any Off-market Buy-back, the Company will apply for a waiver from the ASX from:

- Appendix 7A of the Listing Rules. This will exempt the Company from the requirement to set a record date for entitlement to participate in the proposed Off-market Buy-back at least seven days after the General Meeting;
- Listing Rule 3.8A. This will allow the Company to lodge its Appendix 3F notifying the market and shareholders of the results of the proposed Off-market Buy-back at least half an hour before the commencement of trading on the second business day after the proposed Off-market offer period ends, rather than that time on the first such business day required; and

The above waivers from ASX may not be necessary for the Off-market Buy-back to proceed.

## 12 Glossary

**African Lion 3** means African Lion 3 Limited, a company incorporated in Mauritius.

**African Lion Funds** means African Lion Limited and African Lion 2 Limited, both companies incorporated in Mauritius.

**Albidon** means Albidon Limited ABN 107 288 755.

**Asian Lion** means Asian Lion Limited, a company incorporated in Mauritius.

**ASIC** means the Australian Securities and Investments Commission.

**ASX** means ASX Limited ABN 98 008 624 691.

**Buy-back Booklet** means the booklet to be despatched to shareholders setting out details of the Initial Off-Market Buy-back, including the timetable and the total amount available for buying back shares under the Initial Off-market Buy-back.

**Buy-back Resolution** means Resolution 1 set out in the Notice of General Meeting dated 26 September 2008.

**Cracow** means the gold mine in Queensland known as "Cracow", in which Lion, through its subsidiaries, holds a 30% interest.

**Directors** means the directors of Lion.

**Existing On-market Buy-back** means Lion's on-market buy-back program announced to the market on 7 July 2008.

**Indophil** means Indophil Resources NL ABN 45 076 318 173, and its Subsidiaries.

**Initial Off-market Buy-back** means an off-market buy-back of up to \$150 million of shares (or such lesser amount as may be determined by the Directors) intended to be conducted shortly after shareholders approve the Buy-back Resolution.

**Lion Manager** means Lion Manager Pty Ltd ACN 078 018 934.

**Listing Rules** means the official listing rules of ASX as amended or replaced from time to time, except to the extent of any express written waiver granted by ASX.

**Management Agreement** means the agreement between Lion and Lion Manager, dated 1 February 2007, under which Lion has appointed Lion Manager as investment manager to manage Lion's portfolio.

**NAV** means Net Asset Value.

**NTA** means Net Tangible Asset Backing.

**Off-market Buy-back** means any off-market buy-back conducted by Lion as set out in this Notice of Meeting.

**On-market Buy-back** means an expanded on-market buy-back program to the Existing On-market buy-back.

**Seventy-five per cent (75%) Buy-back Limit** means 143 million shares, including shares which have already been bought back under the Existing On-market Buy-back.