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Lion and AuSelect Potential Merger

Lion and AuSelect advise they are in discussions regarding a potential merger of the two companies.

The vision is to **create a diversified mining company with a portfolio of high quality junior resource investments which will complement and drive development of a core holding of larger investments, operations and royalties, providing growth and cashflow.**

Key Points

- **Investigating a merged company structure with joint Schemes of Arrangement which will allow both shareholder groups to vote on the potential merger.**
- **Merger of equals being considered based on the relative net tangible asset backing (NTA) of the two companies.**
- **Formation of a larger diversified Australian mining company with the benefits of a stronger balance sheet and financial capacity.**
- **Enhanced opportunities resulting from larger size and unshackled from PDF constraints.**
- **Potential inclusion to ASX-200, attracting increased international interest, and a re-rating of share value.**
- **Single point for investment in the Lion team.**
- **Retention of the current objectives of both Lion and AuSelect, and the Lion Manager's culture and team.**
- **Remain both a venture capital and opportunistic investor with a view on the investment cycle.**
- **The Lion Board believes the advantages of the potential merger with AuSelect are compelling and are likely to outweigh the disadvantages for Lion and its shareholders of the loss of the PDF diminished benefits.**



The potential merged company will target growth through two complementary divisions.

Funds / Investments Division

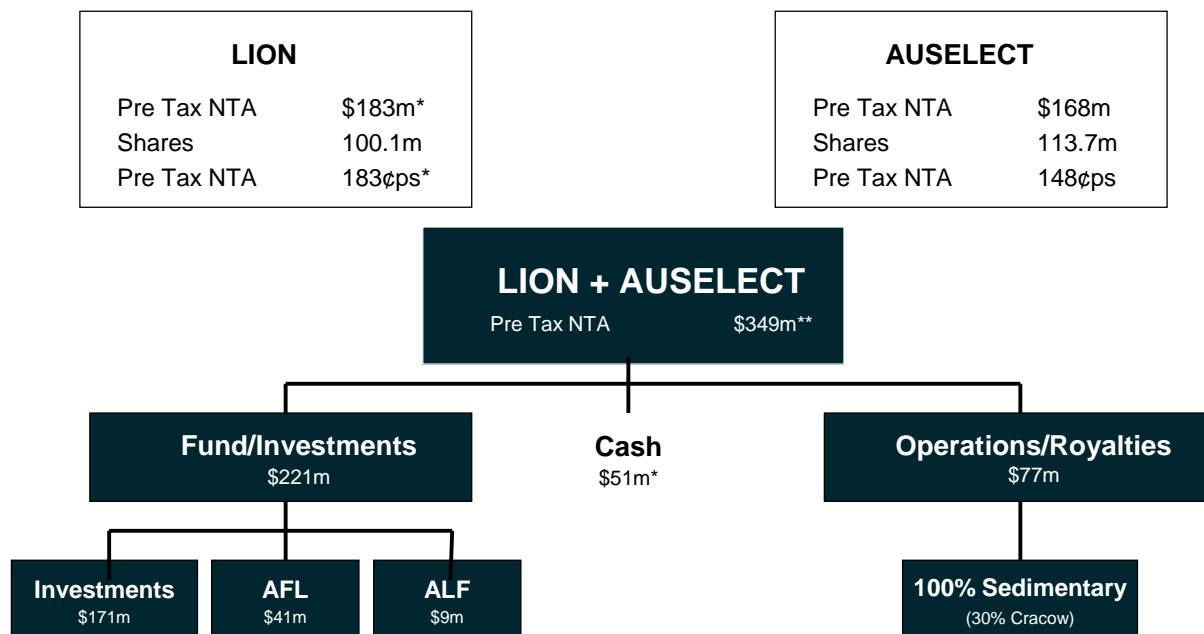
Investments in a portfolio of carefully selected companies with outstanding people and projects providing a balanced exposure to the high risk/high reward junior resource sector. Investments will be either direct or via the African and Asian Lion funds managed by the Lion Manager.

The strategy is to provide funding at an early stage to assist the companies along the development curve and exit following consideration of value after project development, and the timing of the investment cycle. It is intended to continue to return profits after tax to shareholders.

Operations / Royalties Division

Typically larger, value driven, investments made at the time of project finance or when an opportunity arises, that may have been funded by the merged company at an earlier stage. These investments may be in companies, non-operating project stakes, operations, and royalties, and may be held through the investment cycle as core assets.

Potential Merger: Lion + AuSelect



* After \$10m Lion dividend February 2007 announced 8 December 2006

** After \$10m Lion dividend February 2007 announced 8 December 2006 and excluding the value of Lion's AuSelect options



Background

- Lion raised \$100 million in 1997 to maximise the capital growth of its shareholders funds by providing patient equity capital to companies with outstanding people and projects. Lion operates under the Pooled Development Fund (PDF) scheme. Lion will have returned \$84 million to shareholders and have a Pre-Tax NTA of \$183 million (at 30 November 2006 and after the February 2007 \$10 million dividend announced 8 December 2006).
- AuSelect was formed in 2004 with a capital base of A\$50 million to be opportunistic and invest largely where Lion had made a prior investment and was limited by PDF constraints. This model has been successful, with African Lion, Sedimentary and Asian Lion all good examples of successful non PDF investments.
- To pursue these opportunities the choice for Lion in 2004 was to lose the PDF status or to float AuSelect. Retention of PDF was selected and since that time has delivered \$12 million of corporate tax savings allowing increased dividends to be paid.
- Over time the PDF tax benefits have, in practice, eroded, and the PDF constraints have made Lion less competitive.

Key Drivers for the Potential Merger

Should the merger proceed, Lion and AuSelect shareholders are expected to benefit for a range of reasons:

- **Simplicity**

Single point for investment in the Lion team for shareholders. Board and Management would have a single focus within one company with the current objectives of both Lion and AuSelect.
- **Synergy**

The investment styles of Lion and AuSelect would be retained without the need of "Investment Protocols". Both strategies and portfolios overlap and dovetail. The Board and Management are the same. No requirement for duplicating accounts and listings. Lion no longer constrained by PDF.
- **Structure**

One company with access to cash and borrowing capacity across divisions.
- **Cycle**

As the investment cycle nears its project peak, a larger diversified asset base will mean lower risk. In addition the PDF CGT benefits for shareholders become less effective nearer to the peak of the cycle and the proposed merger can lock in the gains.



➤ **Size & Liquidity**

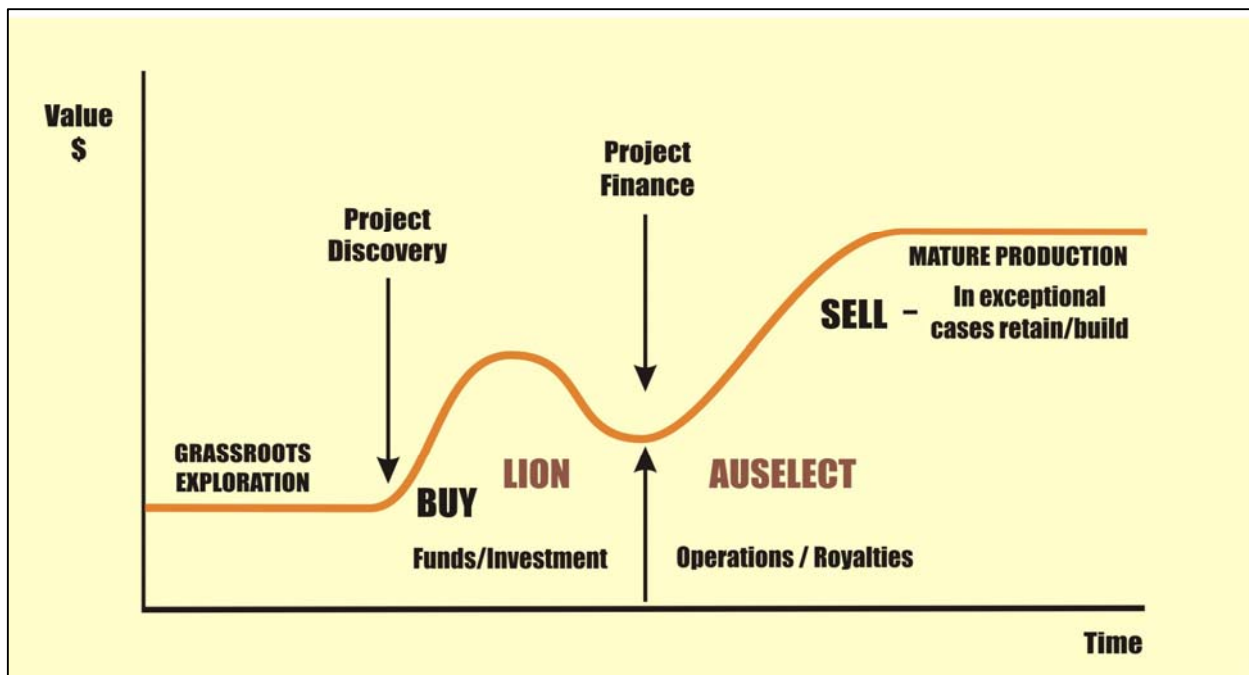
The merger would result in a larger company with the benefits of a stronger balance sheet and financial capacity, potential inclusion in the ASX-200, attracting increased international interest, resulting in the potential for a significant re-rating.

Investment Philosophy

The proposed merged company would retain the same investment philosophy as Lion and AuSelect through the two principal business divisions – Funds/Investments and Operations/Royalties.

Lion OR Funds/Investments	AuSelect OR Operations/Royalties
➤ Venture Capital/Early stage investor	➤ Opportunities/Later stage investor
➤ Invest in People/Companies	➤ Invest in People/Companies /Operations and Royalties
➤ 50% Australia/50% Africa/Asia	➤ Aim for balance with Australia, Africa & Asia
➤ 50% gold/50% other metals	➤ Aim for commodity balance
➤ Sell portfolio within cycle	➤ Retain selective opportunities beyond cycle

Resource Company/Project Value Curve





Loss of Lion PDF Status

The PDF scheme has proved to be a tax efficient platform to build Lion, however if the potential merger is implemented, Lion will lose its PDF status. However, subject to finalisation of merger terms, the Lion Board believes the advantages of the potential merger with AuSelect are compelling and are likely to outweigh the disadvantages for Lion and its shareholders of the loss of the PDF status for Lion shareholders.

The PDF tax advantages originally enjoyed by Lion have been eroded by recent changes to the tax system and other factors, for example:

PDF tax advantages

Reduced advantage because . . .

CGT free shares

CGT rate has reduced for individuals.
Capital losses cannot be claimed.

Dividends tax free or franked

Lower personal tax rates.
Superfund tax changes.

15%/25% corporate tax

Franking from 30% tax can be passed on to shareholders efficiently.

The PDF scheme has also made Lion less competitive when making investments in a very competitive resource market. The disadvantages of being a PDF are that Lion can only invest in:

- Australian registered companies.
- Companies with assets <\$50 million and this limit is not indexed.
- Only new shares (i.e. cannot buy on-market).

The ability to sell investments can be constrained by PDF Board approval.

The market and Lion have also changed significantly in recent times:

- Lion has grown / investments matured and <\$50 million constraint has become an issue more frequently.
- Competition for investments from a buoyant market has increased.
- Potential investees access to equity in this buoyant market has improved.
- More Australian companies are registering offshore.
- The investment cycle has advanced.

The formation of a merged company through joint Schemes of Arrangement would enable Lion shareholders to lock in the share price at the time of merger as a new cost base.



Timing and Process

While no final decision has been made by the Lion and AuSelect Board to proceed with the merger, Lion and AuSelect are working towards an announcement of agreed merger terms in late January 2007 and shareholder meetings in March 2007.

Each of the respective Boards has delegated responsibility for decisions relating to the terms and implementation of the merger proposal to a Committee of each Board. No director is a member of both Committees.

Lion Manager is to propose terms for the merger to Lion and AuSelect. Should the merger proposal be agreed and put to shareholders, an independent expert will be retained to give an opinion on the terms of the merger to the shareholders of both companies.

Gryphon Partners has been retained by Lion and AuSelect as corporate adviser in respect of the proposed merger.

AuSelect SPP and Share Sale Facility

As a result of the merger discussions, AuSelect directors have deferred the implementation of the Share Purchase Plan and Share Sale Facility, announced on 9 November, as these proposals may become redundant.

Potential Merger – Investment Summary

If the merger were to proceed the following is a draft Investment Summary table which gives an indication of the combined assets of the merged company as if the merger had occurred on 30 November 2006.



Lion + AuSelect – Investment Summary

At 30/11/2006	ASX Code	Country/Activity	LSG + AUS Holding %	Investment \$m	Market Value \$m
INVESTMENTS					
	AGM	Australia - nickel	6.8%	6.1	19.2
	ARX	Indonesia - gold	19.1%	11.4	6.5
	DEG	Australia - gold	6.7%	3.4	1.9
	EXS	Australia - copper/gold	10.7%	4.1	5.0
	HAV	Australia - gold/base metals	19.0%	2.4	14.6
	IRN	Philippines - copper & gold	25.8%	22.6	73.2
	LAF	Philippines - polymetalic	18.6%	15.2	16.3
	LVR	Australia - gold	5.1%	3.7	2.5
	PSV	Australia - gold	4.0%	10.8	8.9
	VRE	Australia - gold/nickel	9.5%	6.7	5.8
	WEZ	Australia - gold	44.3%	10.4	16.8
		Other		0.6	0.5
TOTAL INVESTMENTS				97.4	171.1
FUNDS					
African Lion Fund (AFL)			26.5%	9.1	41.0
incl Albidon	ALB	Africa - explorer / Zambia - Ni	6.0%	3.3	15.5
Mineral Deposits	MDL	Senegal - mineral sands/gold	0.7%	0.9	4.0
Platmin	PPN-TSX	SA - PGMs	2.7%	3.5	16.5
Sphere Investments	SPH	Mauritania - iron ore	2.1%	1.1	3.8
Other including cash committed					1.1
Asian Lion Fund (ALF)			32.4%	8.9	8.9
Total invested (cash)				0.9	0.9
Cash committed				8.0	8.0
TOTAL FUNDS				18.0	49.9
OPERATIONS					
Sedimentary					
30% Cracow + Exploration				72.8	72.8
Intrepid				10.0%	13.3
Net Debt				(9.3)	(9.3)
TOTAL OPERATIONS				78.1	76.8
NET CASH					51.2
TOTAL NET ASSETS					349.0

Total Investments and Net Assets exclude value of Lion's AuSelect options

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