



LION
ENERGY LIMITED

ABN 51 000 753 640

Annual Financial Report 2007



CORPORATE DIRECTORY

DIRECTORS:	Jian Wu (Chairman) Russell Brimage Weidong Zhang
COMPANY SECRETARY:	Jack Hugh Toby FCA AACS
ABN:	51 000 753 640
REGISTERED OFFICE:	Ground Floor, 15 Rheola St West Perth, Western Australia 6005 Tel: +61 (8) 9213 4300 Fax: +61 (8) 9213 4311
AUDITORS:	Stantons International 1 Havelock St West Perth WA 6005 Tel: +61 (8) 9481 3188 Fax: +61 (8) 9321 1204
SHARE REGISTRY:	Computershare Investor Services Pty Ltd Level 2, Reserve Bank Building 45 St Georges Terrace Perth, Western Australia 6000 GPO Box D182 Perth, Western Australia 6840 Tel: +61 1300 557 010 Fax: +61 (8) 9323 2033

This annual report covers both Lion Energy Limited as an individual entity and the consolidated entity comprising Lion Energy Limited and its subsidiaries. The Group's presentation currency is Australian Dollars (\$). The functional currency of Lion Energy Limited is Australian Dollars (\$) and the functional currency of all subsidiaries of Lion Energy Limited is United States Dollars (US\$). A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report. The directors' report is not part of the financial report.



DIRECTORS' REPORT

The directors of Lion Energy Limited A.C.N. 000 753 640 ("Parent Entity" or "Company") present their report including the consolidated financial report of the Company and its controlled entities ("Consolidated Entity") for the year ended 30th June 2007. The Company is a listed public company limited by shares, incorporated and domiciled in Australia.

DIRECTORS

The names of the directors of the Company in office at any time during or since the financial year and up to the date of this financial report are as follows. Directors were in office for the entire period unless otherwise stated.

Jian Wu	(appointed 03-Oct-06)
Russell Brimage	
Weidong Zhang	(appointed 20-Nov-06)
Zhong Wang	(appointed 20-Nov-06, resigned 06-Jun-07)
Paul Garner	(resigned 14-Mar-07)
Martin Bennett	(resigned 20-Nov-06)

PRINCIPAL ACTIVITIES

The principal activities of the Company during the year were oil and gas exploration, development and production and investment in the resources industry.

There were no significant changes in the nature of the principal activities during the financial year.

OPERATING RESULTS

The operating loss for the Consolidated Entity, after income tax amounted to \$10,585,070.

DIVIDENDS

No dividends have been paid or declared since the start of the financial year by the Company.

The directors have recommended that no dividend be paid by the Company in respect of the year ended 30th June 2007.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS AND REVIEW OF OPERATIONS

The following significant changes in the state of affairs of the Consolidated Entity occurred during the financial year:

On 11 September 2006, the directors announced that the Company's wholly-owned US subsidiary, Lion Energy Limited USA ("Lion USA") has entered into a Letter of Intent with Ridgelake Energy, Inc. ("Ridgelake") of Louisiana in order to earn up to a 30% interest in the following Gulf of Mexico Federal offshore leases held by Ridgelake:

- South Marsh Island Block 152 ("SM 152");
- South Marsh Island Block 138 ("SM 138");
- Vermilion Block 317 ("VM 317");
- Viosca Knoll Block 79; and
- High Island Block 307 (together, "Leases").



DIRECTORS' REPORT

To earn its interest in the Leases, Lion USA must reimburse Ridgelake up to 40% of certain past costs, meet up to 40% of the costs of drilling to casing election point and in the case of SM 152 and SM 138, meet certain additional costs. The Leases are subject to a 16 $\frac{2}{3}$ % Federal royalty and between a 3 $\frac{1}{3}$ % to 4% royalty in favour of certain third parties who generated the properties. The potential interest of Lion USA in VM 317 may be reduced by up to 10% (to 20%) if a third party exercises its right to participate in this Lease. The potential interest of Lion USA in all the Leases is subject to dilution if Ridgelake exercises its right to convey an interest in a Lease to an offset lease owner or third party service provider. Lion USA had not yet entered into the Participation Agreement and the Joint Operating Agreement (which is to appoint Ridgelake as the operator) with Ridgelake regarding the Leases which are necessary before:

- Lion USA has an enforceable right to earn an interest in the Leases; and
- Drilling on any of the Leases can commence and Lion USA can earn its interest in the Leases.

On 20 October 2006, the Company issued 3,046,124,356 fully paid ordinary shares at an issue price of \$0.0035 (0.35 cents) per Share pursuant to a prospectus dated 8 September 2006 for a non-renounceable pro rata offer to existing shareholders. The issue was fully underwritten by Intersuisse Limited. The non-renounceable pro rata offer was on the basis of one fully paid ordinary share in the capital of the Company ("Share") for every one Share held by shareholders on the record date of 19 September 2006. The offer raised approximately \$10,661,435 before costs.

On 21 November 2006, the Company's share capital was consolidated on a 1 for 100 basis. The capital consolidation was approved at the Annual General Meeting of shareholders held on 20 November 2006.

On 6 December 2006, the Company issued 1,000,000 free options to nominees of Ridgelake as part consideration for the opportunity to earn an interest in the Leases. The options were issued pursuant to a prospectus dated 1 December 2006, are exercisable at 35 cents each and expire on 31 August 2011. The issue of these options was approved at the Annual General Meeting of shareholders held on 20 November 2006.

On 6 December 2006, the Company issued 8,000,000 free options to nominees of directors of the Company. The options were issued pursuant to a prospectus dated 1 December 2006, are exercisable at 35 cents each and expire on 31 August 2011. The issue of these options was approved at the Annual General Meeting of shareholders held on 20 November 2006.

During the year the Company established Lion Energy Limited USA Inc and Lion Energy Limited LLC as 100% owned subsidiaries in the USA .

Citic Seram agreed to grant to Lion Petroleum Seram Limited (LPSL) a Put Option, pursuant to which LPSL has the right (but not the obligation) to sell to, and require Citic Seram to acquire the LPSL Participating Interest from LPSL for a consideration of US\$4,774,510 subject to adjustment. LPSL is a wholly owned subsidiary of Lion Energy Limited. LPSL did not exercise its rights under the Put Option.

On 16 January 2007, the Company issued 20,000,000 options to acquire shares in Lion Energy Limited exercisable at 35 cents each and expiring on 31 August 2011. The options were issued pursuant to a prospectus dated 1 December 2006 at an issue price of 5 cents each. The issue of these options was approved at the Annual General Meeting of shareholders held on 20 November 2006.

On 3 April 2007, the Company issued 2,000,000 free options to acquire shares in Lion Energy Limited exercisable at 35 cents each and expiring on 31 August 2011 to directors of the Company. The issue of these options was approved at the General Meeting of shareholders held on 3 April 2007.



DIRECTORS' REPORT

On 22 December 2006, the Company announced the operator of South Marsh Island Block 138 ("SMI 138") had executed a drilling contract for SMI 138.

On 8 January 2007, the Company announced that The jack-up drilling rig, Pride Georgia began its tow to location on well OCS-G 27089 #1 in offshore lease South Marsh Island Block 138 ("SMI 138") in the Gulf of Mexico Outer Continental Shelf waters at 11:00 AM on 31st December 2006. The well spudded at 05:30 am on 6th January 2007.

On 25 January 2007, the ASX granted official quotation to Lion Energy Limited options exercisable at 35 cents each and expiring on 31 August 2011.

On 9 February 2007, the Company announced that analysis of the data for South Marsh Island block 138 #1 well had resulted in the decision to plug and abandon the well. This decision is based on the conclusion from the analysis that the well has no commercial hydrocarbon bearing sands.

SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in subsequent financial years.

LIKELY DEVELOPMENTS

The directors intend to actively pursue the exploration and development of the oil and gas leases in which it has an interest.

ENVIRONMENTAL ISSUES

The Company's operations have not been subject to any environmental regulation.

INFORMATION ON DIRECTORS

JIAN WU

CHAIRMAN (EXECUTIVE)

Qualifications and Experience:

Mr Wu is well known for his achievements in the petro-chemical industry in China. He founded the Kunming Jianqiang Industrial Development Corporation, establishing a refinery to produce lubricants for vehicles and industrial uses. Over ten years as its Chairman and General Manager, the company grew to a value of US\$30 million.

He subsequently founded Guangxi Dongyou Co. Ltd., establishing an oil refinery producing petro-chemical products for Chinese markets. Within five years the company had 500 employees and grew to value US\$200m.

Mr Wu was born in Hunan, China and gained a Bachelor of Science in Construction Engineering at Hunan University. He gained wide experience as a Technical Director in the property construction field before moving into the petro-chemical industry. He is currently based in Vancouver and travels frequently to China and Australia.

Directorships of other listed companies in the 3 years prior to the end of the Financial Year:

None.

Special Responsibilities:

Chairman of Directors.



DIRECTORS' REPORT

Interest in shares and options of the Company:

16,522,688 Ordinary Shares in Lion Energy Limited.

Directors meetings attended:

Attended 4 of the 11 meetings held during the financial period while he was a director.

RUSSELL ERNEST BRIMAGE

GROUP CHIEF EXECUTIVE OFFICER

Qualifications and Experience:

Russell Brimage has in excess of 30 years experience in the upstream oil and gas industry. He was a founding Director of Oilserv Australia Limited, a company providing drilling, well testing and production services. Prior to joining Lion Energy Limited he was Chief Executive of Western Resources NL and General Manager of a Western Australian gas field operator.

Directorships of other listed companies in the 3 years prior to the end of the Financial Year:

Director of Entek Energy Limited since 10-Aug-2005.

Special Responsibilities:

Group Chief Executive Officer.

Interest in shares and options of the Company:

54,400 Ordinary Shares and 4,000,000 options expiring 31 August 2011 in Lion Energy Limited.

Directors meetings attended:11.

WEIDONG ZHANG

DIRECTOR (NON-EXECUTIVE)

Qualifications and Experience:

Mr Zhang obtained his PhD degree in chemical engineering from the University of Auckland in 1992. He worked for Comalco Limited, a wholly owned subsidiary of Rio Tinto Limited, for 5 years involved in process development and aluminium smelting operations. Mr Zhang has had considerable commercial experience, joining Sino Mining International Limited in Sydney in 1997 working in the corporate finance area and later in the business development international resources industry. Since 2001, Mr Zhang has been involved in general management of an alumina subsidiary of Sino Mining International Limited, Sino Mining Alumina Limited.

Mr Zhang is also a director of other three Australian resources-related companies and is a member of TMS and APESMA.

Directorships of other listed companies in the 3 years prior to the end of the Financial Year:

None.

Interest in shares and options of the Company:

1,000,000 options expiring 31 August 2011 in Lion Energy Limited.

Directors meetings attended:

Attended 5 of the 8 meetings held during the financial period while he was a director.

DIRECTORS MEETINGS

During the year ended 30th June 2006, 12 meetings of directors were held.



DIRECTORS' REPORT

Mr Zhong Wang, who resigned as a director during the year attended 5 of the 8 meetings held during the financial year while he was a director.

Mr Paul Garner resigned as a director during the year attended 6 of the 10 meetings held during the financial year while he was a director.

Mr Martin Bennett resigned as a director during the year attended 0 of the 4 meetings held during the financial year while he was a director.

REMUNERATION REPORT

Remuneration is based on fees approved by the Board of directors.

There is no relationship between the performance or the impact on shareholder wealth of the Company for the current financial year or the previous four financial years and either the remuneration of directors and executives or the issue of shares and options to directors. Remuneration is set at levels to reflect market conditions and encourage the continued services of directors and executives. There are no contracts with directors.

The Company had an agreement with Ohio Holdings Pty Ltd, a company associated with Mr Paul Garner, a director of the Company for provision of Mr Garner's services as an executive director. The agreement is for a period of 3 years from 1 June 2006 and provides for remuneration of \$10,000 per month plus 50% of mobile phone costs. The agreement was terminated by mutual consent on Mr Garner's resignation as a director of Lion Energy Limited on 14 March 2007.

The Company had an agreement with Jaguar Enterprises Pty Ltd as trustee for The Jaguar Trust for the provision of Company Secretarial services. The agreement is for a period of 1 year from 1 June 2006 and provides for remuneration of \$4,250 per month. This agreement had expired by 30 June 2007.

The names and positions of key management personnel of the Company and of the Consolidated Entity who have held office during the financial year are:

DIRECTORS

Jian Wu	Executive Chairman (from 06-Jun-07) Non-Executive Chairman (from 03-Oct-06 to 06-Jun-07)
Russell Brimage	Group Chief Executive Officer (from 04-Oct-06) Executive Chairman to 03-Oct-06)
Weidong Zhang	Non-Executive Director (from 20-Nov-06)
Zhong Wang	Executive Director and Chief Financial Officer (from 20-Nov-06 to 06-Jun-07)
Paul Garner	Non-Executive Director (from 20-Nov-06 to 14-Mar-07) Executive Director (to 20-Nov-06)
Martin Bennett	Non-Executive Director (resigned 20-Nov-06)

EXECUTIVES

Jack Toby	Company Secretary and Chief Financial Officer (from 06-Jun-07) Company Secretary (to 06-Jun-07)
Scott Wentz	Director of Lion Energy Limited USA, Inc. from 21 July 2006 and Director of Lion Energy Limited LLC from 21 July 2006.



DIRECTORS' REPORT

	Primary Compensation 2007		
	Short Term Benefits	Super- annuation	Total
	\$	\$	\$
COMPENSATION OF DIRECTORS BASED ON FEES APPROVED BY THE BOARD OF DIRECTORS.			
Jian Wu	39,792	—	39,792
Russell Brimage	250,000	—	250,000
Weidong Zhang	31,900	—	31,900
Zhong Wang	65,640	—	65,640
Paul Garner	65,187	—	65,187
Martin Bennett	—	—	—
TOTAL PRIMARY COMPENSATION FOR SPECIFIED DIRECTORS	452,519	—	452,519

COMPENSATION OF EXECUTIVES BASED ON FEES APPROVED BY THE BOARD OF DIRECTORS.			
Jack Toby	56,750	—	56,750
Scott Wentz	64,730	—	64,730
TOTAL PRIMARY COMPENSATION FOR SPECIFIED EXECUTIVES	121,480	—	121,480

	Equity Remuneration 2007		
	Shares	Options	Total
	\$	\$	\$
REMUNERATION OF DIRECTORS BASED ON APPROVAL BY THE BOARD OF DIRECTORS AND SHAREHOLDERS.			
Russell Brimage	—	200,000	200,000
Weidong Zhang	—	50,000	50,000
Zhong Wang	—	50,000	50,000
Paul Garner	—	200,000	200,000
TOTAL EQUITY REMUNERATION FOR SPECIFIED DIRECTORS	—	500,000	500,000

On 6 December 2006, the Company issued 8,000,000 free options to nominees of directors of the Company. The options were issued pursuant to a prospectus dated 1 December 2006, are exercisable at 35 cents each and expire on 31 August 2011. The issue of these options was approved at the Annual General Meeting of shareholders held on 20 November 2006. These options were valued at 5 cents each based on the issue price of options with identical terms and conditions issued pursuant to the Public Option Offer in a prospectus dated 1 December 2006. The directors believe that this reflects fair value.

On 3 April 2007, the Company issued 2,000,000 free options to acquire shares in Lion Energy Limited exercisable at 35 cents each and expiring on 31 August 2011 to directors of the Company. The issue of these options was approved at the General Meeting of shareholders held on 3 April 2007. These options were valued at 5 cents each based on the issue price of options with identical terms and conditions issued pursuant to the Public Option Offer in a prospectus dated 1 December 2006. The directors believe that this reflects fair value.

The primary purpose for the issue of the options to directors and executives is designed to encourage the performance of the Directors and executives.



DIRECTORS' REPORT

	Total Remuneration 2007		
	Primary Remuneration \$	Equity Remuneration \$	Total \$
REMUNERATION OF DIRECTORS BASED ON APPROVAL BY THE BOARD OF DIRECTORS.			
Jian Wu	39,792	—	39,792
Russell Brimage	250,000	200,000	450,000
Weidong Zhang	31,900	50,000	81,900
Zhong Wang	65,640	50,000	115,640
Paul Garner	65,187	200,000	265,187
Martin Bennett	—	—	—
TOTAL REMUNERATION FOR SPECIFIED DIRECTORS	452,519	500,000	952,519

REMUNERATION OF EXECUTIVES BASED ON APPROVAL BY THE BOARD OF DIRECTORS.			
Jack Toby	56,750	—	56,750
Scott Wentz	64,730	—	64,730
TOTAL REMUNERATION FOR SPECIFIED EXECUTIVES	121,480	—	121,480

	Primary Compensation 2006		
	Short Term Benefits \$	Super- annuation \$	Total \$
COMPENSATION OF DIRECTORS BASED ON FEES APPROVED BY THE BOARD OF DIRECTORS.			
Russell Brimage	115,000	—	115,000
Paul Garner	85,000	—	85,000
Martin Bennett	—	—	—
Julian Waterman	15,000	—	15,000
Carmine Barone	5,835	—	5,835
Guiseppa Mercorella	66,500	—	66,500
TOTAL PRIMARY COMPENSATION FOR SPECIFIED DIRECTORS	287,335	—	287,335

COMPENSATION OF EXECUTIVES BASED ON FEES APPROVED BY THE BOARD OF DIRECTORS.			
Jack Toby	48,524	—	48,524
TOTAL PRIMARY COMPENSATION FOR SPECIFIED EXECUTIVES	48,524	—	48,524

The Company did not provide any equity compensation to directors or executives during the year ended 30 June 2006.



DIRECTORS' REPORT

CORPORATE GOVERNANCE

Any director may nominate a person to be considered for appointment as a director of the Company, either as an additional director or as a replacement for a retiring director. Criteria for Board membership rests on the Board's assessment of the capacity of a nominee to contribute to the Company. Membership of the Board of directors is reviewed on an on-going basis by the Chairman of the Board.

The terms and conditions relating to the appointment and retirement of non-executive directors are determined by the Board on an individual basis at the time of appointment of the director and are reviewed by the Chairman on an on-going basis.

Each director of the Company or a controlled entity has the right to seek independent professional advice at the expense of the Company or the controlled entity, however prior approval of the relevant Chairman is required which is not unreasonably withheld.

The remuneration of executive directors and non-executive directors is reviewed by the Board of directors with the exclusion of the director concerned. The remuneration of other senior executives of the Company is approved by the Chairman. Directors are not remunerated in accordance with the performance of the Company.

The nomination of external auditors and the review of the adequacy of external audit arrangements is the responsibility of the Board of Directors as a whole.

The Company does not have a nomination committee, a remuneration committee or an audit committee as the Company is not of a size or complexity to justify such separate committees of directors. All matters which might properly be dealt with by such committees are subject to scrutiny at full board meetings.

The identification of areas of significant business risk and arrangements to manage such risks is the responsibility of the Chairman, executive directors and senior executives. The Chairman reports to the Board on such matters on an on-going basis.

All directors, executives and staff of the Company and of all controlled entities, if any, are required to abide by the legal requirements and the highest standards of ethical conduct as recognised in each relevant jurisdiction in which the Company operates.

All directors, executives and staff of the Company and of all controlled entities, if any, are required to abide by all legal requirements, the Listing Rules of the Australian Stock Exchange and the highest standards of ethical conduct with regard to their personal trading in the securities of the Company including the use of trading windows.

SHARE OPTIONS ISSUED

On 6 December 2006, the Company issued 1,000,000 free options to nominees of Ridgelake as part consideration for the opportunity to earn an interest in the Leases. The options were issued pursuant to a prospectus dated 1 December 2006, are exercisable at 35 cents each and expire on 31 August 2011. The issue of these options was approved at the Annual General Meeting of shareholders held on 20 November 2006.

On 6 December 2006, the Company issued 8,000,000 free options to nominees of directors of the Company. The options were issued pursuant to a prospectus dated 1 December 2006, are exercisable at 35 cents each and expire on 31 August 2011. The issue of these options was approved at the Annual General Meeting of shareholders held on 20 November 2006.



DIRECTORS' REPORT

On 16 January 2007, the Company issued 20,000,000 options to acquire shares in Lion Energy Limited exercisable at 35 cents each and expiring on 31 August 2011. The options were issued pursuant to a prospectus dated 1 December 2006 at an issue price of 5 cents each. The issue of these options was approved at the Annual General Meeting of shareholders held on 20 November 2006.

On 3 April 2007, the Company issued 2,000,000 free options to acquire shares in Lion Energy Limited exercisable at 35 cents each and expiring on 31 August 2011 to directors of the Company. The issue of these options was approved at the General Meeting of shareholders held on 3 April 2007.

SHARE OPTIONS OUTSTANDING

There are 31,000,000 options to subscribe for unissued fully paid ordinary shares in the Company for 35 cents each and expiring on 31 August 2011 outstanding at the date of this report.

No person entitled to exercise any of these options had or has any right by virtue of the option to participate in any share issue of any other body corporate.

During the year ended 30th June 2007, no ordinary shares were issued by virtue of the exercise of options.

No person entitled to exercise any options, had or has any right by virtue of any option to participate in any share issue of any other body corporate.

INDEMNIFYING AND INSURING DIRECTORS, OFFICERS OR AUDITORS

During the financial year, the Company paid premiums for Directors and Officers liability insurance of \$27,206. Except as disclosed above, the Company has not, during or since the financial year, in respect of any person who is or has been an officer or auditor of the Company or a related body corporate:

- a) indemnified or made any relevant agreement for indemnifying against a liability, including costs and expenses in successfully defending legal proceedings; or
- b) paid or agreed to pay a premium in respect of a contract insuring against a liability for the costs or expenses to defend legal proceedings.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the Corporations Act 2001 section 307C the auditors of the Company, Stantons International have provided a signed Auditor's Independence Declaration to the directors in relation to the year ended 30 June 2007. This declaration has been included on page 42.

The following non-audit services were provided to the Company by the auditors, Stantons International. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. Stantons International received or is due to receive \$4,267 for the provision of tax compliance services.



DIRECTORS' REPORT

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read "R Brimage", written in a cursive style.

Russell Brimage
Director
7 September 2007
Perth, Western Australia



DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Lion Energy Limited A.C.N. 000 753 640 ("Company"), I state that:

In the opinion of the directors:

- 1) the financial statements and notes of the Company and of the Consolidated Entity are in accordance with the Corporations Act 2001 including:
 - a) complying with Accounting Standards and the Corporations Regulations 2001; and
 - b) giving a true and fair view of the financial position as at 30 June 2007 and of the performance for the year ended on that date of the Company and the Consolidated Entity;
- 2) in the director's opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the directors in accordance with sections 295A of the Corporations Act 2001 for the financial period ending 30 June 2007.

This declaration is made in accordance with a resolution of the Board of Directors.

A handwritten signature in black ink, appearing to read "R Brimage", written in a cursive style.

Russell Brimage
Director

7 September 2007
Perth, Western Australia



INCOME STATEMENT FOR THE YEAR ENDED 30TH JUNE 2007

	Note	Consolidated Entity		Parent Entity	
		2007 \$	2006 \$	2007 \$	2006 \$
Revenue	2	2,154,522	6,265,742	—	—
Cost of Sales		—	(1,195,400)	—	—
GROSS PROFIT		2,154,522	5,070,342	—	—
Disposal of Bula		—	5,064,671	—	1,950,289
Interest received from other persons		386,560	113,621	359,745	113,621
Interest receivable from subsidiaries		—	—	151,382	—
Gain on deconsolidation		—	1,765,431	—	—
Foreign exchange gain/(loss)		(1,340,202)	62,174	(1,507,673)	62,174
Gain on sale of investments		136,688	—	136,688	—
Gain/(loss) on value of investments		—	(65,474)	—	(65,474)
Other income	2	22,459	103,384	22,459	2,549
Write down of joint venture interest		(2,141,536)	(5,551,845)	—	—
Loss on write down of subsidiary loans		—	—	(3,248,816)	(5,085,751)
Joint venture overheads		(860,841)	(1,586,654)	—	—
Exploration expenses		(6,647,583)	(107,771)	—	(98,913)
Loans written off		—	(360,158)	—	—
Interest expense		(66)	(78,258)	(66)	(78,258)
Share based payments		(550,000)	—	(550,000)	—
Other expenses	2	(1,740,891)	(2,285,406)	(1,590,306)	(962,252)
PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE		(10,580,890)	2,144,057	(6,226,587)	(4,162,015)
Income tax expense	3	(4,180)	—	—	—
PROFIT/(LOSS) AFTER RELATED INCOME TAX EXPENSE	4	(10,585,070)	2,144,057	(6,226,587)	(4,162,015)
BASIC EARNINGS/(LOSS) PER SHARE (CENTS PER SHARE)	5	(20.49)	8.38		

The accompanying notes form part of these financial statements



BALANCE SHEET AS AT 30TH JUNE 2007

	Note	Consolidated Entity		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents		8,741,155	4,833,288	1,006,209	4,833,288
Trade and other receivables	6	1,159,138	3,477,887	7,776	512,218
Inventories	7	926,808	799,421	—	—
Other financial assets	8	—	567,445	—	567,445
TOTAL CURRENT ASSETS		10,827,101	9,678,041	1,013,985	5,912,951
NON-CURRENT ASSETS					
Plant and equipment	9	292,397	35,116	280,122	13,882
Trade and other receivables	10	102,406	—	6,943,404	2,500,000
Capitalised exploration expenditure	11	2,311,663	1,714,466	—	—
Other financial assets	12	—	—	60,488	2
TOTAL NON-CURRENT ASSETS		2,706,466	1,749,582	7,284,014	2,513,884
TOTAL ASSETS		13,533,567	11,427,623	8,297,999	8,426,835
CURRENT LIABILITIES					
Trade and other payables	13	1,657,020	2,114,951	55,648	5,757,035
Provisions	14	3,959	36,564	3,959	—
TOTAL CURRENT LIABILITIES		1,660,979	2,151,515	59,607	5,757,035
NON-CURRENT LIABILITIES					
Provisions	15	—	98,625	—	—
TOTAL NON-CURRENT LIABILITIES		—	98,625	—	—
TOTAL LIABILITIES		1,660,979	2,250,140	59,607	5,757,035
NET ASSETS		11,872,588	9,177,483	8,238,392	2,669,800
EQUITY					
Issued capital	16	49,686,804	39,441,625	49,686,804	39,441,625
Reserves	17	2,968,832	(66,164)	1,550,000	—
Accumulated losses	4	(40,783,048)	(30,197,978)	(42,998,412)	(36,771,825)
TOTAL EQUITY		11,872,588	9,177,483	8,238,392	2,669,800

The accompanying notes form part of these financial statements



CASH FLOW STATEMENT FOR THE YEAR ENDED 30TH JUNE 2007

	Note	Consolidated Entity		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		3,995,559	4,026,805	—	—
Payments to suppliers & employees		(1,989,458)	(2,889,266)	(1,015,334)	(495,604)
Interest received		386,560	113,621	359,745	113,621
Interest paid		(66)	(78,258)	(66)	(78,258)
Other income		—	100,835	—	—
NET CASH FROM OPERATING ACTIVITIES	18	2,392,595	1,273,737	(655,655)	(460,241)
CASH FLOWS FROM INVESTING ACTIVITIES					
Exploration expenditure		(10,251,337)	—	—	(98,913)
Disposal of listed securities		1,300,502	123,346	1,300,502	123,346
Purchase of plant and equipment		(327,497)	(1,156)	(327,497)	(1,156)
Investment in listed securities		(596,369)	—	(596,369)	—
Investment in controlled entities		—	—	(60,486)	—
Investment in Joint Venture		—	(5,039,831)	—	—
Loans to controlled entities		—	—	(14,564,766)	—
Disposal of controlled entities		—	5,872,667	—	1,950,289
Loans repaid by related parties		—	—	—	1,160,993
NET CASH FROM INVESTING ACTIVITIES		(9,874,701)	955,026	(14,248,616)	3,134,559
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from equity issues		11,661,435	2,407,302	11,661,435	2,407,302
Share buy back		—	(97,314)	—	(97,314)
Capital raising expenses		(416,256)	(156,715)	(416,256)	(156,715)
NET CASH FROM FINANCING ACTIVITIES		11,245,179	2,153,273	11,245,179	2,153,273
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS					
		3,763,073	4,382,036	(3,659,092)	4,827,591
Net foreign exchange differences		144,794	3,137	(167,987)	—
Cash and cash equivalents at beginning of year		4,833,288	448,115	4,833,288	5,697
CASH AND CASH EQUIVALENTS AT END OF YEAR	18	8,741,155	4,833,288	1,006,209	4,833,288

The accompanying notes form part of these financial statements



**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2007**

CONSOLIDATED ENTITY

ATTRIBUTABLE TO MEMBERS OF THE COMPANY	Issued Capital \$	Option Premium Reserve \$	Currency Translation Reserve \$	Accumulated Losses \$	Total Equity \$
<i>At 1 July 2005</i>	37,288,352	—	(717,581)	(32,342,035)	4,228,736
Currency translation differences	—	—	651,417	—	651,417
Profit for period	—	—	—	2,144,057	2,144,057
TOTAL LOSS FOR THE PERIOD	—	—	651,417	2,144,057	2,795,474
Shares issued	2,407,302	—	—	—	2,407,302
Share buy back	(97,314)	—	—	—	(97,314)
Capital raising costs	(156,715)	—	—	—	(156,715)
At 30 JUNE 2006	39,441,625	—	(66,164)	(30,197,978)	9,177,483
Currency translation differences	—	—	1,484,996	—	1,484,996
Profit for period	—	—	—	(10,585,070)	(10,585,070)
TOTAL PROFIT FOR THE PERIOD	—	—	1,484,996	(10,585,070)	(9,100,074)
Securities issued	10,661,435	1,550,000	—	—	12,211,435
Capital raising costs	(416,256)	—	—	—	(416,256)
At 30 JUNE 2007	49,686,804	1,550,000	1,418,832	(40,783,048)	11,872,588

The accompanying notes form part of these financial statements



**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2007**

PARENT ENTITY

ATTRIBUTABLE TO MEMBERS OF THE COMPANY	Issued Capital \$	Option Premium Reserve \$	Accumulated Losses \$	Total Equity \$
<i>At 1 July 2005</i>	37,288,352	—	(32,609,810)	4,678,542
Loss for period	—	—	(4,162,015)	(4,162,015)
TOTAL LOSS FOR THE PERIOD	—	—	(4,162,015)	(4,162,015)
Shares issued	2,407,302	—	—	2,407,302
Share buy back	(97,314)	—	—	(97,314)
Capital raising costs	(156,715)	—	—	(156,715)
At 30 JUNE 2006	39,441,625	—	(36,771,825)	2,669,800
Loss for period	—	—	(6,226,587)	(6,226,587)
TOTAL LOSS FOR THE PERIOD	—	—	(6,226,587)	(6,226,587)
Securities issued	10,661,435	1,550,000	—	12,211,435
Capital raising costs	(416,256)	—	—	(416,256)
At 30 JUNE 2007	49,686,804	1,550,000	(42,998,412)	8,238,392

NOTE 1. BASIS OF PREPARATION OF THE FINANCIAL REPORT

The following is a summary of the significant accounting policies adopted by Lion Energy Limited A.C.N. 000 753 640 ("Parent Entity" or "Company") and by the Parent Entity and its controlled entities ("Consolidated Entity") in the preparation of these financial statements.

Basis of Preparation of Accounts
Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) and the Corporations Act 2001. The consolidated financial report of the Group also complies with the IFRSs and interpretations adopted by the International Accounting Standards Board. The Company's financial report does not comply with IFRSs as the Company has elected to apply the relief provided to parent entities by AASB 132 Financial Instruments – Presentation and Disclosure in respect of certain disclosure requirements.

The financial report has been prepared on an accruals basis and is based on a historical cost basis, except for available-for-sale financial assets that have been measured at fair value. The presentation currency used in this financial report is Australian Dollars.

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2007

Adoption of new and revised Accounting Standards

In the current year, the Group has adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in any material changes to the Group's accounting policies.

At the date of authorisation of the financial report, the following Standards and Interpretations were in issue but not yet effective:

AASB 7 Financial instruments: Disclosures and consequential amendments to other accounting standards resulting from its issue. This is effective for annual reporting periods beginning on or after 1 January 2007.

AASB 101 Presentation of Financial Statements – revised standard. This is effective for annual reporting periods beginning on or after 1 January 2007.

Interpretation 10 Interim Financial Reporting and Impairment. This is effective for annual reporting periods beginning on or after 1 November 2006.

Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies adopted by Lion Energy Limited A.C.N. 000 753 640 ("Company") in the preparation of these financial statements. The Company is a listed public company limited by shares, incorporated and domiciled in Australia.

a) Basis of consolidation

The consolidated financial statements comprise the financial statements of Lion Energy Limited ("Company") and its subsidiaries ("Group"). The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the Company has control.

b) Foreign currency translation

The presentation currency of the Company and its Australian subsidiaries is Australian dollars. The functional currency of the Company is Australian dollars. Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences in the consolidated financial report are taken to the income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The functional currency of overseas subsidiaries is United States dollars. As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of the Company at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the period. The exchange differences arising on the retranslation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2007

c) Taxes

Income Tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences:

except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

d) Employee Benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave. Employee benefits, expenses and revenues arising in respect of wages and salaries; non monetary benefits; annual leave; long service leave and other leave and other employee entitlements are charged against profits on a net basis.

Contributions are made by the Group to employee superannuation funds and are charged as expenses when incurred. The Group has no legal obligation to cover any shortfall in any superannuation fund's obligation to provide benefits to employees on retirement.

e) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with a maturity of three months or less. For the purpose of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts and investments in money market instruments with less than 14 days to maturity.

f) Revenue recognition

Revenue from services rendered is recognised upon the delivery of goods or services to customers. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2007

g) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except: where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority. Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from the investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

h) Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease). An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

i) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership. The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis. Contingent rentals are recognised as an expense in the financial year in which they are incurred.

j) Issued capital

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

k) Property, Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Land and buildings are measured at fair value less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings – over 20 years
Plant and equipment – over 2 to 15 years

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2007

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any indication of impairment exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

l) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

m) Trade and other payables

Trade payables and other payables are carried at amortised cost which represents future liabilities for goods and services received, whether or not billed to the Company.

n) Investments

Investments and other financial assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end. All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2007

Impairment of financial assets

Impairment of available-for-sale investments

If there is objective evidence that an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses for debt instruments are reversed through profit or loss if the increase in an instrument's fair value can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when: the rights to receive cash flows from the asset have expired; the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay. When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

o) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of mineral stocks includes direct materials, direct labour, transportation costs and variable and fixed overhead costs relating to mining activities.

p) Significant accounting judgements, estimates and assumptions

Significant accounting judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Exploration and evaluation assets

The Group's accounting policy for exploration and evaluation expenditure is set out below. The application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves are found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under our policy, we conclude that we are unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalised amount will be written off to the income statement.

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2007

Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Recovery of deferred assets

Deferred tax assets are recognised for deductible temporary differences when management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, using the assumptions detailed below. The Group measures the cost of cash-settled share-based payments at fair value at the grant date using a binomial formula taking into account the terms and conditions upon which the instruments were granted.

q) Exploration and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made. When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis. Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2007

r) Share-based payment transactions

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions'). There is currently a Employee Share Option Plan (ESOP) in place to provide these benefits, which provides benefits to directors and executives. The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ('market conditions'). The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition. Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

s) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element. Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for: costs of servicing equity (other than dividends) and preference share dividends; the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

t) Interests in Joint Ventures

The economic entity's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated financial statements. The economic entity's interests in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements. The parent entity's interests in joint venture entities are brought to account using the cost method.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2007

	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
NOTE 2. OPERATING LOSS				
The loss from continuing operations before income tax has been determined after:				
REVENUE FROM CONTINUING OPERATIONS				
<i>Operating activities</i>				
Oil sales	2,154,522	6,265,742	—	—
TOTAL REVENUE FROM OPERATING ACTIVITIES	2,154,522	6,265,742	—	—
<i>Non-operating activities</i>				
Interest received from other persons	386,560	113,621	359,745	113,621
Gain on sale of investments	136,688	—	136,688	—
Other income	22,459	103,384	22,459	2,549
Profit on disposal of Bula	—	5,064,671	—	1,950,289
Gain on loss of control of subsidiary	—	1,765,431	—	—
Foreign exchange gain	—	62,174	—	62,174
TOTAL REVENUE FROM NON-OPERATING ACTIVITIES	545,707	7,109,281	518,892	2,128,633
TOTAL REVENUE	2,700,229	13,375,023	518,892	2,128,633
CHARGING AS EXPENSES AND LOSSES				
Depreciation	70,216	525,102	61,257	4,143

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2007

	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
NOTE 3. INCOME TAX				
A reconciliation between the tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:				
PROFIT FROM ORDINARY ACTIVITIES	(10,580,890)	2,144,057	(6,226,587)	(4,162,015)
Prima facie income tax expense/(benefit) on operating loss calculated at 30%	(3,174,267)	643,217	(1,867,976)	(1,248,605)
Income accrued	2,437	(2,437)	(42,978)	(2,437)
Non-deductible expenses	196,983	18,005	196,983	18,005
Investment gain	(19,642)	19,642	(19,642)	19,642
Loans written off	—	—	89,192	1,525,726
Foreign exchange	418,592	(18,652)	468,833	(18,652)
Provisions	33,719	(125)	5,688	(125)
Capital raising costs	(39,478)	(9,403)	(39,478)	(9,403)
Capitalised exploration expenditure	(693,499)	—	—	—
Capital losses recouped	—	(134,793)	—	(134,793)
Tax losses recouped	—	(515,454)	—	(149,358)
Profits tax paid	4,180	—	—	—
Income tax benefit not brought to account as realisation of the benefit is not virtually certain	3,275,155	—	1,209,378	—
INCOME TAX EXPENSE FROM ORDINARY ACTIVITIES	4,180	—	—	—
UNRECOGNISED DEFERRED TAX BALANCES				
Unrecognised deferred tax asset – provisions	39,719	23,067	(33,727)	23,067
Unrecognised deferred tax asset – loans written off	—	—	4,191,769	4,102,577
Unrecognised deferred tax asset – unrealised foreign exchange losses	399,940	—	450,181	(18,652)
Unrecognised deferred tax asset – Sec 40-880	148,508	37,612	148,508	37,612
Unrecognised deferred tax liability – capitalised exploration expenditure	(693,499)	(514,340)	—	—
Unrecognised deferred tax asset – income losses	5,653,846	2,374,511	3,555,126	2,345,748
DEFERRED TAX ASSET NOT BROUGHT TO ACCOUNT	5,548,514	1,920,850	8,311,857	6,490,352

The deferred tax asset not brought to account will only be of benefit to the Consolidated Entity if future assessable income is derived of a nature and amount sufficient to enable the benefits to be realised, the conditions for deductibility imposed by the tax legislation continue to be complied with and the entities in the Consolidated Entity are able to meet the continuity of ownership and/or continuity of business tests.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2007

	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
NOTE 4. ACCUMULATED LOSSES				
Accumulated profits/(losses) at the beginning of the financial year	(30,197,978)	(32,342,035)	(36,771,825)	(32,609,810)
Net profit/(loss) for the financial year	(10,585,070)	2,144,057	(6,226,587)	(4,162,015)
ACCUMULATED LOSSES AT THE END OF THE FINANCIAL YEAR	(40,783,048)	(30,197,978)	(42,998,412)	(36,771,825)

NOTE 5. EARNINGS PER SHARE

Basic profit/(loss) per share (cents per share)	(20.49)	8.38
Loss used in the calculation of basic EPS	(10,585,070)	2,144,057
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share	51,658,850	25,593,605

On 21 November 2006, the Company's share capital was consolidated on a 1 for 100 basis. The earnings per share and weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share has been calculated on a post-consolidation basis.

During the year ended 30 June 2007, 31,000,000 options to subscribe for ordinary shares were issued, no options were exercised and no options expired unexercised, leaving 31,000,000 options outstanding at 30 June 2007 (note 16).

During the year ended 30 June 2006, no options to subscribe for ordinary shares were issued, no options were exercised and no options expired unexercised. There were no options outstanding at 30 June 2006.

These options are not considered dilutive for the purposes of the calculation of diluted earnings per share as their conversion to ordinary shares would not decrease the net profit from continuing operations per share nor increase the net loss from continuing ordinary operations per share. Consequently, diluted earnings per share is the same as basic earnings per share.

NOTE 6. TRADE AND OTHER RECEIVABLES

Other debtors and prepayments	1,159,138	3,477,887	7,776	512,218
	1,159,138	3,477,887	7,776	512,218

Other debtors are non-interest bearing and generally on 30 day terms.

NOTE 7. INVENTORIES

Oil stock	577,601	331,957	—	—
Joint venture materials	349,207	467,464	—	—
	926,808	799,421	—	—

NOTE 8. OTHER FINANCIAL ASSETS (CURRENT)

Investments listed on prescribed Stock Exchange at market value	—	567,445	—	567,445
	—	567,445	—	567,445

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2007

	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$

Held for trading financial assets consist of investments in ordinary shares and therefore have no fixed maturity date or coupon rate.

NOTE 9. PLANT AND EQUIPMENT

PLANT AND EQUIPMENT				
At cost	450,428	122,931	355,572	28,074
Accumulated depreciation	(158,031)	(87,815)	(75,450)	(14,192)
TOTAL PLANT AND EQUIPMENT	292,397	35,116	280,122	13,882

MOVEMENTS IN THE CARRYING AMOUNT OF EACH CLASS OF PLANT AND EQUIPMENT

PLANT AND EQUIPMENT				
At the beginning of the financial year	35,116	1,737,999	13,882	16,869
Additions	327,497	1,156	327,497	1,156
Disposals	—	(698,882)	—	—
Depreciation expense	(70,216)	(525,102)	(61,257)	(4,143)
Plant and equipment of controlled entities disposed of	—	(480,055)	—	—
TOTAL PLANT AND EQUIPMENT	292,397	35,116	280,122	13,882

NOTE 10. RECEIVABLES (NON-CURRENT)

Deposits	102,406	—	102,406	—
Loans to controlled entities	—	—	20,813,560	13,223,746
Provision for doubtful debts	—	—	(13,972,562)	(10,723,746)
	102,406	—	6,943,404	2,500,000

NOTE 11. CAPITALISED EXPLORATION EXPENDITURE

Joint venture exploration expenditure capitalised	2,311,663	1,714,466	—	—
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NOTE 12. OTHER FINANCIAL ASSETS (NON CURRENT)

Shares in controlled entities at cost (note 23)	—	—	60,488	2
	—	—	60,488	2

NOTE 13. TRADE AND OTHER PAYABLES

Sundry creditors and accrued expenses	1,657,020	2,114,951	55,648	121,769
Amounts owing to controlled entities	—	—	—	5,635,266
	1,657,020	2,114,951	55,648	5,757,035

Sundry creditors are non-interest bearing and generally on 30 day terms.

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2007

	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
NOTE 14. PROVISIONS (CURRENT)				
Employee entitlements	3,959	36,564	3,959	—
<hr/>				
NOTE 15. PROVISIONS (NON-CURRENT)				
Provision for plug and abandonment of wells	—	98,625	—	—
<hr/>				
	—	98,625	—	—
<hr/>				
NOTE 16. ISSUED CAPITAL				
60,922,354 (2006: 3,046,124,356) fully paid ordinary shares	49,686,804	39,441,625	49,686,804	39,441,625
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	49,686,804	39,441,625	49,686,804	39,441,625
<hr/>				
MOVEMENTS IN ISSUED CAPITAL				
At the beginning of the period	39,441,625	37,288,352	39,441,625	37,288,352
3,046,124,356 shares issued on 20 October 2006	10,661,435	—	10,661,435	—
13,902,004 shares cancelled on 11 October 2005	—	(97,314)	—	(97,314)
337,320,568 shares issued on 19 December 2005	—	843,302	—	843,302
400,000,000 shares issued on 14 March 2006	—	1,360,000	—	1,360,000
35,000,000 shares issued on 10 May 2006	—	119,000	—	119,000
25,000,000 shares issued on 19 May 2006	—	85,000	—	85,000
Capital raising costs	(416,256)	(156,715)	(416,256)	(156,715)
<hr/>				
AT THE END OF THE FINANCIAL YEAR	49,686,804	39,441,625	49,686,804	39,441,625
<hr/>				

On 20 October 2006, the Company issued 3,046,124,356 fully paid ordinary shares at an issue price of \$0.0035 (0.35 cents) per Share pursuant to a prospectus dated 8 September 2006 for a non-renounceable pro rata offer to existing shareholders. The non-renounceable pro rata offer was on the basis of one fully paid ordinary share in the capital of the Company ("Share") for every one Share held by shareholders on the record date of 19 September 2006.

On 21 November 2006, the Company's share capital was consolidated on a 1 for 100 basis. The capital consolidation was approved at the Annual General Meeting of shareholders held on 20 November 2006.

At 30 June 2007 there were 31,000,000 unissued ordinary shares for which options were outstanding. These options entitle the holder to subscribe for one ordinary share in the Company for 35 cents per share and expire on 31 August 2011. At 30 June 2006 there were no unissued ordinary shares for which options were outstanding.

TERMS AND CONDITIONS OF CONTRIBUTED EQUITY

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from sale of all surplus assets in proportion to the number of, and amounts paid up, of shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at any meeting of the Company.

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2007

	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
NOTE 17. RESERVES				
Option premium reserve	1,550,000	—	1,550,000	—
Currency translation reserve	1,418,832	(66,164)	—	—
	2,968,832	(66,164)	1,550,000	—

MOVEMENTS IN OPTION PREMIUM RESERVE

At the beginning of the financial year	—	—	—	—
8,000,000 free options issued on 6 December 2006	400,000	—	400,000	—
1,000,000 free options issued on 6 December 2006	50,000	—	50,000	—
20,000,000 options issued on 16 January 2007 for 5 cents each	1,000,000	—	1,000,000	—
2,000,000 free options issued on 3 April 2007	100,000	—	100,000	—
AT THE END OF THE FINANCIAL YEAR	1,550,000	—	1,550,000	—

The option premium reserve is used to accumulate the fair value of options issued.

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

On 6 December 2006, the Company issued 8,000,000 free options to nominees of directors of the Company. The options were issued pursuant to a prospectus dated 1 December 2006, are exercisable at 35 cents each and expire on 31 August 2011. The issue of these options was approved at the Annual General Meeting of shareholders held on 20 November 2006. These options were valued at 5 cents each based on the issue price of options with identical terms and conditions issued pursuant to the Public Option Offer in a prospectus dated 1 December 2006. The directors believe that this reflects fair value.

On 6 December 2006, the Company issued 1,000,000 free options to nominees of Ridgellake as part consideration for the opportunity to earn an interest in the Leases. The options were issued pursuant to a prospectus dated 1 December 2006, are exercisable at 35 cents each and expire on 31 August 2011. The issue of these options was approved at the Annual General Meeting of shareholders held on 20 November 2006. These options were valued at 5 cents each based on the issue price of options with identical terms and conditions issued pursuant to the Public Option Offer in a prospectus dated 1 December 2006. The directors believe that this reflects fair value.

On 16 January 2007, the Company issued 20,000,000 options to acquire shares in Lion Energy Limited exercisable at 35 cents each and expiring on 31 August 2011. The options were issued pursuant to a prospectus dated 1 December 2006 at an issue price of 5 cents each. The directors believe that this reflects fair value. The issue of these options was approved at the Annual General Meeting of shareholders held on 20 November 2006.

On 3 April 2007, the Company issued 2,000,000 free options to acquire shares in Lion Energy Limited exercisable at 35 cents each and expiring on 31 August 2011 to directors of the Company. The issue of these options was approved at the General Meeting of shareholders held on 3 April 2007. These options were valued at 5 cents each based on the issue price of options with identical terms and conditions issued pursuant to the Public Option Offer in a prospectus dated 1 December 2006. The directors believe that this reflects fair value.

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2007

	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
NOTE 18. CASH FLOW INFORMATION				
RECONCILIATION OF CASH FLOW FROM OPERATIONS WITH LOSS AFTER INCOME TAX				
Profit/(loss) after tax	(10,585,070)	2,144,057	(6,226,587)	(4,162,015)
<i>Cash flows in loss attributable to non-operating activities</i>				
Exploration expenditure	865,021	107,771	—	98,913
Disposal of Bula project (sale of subsidiaries)	—	—	—	(1,950,289)
<i>Non-cash flows in loss</i>				
Plant and equipment written off	—	698,882	—	—
Depreciation of property, plant and equipment	70,216	525,102	61,257	4,143
Loss on sale of investments	(136,688)	(2,549)	(136,688)	(2,549)
Write down/(up) of investments	—	65,474	—	65,474
Foreign exchange	1,340,202	606,374	1,507,673	—
Joint venture expenditure written down	2,141,536	5,551,845	—	—
Exploration expenditure written off	6,647,583	—	—	—
Write down of loans owed by subsidiary	—	—	3,248,816	5,085,751
Share based payments	550,000	—	550,000	—
Loss of control of subsidiary	—	(5,060,489)	—	—
<i>Changes in assets and liabilities</i>				
Decrease/(increase) in other debtors and prepayments	2,216,343	(2,252,793)	402,036	568,065
Decrease/(increase) in inventories	(127,387)	284,488	—	—
Increase/(decrease) in other creditors and accruals	(457,931)	(875,042)	(66,121)	(124,468)
Increase/(decrease) in provisions	(131,230)	(519,383)	3,959	(43,266)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	2,392,595	1,273,737	(655,655)	(460,241)
RECONCILIATION OF CASH AND CASH EQUIVALENTS				
<i>Cash and cash equivalents at the end of the financial year is shown in the accounts as:</i>				
Cash and cash equivalents	8,741,155	4,833,288	1,006,209	4,833,288
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	8,741,155	4,833,288	1,006,209	4,833,288

There are no financing facilities in place for the Company.

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2007

	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$

DISPOSAL OF CONTROLLED ENTITIES

During the year ended 30 June 2006, the Parent Entity disposed of its 100% interest in the Bula project. Accordingly, it disposed of 100% controlled entities Oxford Mining NL, Kalrez Petroleum (Seram) Ltd, Indonesia Prima Energy Services Ltd, PT Prima Jasa Energi and Petroasia Ltd. The book value of assets and liabilities held by these entities at disposal date are:

Cash and cash equivalents	—	4,621		
Receivables	—	2,971,558		
Property, plant and equipment	—	480,055		
Payables	—	(1,606,176)		
Provisions	—	(604,292)		
Loan accounts written off	—	(4,182)		
Exchange rate adjustment	—	41,906		
NET ASSETS AT DISPOSAL	—	1,283,490		
 Disposal proceeds	 —	 6,348,161		
NET PROFIT ON SALE	 —	 5,064,671		

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2007

	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
NOTE 19. EXPENDITURE COMMITMENTS				
JOINT VENTURE COMMITMENTS				
Non-Cancellable capital expenditure commitments contracted for but not capitalised in the accounts:				
<i>Payable</i>				
not later than one year	—	1,679,430	—	—
later than 1 year but not later than 5 years	—	—	—	—
OPERATING LEASE COMMITMENTS				
Non-Cancellable capital expenditure commitments contracted for but not capitalised in the accounts:				
<i>Payable</i>				
not later than one year	211,298	—	211,298	—
later than 1 year but not later than 5 years	461,324	—	461,324	—
AGGREGATE EXPENDITURE CONTRACTED FOR AT REPORTING DATE	672,622	1,679,430	672,622	—

NOTE 20. AUDITORS' REMUNERATION

Remuneration of the auditor of the Company for:				
Auditing or reviewing the financial report	45,979	40,805	45,979	40,805
Auditing or reviewing subsidiaries	30,000	—	30,000	—
Other services	4,267	2,888	4,267	2,888
Remuneration of other auditors of subsidiaries for:				
Auditing or reviewing the financial report of subsidiaries	25,051	76,237	12,356	76,237
Other services	—	3,358	—	3,358
	105,297	123,288	92,602	123,288

NOTE 21. REMUNERATION OF KEY MANAGEMENT PERSONNEL

Remuneration is based on fees approved by the Board of directors.

There is no relationship between the performance or the impact on shareholder wealth of the Company for the current financial year or the previous four financial years and either the remuneration of directors and executives or the issue of shares and options to directors. Remuneration is set at levels to reflect market conditions and encourage the continued services of directors and executives. There are no contracts with directors.

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2007

The Company had an agreement with Ohio Holdings Pty Ltd, a company associated with Mr Paul Garner, a director of the Company for provision of Mr Garner's services as an executive director. The agreement is for a period of 3 years from 1 June 2006 and provides for remuneration of \$10,000 per month plus 50% of mobile phone costs. The agreement was terminated by mutual consent on Mr Garner's resignation as a director of Lion Energy Limited on 14 March 2007.

The Company had an agreement with Jaguar Enterprises Pty Ltd as trustee for The Jaguar Trust for the provision of Company Secretarial services. The agreement is for a period of 1 year from 1 June 2006 and provides for remuneration of \$4,250 per month. This agreement had expired by 30 June 2007.

The names and positions of key management personnel of the Company and of the Consolidated Entity who have held office during the financial year are:

DIRECTORS

Jian Wu	Executive Chairman (from 06-Jun-07) Non-Executive Chairman (from 03-Oct-06 to 06-Jun-07)
Russell Brimage	Group Chief Executive Officer (from 04-Oct-06) Executive Chairman to 03-Oct-06)
Weidong Zhang	Non-Executive Director (from 20-Nov-06)
Zhong Wang	Executive Director and Chief Financial Officer (from 20-Nov-06 to 06-Jun-07)
Paul Garner	Non-Executive Director (from 20-Nov-06 to 14-Mar-07) Executive Director (to 20-Nov-06)
Martin Bennett	Non-Executive Director (resigned 20-Nov-06)

EXECUTIVES

Jack Toby	Company Secretary and Chief Financial Officer (from 06-Jun-07) Company Secretary (to 06-Jun-07)
Scott Wentz	Director of Lion Energy Limited USA, Inc. from 21 July 2006 and Director of Lion Energy Limited LLC from 21 July 2006.

Primary Compensation 2007		
Short Term Benefits	Super-annuation	Total
\$	\$	\$

COMPENSATION OF DIRECTORS BASED ON FEES APPROVED BY THE BOARD OF DIRECTORS.

Jian Wu	39,792	—	39,792
Russell Brimage	250,000	—	250,000
Weidong Zhang	31,900	—	31,900
Zhong Wang	65,640	—	65,640
Paul Garner	65,187	—	65,187
Martin Bennett	—	—	—
TOTAL PRIMARY COMPENSATION FOR SPECIFIED DIRECTORS	452,519	—	452,519

COMPENSATION OF EXECUTIVES BASED ON FEES APPROVED BY THE BOARD OF DIRECTORS.

Jack Toby	56,750	—	56,750
Scott Wentz	64,730	—	64,730
TOTAL PRIMARY COMPENSATION FOR SPECIFIED EXECUTIVES	121,480	—	121,480

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2007

	Equity Remuneration 2007		
	Shares \$	Options \$	Total \$
REMUNERATION OF DIRECTORS BASED ON APPROVAL BY THE BOARD OF DIRECTORS AND SHAREHOLDERS.			
Russell Brimage	—	200,000	200,000
Weidong Zhang	—	50,000	50,000
Zhong Wang	—	50,000	50,000
Paul Garner	—	200,000	200,000
TOTAL EQUITY REMUNERATION FOR SPECIFIED DIRECTORS	—	500,000	500,000

On 6 December 2006, the Company issued 8,000,000 free options to nominees of directors of the Company. The options were issued pursuant to a prospectus dated 1 December 2006, are exercisable at 35 cents each and expire on 31 August 2011. The issue of these options was approved at the Annual General Meeting of shareholders held on 20 November 2006. These options were valued at 5 cents each based on the issue price of options with identical terms and conditions issued pursuant to the Public Option Offer in a prospectus dated 1 December 2006. The directors believe that this reflects fair value.

On 3 April 2007, the Company issued 2,000,000 free options to acquire shares in Lion Energy Limited exercisable at 35 cents each and expiring on 31 August 2011 to directors of the Company. The issue of these options was approved at the General Meeting of shareholders held on 3 April 2007. These options were valued at 5 cents each based on the issue price of options with identical terms and conditions issued pursuant to the Public Option Offer in a prospectus dated 1 December 2006. The directors believe that this reflects fair value.

The primary purpose for the issue of the options to directors and executives is designed to encourage the performance of the Directors and executives.

	Total Remuneration 2007		
	Primary Remuneration \$	Equity Remuneration \$	Total \$
REMUNERATION OF DIRECTORS BASED ON APPROVAL BY THE BOARD OF DIRECTORS.			
Jian Wu	39,792	—	39,792
Russell Brimage	250,000	200,000	450,000
Weidong Zhang	31,900	50,000	81,900
Zhong Wang	65,640	50,000	115,640
Paul Garner	65,187	200,000	265,187
Martin Bennett	—	—	—
TOTAL REMUNERATION FOR SPECIFIED DIRECTORS	452,519	500,000	952,519

REMUNERATION OF EXECUTIVES BASED ON APPROVAL BY THE BOARD OF DIRECTORS.			
Jack Toby	56,750	—	56,750
Scott Wentz	64,730	—	64,730
TOTAL REMUNERATION FOR SPECIFIED EXECUTIVES	121,480	—	121,480

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2007

	Primary Compensation 2006		
	Short Term Benefits \$	Super- annuation \$	Total \$
COMPENSATION OF DIRECTORS BASED ON FEES APPROVED BY THE BOARD OF DIRECTORS.			
Russell Brimage	115,000	—	115,000
Paul Garner	85,000	—	85,000
Martin Bennett	—	—	—
Julian Waterman	15,000	—	15,000
Carmine Barone	5,835	—	5,835
Guisepe Mercorella	66,500	—	66,500
TOTAL PRIMARY COMPENSATION FOR SPECIFIED DIRECTORS	287,335	—	287,335
COMPENSATION OF EXECUTIVES BASED ON FEES APPROVED BY THE BOARD OF DIRECTORS.			
Jack Toby	48,524	—	48,524
TOTAL PRIMARY COMPENSATION FOR SPECIFIED EXECUTIVES	48,524	—	48,524

The Company did not provide any equity compensation to directors or executives during the year ended 30 June 2006.

SHARES HELD BY KEY MANAGEMENT PERSONNEL

	1 July 2006 or Appointment	Number of Ordinary Shares		30 June 2007 or Resignation
		Issued as Compensation	Net Change Other	
Jian Wu	—	—	16,522,688	16,522,688
Russell Brimage	54,400	—	—	54,400
Weidong Zhang	8,529,148	—	(8,529,148)	—
Zhong Wang	8,529,148	—	—	8,529,148
Paul Garner	—	—	—	—
Martin Bennett	—	—	—	—
Jack Toby	—	—	—	—
	17,112,696	—	7,993,540	25,106,236

	1 July 2006 or Appointment	Number of Options		30 June 2007 or Resignation
		Issued as Compensation	Net Change Other	
Jian Wu	—	—	—	—
Russell Brimage	—	4,000,000	—	4,000,000
Weidong Zhang	—	1,000,000	—	1,000,000
Zhong Wang	—	1,000,000	—	1,000,000
Paul Garner	—	4,000,000	(1,000,000)	3,000,000
Martin Bennett	—	—	—	—
Jack Toby	—	—	—	—
	—	10,000,000	(1,000,000)	9,000,000

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2007

All options are vested and exercisable. The above shares and options have been adjusted to reflect post-consolidation balances.

NOTE 22. SEGMENT INFORMATION

PRIMARY REPORTING BUSINESS SEGMENTS

During the year ended 30 June 2007 and also during the year ended 30 June 2006, the Consolidated Entity operated entirely in the oil and gas industry.

SECONDARY REPORTING GEOGRAPHICAL SEGMENTS

	External Revenue \$	Inter-Segment Revenue \$	Total Revenue \$	Segment Profit/(Loss) \$	Segment Assets \$
YEAR TO 30 JUNE 2007					
South East Asia/Australasia	2,154,522	—	2,154,522	(3,759,397)	11,277,805
North America	—	—	—	(6,825,673)	2,255,762
TOTAL	2,154,522	—	2,154,522	(10,585,070)	13,533,567

Segment revenues, expenses and results may include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the economic entity at an arm's length. These transfers are eliminated on consolidation.

During the year ended 30 June 2006 the Consolidated Entity operated entirely in South East Asia.

NOTE 23. CONTROLLED ENTITIES

	% Owned		Book value of shares held		Contribution to consolidated profit/(loss)	
	2007	2006	2007 \$	2006 \$	2007 \$	2006 \$
<i>Parent Entity</i>						
Lion Energy Limited						
<i>Entities controlled by Lion Energy Limited</i>						
Lion International Investment Limited	100%	N/A	60,474	—	152,932	—
Lion Energy Limited USA, Inc	100%	N/A	12	—	(6,825,673)	—
Lion Petroleum Seram Ltd	100%	100%	2	2	(771,454)	570,476
Indonesia Prima Energy Services Ltd	Nil	Nil	—	—	—	(12,231)
<i>Entities controlled by Lion Energy Limited USA, Inc</i>						
Lion Energy Limited LLC	100%	N/A	—	—	—	—
<i>Entities controlled by Indonesia Prima Energy Services Ltd</i>						
PT Prima Jasa Energi	Nil	Nil	—	—	—	(1,419,822)
			60,488	2	(7,444,195)	(861,577)

Lion Energy Limited USA, Inc and Lion Energy Limited LLC are registered in Delaware in the United States of America.

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2007

Lion International Investment Limited is registered in the Cayman Islands.

During the year, the Company registered Lion Energy Limited USA, Inc and Lion Energy Limited LLC in the USA. The results of these companies have been included in the Consolidated Entity from the date of their registration. Both companies were registered on 21 July 2006.

During the year, the Company registered Lion International Investment Limited in the Cayman Islands. The results of Lion International Investment Limited have been included in the Consolidated Entity from the date of its registration of 22 December 2006.

Lion Petroleum Seram Ltd is incorporated in Hong Kong.

NOTE 24. SUPERANNUATION COMMITMENTS

The Company makes contributions to complying superannuation funds based on the requirements of the Australian Superannuation Guarantee Charge or such higher amount as has been agreed with individual employees. There is a legally enforceable obligation on the Company to contribute to the superannuation plan for those contributions that have been agreed with individual employees as part of their conditions of employment.

NOTE 25. FINANCIAL INSTRUMENTS

The Company's and Consolidated Entity's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at 30 June 2007 are as follows:

FINANCIAL INSTRUMENTS	TERMS AND CONDITIONS AND INTEREST RATE RISK
Bank Deposits	Bank deposits are either held at call, subject to notice of withdrawal or subject to maturity after a specified period of time. All cash held is subject to floating interest rate risk. The weighted average effective interest rate earned was 5.70% (2006: 3.64%).
Receivables	There are no specific terms and conditions that may affect the amount, timing and certainty of future cash flows as they are all managed on a case by case basis. These are non interest bearing and there is no exposure to interest rate risk.
Accounts Payable	There are no specific terms and conditions that may affect the amount, timing and certainty of future cash flows as they are all managed on a case by case basis. These are non interest bearing and there is no exposure to interest rate risk.
Equity	Details of equity securities issued and outstanding are disclosed separately in these financial statements. These are non interest bearing and there is no exposure to interest rate risk.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise cash and short-term deposits. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are cash flow interest rate risk, and foreign currency risk. The Board reviews each of these risks on an on-going basis.

FOREIGN CURRENCY RISK

As a result of significant investment operations in the United States, the Group's balance sheet can be affected significantly by movements in the US\$/A\$ exchange rates. The Group does not seek to hedge this exposure.

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2007

CREDIT RISK

The maximum exposure to credit risk, excluding the value of any collateral or security, at balance date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts, as disclosed in the balance sheet and notes in the financial statements. The Company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Company.

FAIR VALUES

The aggregate net fair values of the Consolidated Entity's financial assets and financial liabilities, both recognised and unrecognised are as follows:

	CARRYING AMOUNT IN THE FINANCIAL STATEMENTS 2007 \$	AGGREGATE NET FAIR VALUE 2007 \$	CARRYING AMOUNT IN THE FINANCIAL STATEMENTS 2006 \$	AGGREGATE NET FAIR VALUE 2006 \$
<i>Financial Assets</i>				
Cash assets	8,741,155	8,741,155	4,833,288	4,833,288
Receivables	1,261,544	1,261,544	3,477,887	3,477,887
Other financial assets	—	—	567,445	567,445
<i>Financial Liabilities</i>				
Payables	1,657,020	1,657,020	2,114,951	2,114,951

The following methods and assumptions are used to determine the net fair value of financial assets and liabilities:

Cash assets and financial assets are carried at amounts approximating fair value because of their short term nature to maturity. Receivables and payables are carried at amounts approximating fair value.

NOTE 26. RELATED PARTY TRANSACTIONS

The Company is a single entity and is not controlled by any other entity.

During the year ended 30 June 2007, the Company lent monies to its subsidiaries totalling \$14,564,766.

During the year ended 30 June 2007, the Company earned interest from its subsidiaries of \$151,382.

Ohio Holdings Pty Ltd received benefits from the Company for services performed by Mr Paul Garner, a director of the Company. Full details of the remuneration received are disclosed in note 21.

At 30 June 2007, directors and their related entities held directly, indirectly or beneficially 83,425,708 ordinary shares and 5,000,000 options expiring 31 August 2011 and exercisable at 35 cents each in the Company.

At 30 June 2006, directors and their related entities held directly, indirectly or beneficially 5,440,000 ordinary shares in the Company.

NOTE 27. DIVIDENDS

No dividends have been paid or proposed during the year.

NOTE 28. EVENTS SUBSEQUENT TO BALANCE DATE

There have been no other conversions to, calls of or subscriptions for ordinary shares or issues of potential ordinary shares.

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2007

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

The accompanying notes form part of these financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LION ENERGY LIMITED

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Lion Energy Limited, which comprises the balance sheet as at 30 June 2007, the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report of the Group, comprising the financial statements and notes, complies with International Financial Reporting Standards, but that the financial report of the Company does not comply.

The directors of the Company are also responsible for the remuneration disclosures contained in the Directors' report.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the Directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the Directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the Directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the Directors' report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENCE

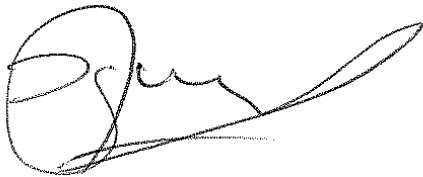
In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

AUDITOR'S OPINION

In our opinion:

- a) the financial report of Lion Energy Limited is in accordance with the Corporations Act 2001, including:
 - i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
 - ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b) the financial report of the Group also complies with International Financial Reporting Standards as disclosed in note 1.

STANTONS INTERNATIONAL
(An Authorised Audit Company)



Keith Lingard
Director

West Perth, Western Australia
7 September 2007

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF LION ENERGY LIMITED

7 September 2007

Board of Directors
Lion Energy Limited
Ground Floor
15 Rheola St
WEST PERTH WA 6005

Dear Directors

RE: LION ENERGY LIMITED

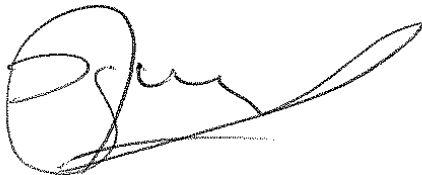
In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Lion Energy Limited.

As Audit Director for the audit of the financial statements of Lion Energy Limited for the year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) any applicable code of professional conduct in relation to the audit.

Yours sincerely,

STANTONS INTERNATIONAL
(Authorised Audit Company)



Keith Lingard
Director



ADDITIONAL INFORMATION AS AT 4 SEPTEMBER 2007

ANALYSIS OF HOLDINGS OF SHARES AND OPTIONS IN THE COMPANY

	Ordinary Shares	Options expiring 31 Aug 2011
1 — 1,000	722	0
1,001 — 5,000	1,002	0
5,001 — 10,000	212	1
10,001 — 100,000	246	37
100,001 — and over	42	39
Total number of holders	<u>2,224</u>	<u>77</u>
Holdings of less than a marketable parcel	<u>1,516</u>	

REGISTERED OFFICE OF THE COMPANY

Ground Floor
15 Rheola St
West Perth
Western Australia 6005

Tel: +61 (8) 9213 4300
Fax: +61 (8) 9213 4311

STOCK EXCHANGE LISTING

Quotation has been granted for all ordinary shares and all options expiring 31 August 2011 on the Australian Stock Exchange Ltd. The State Office of the Australian Stock Exchange Ltd in Adelaide, South Australia has been designated the Home Branch of Lion Energy Limited.

There are no current on-market buy-back arrangements for the Company.

VOTING RIGHTS

For all ordinary shares, voting rights are one vote per member on a show of hands and one vote per share in a poll.

SHARE REGISTRY

The registers of shares and options of the Company are maintained by:-

Computershare Registry Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth, Western Australia 6000

Tel: +61 (8) 9323 2000
Fax: +61 (8) 9323 2033

COMPANY SECRETARY

The name of the company secretary is Jack Hugh Toby.

TAXATION STATUS

Lion Energy Limited is taxed as a public company.

ADDITIONAL INFORMATION AS AT 4 SEPTEMBER 2007

TWENTY LARGEST HOLDERS OF ORDINARY SHARES

	Number of Shares	Percentage of Total
Mr Zhong Wang	8,529,148	14.00%
Mr Jian Wu	8,529,148	14.00%
Ms Ling Gu	7,993,540	13.12%
Mr Peter Alfred Ternes	3,045,000	5.00%
Mr Tianxing Zheng	3,000,000	4.92%
Mrs Wenmei Hu	2,815,310	4.62%
Zapac Pty Ltd	2,011,523	3.30%
Acquista Investments Pty Ltd	1,441,000	2.37%
Mr Fusheng Wu	1,200,000	1.97%
ZMMF Pty Limited	1,160,000	1.90%
Mr Rosario Barca	839,560	1.38%
ANZ Nominees Limited <Cash Income A/C>	759,264	1.25%
Miningnut Pty Ltd	705,000	1.16%
Mr Domenic Zappia	664,357	1.09%
Douglas Financial Consultants Pty Ltd	470,000	0.77%
Mr Luigi Vitale	400,000	0.66%
Ms Qiuyun Shen	382,400	0.63%
Mr Arthur Blaquiere + Mrs Erica Blaquiere <The Blaquiere Family A/C>	320,000	0.53%
Berne No 132 Nominees Pty Ltd <376804 A/C>	305,000	0.50%
Dr Arthur Charles Stephenson	266,500	0.44%
	<hr/> <hr/>	
	44,836,750	73.61%

TWENTY LARGEST HOLDERS OF OPTIONS EXPIRING 31 AUGUST 2011

	Number of Options	Percentage of Total
Mr Tianxing Zheng	6,000,000	19.35%
Pouvoir Pty Ltd <Brimage Family A/C>	4,000,000	12.90%
Ms Qiuyun Shen	2,430,000	7.84%
Mr Yu Lin Wang	2,000,000	6.45%
Mr Peter Alfred Ternes	1,250,000	4.03%
Mr Ken John Bull	1,000,000	3.23%
Mr Paul Charles Garner	1,000,000	3.23%
Mr Zhong Wang	1,000,000	3.23%
Mr Weidong Zhang	1,000,000	3.23%
Custodial Services Limited	750,000	2.42%
Greenway Plant Nurseries Pty Ltd	565,000	1.82%
Mr Maksud Imam	520,000	1.68%
Bennett & Bennett Pty Ltd	500,000	1.61%
Mrs Myong Sun Campbell	500,000	1.61%
Mrs Jirachaya Charnchayasuk	500,000	1.61%
Mr Michael Anthony Connor	500,000	1.61%
Mr Nyuk Sang Liew	500,000	1.61%
Mr Robert Rankin	350,000	1.13%
Petrosand Energy Llc	334,000	1.08%
Delta Oil & Gas Llc	333,000	1.07%
	<hr/> <hr/>	
	25,032,000	80.74%



ADDITIONAL INFORMATION AS AT 4 SEPTEMBER 2007

SUBSTANTIAL SHAREHOLDERS

Date Announced	Name	Number of Shares
11-Apr-07	Ms Ling Gu and Mr Jian Wu	16,522,688
28-Jul-05	Domenico Zappia and Zapac Pty Ltd and ZMMF Pty Ltd and R Zappia & Sons Pty Ltd Provident Fund	393,063,008
24-Jun-04	Saltbush Nominees Pty Ltd and Unley Financial Strategies Pty Ltd and Tulloch Lodge Ltd	173,715,708
26-Oct-06	Zhong Wang	852,914,819

On 21 November 2006, the Company's share capital was consolidated on a 1 for 100 basis. Substantial shareholder notices announced prior to that date would reflect pre-consolidation interests in shares.

PRINCIPLES OF GOOD CORPORATE GOVERNANCE AND BEST PRACTICE RECOMMENDATIONS

INTRODUCTION

The directors are focussed on fulfilling their responsibilities individually, and as a board, for the benefit of all the company's stakeholders. That involves recognition of, and a need to adopt, principles of good corporate governance. The board supports the guidelines on the "Principles of Good Corporate Governance and Best Practice Recommendations" established by the ASX Corporate Governance Council.

Given the size and structure of the company, the nature of its business activities, the stage of its development and the cost of strict and detailed compliance with all of the recommendations, it has adopted a range of modified systems, procedures and practices which it considers will enable it to meet the principles of good corporate governance.

The company's practices are mainly consistent with those of the guidelines and where they do not correlate with the recommendations in the guidelines the company considers that its adopted practices are appropriate to it. At the end of this statement a table is included detailing the recommendations with which the company does not strictly comply.

The following section addresses the company's practices in complying with the principles.

PRINCIPLE 1: LAYING SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Role and Responsibilities of the Board

The board exists to lead and oversee the management and direction of the company.

After appropriate consultation with executive management the board:

- defines and sets its business objectives and subsequently monitors performance and achievements of those objectives;
- it oversees the reporting on matters of compliance with corporate policies and laws, takes responsibility for risk management processes and a review of executive management of the company;
- monitors and approves financial performance and budgets; and
- reports to shareholders.

ADDITIONAL INFORMATION AS AT 4 SEPTEMBER 2007

PRINCIPLE 2: STRUCTURING THE BOARD TO ADD VALUE

Composition of the Board

The names of the directors of the company and their qualifications are: set out in the section headed Directors' Report in the Annual Report for the year ended 30 June 2007.

The composition of the board is determined so as to provide the company with a broad base of industry, business, technical, administrative, financial and corporate skills and experience considered necessary to represent shareholders and fulfil the business objectives of the company.

The recommendations of best practice are that a majority of the directors and in particular the chairperson should be independent. An independent director is one who:

- does not hold an executive position;
- is not a substantial shareholder of the company or an officer or otherwise associated directly or indirectly with a substantial shareholder of the company;
- has not within the last 3 years been employed in an executive capacity by the company or another group member or been a director after ceasing to hold such employment;
- is not a principal of a professional adviser to the company or another group member;
- is not a significant supplier or customer of the company or another group member, or an officer of, or otherwise associated directly or indirectly with a significant supplier or customer;
- has no significant contractual relationship with the company or any other group member other than as a director of the company; and
- is free from any interest and any business or other relationship which could or could reasonably be perceived to materially interfere with the director's ability to act in the best interests of the company.

None of the board members meet these criteria except for Mr Martin Bennett until his resignation on 20 November 2006. Mr Jian Wu is the chairman of the board.

Nomination of Other Board Members

Membership of the Board of directors is reviewed on an on-going basis by the Chairman of the Board to determine if additional core strengths are required to be added to the board in light of the nature of the company's businesses and its objectives. The board does not believe that at this point in the company's development it is necessary to appoint additional directors.

Independent Advice

Each of the directors is entitled to seek independent advice at the company's expense to assist them to carry out their responsibilities however prior approval of the Chairman is required which is not unreasonably withheld.

PRINCIPLE 3: PROMOTION OF ETHICAL AND RESPONSIBLE DECISION-MAKING

Directors, officers, employees and consultants to the company are required to observe high standards of behaviour and business ethics in conducting business on behalf of the company and they are required to maintain a reputation of integrity on the part of both the company and themselves. The company does not contract with or otherwise engage any person or party where it considers integrity may be compromised.

Directors are required to disclose to the board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the director or the interests of any other party in so far as it affects the activities of the company and to act in accordance with the Corporations Act if conflict cannot be removed or if it persists. That involves taking no part in the decision making process or discussions where that conflict does arise.

ADDITIONAL INFORMATION AS AT 4 SEPTEMBER 2007

Directors are required to make disclosure of any share trading. The company policy in relation to share trading is that officers are prohibited to trade whilst in possession of unpublished price sensitive information concerning the company. That is information which a reasonable person would expect to have a material affect on the price or value of the company's shares. It is recommended that an officer discuss the proposal to acquire or sell shares with the directors or the company secretary prior to doing so to ensure that there is no price sensitive information of which that officer might not be aware. The undertaking of any trading in shares must be notified to the ASX.

PRINCIPLE 4: SAFEGUARDING INTEGRITY IN FINANCIAL REPORTING

No audit committee has been established. The two executive directors play an active role in monitoring the daily affairs of the company. As a result of the scale of operations it has not been considered necessary to form sub-committees.

Each board member has access to the external auditors and the auditor has access to each board member.

A director does make a statement to the shareholders that the company's financial reports present a true and fair view in all material respects of the company's financial condition and operational results and are in accordance with relevant accounting standards.

PRINCIPLE 5: MAKING TIMELY AND BALANCED DISCLOSURE

All directors, executives and staff are required to abide by all legal requirements, the Listing Rules of the Australian Stock Exchange and the highest standards of ethical conduct. This includes compliance with the continuous disclosure requirements of the listing rules.

The company secretary is the person responsible for overseeing and co-ordinating disclosure of information to ASX as well as communicating with the ASX.

PRINCIPLE 6: RESPECTING THE RIGHTS OF SHAREHOLDERS

The board's fundamental responsibility to shareholders is to work towards meeting the company's objectives so as to add value for them.

The board seeks to inform shareholders of all major developments affecting the company by:

- preparing half yearly and yearly financial reports;
- preparing quarterly cash flow reports and reports as to activities;
- making announcement in accordance with the listing rules and the continuous disclosure obligations;
- hosting all of the above on the company's website;
- annually, and more regularly if required, holding a general meeting of shareholders and forwarding to them the annual report together with notice of meeting and proxy form; and
- voluntarily releasing other information which it believes is in the interest of shareholders.

The Annual General Meeting enables shareholders to receive the reports and participate in the meeting by attendance or by written communication. The board seeks to notify all shareholders so they can be fully informed annually for the voting on the appointment of directors and so as to enable them to have discussion at the Annual General Meeting with the directors and/or the auditor of the company who is invited to the Annual General Meeting.

PRINCIPLE 7: RECOGNISING AND MANAGING RISK

The board is conscious of the need to continually maintain systems of risk management and controls to manage all of the assets and affairs of the company.

ADDITIONAL INFORMATION AS AT 4 SEPTEMBER 2007

The risk management includes asset risk, operational risk, personnel health and safety risk, currency fluctuation risk, amongst others. The company identifies and manages those risks on a case by case and overall corporate basis.

PRINCIPLE 8: ENCOURAGING ENHANCED PERFORMANCE

The board regularly discusses and reviews its performance. The board also discusses with each director their requirements, performances and aspects of involvement in the company.

PRINCIPLE 9: REMUNERATE FAIRLY AND RESPONSIBLY

There is no formal remuneration committee.

One third of the directors retires annually in accordance with the Constitution and is free to seek re-election by shareholders.

Each member of the board has committed to spending sufficient time to enable them to carry out their duties as a director of the company.

A maximum amount of remuneration for non-executive directors is fixed by shareholders in general meeting and can be varied in that same manner. In determining the allocation the board takes account of the time demands made on the directors together with such factors as fees paid to other corporate directors and to the responsibilities undertaken by them.

PRINCIPLE 10: RECOGNISING THE LEGITIMATE INTERESTS OF STAKEHOLDERS

The company recognises its responsibilities extend beyond its shareholders to clients, customers, consumers and regulators. The company is committed to providing an adequate level of detail for the benefit of all stakeholders, the accuracy in that detail, and to meeting principles of equity and fairness in all of its dealings.

TABLE OF DEPARTURES AND EXPLANATIONS (FROM THE RECOMMENDATIONS OF THE ASX CORPORATE GOVERNANCE COUNCIL)

"Recommendation" Ref ("Principle No" Ref followed by Recommendation Ref)	Departure	Explanation
1.1	There was no formalisation and disclosure of separate functions between the board and management during the reporting period.	Throughout the reporting period the board consisted of between one and two non-executive and between two and three executive directors. The executive directors were involved in the overall management of the company. The practices followed were compatible with the Principle.
2.1 and 2.2	None of the current board members meet these criteria.	Given the nature and size of the company, its business interests and the stage of development, the board is of the view that there is an adequate and broad mix of skills required and that given their experience each of the directors are aware of and capable of acting in an independent manner and in the best interests of the shareholders.

ADDITIONAL INFORMATION AS AT 4 SEPTEMBER 2007

"Recommendation" Ref ("Principle No" Ref followed by Recommendation Ref)	Departure	Explanation
2.4	A separate Nomination Committee has not been formed.	The board comprises three members each of who have valuable contributions to make in fulfilling the role of a nomination committee member. A director will excuse himself where there is a personal interest or conflict.
3.1	No formal code of conduct has been established as to practices necessary to maintain confidence in the company's integrity or as to reporting and investigating unethical practices.	The board and management consists of appropriately qualified and experienced members. It is not considered that a code of conduct or reporting guide is yet necessary. The principles are followed.
3.2	No formal policy concerning trading in the company securities by directors, officers or employees has been disclosed.	Although there was no written policy there is a clear understanding as to when trading is inappropriate.
4.1	The chief executive officer and the chief financial officer did not make any written representations to the Board on the company's financial reports.	Given the size and nature of the company, its business interests and the ongoing level of involvement of all directors it is not considered necessary that such procedures be formalised.
4.2, 4.3 and 4.4	No formal audit committee has been established or formal charter drawn	Given the size and nature of the company, its business interests and the ongoing level of involvement of all directors it is not considered necessary that a formal audit committee be established or a charter be drawn.
5.1	No written policy and procedure exists to ensure compliance with ASX Listing Rules disclosure requirements are met at senior management level.	The board and management consists of appropriately qualified and experienced members and the board does not consider that a written policy is at this time required. However, The Board's practice is to comply strictly with ASX Listing Rules and disclosure requirements and whenever in doubt, contact has been made promptly with the ASX seeking advice.

ADDITIONAL INFORMATION AS AT 4 SEPTEMBER 2007

“Recommendation” Ref (“Principle No” Ref followed by Recommendation Ref)	Departure	Explanation
6.1	The company has no formal communication strategy in place for the benefit of its shareholders.	The board is very conscious of the need to continually keep shareholders and markets advised. The development and regular update of the company’s web-page provides a continuous communication channel which ensures shareholders and the markets are adequately informed about its activities results.
7.1 and 7.2	There has been no written implementation of policy on risk oversight and management or for senior management to make statements to the board concerning those matters.	Given the nature and size of the company, its business interests and the involvement of all directors it is not considered necessary to establish this practice at this time, however the principles are adopted in circumstances where an event or issue is deemed to require it.
8.1	There has been no formal disclosure of the process for performance evaluation of the board, committees, individual directors and key executives. No formal review has been undertaken.	Given the size of the company and the involvement of all directors a policy has not been required to date. The directors continually monitor, review and discuss performance and implement changes as necessary.
9.1	The company has not disclosed remuneration policies.	Given the size and nature of the company, its business interests, remuneration and other benefits paid to its directors, the board does not consider it yet to be necessary to formulate the policies. At the appropriate time the board will take independent advice.
9.2	No formal remuneration committee has been established.	Given the explanation above it is not considered necessary to establish a remuneration committee.
10.1	There has been no disclosure of a code of conduct to deal with compliance for legal or other obligations to legitimate stakeholders.	The business practices adopted by the board recognise this principle but no formal code has been drawn-up or approved.