



ANNUAL
REPORT
2008



LION

ENERGY LIMITED

ABN 51 000 753 640



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:	Grant Thornton WA Partnership Level 1, 10 Kings Park Road West Perth WA 6005 AUSTRALIA Tel: +61 (8) 9480 2000 Fax: +61 (8) 9322 7787
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 (\$), the functional currency of Lion Nanning Petro-Chemical Limited is Yuan Renminbi and the functional currency of all other controlled entities 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 2008. 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
Russell Brimage
Weidong Zhang

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 \$2,959,470.

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 2008.

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 31 October 2007, the Company announced that in recognition of spiralling global demand for refined petroleum products, during the past 12 months the Company had conducted preliminary reviews of three downstream opportunities, in Indonesia, China and Australia. In the process of these reviews, it was evident that China is an outstanding opportunity for the location of a new refinery to process crude oil.

The Directors decided to consider the opportunity to establish a petroleum refinery in China and it was resolved at Board level to commit funds to conduct a preliminary evaluation to establish a presence in China, gain Government endorsement (licensing) for such a project and conduct a Preliminary Feasibility Study. In October 2007, the Company's Board authorized the Executive Chairman of the Board, Mr Jian Wu to proceed with this evaluation at a cost of US\$600,000 for preliminary work.



DIRECTORS' REPORT

On November 9th 2007 (the Sale Date), the Group completed the sale of its subsidiary, Lion Energy Limited LLC to Sterling Grant Ltd., a Wyoming limited liability company. Lion Energy Limited LLC was a wholly owned subsidiary of Lion Energy Limited USA, Inc., itself a wholly owned subsidiary of Lion Energy Limited. Lion Energy Limited LLC executed a Participation Agreement, dated September 18th 2006 with Ridgelake Energy, Inc. Under the terms of the Participation Agreement, Lion Energy Limited LLC acquired the right to earn an undivided thirty percent (30%) interest in the following oil and gas leases in the Outer Continental Shelf Area of the Gulf of Mexico (collectively the Leases):

OCS-G 26190 NH 16-07 Viosca Knoll 79

OCS-G 26560 TX7C High Island Area East Addition South Extension A 307

OCS-G 27078 LA3B Vermilion Area South Addition 317

OCS-G 27089 LA3C South Marsh Island South Addition 138

OCS-G 27091 LA3C South Marsh Island South Addition 152

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.

To earn its interest in the leases, Lion Energy Limited LLC reimbursed Ridgelake up to 40% of certain past costs (Sunk Costs), and thereafter must meet up to 40% of the costs of drilling to casing election point and in the case of OCS-G 27089 and OCS-G 27091, meet certain additional costs. Lion Energy Limited LLC had not completed the earn of any of the Leases at the Sale Date.

Under the terms of the Purchase and Sale Agreement executed between Lion Energy Limited USA, Inc. and Sterling Grant Ltd., Lion Energy Limited USA, Inc. will receive 50% of the proceeds (attributable to Sterling Grant Ltd.) from the sale or other disposition of oil, gas or other hydrocarbons produced from or otherwise allocable to the Leases, after deduction of any royalties and other burdens on production there from, until the Sunk Costs plus interest calculated on the Sunk Costs to 31st October 2007, are fully recovered. Net proceeds from a lease shall be applied to the Sunk Costs plus interest with respect to such lease until such payments equal the Sunk Cost plus interest for such Lease.

On 31 January 2008, the Company announced that the Company's Board had authorised a director of the Company to proceed with a plan to investigate downstream refining opportunities in China and had transferred US\$600,000 to a wholly owned Company subsidiary account in China to provide working capital for Mr Wu to establish Lion's presence in China and launch the Company's effort to establish refining capacity.

On 6 March 2008, the Company announced that exploration well Neif Utara A-1 spudded on February 28th at 10:00 AM in the Seram (Non Bula) Block Production Sharing Contract on the island of Seram in eastern Indonesia.

On 23 May 2008, the Company announced that exploration well Neif Utara A-1 which spudded on February 28th in the Seram (Non Bula) Block Production Sharing Contract on the island of Seram in eastern Indonesia had been suspended as a future oil producer. Flowing WHP at shut-in was 538 psig.



DIRECTORS' REPORT

On 6 June 2008, the Company announced that Lion International Investments Limited ("LII"), a wholly owned subsidiary of Lion Energy Limited ("LIO"), had entered into a share purchase agreement to acquire 20,775,000 fully paid ordinary shares ("Shares") in Papua Petroleum Limited ("PPU") from Gas Link Global Limited ("GLG"), a subsidiary of ASX listed company, Liquefied Natural Gas Limited. This represents 19.49% of PPU's issued capital. PPU has extensive oil and gas interests in Papua New Guinea. As well as the purchase of the Shares, LII also has the potential to acquire a 10% or 50% interest in the PPU's licences (as described below) in certain circumstances involving a capital raising by PPU. The acquisition of the Shares is subject to the following principal terms and conditions:

- Confirmation that at the time of transfer of ownership of the Shares to LII, PPU has only 106,608,020 ordinary shares on issue, with no other equity securities, options or convertible securities on issue.
- Confirmation that at the time of transfer of ownership of the Shares to LII, the Shares are unencumbered.
- Confirmation that LII will have a representative director in the PPU Board once the share purchase is completed.

A deposit of A\$300,000 had been paid to GLG and the transaction was settled on 9 June 2008.

SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE

On 14 July 2008, the Company announced that exploration well Dawang-1 spudded on July 13th 2008, in the Seram (Non Bula) Block Production Sharing Contract on the island of Seram in eastern Indonesia.

On 15 July 2008, the Directors announced that the Company is to make a non-renounceable pro rata offer of fully paid ordinary shares to existing shareholders. The issue will not be underwritten. The non-renounceable pro rata offer will be made 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 29 July 2008 at an issue price of \$0.06 (6 cents) per Share. The offer will result in the issue of 60,922,354 new Shares (assuming none of the 31,000,000 options on issue are exercised) and will raise approximately \$3,655,341 before costs. The Company will use the funds raised to repay a loan of \$2,100,000 provided by Mr Wu, the chairman of the Company, which loan was used by the Company to acquire, through a wholly owned subsidiary (Lion International Investment Limited), a 19.49% interest in PPU, and for working capital. The Company lodged the prospectus for the rights issue on 15 July 2008 with ASIC. On 22 August 2008, the Company announced that it had received acceptances for 33,571,400 shares which equates to subscriptions of \$2,014,284, leaving undersubscriptions of 27,350,954 shares.

On 5 June 2008, the Company had announced that LII also has the potential to acquire a 10% or 50% interest in the PPU's licences in certain circumstances involving a capital raising by PPU. The potential to acquire an interest in the PPU licences arose pursuant to a Share Subscription Agreement dated 20 March 2007 ("SSA") between PPL and Gas Link Global Limited ("GLG"), as amended by letter of variation dated 26 May 2008 from GLG to PPU. Pursuant to a Deed of Assignment and Assumption dated 5 June 2008 between PPU, GLG and LII, GLG assigned its remaining rights, interests and obligations under the SSA to LII. On 25 July 2008, the Company announced that PPU had advised LII that it has complied with certain of the capital raising conditions of the SSA. As a consequence, LII no longer has the potential to acquire a 10% or 50% interest in PPU's licences.



DIRECTORS' REPORT

On 5 August 2008, the Company announced that completion had occurred under farmout agreements between Papua Petroleum Limited ("PPU") and Sasol Petroleum Papua New Guinea Limited ("SPPNG") an indirect, wholly owned subsidiary of Sasol Petroleum International ("Farmout Agreements"). Under the Farmout Agreements SPPNG has agreed to spend US\$11.8 million to earn 51% undivided participating interest in each of PPU's Papua New Guinean Petroleum Prospecting Licences 285, 286, 287 and 288. The Farmout Agreements were completed and the transactions closed in Port Moresby today upon receiving the requisite approvals from the Minister for Petroleum and Energy of the Independent State of Papua New Guinea, the Hon. William Duma.

On 27 August 2008, the Company issued 33,571,400 fully paid ordinary shares for \$0.06 each pursuant to its Prospectus dated 15 July 2008 for a pro-rata non-renounceable rights issue.

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 AND COMPANY SECRETARY

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.

Interest in shares and options of the Company:

33,045,376 Ordinary Shares in Lion Energy Limited.

Directors meetings attended: 8.



DIRECTORS' REPORT

RUSSELL ERNEST BRIMAGE

DIRECTOR (NON-EXECUTIVE)

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 until 1 August 2008.

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: 9.

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: 9.

JACK TOBY

COMPANY SECRETARY

Qualifications

Mr Toby is a Fellow of the Institute of Chartered Accountants in Australia, a Fellow of the Institute of Chartered Accountants in England and Wales and an Associate member of the Australian Computer Society.

Experience

Mr Toby has extensive experience as Company Secretary and Chief Financial Officer of several listed public companies and major corporations over the last 25 years.



DIRECTORS' REPORT

DIRECTORS MEETINGS

During the year ended 30th June 2008, 9 meetings of directors were held.

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 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
Russell Brimage	Group Chief Executive Officer until 1 August 2008
Weidong Zhang	Non-Executive Director

EXECUTIVES

Jack Toby	Company Secretary and Chief Financial Officer
Scott Wentz	Director of Lion Energy Limited USA, Inc. and Director of Lion Energy Limited LLC.

	Primary Compensation 2008		
	Short Term Benefits \$	Super- annuation \$	Total \$
COMPENSATION OF DIRECTORS BASED ON FEES APPROVED BY THE BOARD OF DIRECTORS.			
Jian Wu	142,006	—	142,006
Russell Brimage	250,248	—	250,248
Weidong Zhang	52,238	—	52,238
TOTAL PRIMARY COMPENSATION FOR SPECIFIED DIRECTORS	444,492	—	444,492
COMPENSATION OF EXECUTIVES BASED ON FEES APPROVED BY THE BOARD OF DIRECTORS.			
Jack Toby	120,000	—	120,000
Scott Wentz	35,775	—	35,775
TOTAL PRIMARY COMPENSATION FOR SPECIFIED EXECUTIVES	155,775	—	155,775

The Company did not provide any equity compensation to directors or executives during the year ended 30 June 2008.



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

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.



DIRECTORS' REPORT

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

No options were issued during or since the financial year.

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 2008, 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 \$16,939. 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 have provided a signed Auditor's Independence Declaration to the directors in relation to the year ended 30 June 2008. This declaration has been included in this document.



DIRECTORS' REPORT

The following non-audit services were provided to the Company by the Company's previous 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 \$5,690 for the provision of tax compliance services.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read "R Brimage".

Russell Brimage
Director
5 September 2008
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 2008 and of the performance for the year ended on that date of the Company and the Consolidated Entity;
- 2) the Chief Executive Officer and Chief Finance Officer have each declared that:
 - a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c) the financial statements and notes for the financial year give a true and fair view;
- 3) 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.

On behalf of the Board of Directors.

A handwritten signature in black ink, appearing to read "Russell Brimage".

Russell Brimage
Director

5 September 2008
Perth, Western Australia



INCOME STATEMENT FOR THE YEAR ENDED 30TH JUNE 2008

	Note	Consolidated Entity		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$
Revenue	2	2,364,025	2,154,522	—	—
GROSS PROFIT		2,364,025	2,154,522	—	—
Interest received from other persons		136,824	386,560	18,538	359,745
Interest receivable from subsidiaries		—	—	—	151,382
Gain on sale of investments		—	136,688	—	136,688
Other income	2	187,215	22,459	187,215	22,459
Foreign exchange gain/(loss)		(1,863,182)	(1,340,202)	(2,038,671)	(1,507,673)
Impairment of capitalised exploration costs		(1,418,767)	—	—	—
Write down of joint venture interest		(322,280)	(2,141,536)	—	—
Exploration expenses		(247,125)	(6,647,583)	—	—
Loss on disposal of plant and equipment		(7,082)	—	(7,082)	—
Joint venture overheads		—	(860,841)	—	—
Interest expense		—	(66)	—	(66)
Share based payments		—	(550,000)	—	(550,000)
Loss on write down of subsidiary loans		—	—	(4,928,538)	(3,248,816)
Other expenses	2	(1,789,098)	(1,740,891)	(1,028,427)	(1,590,306)
PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE		(2,959,470)	(10,580,890)	(7,796,965)	(6,226,587)
Income tax expense	3	—	(4,180)	—	—
PROFIT/(LOSS) AFTER RELATED INCOME TAX EXPENSE	4	(2,959,470)	(10,585,070)	(7,796,965)	(6,226,587)
BASIC EARNINGS/(LOSS) PER SHARE (CENTS PER SHARE)	5	(4.86)	(20.49)		

The accompanying notes form part of these financial statements



BALANCE SHEET AS AT 30TH JUNE 2008

	Note	Consolidated Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents		7,243,285	8,741,155	147,742	1,006,209
Trade and other receivables	6	916,697	1,159,138	10,202	7,776
Inventories	7	1,340,216	926,808	—	—
TOTAL CURRENT ASSETS		9,500,198	10,827,101	157,944	1,013,985
NON-CURRENT ASSETS					
Plant and equipment	8	222,703	292,397	210,190	280,122
Trade and other receivables	9	102,406	102,406	102,406	6,943,404
Capitalised exploration expenditure	10	1,356,550	2,311,663	—	—
Other financial assets	11	2,971,047	—	60,486	60,488
TOTAL NON-CURRENT ASSETS		4,652,706	2,706,466	373,082	7,284,014
TOTAL ASSETS		14,152,904	13,533,567	531,026	8,297,999
CURRENT LIABILITIES					
Trade and other payables	12	3,060,156	1,657,020	89,599	55,648
Provisions	13	—	3,959	—	3,959
TOTAL CURRENT LIABILITIES		3,060,156	1,660,979	89,599	59,607
TOTAL LIABILITIES		3,060,156	1,660,979	89,599	59,607
NET ASSETS		11,092,748	11,872,588	441,427	8,238,392
EQUITY					
Issued capital	14	49,686,804	49,686,804	49,686,804	49,686,804
Reserves	15	4,095,752	2,968,832	1,550,000	1,550,000
Accumulated losses	4	(42,689,808)	(40,783,048)	(50,795,377)	(42,998,412)
TOTAL EQUITY		11,092,748	11,872,588	441,427	8,238,392

The accompanying notes form part of these financial statements



CASH FLOW STATEMENT FOR THE YEAR ENDED 30TH JUNE 2008

	Note	Consolidated Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		2,364,025	3,995,559	—	—
Payments to suppliers & employees		(1,531,666)	(1,989,458)	(924,349)	(1,015,334)
Interest received		136,824	386,560	18,538	359,745
Interest paid		—	(66)	—	(66)
Other income		187,215	—	187,215	—
NET CASH FROM OPERATING ACTIVITIES	16	1,156,398	2,392,595	(718,596)	(655,655)
CASH FLOWS FROM INVESTING ACTIVITIES					
Exploration expenditure		(1,033,059)	(10,251,337)	—	—
Disposal of listed securities		—	1,300,502	—	1,300,502
Purchase of plant and equipment		(16,308)	(327,497)	(16,070)	(327,497)
Disposal of plant and equipment		2,408	—	2,408	—
Investment in listed securities		—	(596,369)	—	(596,369)
Investment in controlled entities		—	—	—	(60,486)
Purchase of investments		(2,971,047)	—	—	—
Loans to controlled entities		—	—	(315,209)	(14,564,766)
Loans repaid by controlled entities		—	—	189,000	—
NET CASH FROM INVESTING ACTIVITIES		(4,018,006)	(9,874,701)	(139,871)	(14,248,616)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from equity issues		—	11,661,435	—	11,661,435
Borrowings		2,100,000	—	—	—
Capital raising expenses		—	(416,256)	—	(416,256)
NET CASH FROM FINANCING ACTIVITIES		2,100,000	11,245,179	—	11,245,179
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS					
		(761,608)	3,763,073	(858,467)	(3,659,092)
Net foreign exchange differences		(736,262)	144,794	—	(167,987)
Cash and cash equivalents at beginning of year		8,741,155	4,833,288	1,006,209	4,833,288
CASH AND CASH EQUIVALENTS AT END OF YEAR	16	7,243,285	8,741,155	147,742	1,006,209

The accompanying notes form part of these financial statements



STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE 2008

CONSOLIDATED ENTITY

ATTRIBUTABLE TO MEMBERS OF THE COMPANY	Issued Capital \$	Option Premium Reserve \$	Currency Translation Reserve \$	Accumulated Losses \$	Total Equity \$
<i>At 1 July 2006</i>	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 LOSS FOR THE PERIOD	—	—	1,484,996	(10,585,070)	(9,100,074)
Shares 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
Currency translation differences	—	—	1,126,920	—	1,126,920
Profit for period	—	—	—	(2,959,470)	(2,959,470)
Prior period adjustment	—	—	—	1,052,710	1,052,710
TOTAL PROFIT FOR THE PERIOD	—	—	1,126,920	(1,906,760)	(779,840)
At 30 JUNE 2008	49,686,804	1,550,000	2,545,752	(42,689,808)	11,092,748

PARENT ENTITY

ATTRIBUTABLE TO MEMBERS OF THE COMPANY	Issued Capital \$	Option Premium Reserve \$	Accumulated Losses \$	Total Equity \$
<i>At 1 July 2006</i>	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)
Shares 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
Loss for period	—	—	(7,796,965)	(7,796,965)
TOTAL LOSS FOR THE PERIOD	—	—	(7,796,965)	(7,796,965)
At 30 JUNE 2008	49,686,804	1,550,000	(50,795,377)	441,427

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008

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 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.

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 2007-3 Amendments to Australian Accounting Standards. Standards affected are: AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 and AASB 1038. The disclosure requirements of AASB 114: Segment Reporting have been replaced due to the issuing of AASB 8: Segment Reporting in February 2007. These amendments will involve changes to segment reporting disclosures within the financial report. However, it is anticipated there will be no direct impact on recognition and measurement criteria amounts included in the financial report. This is effective for annual reporting periods beginning on or after 1 January 2009.

AASB 8 Operating Segments. The Standard affected is AASB 114 – Segment Reporting. The disclosure requirements of AASB 114: Segment Reporting have been replaced due to the issuing of AASB 8: Segment Reporting in February 2007. These amendments will involve changes to segment reporting disclosures within the financial report. However, it is anticipated there will be no direct impact on recognition and measurement criteria amounts included in the financial report. This is effective for annual reporting periods beginning on or after 1 January 2009.

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.

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008

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.

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.

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008

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 goods and 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.

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.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008

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 2008

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.

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008

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 2008

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.

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008

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 proportionate 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 2008

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
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	2,364,025	2,154,522	—	—
TOTAL REVENUE FROM OPERATING ACTIVITIES	2,364,025	2,154,522	—	—
<i>Non-operating activities</i>				
Interest received from other persons	136,824	386,560	18,538	359,745
Gain on sale of investments	—	136,688	—	136,688
Other income	187,215	22,459	187,215	22,459
TOTAL REVENUE FROM NON-OPERATING ACTIVITIES	324,039	545,707	205,753	518,892
TOTAL REVENUE	2,688,064	2,700,229	205,753	518,892
CHARGING AS EXPENSES AND LOSSES				
Depreciation	76,512	70,216	76,512	61,257
Remuneration expenses	674,724	638,730	345,466	585,730
Travel	224,168	193,214	123,848	193,214
Evaluation of new projects	222,124	—	—	—
Rental expenses	211,408	117,656	211,191	117,656
Other administration expenses	380,162	721,075	271,410	632,449
TOTAL OTHER EXPENSES	1,789,098	1,740,891	1,028,427	1,590,306

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
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	(2,959,470)	(10,580,890)	(7,796,965)	(6,226,587)
Prima facie income tax expense/(benefit) on operating loss calculated at 30%	(887,841)	(3,174,267)	(2,339,090)	(1,867,976)
Income accrued	—	2,437	—	(42,978)
Non-deductible expenses	12,587	196,983	60,231	196,983
Investment gain	—	(19,642)	—	(19,642)
Loans written off	—	—	1,465,061	89,192
Foreign exchange	558,955	418,592	611,601	468,833
Provisions	25,344	33,719	1,186	5,688
Capital raising costs	(39,478)	(39,478)	(39,478)	(39,478)
Capitalised exploration expenditure	(286,534)	(693,499)	—	—
Income tax benefit not brought to account as realisation of the benefit is not virtually certain	616,967	3,279,335	240,489	1,209,378
INCOME TAX EXPENSE FROM ORDINARY ACTIVITIES	—	4,180	—	—
UNRECOGNISED DEFERRED TAX BALANCES				
Unrecognised deferred tax asset – provisions	374	39,719	374	(33,727)
Unrecognised deferred tax asset – loans written off	—	—	5,656,830	4,191,769
Unrecognised deferred tax asset – unrealised foreign exchange losses	558,955	399,940	611,601	450,181
Unrecognised deferred tax asset – Sec 40-880	109,030	148,508	109,030	148,508
Unrecognised deferred tax liability – capitalised exploration expenditure	(406,965)	(693,499)	—	—
Unrecognised deferred tax asset – income losses	6,270,813	5,653,846	3,795,614	3,555,126
DEFERRED TAX ASSET NOT BROUGHT TO ACCOUNT	6,532,207	5,548,514	10,173,449	8,311,857
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.				
NOTE 4. ACCUMULATED LOSSES				
Accumulated profits/(losses) at the beginning of the financial year	(40,783,048)	(30,197,978)	(42,998,412)	(36,771,825)
Prior period adjustment	1,052,710	—	—	—
Net profit/(loss) for the financial year	(2,959,470)	(10,585,070)	(7,796,965)	(6,226,587)
ACCUMULATED LOSSES AT THE END OF THE FINANCIAL YEAR	(42,689,808)	(40,783,048)	(50,795,377)	(42,998,412)

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
NOTE 5. EARNINGS PER SHARE				
Basic profit/(loss) per share (cents per share)	(4.86)	(20.49)		
Loss used in the calculation of basic EPS	(2,959,470)	(10,585,070)		
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share	60,922,354	51,658,850		

During the year ended 30 June 2008, no options to subscribe for ordinary shares were issued, no options were exercised and no options expired unexercised. There were 31,000,000 options outstanding at 30 June 2008 (note 14).

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 14).

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 ended 30 June 2007 used in the calculation of basic earnings per share has been calculated on a post-consolidation basis.

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	916,697	1,159,138	10,202	7,776
	916,697	1,159,138	10,202	7,776
	916,697	1,159,138	10,202	7,776

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

NOTE 7. INVENTORIES

Oil stock	966,185	577,601	—	—
Joint venture materials	374,031	349,207	—	—
	1,340,216	926,808	—	—
	1,340,216	926,808	—	—

NOTE 8. PLANT AND EQUIPMENT

PLANT AND EQUIPMENT				
At cost	428,401	450,428	343,330	355,572
Accumulated depreciation	(205,698)	(158,031)	(133,140)	(75,450)
	222,703	292,397	210,190	280,122
TOTAL PLANT AND EQUIPMENT	222,703	292,397	210,190	280,122

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
MOVEMENTS IN THE CARRYING AMOUNT OF EACH CLASS OF PLANT AND EQUIPMENT				
PLANT AND EQUIPMENT				
At the beginning of the financial year	292,397	35,116	280,122	13,882
Additions	16,308	327,497	16,070	327,497
Disposals	(9,490)	—	(9,490)	—
Depreciation expense	(76,512)	(70,216)	(76,512)	(61,257)
TOTAL PLANT AND EQUIPMENT	222,703	292,397	210,190	280,122

NOTE 9. RECEIVABLES (NON-CURRENT)

Deposits	102,406	102,406	102,406	102,406
Loans to controlled entities	—	—	—	20,813,560
Provision for doubtful debts	—	—	—	(13,972,562)
	102,406	102,406	102,406	6,943,404

MOVEMENTS IN THE CARRYING AMOUNT OF NON-CURRENT RECEIVABLES

At the beginning of the financial year	102,406	6,943,404
Loaned to controlled entities	—	126,211
Foreign exchange gain/(loss)	—	(2,038,671)
Loans written off	—	(4,928,538)
AT THE END OF THE FINANCIAL YEAR	102,406	102,406

NOTE 10. CAPITALISED EXPLORATION EXPENDITURE

Joint venture exploration expenditure capitalised	1,356,550	2,311,663	—	—
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MOVEMENTS IN THE CARRYING AMOUNT OF CAPITALISED EXPLORATION EXPENDITURE

At the beginning of the financial year	2,311,663	—
Expenditure during the year	785,934	—
Amounts written off	(1,741,047)	—
AT THE END OF THE FINANCIAL YEAR	1,356,550	—

NOTE 11. OTHER FINANCIAL ASSETS (NON CURRENT)

Investment in unlisted entities	2,971,047	—	—	—
Shares in controlled entities at cost (note 22)	—	—	60,486	60,488
	2,971,047	—	60,486	60,488

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
NOTE 12. TRADE AND OTHER PAYABLES				
Sundry creditors and accrued expenses	960,156	1,657,020	89,599	55,648
Amounts owing to related parties	2,100,000	—	—	—
	<u>3,060,156</u>	<u>1,657,020</u>	<u>89,599</u>	<u>55,648</u>

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

NOTE 13. PROVISIONS (CURRENT)

Employee entitlements	—	3,959	—	3,959
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NOTE 14. ISSUED CAPITAL

60,922,354 (2007: 60,922,354) fully paid ordinary shares	49,686,804	49,686,804	49,686,804	49,686,804
	<u>49,686,804</u>	<u>49,686,804</u>	<u>49,686,804</u>	<u>49,686,804</u>

MOVEMENTS IN ISSUED CAPITAL

At the beginning of the period	49,686,804	39,441,625	49,686,804	39,441,625
3,046,124,356 shares issued on 20-Oct-06	—	10,661,435	—	10,661,435
Capital raising costs	—	(416,256)	—	(416,256)
AT THE END OF THE FINANCIAL YEAR	<u>49,686,804</u>	<u>49,686,804</u>	<u>49,686,804</u>	<u>49,686,804</u>

At 30 June 2008 and also 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.

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.

CAPITAL MANAGEMENT

Management controls the capital of the group in order to maintain an appropriate debt to equity ratio, provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern. The group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements. Management effectively manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues. There have been no changes in the strategy adopted by management to control the capital of the group since the prior year.

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
NOTE 15. RESERVES				
Option premium reserve	1,550,000	1,550,000	1,550,000	1,550,000
Currency translation reserve	2,545,752	1,418,832	—	—
	4,095,752	2,968,832	1,550,000	1,550,000
	4,095,752	2,968,832	1,550,000	1,550,000

MOVEMENTS IN OPTION PREMIUM RESERVE

At the beginning of the financial year	1,550,000	—	1,550,000	—
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	1,550,000	1,550,000
	1,550,000	1,550,000	1,550,000	1,550,000

MOVEMENTS IN CURRENCY TRANSLATION RESERVE

At the beginning of the financial year	1,418,832	—
Consolidation adjustment for the year	1,126,920	—
AT THE END OF THE FINANCIAL YEAR	2,545,752	—
	2,545,752	—

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.

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
NOTE 16. CASH FLOW INFORMATION				
RECONCILIATION OF CASH FLOW FROM OPERATIONS WITH LOSS AFTER INCOME TAX				
Profit/(loss) after tax	(2,959,470)	(10,585,070)	(7,796,965)	(6,226,587)
<i>Cash flows in loss attributable to non-operating activities</i>				
Exploration expenditure	247,125	865,021	—	—
<i>Non-cash flows in loss</i>				
Depreciation of property, plant and equipment	76,512	70,216	76,512	61,257
Loss on sale of investments	—	(136,688)	—	(136,688)
Loss on disposal of plant and equipment	7,082	—	7,082	—
Foreign exchange	1,863,182	1,340,202	2,038,671	1,507,673
Joint venture expenditure written down	322,280	2,141,536	—	—
Exploration expenditure written off	1,418,767	6,647,583	—	—
Write down of loans owed by subsidiary	—	—	4,928,538	3,248,816
Share based payments	—	550,000	—	550,000
<i>Changes in assets and liabilities</i>				
Decrease/(increase) in other debtors and prepayments	242,411	2,216,343	(2,426)	402,036
Decrease/(increase) in inventories	(413,408)	(127,387)	—	—
Increase/(decrease) in other creditors and accruals	355,846	(457,931)	33,951	(66,121)
Increase/(decrease) in provisions	(3,959)	(131,230)	(3,959)	3,959
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	1,156,398	2,392,595	(718,596)	(655,655)
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	7,243,285	8,741,155	147,742	1,006,209
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	7,243,285	8,741,155	147,742	1,006,209

There are no financing facilities in place for the Company.

Cash and cash equivalents for the Consolidated Entity comprises A\$147,742 denominated in AUD\$ and held in an Australian bank, A\$476,180 denominated in US\$ and held in a Hong Kong bank, A\$33,313 denominated in AUD\$ and held in a Hong Kong bank, A\$10,613 denominated in HK\$ and held in a Hong Kong bank, A\$8,121 denominated in US\$ and held in a US bank and A\$6,567,316 denominated in Renminbi held on deposit in a bank in China.

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
NOTE 17. EXPENDITURE COMMITMENTS				
OPERATING LEASE COMMITMENTS				
Non-Cancellable capital expenditure commitments contracted for but not capitalised in the accounts:				
<i>Payable</i>				
not later than one year	216,299	211,298	216,299	211,298
later than 1 year but not later than 5 years	252,349	461,324	252,349	461,324
AGGREGATE EXPENDITURE CONTRACTED FOR AT REPORTING DATE	468,648	672,622	468,648	672,622

NOTE 18. AUDITORS' REMUNERATION

Remuneration of the auditor of the Company for:				
Auditing or reviewing the financial report	37,554	45,979	37,554	45,979
Auditing or reviewing subsidiaries	—	30,000	—	30,000
Other services	5,690	4,267	5,690	4,267
Remuneration of other auditors of subsidiaries for:				
Auditing or reviewing the financial report of subsidiaries	32,430	25,051	—	12,356
	75,674	105,297	43,244	92,602

NOTE 19. PRIOR PERIOD ADJUSTMENT

The prior period adjustment to accumulated losses of \$1,052,710 reflects intra-group loan accounts written off for wholly owned subsidiaries disposed of during the year ended 30 June 2006.

NOTE 20. KEY MANAGEMENT PERSONNEL

SHARES AND OPTIONS HELD BY KEY MANAGEMENT PERSONNEL

	1 July 2007 or Appointment	Number of Ordinary Shares		30 June 2008 or Resignation
		Issued as Compensation	Net Change Other	
Jian Wu	16,522,688	—	—	16,522,688
Russell Brimage	54,400	—	—	54,400
Weidong Zhang	—	—	—	—
Jack Toby	—	—	—	—
	16,577,088	—	—	16,577,088

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008

	1 July 2007 or Appointment	Number of Options Issued as Compensation	Net Change Other	30 June 2008 or Resignation
Jian Wu	—	—	—	—
Russell Brimage	4,000,000	—	—	4,000,000
Weidong Zhang	1,000,000	—	—	1,000,000
Jack Toby	—	—	—	—
	<u>5,000,000</u>	<u>—</u>	<u>—</u>	<u>5,000,000</u>

All options are vested and exercisable.

NOTE 21. SEGMENT INFORMATION

PRIMARY REPORTING BUSINESS SEGMENTS

During the year ended 30 June 2008 and also during the year ended 30 June 2007, the Consolidated Entity operated entirely in the oil and gas industry.

SECONDARY REPORTING GEOGRAPHICAL SEGMENTS

	External Revenue \$	Total Revenue \$	Segment Profit/(Loss) \$	Segment Assets \$	Segment Liabilities \$
YEAR TO 30 JUNE 2008					
South East Asia/Australasia	2,688,064	2,688,064	(1,490,011)	14,144,783	3,060,159
North America	—	—	(1,469,459)	8,121	—
TOTAL	<u>2,688,064</u>	<u>2,688,064</u>	<u>(2,959,470)</u>	<u>14,152,904</u>	<u>3,060,156</u>

	External Revenue \$	Total Revenue \$	Segment Profit/(Loss) \$	Segment Assets \$	Segment Liabilities \$
YEAR TO 30 JUNE 2007					
South East Asia/Australasia	2,154,522	2,154,522	(3,759,397)	11,277,805	1,656,274
North America	—	—	(6,825,673)	2,255,762	4,705
TOTAL	<u>2,154,522</u>	<u>2,154,522</u>	<u>(10,585,070)</u>	<u>13,533,567</u>	<u>1,660,979</u>

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. There were no Inter-Segment revenues for the year ended 30 June 2008 or for the year ended 30 June 2007.

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008

NOTE 22. CONTROLLED ENTITIES

	% Owned		Book value of shares held		Contribution to consolidated profit/(loss)	
	2008	2007	2008	2007	2008	2007
			\$	\$	\$	\$
<i>Parent Entity</i>						
Lion Energy Limited						
<i>Entities controlled by Lion Energy Limited</i>						
Lion International Investment Limited	100%	100%	60,474	60,474	65,465	152,932
Lion Energy Limited USA, Inc	100%	100%	12	12	(1,469,459)	(6,825,673)
Lion Petroleum Seram Ltd	Nil	100%	—	2	—	(771,454)
<i>Entities controlled by Lion International Investment Limited</i>						
Lion Petroleum Seram Ltd	100%	Nil	2	—	2,816,552	—
Lion Nanning Petro-Chemical Limited	100%	Nil	43,391	—	2,363	—
<i>Entities controlled by Lion Energy Limited USA, Inc</i>						
Lion Energy Limited LLC	Nil	100%	—	—	—	—
			103,879	60,488	1,414,921	(7,444,195)

Lion Energy Limited USA, Inc and Lion Energy Limited LLC are registered in Delaware in the United States of America. Lion International Investment Limited is registered in the Cayman Islands. Lion Petroleum Seram Ltd is incorporated in Hong Kong. Lion Nanning Petro-Chemical Limited is incorporated in China.

During the year, the Company registered Lion Nanning Petro-Chemical Limited (Registration number 450103200001615(1-1) in China. The results of this company have been included in the Consolidated Entity from 15 January 2008, the date of its registration.

The functional currency of Lion Energy Limited is Australian Dollars (\$), the functional currency of Lion Nanning Petro-Chemical Limited is Yuan Renminbi and the functional currency of all other controlled entities of Lion Energy Limited is United States Dollars (US\$).

NOTE 23. JOINT VENTURE INTERESTS

The Consolidated Entity has a 2.5% working interest in the exploration and development of the Seram (Non-Bula) Joint Venture in Indonesia.

The carrying value of the Group's interest in these joint venture assets as at 30 June 2008 was \$2,989,370 and at 30 June 2007 was \$2,499,999.

NOTE 24. CONTINGENT LIABILITIES

There has been no significant change in contingent liabilities since the last annual reporting date.

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008

NOTE 25. CONTINGENT ASSETS

On November 9th 2007 (the Sale Date), the Group completed the sale of its subsidiary, Lion Energy Limited LLC to Sterling Grant Ltd., a Wyoming limited liability company. Lion Energy Limited LLC was a wholly owned subsidiary of Lion Energy Limited USA, Inc., itself a wholly owned subsidiary of Lion Energy Limited. Lion Energy Limited LLC executed a Participation Agreement, dated September 18th 2006 with Ridgelake Energy, Inc. Under the terms of the Participation Agreement, Lion Energy Limited LLC acquired the right to earn an undivided thirty percent (30%) interest in the following oil and gas leases in the Outer Continental Shelf Area of the Gulf of Mexico (collectively the Leases):

OCS-G 26190 NH 16-07 Viosca Knoll 79

OCS-G 26560 TX7C High Island Area East Addition South Extension A 307

OCS-G 27078 LA3B Vermilion Area South Addition 317

OCS-G 27089 LA3C South Marsh Island South Addition 138

OCS-G 27091 LA3C South Marsh Island South Addition 152

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.

To earn its interest in the leases, Lion Energy Limited LLC reimbursed Ridgelake up to 40% of certain past costs (Sunk Costs), and thereafter must meet up to 40% of the costs of drilling to casing election point and in the case of OCS-G 27089 and OCS-G 27091, meet certain additional costs. Lion Energy Limited LLC had not completed the earn of any of the Leases at the Sale Date.

Under the terms of the Purchase and Sale Agreement executed between Lion Energy Limited USA, Inc. and Sterling Grant Ltd., Lion Energy Limited USA, Inc. will receive 50% of the proceeds (attributable to Sterling Grant Ltd.) from the sale or other disposition of oil, gas or other hydrocarbons produced from or otherwise allocable to the Leases, after deduction of any royalties and other burdens on production there from, until the Sunk Costs plus interest calculated on the Sunk Costs to 31st October 2007, are fully recovered. Net proceeds from a lease shall be applied to the Sunk Costs plus interest with respect to such lease until such payments equal the Sunk Cost plus interest for such Lease.

Stirling Grant Ltd has decided to relinquish its interests in these tenements and consequently the Group no longer has a contingent asset in regard to these oil and gas interests.

NOTE 26. 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 27. FINANCIAL INSTRUMENTS

FINANCIAL RISK MANAGEMENT POLICIES

The group's financial instruments consist mainly of deposits with banks, accounts receivable and payable and loans to and from subsidiaries, which arise directly from its operations. The Group's policy is that no trading in financial instruments shall be undertaken. The main purpose of non-derivative financial instruments is to finance group operations. Derivatives are not used by the group and the group does not speculate in the trading of derivative instruments.

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008

TREASURY RISK MANAGEMENT

The Board considers the Group's financial risk exposure and treasury management strategies in the context of the Group's operations. The Board's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

FINANCIAL RISK EXPOSURES AND MANAGEMENT

The main risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and price risk. The Board reviews each of these risks on an on-going basis.

INTEREST RATE RISK

The Group has no debt that requires the payment of interest.

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.
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.

FOREIGN CURRENCY RISK

The group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the group's measurement currency. The group also exposed to fluctuations in foreign currencies arising from deposits with banks denominated in foreign currencies. The Group does not seek to hedge this exposure.

LIQUIDITY RISK

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate funds are available.

CREDIT RISK

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. There are no material amounts of collateral held as security at 30 June 2008. Credit risk is managed on a group basis and reviewed by the Board. It arises from exposures to customers as well as through deposits with financial institutions. The Board monitors credit risk by actively assessing the quality and liquidity of counter parties, consequently only banks are utilised for deposits and all potential customers are assessed for credit worthiness taking into account their size, market position and financial standing. The counterparties included in trade and other receivables at 30 June 2008 are not rated, however given the amount and nature of these financial instruments, the Board is satisfied that they represent a low credit risk for the Group. There are no significant concentrations of credit risk within the Group.

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008

PRICE RISK

The group is exposed to commodity price risk through its Joint Venture Interests. Oil and Gas prices have improved substantially over the last 12 months and the Group does not currently hedge the price it sells oil and gas at.

FINANCIAL INSTRUMENT COMPOSITION AND MATURITY ANALYSIS

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts may not reconcile to the balance sheet.

Consolidated Entity	2008	2007	Parent Entity	2008	2007
\$	\$	\$	\$	\$	\$

TRADE AND SUNDRY PAYABLES ARE EXPECTED TO BE PAID AS FOLLOWS:

Less than 6 months	3,060,156	1,657,020	89,599	55,648
6 months to 1 year	—	—	—	—
later than 1 year but not later than 5 years	—	—	—	—
over 5 years	—	—	—	—
	3,060,156	1,657,020	89,599	55,648
	3,060,156	1,657,020	89,599	55,648

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 2008 \$	AGGREGATE NET FAIR VALUE 2008 \$	CARRYING AMOUNT IN THE FINANCIAL STATEMENTS 2007 \$	AGGREGATE NET FAIR VALUE 2007 \$
Financial Assets				
Cash assets	7,243,285	7,243,285	8,741,155	8,741,155
Receivables	916,697	916,697	1,261,544	1,261,544
Other financial assets	2,971,047	2,971,047	—	—
Financial Liabilities				
Payables	3,060,156	3,060,156	1,657,020	1,657,020

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.

Listed investments have been valued at the quoted market bid price at balance date, adjusted for transaction costs expected to be incurred. For unlisted investments where there is no organised financial market, the net fair value has been based on a reasonable estimation of the underlying net assets or discounted cash flows of the investment.

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008

SENSITIVITY ANALYSIS

The group has performed a sensitivity analysis relating to its exposure to interest rate risk and foreign currency risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

INTEREST RATE SENSITIVITY ANALYSIS

At 30 June 2008, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
CHANGE IN PROFIT DUE TO:				
Increase in interest rate by 2%	161,258	138,307	9,415	92,352
Decrease in interest rate by 2%	(136,824)	(138,307)	(9,415)	(92,352)
CHANGE IN EQUITY DUE TO:				
Increase in interest rate by 2%	161,258	138,307	9,415	92,352
Decrease in interest rate by 2%	(136,824)	(138,307)	(9,415)	(92,352)

FOREIGN CURRENCY RISK SENSITIVITY ANALYSIS

At 30 June 2008, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
CHANGE IN PROFIT DUE TO:				
Improvement in AUD to USD by 5%	1,098,777	360,259	—	20,532
Decline in AUD to USD by 5%	(994,129)	(325,945)	—	(18,577)
CHANGE IN EQUITY DUE TO:				
Improvement in AUD to USD by 5%	1,098,777	360,259	—	20,532
Decline in AUD to USD by 5%	(994,129)	(325,945)	—	(18,577)

NOTE 28. RELATED PARTY TRANSACTIONS

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

During the year ended 30 June 2008, Mr Jian Wu, a director of Lion Energy Limited and also a director of Lion International Investment Limited made an unsecured interest free loan of A\$2,100,000 to Lion International Investment Limited. This loan remained outstanding at 30 June 2008.

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008

During the year ended 30 June 2008, the Company lent monies to its subsidiaries totalling \$315,209 and subsidiaries repaid \$189,000 of loans owed to the Company

At 30 June 2007 and also at 30 June 2008, directors and their related entities held directly, indirectly or beneficially 16,577,088 ordinary shares and 5,000,000 options expiring 31 August 2011 and exercisable at 35 cents each in the Company.

NOTE 29. DIVIDENDS

No dividends have been paid or proposed during the year.

NOTE 30. EVENTS SUBSEQUENT TO BALANCE DATE

On 14 July 2008, the Company announced that exploration well Dawang-1 spudded on July 13th 2008, in the Seram (Non Bula) Block Production Sharing Contract on the island of Seram in eastern Indonesia.

On 15 July 2008, the Directors announced that the Company is to make a non-renounceable pro rata offer of fully paid ordinary shares to existing shareholders. The issue will not be underwritten. The non-renounceable pro rata offer will be made 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 29 July 2008 at an issue price of \$0.06 (6 cents) per Share. The offer will result in the issue of 60,922,354 new Shares (assuming none of the 31,000,000 options on issue are exercised) and will raise approximately \$3,655,341 before costs. The Company will use the funds raised to repay a loan of \$2,100,000 provided by Mr Wu, the chairman of the Company, which loan was used by the Company to acquire, through a wholly owned subsidiary (Lion International Investment Limited), a 19.49% interest in PPU, and for working capital. The Company lodged the prospectus for the rights issue on 15 July 2008 with ASIC. On 22 August 2008, the Company announced that it had received acceptances for 33,571,400 shares which equates to subscriptions of \$2,014,284, leaving undersubscriptions of 27,350,954 shares.

On 5 June 2008, the Company had announced that LII also has the potential to acquire a 10% or 50% interest in the PPU's licences in certain circumstances involving a capital raising by PPU. The potential to acquire an interest in the PPU licences arose pursuant to a Share Subscription Agreement dated 20 March 2007 ("SSA") between PPL and Gas Link Global Limited ("GLG"), as amended by letter of variation dated 26 May 2008 from GLG to PPU. Pursuant to a Deed of Assignment and Assumption dated 5 June 2008 between PPU, GLG and LII, GLG assigned its remaining rights, interests and obligations under the SSA to LII. On 25 July 2008, the Company announced that PPU had advised LII that it has complied with certain of the capital raising conditions of the SSA. As a consequence, LII no longer has the potential to acquire a 10% or 50% interest in PPU's licences.

On 5 August 2008, the Company announced that completion had occurred under farmout agreements between Papua Petroleum Limited ("PPU") and Sasol Petroleum Papua New Guinea Limited ("SPPNG") an indirect, wholly owned subsidiary of Sasol Petroleum International ("Farmout Agreements"). Under the Farmout Agreements SPPNG has agreed to spend US\$11.8 million to earn 51% undivided participating interest in each of PPU's Papua New Guinean Petroleum Prospecting Licences 285, 286, 287 and 288. The Farmout Agreements were completed and the transactions closed in Port Moresby today upon receiving the requisite approvals from the Minister for Petroleum and Energy of the Independent State of Papua New Guinea, the Hon. William Duma.

On 27 August 2008, the Company issued 33,571,400 fully paid ordinary shares for \$0.06 each pursuant to its Prospectus dated 15 July 2008 for a pro-rata non-renounceable rights issue.

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

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.

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, (the company) which comprises the balance sheet as at 30 June 2008, and 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, 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.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORT

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 establishing and maintaining internal controls 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 Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

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. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial 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 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.

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

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ELECTRONIC PRESENTATION OF AUDITED FINANCIAL REPORT

This auditor's report relates to the financial report of Lion Energy Limited for the year ended 30 June 2008 included on Lion Energy Limited web site. The company's directors are responsible for the integrity of the Lion Energy Limited web site. We have not been engaged to report on the integrity of the Lion Energy Limited web site. The auditor's report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

INDEPENDENCE

In conducting our audit, we complied with applicable 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 2008 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 also complies with International Financial Reporting Standards as disclosed in note 1.

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in pages 6 to 8 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

AUDITOR'S OPINION

In our opinion the Remuneration Report of Lion Energy Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

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Grant Thornton (WA) Partnership

GRANT THORNTON (WA) PARTNERSHIP
Chartered Accountants

M Hillgrove

MJ Hillgrove
Partner
Perth, 5 September 2008

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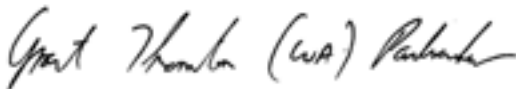
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**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF LION ENERGY LIMITED**

Grant Thornton (WA) Partnership
ABN: 17 735 344 518
Level 1
10 Kings Park Road
West Perth WA 6005
PO BOX 570
West Perth WA 6872
T +61 8 9480 2000
F +61 8 9322 7787
E admin@gtwa.com.au
W www.granthornton.com.au

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Lion Energy Limited for the year ended 30 June 2008, I declare that, to the best of my knowledge and belief, there have been:

- a) No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) No contraventions of any applicable code of professional conduct in relation to the audit.



GRANT THORNTON (WA) PARTNERSHIP



MJ Hillgrove
Partner
Perth

Date: 5 September 2008

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ADDITIONAL INFORMATION AS AT 3 SEPTEMBER 2008

ANALYSIS OF HOLDINGS OF SHARES AND OPTIONS IN THE COMPANY

	Ordinary Shares	Options expiring 31 Aug 2011
1 — 1,000	643	0
1,001 — 5,000	923	1
5,001 — 10,000	210	2
10,001 — 100,000	235	35
100,001 — and over	41	43
Total number of holders	<u>2,052</u>	<u>81</u>
Holdings of less than a marketable parcel	<u>1,687</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 Perth, Western 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 3 SEPTEMBER 2008

TWENTY LARGEST HOLDERS OF ORDINARY SHARES

	Number of Shares	Percentage of Total
Mrs Wenmei Hu	22,688,916	24.01%
Mr Jian Wu	17,058,296	18.05%
Ms Ling Gu	15,987,080	16.92%
Mr Tianxing Zheng	6,000,000	6.35%
Miningnut Pty Ltd	5,567,000	5.89%
Zapac Pty Ltd	2,011,523	2.13%
Acquista Investments Pty Ltd	1,441,000	1.52%
Mr Fusheng Wu	1,200,000	1.27%
ZMMF Pty Limited	1,160,000	1.23%
Mr Rosario Barca	839,560	0.89%
ANZ Nominees Limited	766,018	0.81%
Mr Domenic Zappia	735,357	0.78%
Small Business Finance Pty Limited	721,380	0.76%
Ms Nada Saade	639,500	0.68%
Intersuisse Limited	500,000	0.53%
Douglas Financial Consultants Pty Ltd	470,000	0.50%
Elstree Holdings Pty Ltd	400,000	0.42%
Mr Luigi Vitale	400,000	0.42%
Berne No 132 Nominees Pty Ltd	305,000	0.32%
Dr Arthur Charles Stephenson	266,500	0.28%
	79,157,130	83.76%

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	4,000,000	12.90%
Mr Yu Lin Wang	2,000,000	6.45%
Mr Nyuk Sang Liew	1,525,421	4.92%
Mr Peter Alfred Ternes	1,375,000	4.44%
Mr Ken John Bull	1,000,000	3.23%
Mr Zhong Wang	1,000,000	3.23%
Mr Weidong Zhang	1,000,000	3.23%
Ms Julie Campbell	998,500	3.22%
Custodial Services Limited	950,000	3.06%
Mrs Myong Sun Campbell	900,000	2.90%
Greenway Plant Nurseries Pty Ltd	565,000	1.82%
Bennett & Bennett Pty Ltd	500,000	1.61%
Mr Michael Anthony Connor	500,000	1.61%
Souness Consulting Pty Ltd	500,000	1.61%
Mrs Elizabeth Heath	400,000	1.29%
Ms Marija Savic + Mr Miodrag Stankovic + Ms Ana Stankovic	400,000	1.29%
Mr Robert Rankin	350,000	1.13%
Petrosand Energy LLC	334,000	1.08%
Delta Oil & Gas LLC	333,000	1.07%
	24,630,921	79.44%



ADDITIONAL INFORMATION AS AT 3 SEPTEMBER 2008

SUBSTANTIAL SHAREHOLDERS

Date Announced	Name	Number of Shares
27-Aug-08	Ms Ling Gu and Mr Jian Wu	33,045,376
01-Sep-08	Wenmei Hu	22,688,916
25-Jun-08	Miningnut Pty Ltd	6,100,000

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.

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 2008.

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.



ADDITIONAL INFORMATION AS AT 3 SEPTEMBER 2008

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 met these criteria except for Mr Weidong Zhang. 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.

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.



ADDITIONAL INFORMATION AS AT 3 SEPTEMBER 2008

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.

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.



ADDITIONAL INFORMATION AS AT 3 SEPTEMBER 2008

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.
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.



ADDITIONAL INFORMATION AS AT 3 SEPTEMBER 2008

"Recommendation" Ref ("Principle No" Ref followed by Recommendation Ref)	Departure	Explanation
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.
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.



ADDITIONAL INFORMATION AS AT 3 SEPTEMBER 2008

"Recommendation" Ref ("Principle No" Ref followed by Recommendation Ref)	Departure	Explanation
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.



LION

ENERGY LIMITED

ABN 51 000 753 640

www.lionenergy.com.au

15 Rheola Street, West Perth, Western Australia 6005

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

Email: info@lionenergy.com.au