



ABN: 51 000 753 640

## **ANNUAL REPORT**

**2005**

**LION ENERGY LTD**  
**ABN 51 000 753 640**  
**DIRECTORS' REPORT**

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The Directors present their report together with the financial report of Lion Energy Limited ("the company") and the consolidated financial report of the economic entity, being the company and its controlled entities for the year ended 30 June 2005 and the auditors' report thereon.

## **DIRECTORS**

The following persons held office as Directors of the Company during the financial year and up to the date of this report:

Russell Ernest Brimage                      Executive Chairman  
Appointed: 10 August 2005

Mr. Brimage has in excess of 30 years experience in the upstream oil and gas industry. Mr. Brimage is currently a director of Belfield Corporation Pty Ltd, First Canning Investments Pty Ltd, Pouvoir Pty Ltd and an executive director of Entek Energy Limited. In the past three years Mr. Brimage has also been a director of Far East Oil NL.

Paul Charles Garner                         Executive Director  
Appointed: 10 August 2005

Mr. Garner has extensive experience in international business and over 30 years experience in the property and equities market. Mr. Garner is currently a director of Ohio Enterprises Pty Ltd, Ohio Holdings Pty Ltd, Virgo Bay Pty Ltd, an executive director of Entek Energy Limited and an executive director of New Horizon Energy Limited. In the past three years Mr. Garner has also been a director of Hillvista Holdings Pty Ltd and Semillon Holdings Pty Ltd.

Julian Lee Waterman                         Non-Executive Director  
Appointed: 28 June 2005

Mr. Waterman has extensive experience in management and facilities establishment and broad experience in the manufacturing and plastics industries. Throughout his comprehensive career Mr. Waterman has been responsible for recruitment and training, production management, accounting and administration and sales and marketing. He is Managing Director of Behind The Signs Pty Ltd, a company he established in 2003, specialising in the manufacture of polystyrene products and a range of construction materials and systems. This company is now a major supplier to the building industry in South Australia and Victoria. Mr. Waterman is also a director of Australian Pod Brokers Pty Ltd, [www.invest](http://www.invest.com.au) Pty Ltd, Tulloch Lodge Limited, Tulloch Lodge Syndications Pty Ltd, Oxford Mining NL and a non-executive director of Entek Energy Limited.

Guiseppe Antonio Mercorella  
Appointed: 10 January 2003  
Resigned: 10 August 2005

Nicola Mario Formichella  
Appointed: 10 January 2003  
Resigned: 12 April 2005

Carmine Barone  
Appointed: 10 January 2003  
Resigned: 10 August 2005

Michael Hourigan  
Appointed: 12 April 2005  
Resigned: 28 June 2005

## **COMPANY SECRETARY**

Jack Hugh Toby  
Appointed: 10 August 2005

Stacey Louise Muggleton  
Appointed: 14 March 2003  
Resigned: 10 August 2005

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## DIRECTORS' MEETINGS

The number of Directors' Meetings and the number of meetings attended by each of the Directors of the Company during the financial year are:

	Meetings Attended	Meetings Held <sup>(1)</sup>
Mr. J L Waterman	-	-
Mr. G.A. Mercorella	5	5
Mr. N.M. Formichella	3	3
Mr. C. Barone	5	5
Mr. M. Hourigan	2	2

<sup>(1)</sup> The number of meetings held during the time the Director held office during the year

## DIRECTORS' INTERESTS

Tulloch Lodge Limited, of which Mr G A Mercorella and Mr J L Waterman are Directors', provided funding facilities to the Company during the financial year in the form of a \$1.5 million debt facility on which interest is payable. Tulloch Lodge Limited provided the debt facility for a fee of \$100,000 which was payable by the issue of 20 million shares to Tulloch Lodge Limited. This loan was repaid in full by the company during December 2004.

Accounting and Taxation Services are provided by BCFR Chartered Accountants, a partnership in which Mr N M Formichella is a partner. Mr Formichella also received Directors' fees from the company.

The relevant interest of each Director in the ordinary share capital of Lion Energy Limited as at the date of this report is:

<b>Name</b>		<b>Shares held directly</b>	<b>Shares held indirectly</b>
Mr R E Brimage	Shares	-	5,440,000
Mr P C Garner	Shares	-	-
Mr J L Waterman	Shares	-	-

Other than as outlined above, since the end of the previous financial year, no Director has received or become entitled to receive a benefit, other than benefits disclosed in the financial statements as emoluments or the fixed salary of a full time employee of the Company or related body corporate, by reason of a contract made by the Company with the Director or with a firm of which he is a member or with an entity which he has a substantial financial interest.

## REMUNERATION REPORT

This report details the nature and amount of remuneration for each director of Lion Energy Limited.

All Directors, current and former, with the exception of the former Executive Chairman, Mr. G A Mercorella, are non-executive and are remunerated by way of fees and receive no retirement benefits excluding any statutory superannuation, if applicable. The non-executive Directors fees are determined by the board with reference to the aggregate limit of \$400,000 per annum set by the company's shareholders at the Annual General Meeting on 28<sup>th</sup> November 2003.

The policy is to remunerate non-executive directors with reference to other comparable listed companies determined by size and nature of operations, taking into account time, commitment and responsibilities. The directors' fees were set at a level to attract suitably qualified individuals to accept the responsibilities of a directorship. External professional advice was sought to assist in determining the level of directors fees.

The former executive chairman's salary was determined by the board with reference to current market rates and remuneration paid to executives in comparable listed companies determined by size and nature of operations. During discussions regarding the chairman's remuneration he was not present and took no part in the discussion by the non-executive directors.

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The company did not participate in share based remuneration and did not issue options to Directors at any time to the date of this report.

Details of the nature and amount of each element of the emoluments for the financial year of each director of the economic entity are set out below.

Name	Directors' Fees \$	Salary \$	Superannuation \$	Consulting Fee \$	Total \$
G A Mercorella	40,000	201,900	18,171	-	260,071
N M Formichella	23,400	-	-	-	23,400
C Barone	30,000	-	-	-	30,000
M Hourigan	-	-	-	-	-
J L Waterman	-	-	-	-	-
Total	93,400	201,900	18,171	-	313,471

### PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the financial year were oil and gas exploration, development and production and investment in the resources industry both in Australia and Indonesia.

### OPERATING RESULTS

The consolidated loss for the financial year after income tax amounted to \$10,259,228 (2004: \$729,471).

### DIVIDENDS

Since the end of the previous financial year, no dividend has been declared or paid by the Company.

The Directors do not recommend the payment of a dividend for the year ended 30 June 2005.

### SHARE OPTIONS

During or since the end of the financial year the company did not issue any options to the Directors of the company.

At the date of this report there are no options on issue.

### SHARES

During or since the end of the financial year the company issued:

- o 27 October 2004 112,500,000 shares in a placement at 0.4 cents raising \$450,000
- o 30 November 2004 144,100,000 shares in a placement at 0.4 cents raising \$576,400
- o 13 December 2004 295,103,500 shares in a placement at 1 cent raising \$2,951,035
- o 21 February 2005 125,000 shares after the exercise of options at 2.25 cents raising \$2,812
- o 25 February 2005 120,000 shares after the exercise of options at 2.25 cents raising \$2,700
- o 28 July 2005 13,902,004 ordinary shares at 0.7 cents bought back for total cost of \$97,314.

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## **REVIEW OF OPERATIONS**

### **Exploration and Production Tenements**

<b>Area</b>	<b>Tenement</b>	<b>Interest %</b>
Indonesia	Bula PSC	100%
Indonesia	Seram (Non Bula) PSC	2.5%

### **BULA BLOCK PRODUCTION SHARING CONTRACT ("BBPSC")**

[100% Contractor equity in BBPSC held in wholly owned subsidiary Kalrez Petroleum (Seram) Limited].

#### **Overview**

The BBPSC is an improved standard term production sharing contract between Kalrez Petroleum (Seram) Limited ("KPSL") and BP MIGAS (a State owned body established by virtue of Indonesian Law No. 22/2001 and Government Regulation No. 42/2002.)

Under the terms of the BBPSC:

- An initial 20% of revenue generated through oil sales (called First Tranche Petroleum or FTP) is split 64.2857% to BP MIGAS and 35.7143% to KPSL.
- From the remaining 80%, KPSL is able to recover the costs of operation, including any costs un-recovered from prior years.
- Any amount remaining after recovery of costs by KPSL (called equity oil) is then again split 64.2857% to BP MIGAS and 35.7143% to KPSL.
- KPSL's share of FTP and equity oil is then subject to deduction of a Domestic Market Obligation (7.59% of Revenue) and the remainder is taxed at 44%.

The BBPSC is located on Seram Island in eastern Indonesia and production is from approximately 100 producing wells. The field is classified as mature and in decline, having produced in excess of 20 MMBO.

#### **Production and Revenue**

Production for the full year was 121,204 barrels at a daily average of 332 barrels. In total, 78 days of production was lost due to strike action by contract personnel. The daily average per producing day was 422 barrels.

The dispute with the contract personnel involved overtime and shift allowance payments dating back to May 1999. The matter has been resolved and all contract personnel (119 in total) completed their contract term on June 30<sup>th</sup> 2005. Settlement in accordance with manpower laws was approved by BP MIGAS and the Manpower Department

A tender was subsequently initiated to appoint a new labour supply company. After completion, additional personnel will be contracted through this supplier.

Crude oil lifting for the year was 132,365 barrels for full year revenue of US\$ 5,119,487 (before deducting Indonesian Government entitlement and crude oil transport costs) at an average price of US\$ 38.68 per barrel.

#### **Operations**

One new development well was drilled. Development well 57D-5 was spudded on November 20<sup>th</sup> 2004 and completed on December 4<sup>th</sup> 2004. The well encountered strong oil shows from 301 to 328 mKB and reached total depth of 346.8 mKB on 30<sup>th</sup> November 2004. 7 inch casing was set at 315 mKB. The well has been suspended awaiting perforation of the production interval.

Contractual commitments of the rig to the Seram Non Bula Block Production Sharing Agreement Contractor meant further development drilling planned for the BBPSC had to be deferred.

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Further development drilling is planned in calendar year 2006, subject to approval of the programme by BP MIGAS.

**SERAM (NON BULA) BLOCK PRODUCTION SHARING CONTRACT ("SNBBPSC")**

[2.5% Contractor equity in SNBBPSC held in wholly owned subsidiary Lion Petroleum (Seram) Limited]

The SNBBPSC is an Eastern Incentive term production sharing contract between the Contractor (of which Lion Petroleum (Seram) Ltd is a 2.5% joint venture partner) and BP MIGAS (a State owned body established by virtue of Indonesian Law No. 22/2001 and Government Regulation No. 42/2002.)

Under the terms of the SNBBPSC:

- An initial 15% of revenue generated through oil sales (called First Tranche Petroleum or FTP) is split 37.5% to BP MIGAS and 62.5% to Contractor.
- From the remaining 85%, the Contractor is able to recover the costs of operation, including any costs un-recovered from prior years.
- Any amount remaining after recovery of costs by the Contractor (called equity oil) is then again split 37.5% to BP MIGAS and 62.5% to the Contractor.
- The Contractor's share of FTP and equity oil is then subject to deduction of a Domestic Market Obligation (11.72% of Revenue) and the remainder is taxed at 44%.

**The SNBBPSC is located on Seram Island in eastern Indonesia. Cumulative production from the Oseil field (the only producing field in the SNBBPSC) to 30<sup>th</sup> June 2005 is 2,689,921 barrels of crude oil.**

**Operations**

At the Effective Date of the commencement of the SNBBPSC the block comprised an area of 7,620 sq.kms. Effective 31<sup>st</sup> October 2002 10% was relinquished and at 31<sup>st</sup> October 2005 a further 30% of the original area is scheduled to be relinquished in accordance with the terms of the SNBBPSC. No further relinquishment is required until 31<sup>st</sup> October 2009, at which time an additional 40% must be relinquished, leaving 20% of the original contract area.

Crude oil produced from Oseil is processed initially through the Field Facility (FF) before being transferred via a 12 kilometre long 8 inch diameter trunk-line to the Main Production Facility (MPF) where High Sulphur Fuel Oil (HSFO) and Naptha are produced. These products are stored in on site tanks until sufficient quantities are available for shipment from the Export Facility, designed to receive tankers up to 85,000 DWT.

The status of the SNBBPSC at 30<sup>th</sup> June 2005 was:

- Current production rate of approximately 2,800 BOPD from six producing wells, Oseil 1, 2 & 4 (original vertical wells completed in Phase I programme), Oseil-3 on production 26<sup>th</sup> January 2005, Oseil-6 on production 28<sup>th</sup> May 2005 and Oseil-7 on production 23<sup>rd</sup> June 2005. Oseil-3, 6 & 7 are the first three wells of the Phase II development programme. Oseil-2 was shut-in on 14<sup>th</sup> April 2005 awaiting a workover. Oseil-8 was drilled to 6,641 feet before mechanical problems resulted in plug back to 5511 ft. The well was then suspended on 5<sup>th</sup> May 2005 and is scheduled to be re-entered in the second half of calendar year 2005.
- Oseil production was shut in during the period 11<sup>th</sup> February to 5<sup>th</sup> March 2005 to facilitate repairs to the skim oil tank, thereafter whilst the repairs were carried out; production of crude oil was processed through Temporary Production Facilities until July 4<sup>th</sup> 2005. The field was again shut in from the 4<sup>th</sup> to the 11<sup>th</sup> of July 2005 whilst production was again trimmed through the MPF, with production recommencing on 11<sup>th</sup> July 2005.
- Crude oil production for the full year was 848,895 barrels, HSFO production was 510,869 barrels and Naptha production was 30,476.

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### **Further Developments**

- Development well Oseil-5 was placed on production 21<sup>st</sup> August 2005.
- Oseil field production at 30<sup>th</sup> September 2005 was approximately 3,000 BOPD.
- Oseil Tenggara-1 well was spudded on 9<sup>th</sup> September 2005 to test a structure to the east of the Oseil-1 & 4 structure. The Oseil Tenggara structure is controlled by a thrust fault zone. Oseil Tenggara is projected by the operator to have 2P reserves of 7.9 MMSTB. Encouraging oil shows have been encountered during the drilling of this well.

### **SERVICE DIVISION**

The company's wholly owned drilling rig was utilized by third parties during the year.

The rig was contracted for:

- Drilling operations, setting surface casing for third party from 14<sup>th</sup> May 2004 to June 28<sup>th</sup> 2004.
- Drilling operations from 20<sup>th</sup> November 2004 to 4<sup>th</sup> December 2004
- Workover operations for a third party from 5<sup>th</sup> December 2004 to 26<sup>th</sup> December 2004.

In addition, the company's other equipment maintained reasonable levels of utilization throughout the financial year.

All equipment is well maintained and in good working order. The significant increase in oil prices during 2005 will ensure activity levels in the sector increase, in which case the equipment will be in strong demand in the future.

### **COAL INVESTMENT**

On 8<sup>th</sup> February 2005 the company announced it had entered into an arrangement with an Indonesian company to fund a coal project to deliver brown steaming coal to the National Power Corporation (NPC) in the Philippines for power generation.

On 21<sup>st</sup> April 2005, the company announced that additional funds had been committed to the project to accelerate the delivery schedule.

Of the ten shipments required to complete the revised delivery schedule, four have been completed to 30<sup>th</sup> September 2005.

The company has not received payments in accordance with the repayment schedule agreed with the Indonesian company. Negotiations are underway to establish a revised repayment schedule.

The difficulties the Indonesian partner is experiencing relate to revised bond commitments required by NPC and until such new securities can be established, NPC is retaining sums due payable by it for delivery of coal.

### **Abbreviations**

barrel	a commercial unit of volume to measure petroleum, approximately 158.987 litres
BBPSC	Bula Block Renewal Production Sharing Contract
BOPD	standard barrels of oil per day
MMBO	million barrels of oil
MMSTB	million standard barrels
SNBBPSC	Seram (Non Bula) Block Production Sharing Contract

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## **STATE OF AFFAIRS**

There were no other significant changes in the state of affairs of the economic entity other than those referred to in the financial statements and elsewhere in the Annual Report.

## **FUTURE DEVELOPMENTS**

The economic entity will continue to pursue exploration, production and development of its oil and gas activities. Other likely developments in the economic entities operations are included in the Review of Operations Report.

## **SUBSEQUENT EVENTS**

During July 2005 the company sold the 500,000 Bow Energy Ltd shares it held with sale proceeds of \$63,104 net of brokerage costs. At 30 June 2005 the market value of these shares was \$62,500.

During July 2005 the company sold the 988,073 Carpathian Resources Ltd shares it held with sale proceeds of \$60,247 net of brokerage costs. At 30 June 2005 the market value of these shares was \$58,296.

On 28 July 2005 the buy back of un-marketable parcels was completed by the issue of cheques. The company bought back 13,902,004 shares at 0.7 cents for total proceeds of \$97,314.

On 7 October 2005 the company announced it had entered into a Share Purchase Agreement with Global Select Limited to sell the company's interest in the Bula Block PSC and the service company interests. The total consideration for the sale is \$US4,850,000. The company has received a deposit of \$US450,000 and will receive the balance of the consideration of \$US4,050,000 on or before the completion date of the sale and the balance of \$US350,000 to be paid on or before the day seven months from the completion date.

## **ENVIRONMENTAL REGULATIONS AND PERFORMANCE STATEMENT**

The economic entity participates in exploration of oil and gas including ventures which are parties to exploration and development licences. These licences specify environmental regulations applicable to the exploration, construction and operations of oil and gas production. For properties operated by other companies the economic entity monitors the performance of these companies.

There have been no known significant breaches of the environmental obligations of the economic entity or any ventures to which it is a party.

The economic entity's objective is to ensure the highest standard of environmental care is achieved and maintained.

## **PROCEEDINGS ON BEHALF OF THE COMPANY**

No person has applied to the court under Section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to 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 part of those proceedings. No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under Section 237 of the Corporations Act 2001.

## **INSURANCE PREMIUM**

The company has paid insurance premiums to insure the directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the company. The amount of the premium was \$41,625 of which \$25,772 relates to 2004/05.

## **NON-AUDIT SERVICES**

During the year ended 30 June 2005 the company's auditors did not provide any non-audit services to the company.

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**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT  
2001**

The auditor's declaration is set out on page 36 and forms part of the director's report for the year ended 30 June 2005.

Dated this 14<sup>th</sup> day of November 2005  
Perth, Western Australia

Signed in accordance with a Resolution of the Directors

A handwritten signature in blue ink, appearing to read 'P C Garner', is written over a faint, light blue circular stamp or watermark.

**P C Garner**  
DIRECTOR

**LION ENERGY LTD**  
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**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR ENDED 30 JUNE 2005**

	Note	Consolidated		Parent Entity	
		2005 \$	2004 \$	2005 \$	2004 \$
Sales revenue	2	6,960,173	6,514,159	-	-
Cost of sales		(5,194,030)	(4,212,401)	-	-
Gross profit		<u>1,766,143</u>	<u>2,301,758</u>	-	-
Other revenue from ordinary activities	2	220,197	62,136	163,449	249,000
Foreign exchange gain/(loss)		(232,893)	335,773	(104,222)	(14,832)
Carrying value of shares sold		-	(60,000)	-	(60,000)
Loss on write off of plant and equipment		-	(2,631)	-	(2,631)
Carrying value of disposed non current assets		-	(125,441)	-	(125,441)
Loss on write off loans		(2,971,510)	-	(2,971,510)	-
Loss on write off of subsidiary loan		-	-	(5,637,995)	-
Loss on write off of joint venture interest		(5,637,995)	-	-	-
Borrowing costs		-	(100,000)	-	(100,000)
Interest expense		(86,096)	(108,469)	(47,120)	(91,050)
Depreciation	3	(674,648)	(717,511)	(4,868)	(5,330)
Provision for diminution in investment		(57,981)	-	(57,981)	-
Provision for doubtful debts		-	(2,041)	-	(2,041)
Share placement commission		(70,802)	-	(70,802)	-
Directors' fees		(93,400)	(120,000)	(93,400)	(120,000)
Accountancy fees		(164,640)	(143,030)	(164,640)	(143,030)
Auditor's fees		(55,259)	(41,896)	(55,259)	(41,896)
Consultancy fees		(106,044)	(23,965)	(106,044)	(23,965)
Professional fees		(46,671)	(14,944)	(46,671)	(14,944)
Australian stock exchange fees		(69,606)	(56,588)	(69,606)	(56,588)
Exploration and development		(86,140)	(297,812)	-	(297,812)
Other operating costs from ordinary activities		<u>(1,891,883)</u>	<u>(1,614,810)</u>	<u>(744,054)</u>	<u>(635,683)</u>
Loss from ordinary activities		<u>(10,259,228)</u>	<u>(729,471)</u>	<u>(10,010,723)</u>	<u>(1,486,243)</u>
Income tax relating to ordinary activities	4	-	-	-	-
Loss from ordinary activities after income tax		<u>(10,259,228)</u>	<u>(729,471)</u>	<u>(10,010,723)</u>	<u>(1,486,243)</u>
<b>Net loss attributable to members of the parent entity</b>	<b>22</b>	<b><u>(10,259,228)</u></b>	<b><u>(729,471)</u></b>	<b><u>(10,010,723)</u></b>	<b><u>(1,486,243)</u></b>
<b>Earnings per share</b>		<b>2005 Cents</b>	<b>2004 Cents</b>		
Basic loss per share	18	<u>(0.50)</u>	<u>(0.05)</u>		

The accompanying notes form part of these financial statements

**LION ENERGY LTD**  
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**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2005**

	Note	Consolidated		Parent Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$
<b>CURRENT ASSETS</b>					
Cash assets	<b>6</b>	448,115	2,163,435	5,697	1,591,341
Receivables	<b>7</b>	3,359,352	2,756,745	1,059,101	1,459,531
Inventories	<b>8</b>	1,083,909	1,128,130	-	-
Other	<b>21</b>	366,427	664,877	21,182	16,768
		<u>5,257,803</u>	<u>6,713,187</u>	<u>1,085,980</u>	<u>3,067,640</u>
<b>TOTAL CURRENT ASSETS</b>					
<b>NON-CURRENT ASSETS</b>					
Plant and equipment	<b>9</b>	1,737,999	2,312,695	16,869	8,809
Other financial assets	<b>10</b>	164,448	-	164,455	8
Receivables	<b>7</b>	-	-	8,078,851	13,102,177
Exploration and development	<b>20</b>	2,334,251	7,137,187	-	7,542
		<u>4,236,698</u>	<u>9,449,882</u>	<u>8,260,175</u>	<u>13,118,536</u>
<b>TOTAL NON-CURRENT ASSETS</b>					
<b>TOTAL ASSETS</b>					
		<u>9,494,501</u>	<u>16,163,069</u>	<u>9,346,155</u>	<u>16,186,176</u>
<b>CURRENT LIABILITIES</b>					
Payables	<b>11</b>	4,596,169	4,729,574	348,700	1,600,611
Employee benefits	<b>12</b>	64,009	73,849	43,266	29,668
Intercompany payable	<b>11</b>	-	-	4,864,915	4,262,495
		<u>4,660,178</u>	<u>4,803,423</u>	<u>5,256,881</u>	<u>5,892,774</u>
<b>TOTAL CURRENT LIABILITIES</b>					
<b>NON-CURRENT LIABILITIES</b>					
Provisions	<b>12</b>	837,788	925,392	-	-
Employee benefits	<b>12</b>	357,067	342,153	-	-
		<u>1,194,855</u>	<u>1,267,545</u>	<u>-</u>	<u>-</u>
<b>TOTAL NON-CURRENT LIABILITIES</b>					
<b>TOTAL LIABILITIES</b>					
		<u>5,855,033</u>	<u>6,070,968</u>	<u>5,256,881</u>	<u>5,892,774</u>
<b>NET ASSETS</b>					
		<u>3,639,468</u>	<u>10,092,101</u>	<u>4,089,274</u>	<u>10,293,402</u>
<b>EQUITY</b>					
Contributed equity	<b>13</b>	37,288,352	33,481,757	37,288,352	33,481,757
Accumulated losses	<b>22</b>	(33,648,884)	(23,389,656)	(33,199,078)	(23,188,355)
		<u>3,639,468</u>	<u>10,092,101</u>	<u>4,089,274</u>	<u>10,293,402</u>
<b>TOTAL EQUITY</b>					

The accompanying notes form part of these financial statements

**LION ENERGY LTD**  
**ABN 51 000 753 640**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

	Note	Consolidated		Parent Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$
<b>Cashflows from operating activities</b>					
Receipts from customers		6,072,920	6,620,131	22,607	1,133
Interest received		13,522	888	9,522	887
Interest paid		(13,111)	(15,937)	(13,111)	(2,310)
Payments to suppliers and employees		<u>(5,664,192)</u>	<u>(6,165,434)</u>	<u>(1,311,501)</u>	<u>(1,062,704)</u>
Net cash inflow/(outflow) from operating activities	<b>17(b)</b>	<u>409,139</u>	<u>439,648</u>	<u>(1,292,483)</u>	<u>(1,062,994)</u>
<b>Cashflows from investing activities</b>					
Purchase of plant and equipment		(171,756)	(66,804)	(12,928)	(6,796)
Investment in subsidiary		-	-	-	(1)
Loans to unrelated parties		(2,313,533)	(115,713)	(2,313,533)	(115,713)
Loans to related parties		(583,500)	-	(583,500)	-
Investment in Joint Venture		(1,254,070)	(1,368,911)	-	(477,877)
Investment in shares		(398,777)	-	(398,777)	-
Proceeds from sale of shares		-	59,285	-	59,285
Overdraft forgone on loss of control of subsidiary		2,627	-	-	-
Loans to subsidiary companies		-	-	421,027	191,765
Net cash (outflow) from investing activities		<u>(4,719,009)</u>	<u>(1,492,143)</u>	<u>(2,887,711)</u>	<u>(349,337)</u>
<b>Cashflows from financing activities</b>					
Proceeds from issue of shares		3,982,947	2,550,200	3,982,947	2,550,200
Share buy back		-	(268,122)	-	(268,122)
Share placement receipts		(20,000)	20,000	(20,000)	20,000
Loan proceeds		<u>(1,368,397)</u>	<u>720,039</u>	<u>(1,368,397)</u>	<u>720,039</u>
Net cash inflow from financing activities		<u>2,594,550</u>	<u>3,022,117</u>	<u>2,594,550</u>	<u>3,022,117</u>
Net increase/(decrease) in cash held		(1,715,320)	1,969,622	(1,585,644)	1,609,786
Cash at the beginning of the financial year		<u>2,163,435</u>	<u>193,813</u>	<u>1,591,341</u>	<u>(18,445)</u>
Cash at the end of the financial year	<b>17(a)</b>	<u><u>448,115</u></u>	<u><u>2,163,435</u></u>	<u><u>5,697</u></u>	<u><u>1,591,341</u></u>

The accompanying notes form part of these financial statements.

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**1. Statement of Significant Accounting Policies**

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

The financial report covers the economic entity of Lion Energy Limited and its controlled entities and Lion Energy Limited as an individual parent entity. Lion Energy Limited is a listed public company, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values, or except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The financial statements have been prepared on the going concern basis of accounting, which assumes that the company will be able to meet its commitments, realise its assets and discharge its liabilities in the ordinary course of business.

The ability of the company to continue as a going concern is dependent on the company returning to profitable operations and on the availability of adequate funding for existing commitments and ongoing business activities.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

**(a) Principles of Consolidation**

A controlled entity is any entity controlled by Lion Energy Limited. Control exists where Lion Energy Limited has the capacity to dominate the decision making in relation to the financial and operating policies of another entity so that the other entity operates with Lion Energy Limited to achieve the objectives. A list of controlled entities is contained in Note 10 to the financial statements.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

**(b) Income Tax**

The economic entity adopts the liability method of tax effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences. Future income tax benefits are not brought to account unless realisation of the asset is assured beyond a reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

Income tax on net cumulative timing differences is set aside to the deferred income tax and future income tax benefit accounts based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law. The rate of income tax applicable to the period in which the benefit will be received or the liability will become payable is used.

Lion Energy Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime. Lion Energy Limited is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. The

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group notified the Australian Taxation Office on 28<sup>th</sup> July 2005 that it had formed an income tax consolidated group to apply from 1<sup>st</sup> June 2005. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

(c) Inventories

Inventory of Petroleum is valued at the lower of cost or net realisable value.

Cost comprises direct material, labour and transportation expenditure in getting such inventories to their existing location and condition, plus a portion of fixed and variable overhead expenditure based on weighted average costs incurred during the period in which such inventories were produced.

Net realisable value is the amount estimated to be obtained from the sale of the inventory in the normal course of business less any anticipated costs to be incurred prior to sale. Inventories of consumable supplies and spare parts expected to be used in production are valued at weighted average cost. Obsolete or damaged inventories of such items are valued at net realisable value. A regular and ongoing review is undertaken to establish the extent of surplus items and a provision is made for any potential loss on their disposal.

(d) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation.

(e) Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. Estimates of remaining useful lives are made on a regular basis for all assets.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Buildings	5%
Plant and Equipment	10-33%

(f) Investments

Investments in listed securities are brought to account at the lower of cost and market value and unlisted securities are brought to account at cost less any amounts for the permanent diminution in value of the investment.

(g) 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 statements of financial performance and financial position. Details of the economic entity's interest are shown in Note 20. The economic entity's interest in joint venture is brought to account using the cost method of accounting in the consolidated financial statements.

(h) Mineral and Petroleum Exploration and Evaluation Expenditure

Exploration and evaluation costs relating to an area of interest are carried forward provided the rights to tenure of the area of interest are current and provided that either:

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- (i) it is expected that the expenditure will be recovered through successful development and exploitation of the area of interest, or alternatively by its sale, or
- (ii) exploration and/or evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to the area are continuing.

(i) **Development Properties**

Development expenditure incurred by or on behalf of the economic entity is accumulated separately for each area of interest in which economically recoverable reserves have been identified to the satisfaction of the Directors. Such expenditure comprises net direct costs, and in the same manner as for exploration and evaluation expenditure, an appropriate portion of related overhead expenditure having a specific nexus with the development property.

Once a development decision has been taken, all past and future exploration and evaluation expenditure in respect of the area of interest is aggregated with the costs of development and classified under non-current assets as "Development Properties".

All expenditure incurred prior to the commencement of commercial levels of production from each development property, is carried forward to the extent to which recoupment out of revenue to be derived from the sale of production from the relevant development property, or from the sale of the property, is reasonably assured.

No amortisation is provided in respect of development properties until they are reclassified as "Mine Properties" following a decision to commence mining.

(j) **Restoration, Rehabilitation and Environmental Expenditure**

Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are accrued at the time of those activities and treated as exploration and evaluation expenditure. Ongoing costs are expensed.

Restoration, rehabilitation and environmental expenditure to be incurred during the production phase of operations is accrued when the need for such expenditure is established, and then written off as part of the cost of production of the mine property concern.

Significant restoration, rehabilitation and environmental expenditure to be incurred subsequent to the cessation of production at each mine property is accrued, in proportion to production, when its extent can be reasonably estimated.

The economic entity has certain obligations for restoration and rehabilitation of mining areas following the completion of production. Such obligations are being accrued in proportion to production and the accrual will be adequate to meet those obligations once production from the mineral resource is completed. The costs are based on current legal requirements and technology on an undiscounted basis. The costs relate to restoration of land, including waste site closures, but exclude plant closure costs.

Changes in estimates are dealt with 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.

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(k) Foreign Currency Translation

Foreign currency transactions during the year are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date.

The gains and losses from conversion of assets and liabilities, whether realised or unrealised, are included in profit/loss from ordinary activities as they arise.

(l) Foreign Controlled Entities

Financial statements of integrated foreign operations are translated at reporting date using the temporal method and exchange differences are brought to account in the statement of financial performance.

Foreign currency transactions during the year are converted to Australian currency at the rate applicable on transaction date. Monetary assets and liabilities are converted at the rate of exchange applicable on transaction date.

The gains and losses from conversion of the monetary assets and liabilities, whether realised or unrealised, are included in profit/loss from ordinary activities as they arise.

(m) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated cash outflows to be made for those benefits.

Contributions are made by the economic entity to employee superannuation funds and are charged as expenses when incurred.

(n) Cash

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 bank bills.

(o) Revenue Recognition

Amounts are recognised as sales revenue, when, but only when, there has been a passing of risk to a customer, and

- The product is in a form suitable for delivery and no further processing is required by, or on behalf of, the economic entity;
- The quantity and quality of the product can be determined with reasonable accuracy;
- The product has been despatched to the customer and is no longer under physical control of economic entity (or property in the product has earlier passed to the customer); and
- The selling price can be determined with reasonable accuracy

Interest and dividend revenue is recognised when received.

Revenue received from sale or disposal of product, material or services during the exploration, evaluation or development phases of operations is offset against expenditure in respect of the area of interest or mineral resource concerned.

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(p) Royalties and Other Mining Imposts

Ad valorem royalties and other mining imposts are accrued and charged against earnings when the liability from production or sale of the mineral crystallises. Profit-based royalties are accrued on a basis which matches the annual royalty expense with the profits on which the royalties are assessed (after allowing for permanent differences).

(q) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST (if GST is applicable), except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST (if GST is applicable).

(r) Acquisition of Assets

The cost method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs incidental to the acquisition. Where shares are issued in an acquisition, the value of the shares is determined by reference to the fair value of the asset acquired, including goodwill where applicable.

Costs relating to the acquisition of new areas of interest are classified as either exploration and evaluation expenditure, development properties or mine properties based on the stage of development reached at the date of acquisition. Assets acquired may also include mineral reserves, mineral resources and unexplored and unevaluated acreage.

(s) Payables

These amounts represent liabilities for goods and services provided to the economic entity prior to the end of the financial year which are unpaid. The amounts are unsecured and usually paid within 30 days of recognition.

(t) Repairs and Maintenance

Maintenance, repair costs and minor renewal are charged as expenses when incurred. Where the economic benefit of major overhauls will be realised over more than one accounting period, the costs are capitalised and amortised over the life of the asset or until the next major overhaul, whichever is the shortest.

(u) Earnings per Share

➤ Basic Earnings per Share

Basic earnings per share is determined by dividing income/loss from ordinary activities after income tax attributable to members of Lion Energy Limited by the weighted average number of ordinary shares outstanding during the financial year.

➤ Diluted Earnings per Share

Diluted earnings per share adjust the weighted average number of shares used to determine basic earnings per share to take into account potential ordinary shares.

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(v) Comparative Figures

When required by Accounting Standards comparative figures have been adjusted to conform to the changes in presentation for the current financial year.

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	\$	\$	\$	\$
<b>2. Operating Revenue</b>				
Petroleum sales	6,713,356	5,662,588	-	-
Rig rental	<u>246,817</u>	<u>851,571</u>	-	-
	<u>6,960,173</u>	<u>6,514,159</u>	-	-
<b>Other Revenue</b>				
Interest revenue	123,687	1,718	119,687	188,582
Other revenue	43,762	1,133	43,762	1,133
Proceeds from sale of shares	-	59,285	-	59,285
Gain on loss of control of subsidiary	<u>52,748</u>	-	-	-
	<u>220,197</u>	<u>62,136</u>	<u>163,449</u>	<u>249,000</u>
<b>3. Loss from Ordinary Activities</b>				
<b>Expenses</b>				
Cost of sales	5,194,030	4,212,401	-	-
Directors' fees	93,400	120,000	93,400	120,000
Depreciation	674,648	717,511	4,868	5,330
Provision for doubtful debts	-	2,041	-	2,041
Carrying value of shares sold	-	60,000	-	60,000
Borrowing costs	-	100,000	-	100,000
Interest	86,096	108,470	47,120	91,050
Write off loans	2,971,510	-	2,971,510	-
Loss on write down of joint venture interest	5,637,995	-	-	-
Write down off subsidiary loan	-	-	5,637,995	-
Accountancy fees	164,640	143,030	164,640	143,030
Auditor's fees	55,259	41,896	55,259	41,896
Consultancy fees	106,044	23,965	106,044	23,965
Exploration and development	86,140	297,812	-	297,812
Loss on disposal of shares	-	715	-	715
Loss on disposal of non current assets	-	125,441	-	125,441
Provision for diminution in investment	57,981	-	57,981	-
Share placement commission	70,802	-	70,802	-
Professional fees	46,671	14,944	46,671	14,944
Australian Stock Exchange fees	69,606	56,588	69,606	56,588

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	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>4. Income Tax</b>				
Reconciliation of prima facie income tax benefit on operating loss to income tax as provided in the financial statements				
Operating (loss)	<u>(10,259,228)</u>	<u>(729,471)</u>	<u>(10,010,723)</u>	<u>(1,486,243)</u>
Prima facie income tax benefit thereon at 30% (2004: 30%)	(3,077,768)	(218,841)	(3,003,217)	(445,873)
Adjusted for the tax effect of:				
Permanent differences:				
Foreign exchange	69,868	(154,737)	31,267	4,450
Provision for diminution in value of investments	17,394	-	17,394	-
Other non deductibles	2,651,203	40,240	2,651,203	40,240
Non assessable income	-	-	-	(56,060)
Provision for doubtful debts	<u>-</u>	<u>(612)</u>	<u>-</u>	<u>(612)</u>
Timing differences and tax losses not brought to account as future income tax benefits	<u>339,303</u>	<u>333,950</u>	<u>303,353</u>	<u>457,855</u>
Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

As of 30 June 2005 the chief entity has carried forward tax losses estimated at \$ 8,409,000. The benefit of these losses is not brought to account as realisation is not certain. The benefit will only be obtained if:-

- (i) The chief entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the losses to be realised.
- (ii) The chief entity continues to comply with the conditions for deductibility imposed by the Law; and
- (iii) No changes in tax legislation adversely affect the chief entity in realising the benefits for the deductions for the losses.

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	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>5. Auditors' Remuneration</b>				
Amounts received or due and receivable by the Company's auditors for:-				
Auditing financial statements	36,339	41,896	36,339	41,896
Other services	-	4,500	-	-
	<u>36,339</u>	<u>46,396</u>	<u>36,339</u>	<u>41,896</u>
Remuneration of other auditors of Subsidiaries for:-				
Auditing or reviewing the financial report of subsidiaries	18,920	-	18,920	-
	<u>55,259</u>	<u>46,396</u>	<u>55,259</u>	<u>41,896</u>
<b>6. Cash Assets</b>				
Cash at bank	<u>448,115</u>	<u>2,163,435</u>	<u>5,697</u>	<u>1,591,341</u>
<b>7. Receivables</b>				
<b>Current</b>				
Debtors	3,335,761	2,764,875	1,035,510	1,322,648
Loan – unrelated parties	-	124,046	-	124,046
Loan – related parties	155,767	-	155,767	145,013
Provision for doubtful debts	<u>(132,176)</u>	<u>(132,176)</u>	<u>(132,176)</u>	<u>(132,176)</u>
	<u>3,359,352</u>	<u>2,756,745</u>	<u>1,059,101</u>	<u>1,459,531</u>
<b>Non-Current</b>				
Owing by Lion Petroleum Seram Ltd	-	-	4,555,907	9,278,778
Owing by Oxford Mining NL	-	-	285,616	285,616
Less: Provision for doubtful debts	-	-	(285,616)	(285,616)
Owing by Indonesia Prima Energy Services Ltd	-	-	610,244	606,130
Owing by PT Prima Jasa Energi	-	-	2,912,700	3,217,269
Owing by Petroasia Ltd	-	-	590,371	590,371
Less: Provision for doubtful debt	-	-	(590,371)	(590,371)
	<u>-</u>	<u>-</u>	<u>8,078,851</u>	<u>13,102,177</u>
<b>8. Inventories</b>				
Warehouse inventory	110,148	110,703	-	-
Oil stock	692,756	900,274	-	-
Inventory – Joint Venture	<u>281,005</u>	<u>117,153</u>	<u>-</u>	<u>-</u>
	<u>1,083,909</u>	<u>1,128,130</u>	<u>-</u>	<u>-</u>

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	Consolidated		Parent	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>9. Non-current assets – Plant &amp; Equipment</b>				
Equipment movement				
Opening balance 1 <sup>st</sup> July	2,312,695	3,145,968	8,809	9,974
Purchases	171,756	66,804	12,928	6,796
Write off of plant	-	(182,566)	-	(2,631)
Accumulated depreciation write up	(71,804)	-	-	-
Depreciation	<u>(674,648)</u>	<u>(717,511)</u>	<u>(4,868)</u>	<u>(5,330)</u>
Closing balance 30 <sup>th</sup> June	<u>1,737,999</u>	<u>2,312,695</u>	<u>16,869</u>	<u>8,809</u>
Equipment	18,114,649	17,942,893	30,178	17,250
Less accumulated depreciation	<u>(16,376,650)</u>	<u>(15,630,198)</u>	<u>(13,309)</u>	<u>(8,441)</u>
Closing balance 30 <sup>th</sup> June	<u>1,737,999</u>	<u>2,312,695</u>	<u>16,869</u>	<u>8,809</u>
<b>10. Other Financial Assets</b>				
(a) Investments listed on prescribed stock exchanges – at cost	222,429	-	222,429	-
Less:				
Provision for diminution in value	<u>(57,981)</u>	<u>-</u>	<u>(57,981)</u>	<u>-</u>
	<u>164,448</u>	<u>-</u>	<u>164,448</u>	<u>-</u>
The aggregate market value of investments listed on prescribed stock exchanges at 30 June	<u>753,716</u>	<u>-</u>	<u>753,716</u>	<u>-</u>

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(b) Controlled Entities

Details of the Company's investments in controlled entities are as follows:

Name	Place of Incorporation & Business	Percentage Owned		Share Investment	
		2005 %	2004 %	2005 \$	2004 \$
Oxford Mining NL	Western Australia	100	100	-	-
Lion Petroleum Seram Ltd	Hong Kong	100	100	2	2
Kalrez Petroleum (Seram) Ltd	Mauritius	100	-	-	-
Indonesia Prima Energy Services Ltd	Mauritius	100	100	4	4
Petroasia Ltd	Hong Kong	100	100	2,220,001	2,220,001
Provision against investment				(2,220,000)	(2,220,000)
Entek Energy Limited	Australia	-	100	-	1
				<u>7</u>	<u>8</u>

During the year Kalrez Petroleum (Seram) Limited incorporated in Hong Kong changed its name to Lion Petroleum Seram Limited. In addition a new company was incorporated in Mauritius in the name of Kalrez Petroleum (Seram) Limited.

	Consolidated		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$
<b>11. Payables</b>				
<b>Current</b>				
Sundry creditors and accruals	4,596,169	3,395,186	348,700	266,223
Loan – Tulloch Lodge (Secured – Note 19)	-	1,334,388	-	1,334,388
	<u>4,596,169</u>	<u>4,729,574</u>	<u>348,700</u>	<u>1,600,611</u>
<b>Non Current</b>				
Intercompany payable	-	-	4,864,915	4,262,495
	<u>-</u>	<u>-</u>	<u>4,864,915</u>	<u>4,262,495</u>
<b>12. Provisions</b>				
<b>Current</b>				
Employee benefits	<u>64,009</u>	<u>73,849</u>	<u>43,266</u>	<u>29,668</u>
<b>Non Current</b>				
Provision for plug and abandonment of wells	837,788	925,392	-	-
Employee benefits	<u>357,067</u>	<u>342,153</u>	<u>-</u>	<u>-</u>
	<u>1,194,855</u>	<u>1,267,545</u>	<u>-</u>	<u>-</u>
Number of employees for the year	85	56	2	2

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	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>13. Contributed Equity</b>				
2,262,705,792 (2004: 1,710,757,292) fully paid ordinary shares	<u>37,288,352</u>	<u>33,481,757</u>	<u>37,288,352</u>	<u>33,481,757</u>

(a) Movements in Contributed Equity

Date	Details	Number of Shares	Issue Price Cents	Amount \$
30 June 2003	Balance	1,194,380,653		31,099,679
6 August 2003	Issue for cash	1,000	20	200
10 October 2003	Issue as facility fee	20,000,000	0.5	100,000
10 October 2003	Issue for cash	180,000,000	0.5	900,000
19 December 2003	Issue cash	200,000,000	0.4	800,000
22 December 2003	Share buy back	(53,624,361)	0.5	(268,122)
25 May 2004	Issued cash	170,000,000	0.5	850,000
30 June 2004	Balance	<u>1,710,757,292</u>		<u>33,481,757</u>
6 August 2004	In specie distribution			(176,352)
27 October 2004	Issue for cash	112,500,000	0.4	450,000
30 November 2004	Issue for cash	144,100,000	0.4	576,400
13 December 2004	Issue for cash	295,103,500	1	2,951,035
21 February 2005	Issue for cash – options exercised	125,000	2.25	2,812
25 February 2005	Issue for cash – options exercised	120,000	2.25	2,700
30 June 2005	Balance	<u>2,262,705,792</u>		<u>37,288,352</u>

(b) The company has no options on issue as at 30 June 2005

Date	Details	Number of options
30 June 2004	Balance	441,658,000
21 February 2005	Options exercised	(125,000)
28 February 2005	Options exercised	(120,000)
28 February 2005	Options expired	(441,413,000)
30 June 2005	Balance	<u><u>-</u></u>

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**14. Segment Reporting**

**Primary reporting – Geographical segment**

	Australia	South East Asia	Elimination	Consolidated
<b>2005</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Sales	-	7,133,841	(173,668)	6,960,173
Other Revenue	163,448	-	56,749	220,197
	<u>163,448</u>	<u>7,133,841</u>		<u>7,180,370</u>
Segment Result				
Consolidated operating profit/ (loss) before income tax	(10,010,723)	(5,800,622)	5,552,117	(10,259,228)
Segment assets	9,346,155	12,023,492	(11,875,146)	9,494,501
Segment liabilities	(5,542,497)	(18,114,235)	17,801,699	(5,855,033)
Net Assets/(Deficiency in Assets)	<u>3,803,658</u>	<u>(6,090,743)</u>		<u>3,639,468</u>
Acquisition of plant and equipment	12,928	158,828		171,756
Exploration and development	-	86,140		86,140
Depreciation	4,868	669,780		674,648
	Australia	South East Asia	Elimination	Consolidated
<b>2004</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Sales	-	6,894,086	(379,927)	6,514,159
Other Revenue	249,001	-	(186,865)	62,136
	<u>249,001</u>	<u>6,894,086</u>		<u>6,576,295</u>
Segment Result				
Consolidated operating profit/ (loss) before income tax	(1,512,546)	783,075		(729,471)
Segment assets	16,332,124	14,836,037	(15,005,092)	16,163,069
Segment liabilities	(6,065,024)	(15,011,036)	15,005,092	(6,070,968)
Net Assets/(Deficiency in Assets)	<u>10,267,100</u>	<u>(174,999)</u>		<u>10,092,101</u>
Acquisition of plant and equipment	6,796	60,008		66,804
Exploration and development	477,877	891,034		1,368,911
Depreciation	5,330	712,181		717,511

**Secondary Reporting – Business segments**

The economic entity operates solely within the oil and gas exploration industry and as such has no secondary segment to report.

**15. Related Parties**

(a) The names of persons who held office as Directors of Lion Energy Ltd during the financial year were:-

Mr G A Mercorella	Mr M Hourigan	Mr C Barone
Mr N Formichella	Mr J L Waterman	

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(b) Related Party Transactions:

Tulloch Lodge Limited, of which Mr G A Mercorella and Mr J L Waterman are Directors, provided funding facilities to the company during the financial year in the form of a \$1.5 million debt facility on which interest is payable. Tulloch Lodge Limited provided the debt facility for a fee of \$100,000 which was paid by the issue of 20 million shares to Tulloch Lodge Limited. This loan was repaid in full in December 2004.

BCFR Chartered Accountants, of which former director Mr N Formichella is a partner, received \$164,640 in fees for the provision of accounting services during the year (2004: \$143,030).

(c) The Company has paid a premium in respect of a policy for Directors and Officers Liability Insurance.

**16. Remuneration of Directors' and Executives'**

**Remuneration Disclosures**

Lion Energy Ltd year ended 30 June 2005	Primary		Post-Employment		Total \$
	Salary & Fees	Non- monetary	Super- annuation	Retirement Benefits	
<b>Specified Directors</b>					
GA Mercorella Chairman (executive)					
2005	241,900	-	18,171	-	260,071
2004	241,900	-	18,171	-	260,071
NM Formichella Director (non-executive): resigned 12 April 2005					
2005	23,400	-	-	-	23,400
2004	53,200	-	-	-	53,200
C Barone Director (non-executive)					
2005	30,000	-	-	-	30,000
2004	30,000	-	-	-	30,000
M Hourigan Director (non-executive): resigned 28 June 2005					
2005	-	-	-	-	-
2004	-	-	-	-	-
R Brimage Director (non-executive): resigned 3 September 2003					
2004	215,464	57,172	-	-	272,636
<b>Total Remuneration: Specified Directors</b>					
2005	295,300	-	18,171	-	313,471
2004	560,564	57,172	18,171	-	635,907

Lion Energy Ltd year ended 30 June 2005	Primary		Post-Employment		Total \$
	Salary & Fees	Non- monetary	Super- annuation	Retirement Benefits	
<b>Specified Executives</b>					
R Brimage General Mgr					
2005	244,728	62,088	-	-	306,816
<b>Total Remuneration: Specified Executives</b>					
2005	244,728	62,088	-	-	306,816

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**Shareholdings**

Lion Energy Ltd year ended 30 June 2005	Balance 1 July 04	Net Change Other	Balance 30 June 05
Number of shares held: Specified Directors and Executives			
GA Mercorella (Director)	176,935,708	(98,950,000)	77,985,708
NM Formichella (Director)	-	-	-
C Barone (Director)	-	-	-
M Hourigan (Director)	-	-	-
J L Waterman (Director)	-	-	-
R Brimage (Executive)	12,240,000	(6,800,000)	5,440,000
<b>Total</b>	<b>189,175,708</b>	<b>(105,750,000)</b>	<b>83,425,708</b>

All Directors, current and former, with the exception of the former Executive Chairman, Mr. G A Mercorella, are non-executive and are remunerated by way of fees and receive no retirement benefits excluding any statutory superannuation, if applicable. The non-executive Directors fees are determined by the board with reference to the aggregate limit of \$400,000 per annum set by the company's shareholders at the Annual General Meeting on 28<sup>th</sup> November 2003.

The policy is to remunerate non-executive directors with reference to other comparable listed companies determined by size and nature of operations, taking into account time, commitment and responsibilities. The director's fees were set at a level to attract suitably qualified individuals to accept the responsibilities of a directorship. External professional advice was sought to assist in determining the level of directors fees.

The former executive chairman's salary was determined by the board with reference to current market rates and remuneration paid to executives in comparable listed companies determined by size and nature of operations. During discussions regarding the chairman's remuneration he was not present and took no part in the discussion by the non-executive directors.

The company did not participate in share based remuneration and did not issue options to Directors at any time during the financial year.

**17. Notes to the Statement of Cash Flows**

(a) Reconciliation of Cash

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	Consolidated		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$
Cash (Note 6)	448,115	2,163,435	5,697	1,591,341
	-----	-----	-----	-----
	448,115	2,163,435	5,697	1,591,341
	=====	=====	=====	=====

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(b) Reconciliation of Operating (Loss) after Income Tax  
to Net Cash Inflow/(Outflow) from Operating Activities

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>Ordinary (loss) after income tax</b>	<u>(10,259,228)</u>	<u>(729,471)</u>	<u>(10,010,723)</u>	<u>(1,486,243)</u>
Non Cash items:				
Depreciation	674,648	717,511	4,868	5,330
Loss on disposal of shares	-	715	-	715
Provision for plug and abandonment written (back)/up	-	175,823	-	-
Provision for diminution in investments	57,981	-	57,981	-
Provision for doubtful debts	-	2,041	-	2,041
Loss on write off of non current assets	-	2,631	-	2,631
Loss on disposal of non current assets	-	125,441	-	125,441
Interest receivable	-	-	-	(186,865)
Recharged expenses	-	-	(219,566)	(246,103)
Borrowing costs amortised	-	100,000	-	100,000
Interest payable	-	88,740	-	88,740
Foreign exchange	(83,863)	(224,786)	243,337	151,739
Joint Venture expenditure	622,359	411,750	-	344,894
Write off development Bula	-	178,730	-	-
Exploration & development	7,765	-	7,765	-
Write down of joint venture interest	5,637,995	-	-	-
Write off loans	2,971,510	-	2,971,510	-
Write down of subsidiary loan	-	-	5,637,995	-
Loss of control of subsidiary	2,627	-	-	-
Changes in assets and liabilities:				
(Increase)/Decrease in receivables	(586,892)	1,180,247	(131,320)	127
(Increase)/Decrease in prepayments	298,759	(365,878)	(4,414)	(16,236)
(Increase)/Decrease in inventory	208,073	(747,250)	-	-
Increase/(Decrease) in payables	852,331	340,707	136,486	34,201
Increase/(Decrease) in deferred revenue	-	(451,060)	-	-
Increase/(Decrease) in employee benefits	5,074	(366,243)	13,598	16,594
Net cash inflow/(outflow) from operating activities	<u>409,139</u>	<u>439,648</u>	<u>(1,292,483)</u>	<u>(1,062,994)</u>

(c) Non cash Financing and Investing Activities

i) Share issue

An in-specie distribution to Lion shareholders of 17,635,036 Entek Energy Limited shares at 1 cent was undertaken during the year.

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**18. Earnings per Share**

	<b>2005</b>	<b>2004</b>
	<b>Number</b>	<b>Number</b>
Weighted average number of shares on issue during the financial year used in the calculation of basic earnings per share	2,032,456,607	1,423,198,613
	=====	=====

**19. Financial Instruments**

(a) Interest Rate Risk

The company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities, is as follows:

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate		Non-Interest Bearing		Total	
					Within 1 year					
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	%	%	\$	\$	\$	\$	\$	\$	\$	\$
<i>Financial Assets</i>										
Cash Assets		0.18	448,115	2,163,435	-	-	-	-	448,115	2,163,435
Receivables	8.00		-	-	155,767	-	3,203,585	2,756,745	3,359,352	2,756,745
Investments			-	-	-	-	164,448	-	164,448	-
Other			-	-	-	-	366,427	664,877	366,427	664,877
<b>Total Financial Assets</b>			<b>448,115</b>	<b>2,163,435</b>	<b>155,767</b>	<b>-</b>	<b>3,734,460</b>	<b>3,421,622</b>	<b>4,338,342</b>	<b>5,585,057</b>
<i>Financial Liabilities</i>										
Payables			-	-	-	-	4,596,169	3,395,186	4,596,169	3,395,186
Loan – Tulloch Lodge		8.00	-	1,334,388	-	-	-	-	-	1,334,388
<b>Total Financial Liabilities</b>			<b>-</b>	<b>1,334,388</b>	<b>-</b>	<b>-</b>	<b>4,596,169</b>	<b>3,395,186</b>	<b>4,596,169</b>	<b>4,729,574</b>
<b>Net Financial Assets/ (Liabilities)</b>			<b>448,115</b>	<b>829,047</b>	<b>155,767</b>	<b>-</b>	<b>(861,709)</b>	<b>26,436</b>	<b>(257,827)</b>	<b>855,483</b>

Reconciliation of net financial assets/(liabilities) to net assets

	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
Net financial assets/(liabilities) as above	(257,827)	855,483
Inventories	1,083,909	1,128,130
Fixed Assets	4,072,250	9,449,882
Employee benefits	(421,076)	(416,002)
Provisions	(837,788)	(925,392)
	-----	-----
Net assets per statement of financial position	3,639,468	10,092,101
	=====	=====

(b) 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 of those assets, net of any provision for doubtful debts, as disclosed in the Statement of Financial Position and notes to the financial report.

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The company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the company.

(c) **Net Fair Values**

The net fair values of listed investments have been valued at the quoted market bid price at balance date adjusted for transaction costs expected to be incurred. For other assets and other liabilities net fair value approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets in a standardised form other than listed investments. Financial assets where the carrying amount exceeds net fair values have not been written down as the company intends to hold these assets to maturity.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statement of financial position and in the notes to and forming part of the financial statements.

(d) Tulloch Lodge Limited has placed a fixed and floating charge over the assets of Lion Energy Ltd.

**20. Joint Ventures**

The consolidated entity's interest in the Indonesian petroleum exploration joint venture is represented by:

	\$
Receivables	710,932
Prepayments	13,040
Inventory	281,005
Equipment	46,944
Exploration and Development	2,334,251
Accounts Payable	(886,172)
	2,500,000
	2,500,000

Kalrez Petroleum (Seram) Ltd has a 2.5% interest in a Petroleum Production Sharing Contract in Indonesia.

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	\$	\$	\$	\$
<b>21. Other Current Assets</b>				
Prepaid capital raising costs	-	289,124	-	-
Prepayments	366,427	375,753	21,182	16,768
	366,427	664,877	21,182	16,768
	366,427	664,877	21,182	16,768
<b>22. Accumulated Losses</b>				
Balance at beginning of year	(23,389,656)	(22,660,185)	(23,188,355)	(21,702,112)
(Loss) for year	(10,259,228)	(729,471)	(10,010,723)	(1,486,243)
	(33,648,884)	(23,389,656)	(33,199,078)	(23,188,355)
	(33,648,884)	(23,389,656)	(33,199,078)	(23,188,355)

**23. Contingent Liabilities**

The economic entity and the parent entity have no contingent liabilities.

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**24. Commitments**

	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
Capital expenditure commitments contracted for:		
Capital expenditure projects	<u>4,132,515</u>	<u>3,480,000</u>
Payable		
- not later than 1 year	2,743,193	1,195,000
- later than 1 year but not later than 5 years	<u>1,389,322</u>	<u>2,285,000</u>
	<u>4,132,515</u>	<u>3,480,000</u>

**25. Subsequent Events**

During July 2005 the company sold the 500,000 Bow Energy Ltd shares it held with sale proceeds of \$63,104 net of brokerage costs. At 30 June 2005 the market value of these shares was \$62,500.

During July 2005 the company sold the 988,073 Carpathian Resources Ltd shares it held with sale proceeds of \$60,247 net of brokerage costs. At 30 June 2005 the market value of these shares was \$58,296.

On 28 July 2005 the buy back of un-marketable parcels was completed by the issue of cheques. The company bought back 13,902,004 shares at 0.7 cents for total proceeds of \$97,314.

On 7<sup>th</sup> October 2005 the company announced it had entered into a Share Purchase Agreement with Global Select Limited to sell the company's interest in the Bula Block PSC and the service company interests. The total consideration for the sale is \$US4,850,000. The company has received a deposit of \$US450,000 and will receive the balance of the consideration of \$US4,050,000 on or before the completion date of the sale and the balance of \$US350,000 to be paid on or before the day seven months from the completion date.

**26. Adoption of Australian Equivalents to International Financial Reporting Standards**

Lion Energy Limited is in the process of transitioning its accounting policies and financial reporting from the current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS) which will be applicable for the financial year ended 30 June 2006. The company's management, in consultation with its auditors where necessary have identified and assessed the key areas which would be impacted by the transition to AIFRS.

Set out below are the key accounting policies expected to change on adoption of AIFRS and the best estimate of the quantitative impact, if applicable, as at 30 June 2005 and on net loss for the year ended 30 June 2005.

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**Reconciliation of equity as presented under AGAAP to that under AIFRS**

	Notes	CONSOLIDATED		PARENT	
		30 June 2005	1 July 2004	30 June 2005	1 July 2004
<b>Total equity under AGAAP</b>		<b>3,639,468</b>	<b>10,092,101</b>	<b>4,089,274</b>	<b>10,293,402</b>
<b>Adjustments to retained earnings (net of tax)</b>					
Exploration expenditure	3	-	-	-	-
Gain on financial instruments	4	589,268	-	589,268	-
Impairment of assets	1	-	-	-	-
Foreign exchange	5	(717,581)	(2,297,550)	-	-
<b>Total equity under AIFRS</b>		<b>3,511,155</b>	<b>7,794,551</b>	<b>4,678,542</b>	<b>10,293,402</b>

**Reconciliation of net loss under AGAAP to that under AIFRS**

YEAR ENDED 30 JUNE 2005	Notes	CONSOLIDATED		PARENT	
		30 June 2005	1 July 2004	30 June 2005	1 July 2004
<b>Net loss as reported under AGAAP</b>		<b>(10,259,228)</b>	<b>(729,471)</b>	<b>(10,010,723)</b>	<b>(1,486,243)</b>
<b>Adjustments to retained earnings (net of tax)</b>					
Exploration expenditure	3	-	-	-	-
Gain on financial instruments	4	589,268	-	589,268	-
Impairment of assets	1	-	-	-	-
Foreign exchange	5	1,579,968	-	-	-
<b>Net loss under AIFRS</b>		<b>(8,089,992)</b>	<b>(729,471)</b>	<b>(9,241,455)</b>	<b>(1,486,243)</b>

**1. Impairment of Assets**

The economic entity currently determines the recoverable amount of an asset on the basis of undiscounted net cash flows which will be received from the assets use and subsequent disposal. In terms of pending AASB 136: Impairment of Assets, the recoverable amount of an asset will be determined as the higher of fair value less costs to sell and value in use. It is likely that this change in accounting policy will lead to impairments being recognised more often than under the existing policy.

The economic entity has tested for impairment under AIFRS at 30 June 2005 and the financial impact is expected to be nil.

**2. Income Tax**

Currently, the economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Future income tax benefits are only brought to account if realisation of the asset is beyond a reasonable doubt. Under the Australian equivalent IAS 12, the economic entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

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On adoption it is possible that the company may be able to recognise a deferred tax asset in relation to tax losses carried forward where it is probable that a taxable profit will be available against which deductible temporary differences can be utilised. As at 30 June 2005 the company had carried forward tax losses of approximately \$8,050,000.

### 3. Mineral and Petroleum Exploration and Evaluation Expenditure

Currently, the economic entity carries forward exploration and evaluation expenditure if it is expected the expenditure will be recovered through successful development and exploitation of the area of interest or by its sale or activities in the area have not yet reached the stage where a reasonable estimate of economically reserves can be assessed. Under the Australian equivalent AASB6, an entity may partially or fully capitalise exploration and evaluation expenditure if it is expected the expenditures will be recouped through the successful development and exploitation of the area of interest or by its sale or activities in the area of interest have not yet reached the stage where a reasonable estimate of economically recoverable reserves can be assessed. As such there will be no change to the Company's accounting policy for exploration and evaluation expenditure under AIFRS. However, exploration expenditure may be required to be written off as annual impairment testing will be required on capitalised exploration and evaluation expenditure.

As there is no change to the accounting policy for exploration and evaluation expenditure on transition the financial impact will be nil.

### 4. Financial Instruments

Currently, the economic entity measures investments in listed and unlisted securities at cost less permanent diminution in value which is carried through to the statement of financial performance. Under AASB 139, financial instruments are classified as either held to maturity assets or available for sale financial assets. Held to maturity assets are measured at cost and subject to impairment testing. Available for sale assets are measured at fair value with changes in fair value recognised as equity subject to impairment. Financial assets or liabilities are measured at fair value and recognised in the statement of financial performance.

The shares in listed entities held by the company at 30 June 2005 will be classified as held for trading assets and measured at fair value recognised through the statement of financial performance. For the year ended 30 June 2005 there was an overall increase in the market value of the holdings so the impact on transition would be to include an increase in market value of \$589,269 in the statement of financial performance for the year.

### 5. Foreign Currency

Currently the economic entity translates the non monetary assets of the foreign subsidiaries at historic rates under AASB 1012. Under AASB 121, The Effects of Changes in Foreign Currency Exchange Rates, an entity whose functional currency is different to its presentation currency is required to translate its assets and liabilities at the closing rate with the resulting exchange differences being transferred to a translation reserve.

The estimated impact of this change in policy is to:

Increase consolidated accumulated losses by \$2,297,550 at 30 June 2004  
Decrease consolidated loss for the year ended 30 June 2005 by \$1,579,968  
Increase consolidated accumulated losses by \$717,582 at 30 June 2005  
Create a translation reserve debit balance of \$40,905

The Directors of the Company have determined that the functional currency of the Company's subsidiaries in Indonesia is the United States Dollar.

**LION ENERGY LTD**  
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**DIRECTORS DECLARATION**  
**30 JUNE 2005**

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The directors of the company declare that:

1. the financial statements and notes, as set out on pages 9 to 31 are in accordance with the *Corporations Act 2001* and:
  - a. comply with Accounting Standards and the Corporations Regulations 2001; and
  - b. give a true and fair view of the financial position as at 30 June 2005 and of the performance for the year ended on that date of the company and economic 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 directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



**P C Garner**  
DIRECTOR

Dated this 14<sup>th</sup> day of November 2005  
Perth, Western Australia



# STANTON PARTNERS

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WEST PERTH 6005  
WESTERN AUSTRALIA

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## QUALIFIED INDEPENDENT AUDIT REPORT

### TO THE MEMBERS OF LION ENERGY LIMITED

#### SCOPE

##### *The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash-flows, accompanying notes to the financial statements, and the director's declaration for Lion Energy Limited (the Company) and the consolidated entity for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during the year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

##### *Audit approach*

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

**LION ENERGY LIMITED**  
**ABN 51 000 753 640**  
**AUDITORS' REPORT**

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While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

### **INDEPENDENCE**

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

### **QUALIFICATION**

Loans amounting to \$2,288,500 were advanced to various entities during the year. We have been unable to obtain written confirmation of the amounts outstanding at 30 June 2005. Accordingly we have been unable to determine whether the recorded debtors received the funds or whether they have the ability to repay the funds advanced and the interest due on those funds (interest due at 30 June 2005-\$104,172). The directors have written down the loans and related interest receivable at 30 June 2005 to nil.

### **AUDIT OPINION**

In our opinion, except for the effects on the financial report of the matters referred to in the qualification paragraph, the financial report of Lion Energy Limited is in accordance with:

- a) 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 2005 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.

### **INHERENT UNCERTAINTY REGARDING NON-CURRENT ASSETS AND GOING CONCERN**

Without qualification to the opinion expressed above, attention is drawn to the following matters:

As referred to in note 1 to the financial statements, the financial statements have been prepared on a going concern basis. The Company and the consolidated entity incurred losses from ordinary activities of \$10,010,723 and \$10,259,228 for the year ended 30 June 2005. At 30 June 2005 the Company has a working capital deficiency of \$4,170,901 and the consolidated entity has working capital of \$597,625. The ability of the Company and the consolidated entity to continue as going concerns and to meet planned and committed expenditure requirements is subject to the Company and its subsidiaries successfully exploiting the investments and petroleum assets owned by the Company and its subsidiaries and the raising of further equity and/or loan capital.

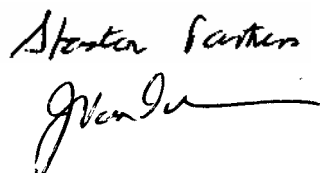
In the event that the Company and the consolidated entity is not successful in raising further funds, the realisable value of the Company's and the consolidated entity's non-current assets may be significantly less than their current carrying values. Furthermore non current liabilities would crystallise and become immediately due and payable.

**LION ENERGY LIMITED**  
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**AUDITORS' REPORT**

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Also included in the consolidated statement of financial position are interests in petroleum assets (fixed assets and capitalised exploration costs) totalling \$4,072,250 and included in the parent entity's statement of financial position are non-current receivables of \$8,078,851. There is some uncertainty as to the recoverability of these assets at their stated amounts. The recoverability of the carrying amounts is dependent on the successful commercial exploitation of the underlying petroleum businesses of the subsidiaries of the parent entity, the ability of the consolidated entity to generate profits and cash-flows in excess of the current carrying values of the petroleum assets held by the relevant companies or the sale of the petroleum interests at amounts at least equal to carrying values. In the event that the recoverable amounts of the petroleum assets arising from their continued use and subsequent disposal are less than their carrying values, a provision would be required to write down the assets to their recoverable amounts. We are however unable to determine the extent of any provision that may be required to write down the petroleum asset and receivables to recoverable values.

**STANTON PARTNERS**



**J P Van Dieren**  
**Partner**

Perth, Western Australia  
14 November 2005



## STANTON PARTNERS

1 HAVELOCK STREET  
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WESTERN AUSTRALIA

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14 November 2005

Board of Directors  
Lion Energy Limited  
45 Ventnor Ave  
WEST PERTH WA 6005

Dear Directors

### **RE: LION ENERGY LIMITED**

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

As Audit Partner for the audit of the financial statements of Lion Energy Limited for the year ended 30 June 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely

**STANTON PARTNERS**

**John Van Dieren**  
**Partner**

**LION ENERGY LTD**  
**ABN 51 000 753 640**  
**SHAREHOLDER INFORMATION**

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**SHAREHOLDERS**

**1. Distribution of Shareholders**

As at 31<sup>st</sup> October 2005 the distribution of members and their shareholdings were:-

(a) Fully Paid Ordinary Shares

Range	Holders	Shares Held	Percent
1 - 1,000	6	1,747	0.00
1,001 - 5,000	41	133,870	0.01
5,001 - 10,000	39	321,524	0.01
10,001 - 100,000	834	62,221,983	2.77
100,001 - over	1,630	2,186,124,664	97.21
	2,550	2,248,803,788	100.00
	2,550	2,248,803,788	100.00

534 shareholders hold less than a marketable parcel of 100,000 shares in the company.

**2. Substantial Shareholders**

The names of the substantial shareholders listed in the Company's register as at 11 November 2005 are:

Name	Number
Zapac Pty Ltd	201,152,300
Acquista Investments Pty Ltd	144,100,000
Reina Nominees Pty Ltd	120,000,000
ZMMF Pty Ltd	116,000,000

**3. Voting Rights**

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy or attorney or representative has one vote on a show of hands.

**4. Twenty Largest Shareholders**

The names of the 20 largest shareholders as at 11 November 2005 are listed below.

Ordinary Shares Name	Number	%
Zapac Pty Ltd	201,152,300	8.945%
Acquista Investments Pty Ltd	144,100,000	6.408%
Reina Nominees Pty Ltd	120,000,000	5.336%
Zmmf Pty Limited	116,000,000	5.158%
T P Futures Pty Ltd	92,956,000	4.134%
Mr Domenic Zappia	66,435,708	2.954%
Mr Luigi Vitale	40,000,000	1.779%
Dr Arthur Charles Stephenson	26,650,000	1.185%
Douglas Financial Consultants Pty Ltd	22,000,000	0.978%
Anz Nominees Limited	20,799,544	0.925%
Mr Andrew Moffa & Mrs Kimberley Moffa	20,414,617	0.908%
Ronsoli Pty Ltd	20,000,000	0.889%
Motivational Investments Pty Ltd	18,358,312	0.816%
Mr Colin Earl Garnsworth Bennett & Mrs Burnice Anne Bennett	17,450,000	0.776%
Gilles Holdings Pty Ltd	15,000,000	0.667%
Mr Douglas Raymond Patrick & Mrs Robyn Patrick	15,000,000	0.667%
Westpac Custodian Nominees Limited	13,345,558	0.593%
Citicorp Nominees Pty Limited	12,987,750	0.578%

**LION ENERGY LTD**  
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**SHAREHOLDER INFORMATION**

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Mr Gianni Ragnelli & Mrs Kaly Ragnelli	11,813,130	0.525%
Liber Investments Pty Ltd	10,845,000	0.482%
Mr Henry Wiechecki	10,000,000	0.445%
	1,015,307,919	45.15%

This statement outlines the main Corporate Governance practices in place during the 2004/05 financial year with reference to the ASX Principles of Good Corporate Governance and Best Practice Recommendations.

Principle 1: Lay solid foundations for management and oversight

The board is responsible for the overall performance of the economic entity. The responsibilities of the board have been incorporated in a board charter which is posted in the Corporate Governance section of the Company's website. The board's responsibilities included in the charter are:

- o Setting strategic direction of the Company, establishment of goals for management and monitoring the achievement of these goals,
- o Appointment and removal of the Chief Executive Officer including determination of conditions of service and monitoring of performance,
- o Ratification of the appointment and, if appropriate removal of, the Chief Financial Officer (or equivalent) and the Company Secretary,
- o Input and approval of management's development of corporate strategy and performance objectives,
- o Approval and monitoring of financial and other reporting including approval of annual budgets,
- o Approval and monitoring of progress of major capital expenditure, capital management and acquisitions,
- o Setting and reviewing systems of risk management and internal compliance and control, codes of conduct and legal compliance including ensuring compliance with continuous disclosure requirements.

At this stage there is no intention to provide new directors with formal letters of appointment however, the company does have written induction procedures in place for new directors. The induction procedures set out the contents of the information package to be provided to new directors and guidelines for the Chair to brief new directors by way of informal discussion upon appointment to the board.

The company is currently considered not to be of a size, nor is its affairs of such complexity to justify the establishment of separate committees and accordingly all matters which may be capable of delegation to a committee are dealt with by the full board.

The board delegates to the general manager the responsibility for managing the day to day operations of the overseas interests of the group. The general manager consults with the executive chairman in the first instance on matters which are sensitive, extraordinary or strategic in nature.

Principle 2: Structure of the board to add value

The board determines the size and composition of the board subject to the Company's constitution. The constitution provides for a minimum of three and a maximum of nine Directors. At present the board has determined the number of Directors should be four, two of which are Non-Executive Directors and two Executive Directors one of which is the Chairman. At each Annual General Meeting one third of Directors together with any Director appointed since the last Annual General Meeting retire from office and may stand for re-election. The names of the Directors of the Company, together with details of their relevant qualifications and experience are set out below:

Russell Ernest Brimage                      Executive Chairman

Mr. Brimage has in excess of 30 years experience in the upstream oil and gas industry. Mr. Brimage is currently a director of Belfield Corporation Pty Ltd, First Canning Investments Pty Ltd, Pouvoir Pty Ltd and an executive director of Entek Energy Limited. In the past three years Mr. Brimage has also been a director of Far East Oil NL.

Paul Charles Garner                      Executive Director

Mr. Garner has extensive experience in international business and over 30 years experience in the property and equities market. Mr. Garner is currently a director of Ohio Enterprises Pty Ltd, Ohio Holdings Pty Ltd, Virgo Bay Pty Ltd, an executive director of Entek Energy Limited and an executive director of New Horizon Energy Limited. In the past three years Mr. Garner has also been a director of Hillvista Holdings Pty Ltd and Semillon Holdings Pty Ltd.

Julian Lee Waterman                      Non-Executive Director

**LION ENERGY LTD**  
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**CORPORATE GOVERNANCE STATEMENT**

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Mr. Waterman has extensive experience in management and facilities establishment and broad experience in the manufacturing and plastics industries. Throughout his comprehensive career He is Managing Director of Behind The Signs Pty Ltd, a company he established in 2003, specialising in the manufacture of polystyrene products and a range of construction materials and systems.

In order for the Company to meet the ASX best practice guideline that the majority of the board be independent Directors, the Chair to be an independent Director and the Chair and Chief Executive Officer to be exercised by separate individuals it would be necessary to appoint an additional Director. The board considers the number of Directors currently appropriate considering the size and level of the Company's activities. The company at present does not have a Chief Executive Officer so the best practice guideline that the chair and the Chief Executive Officer be exercised by separate individuals is met; however, the Chair is not an independent director. At present the non-executive Director believes he does not have the necessary time available to devote to the extra responsibilities allotted to the Chair under the board charter.

The board believes the Company is not of a size nor will the current board structure allow for the formation of a Nomination Committee. Potential new Directors to commend to shareholders are identified by the full board based on expertise in both current and proposed activities of the Company. The board will seek to nominate potential Directors who can exercise independent and informed judgment on matters which will come before the board and are free from any relationship with the Company which may interfere with their ability to make independent and informed judgments.

The structure of the board is reviewed periodically with reference to the company's operations and board skill requirements.

**Principle 3: Promote ethical and responsible decision-making**

The Company's practice does not depart from the ASX Principle in any significant way. The Company has developed both a general Code of Conduct and Share Trading Policy for the Directors, officers and employees. These policies are available in the Corporate Governance section of the Company's website.

**Principle 4: Safeguard integrity in financial reporting**

Procedures are now in place for the Executive Chairman and BCFR Chartered Accountants, acting as the chief financial officer, to provide a written declaration that the group's financial reports present a true and fair view and are in accordance with relevant Accounting Standards.

The board believes the Company is not of a size nor will the current board structure allow for the formation of an Audit Committee. The full board reviews the performance of the external auditors on an annual basis and the Company Secretary, as representative of the board and the chief financial officer, consults with the auditors on a regular basis. The board reviews the results and findings of the audit, the adequacy of accounting and financial controls, obtains feedback on the implementation of any recommendations made and reviews the draft financial statements and audit and review reports at year end and half year.

**Principle 5: Make timely and balanced disclosure**

A continuous disclosure policy has been implemented by the Company which is posted in the Corporate Governance section of the Company's website. The Chairman with the assistance of the Company Secretary, where necessary, is responsible for communication with the ASX and assessing the materiality of information and drafting all ASX announcements. All Directors and key management are aware of the continuous disclosure requirements of the Company and the necessity to provided information to the Chairman in a timely manner.

**Principle 6: Respect the rights of shareholders**

Included in the continuous disclosure policy is a description of the procedures in place to promote communication with shareholders. The Company provides shareholders with information likely to be of interest to them by:

- the distribution of the Annual Reports in hard copy which includes a review of operations for the group; and
- maintaining a website to which all ASX announcements and Company reports are posted.

Any shareholder who wishes to obtain any ASX announcements, Half Yearly Reports or Quarterly Reports is able to do so via the website or in hard copy by contacting the Company.

**LION ENERGY LTD**  
**ABN 51 000 753 640**  
**CORPORATE GOVERNANCE STATEMENT**

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The Company also maintains an email register of shareholders, all announcements and reports are sent to the shareholders on this register once lodgement receipt is received from ASX.

At the Annual General Meeting the Chairman encourages questions and comments from shareholders regarding the financial reports and company operations. The Company will also make efforts to ensure the auditor attends the Annual General Meeting to be available to answer questions concerning the conduct of the audit and content of the auditors report.

**Principle 7: Recognise and manage risk**

The Company faces many risks due to the nature of its operations and the regions in which it operates. In order for the board to identify, assess, manage and monitor these risks a risk management policy has been adopted. The full board is responsible for the management of the Company's risk but may from time to time consult external parties to assist in carrying out these responsibilities.

The board performs regular checks of the internal controls and compliance systems within the Company in particular in respect to the Indonesian operations. There is no formal internal audit conducted however, internal controls are assessed in conjunction with the external auditor at the time of the audit of the financial statements as well as board checks on a regular basis.

**Principle 8: Encourage enhanced performance**

The Company has processes in place to review the performance of key employees, Directors and the board as a whole. The board and Director evaluation procedures are posted in the Corporate Governance section of the Company's website. These evaluations are conducted by a formal discussion between the board as a whole or the Chairman and individual Directors based on the criteria set out in the evaluation procedures. As there is no Nomination Committee the full board takes responsibility for reviewing its performance.

The Company conducts a comprehensive review of the ability and experience of potential employees prior to appointment. Informal appraisals are conducted regularly with continuous feedback and on the job monitoring and training for all employees. Employees are encouraged to broaden their knowledge of the Company's business and keep abreast of developments in their area of expertise by attendance at seminars, conferences and training, the expenses of which are met by the Company.

The Company has in place induction procedures for any new Director appointed to the board, referred to in principle 1. These procedures include package of information regarding the company to ensure the new Director is provided with as much information concerning the Company and the industry in which it operates as possible.

Subject to privacy requirements Directors have unrestricted access to all Company records and information, to the Company Secretary and other key executives and employees.

Each Director has the right to seek independent professional advice on matters relating to their position as a Director of the Company at the Company's expense, subject to prior approval of the Chairman which shall not be unreasonably withheld.

**Principle 9: Remunerate fairly and responsibly**

The board believes the Company is not of a size nor will the current board structure allow for the formation of a Remuneration Committee. The Company has in place a remuneration policy which is posted in the Corporate Governance section of the Company's website.

The remuneration of the non-executive Directors is determined with reference to these policies by the full board subject to the aggregate limit approved by the shareholders at a general meeting. Currently the aggregate limit is \$400,000 per annum set at the Annual General Meeting held on 28<sup>th</sup> November 2003. The Directors receive external professional advice in respect of the appropriate level of fees with reference to other comparable listed companies determined by size and nature of operations. The non-executive Directors receive remuneration by way of fees only. No retirement benefits are provided to non-executive Directors with the exception of statutory superannuation if applicable.

The executive Chairman's remuneration is determined by the non-executive Directors with reference to current market rates and remuneration paid to executives in comparable listed companies determined by size and nature of operations. During the board discussion and decision of the level of his remuneration the Chairman is not present and takes no part in the discussion.

**LION ENERGY LTD**  
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**CORPORATE GOVERNANCE STATEMENT**

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The Company does not participate in share based remuneration for its executives nor does it issue options to Directors or employees.

Principle 10: Recognise the legitimate interests of stakeholders

The Company recognizes the need for Directors' and employees' to observe the highest standards of behaviour and business ethics in conducting its business and intends to maintain a reputation of integrity.

The Company does not currently believe it is of a size to warrant the development of formal ethical guidelines. The Company does have in place a general Code of Conduct, available in the Corporate Governance section of the Company's website, for the Directors' and employees. This Code of Conduct requires the recognition and respect for the responsibilities to shareholders and other stakeholders and compliance with ethical and technical requirements of the appropriate regulatory bodies. The Company regards breaches of this code as serious and Directors' and employees' are encouraged to report any suspected breaches without fear of retribution, to the Chairman in the first instance for notification to the board.

The Company aims to ensure a high standard of environmental care is achieved and to ensure compliance as a minimum with World Bank Standards.

If the Company's board structure and nature, location and size of operations changes the Directors' may decide it necessary to develop a more formal Code of Conduct. The necessity for a more detailed Code is reviewed by the board periodically.

**LION ENERGY LTD**  
**ABN 51 000 753 640**  
**CORPORATE DIRECTORY**

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**CHAIRMAN**

Mr Russell E BRIMAGE (Executive)

**DIRECTORS**

Mr Paul C GARNER (Executive)

Mr Julian L WATERMAN (Non-Executive)

**COMPANY SECRETARY**

Mr Jack H TOBY

**REGISTERED OFFICE**

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WEST PERTH WA 6005

Telephone: (08) 9429 8874

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**SHARE REGISTRY**

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45 St. Georges Terrace

PERTH WA 6000

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PERTH WA 6840

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Facsimile: (08) 9323 2096

[perth.services@computershare.com.au](mailto:perth.services@computershare.com.au)

**AUDITORS**

Stanton Partners

Accountants

Level 1, 1 Havelock Street

WEST PERTH WA 6005

**STOCK EXCHANGE LISTING**

Lion Energy Limited shares are listed  
on the Australian Stock Exchange

Level 19, 91 King William Street

ADELAIDE SA 5000

ASX code for shares: LIO

Lion Energy Limited

ACN: 000 753 640

ABN: 51 000 753 640