



LION
ENERGY LIMITED

ABN 51 000 753 640

**Consolidated Financial Report for the Half-Year
to 31 December 2007**



LION ENERGY LIMITED
CORPORATE DIRECTORY

DIRECTORS: Jian Wu (Chairman)
Russell Brimage
Weidong Zhang

COMPANY SECRETARY: Jack Hugh Toby FCA AACS

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AUDITORS: **Grant Thornton WA Partnership**
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SHARE REGISTRY: **Computershare Investor Services Pty Ltd**
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DIRECTORS' REPORT

The directors of Lion Energy Limited A.C.N. 000 753 640 ("Parent Entity" or "Company") present their report including the consolidated financial report of the Company and its controlled entities ("Consolidated Entity or Group") for the half-year ended 31 December 2007. The Company is a listed public company limited by shares, incorporated and domiciled in Australia.

DIRECTORS

The names of the directors of the Company who held office during or since the end of the half-year are:-

Jian Wu (Chairman)
Russell Brimage
Weidong Zhang

OPERATING RESULTS

The operating loss for the Consolidated Entity, after income tax amounted to \$1,534,293.

SIGNIFICANT CHANGES AND REVIEW OF OPERATIONS

The following significant changes in the state of affairs of the Company occurred during the financial half-year:

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

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

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

OCS-G 26190 NH 16-07 Viosca Knoll 79

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

OCS-G 27078 LA3B Vermilion Area South Addition 317

OCS-G 27089 LA3C South Marsh Island South Addition 138

OCS-G 27091 LA3C South Marsh Island South Addition 152



DIRECTORS' REPORT

The Leases are subject to a 16 $\frac{2}{3}$ % Federal royalty and between a 3 $\frac{1}{3}$ % to 4% royalty in favour of certain third parties who generated the properties.

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

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

EVENTS SUBSEQUENT TO BALANCE DATE

No matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial periods.

AUDITORS INDEPENDENCE DECLARATION

In accordance with the Corporations Act 2001 section 307C the auditors of the Company, Grant Thornton WA Partnership, have provided a signed auditors independence declaration to the directors in relation to the half-year ended 31 December 2007. This declaration has been attached to the independent review report to the members of the Company.

Signed in accordance with a resolution of the directors.

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

Russell Brimage
Director

22 February 2008
Perth, Western Australia



DIRECTORS' DECLARATION

The directors of Lion Energy Limited A.C.N. 055 719 394 ("Company") declare that:

- a) in their opinion the accompanying financial statements and notes of the Consolidated Entity;
 - i) comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
 - ii) give a true and fair view of the Consolidated Entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and
- b) In their 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 and is signed for and on behalf of the directors by:

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

Russell Brimage
Director

22 February 2008
Perth, Western Australia



**CONDENSED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

	Note	2007 \$	2006 \$
CONTINUING OPERATIONS			
Revenue	2	1,582,418	1,127,617
Cost of sales		(325,417)	(454,458)
		<hr/>	<hr/>
GROSS PROFIT		1,257,001	673,159
Other income	2	193,940	341,937
Other expenses	2	(2,985,234)	(9,823,887)
		<hr/>	<hr/>
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAX		(1,534,293)	(8,808,791)
Income tax		—	(3,284)
		<hr/>	<hr/>
LOSS FROM CONTINUING OPERATIONS AFTER INCOME TAX		(1,534,293)	(8,812,075)
		<hr/>	<hr/>
NET LOSS ATTRIBUTABLE TO MEMBERS		(1,534,293)	(8,812,075)
		<hr/> <hr/>	<hr/> <hr/>
BASIC EARNINGS/(LOSS) PER SHARE (CENTS PER SHARE)		(2.52)	(20.55)
DILUTED EARNINGS/(LOSS) PER SHARE (CENTS PER SHARE)		(2.52)	(20.55)

The accompanying notes form part of this financial report



**CONDENSED BALANCE SHEET
AS AT 31 DECEMBER 2007**

	Note	31 December 2007 \$	30 June 2007 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		8,204,262	8,741,155
Trade and other receivables		1,848,014	1,159,138
Inventories		877,156	926,808
TOTAL CURRENT ASSETS		10,929,432	10,827,101
NON-CURRENT ASSETS			
Property, plant and equipment		252,438	292,397
Trade and other receivables		102,406	102,406
Capitalised exploration expenditure		1,112,039	2,311,663
TOTAL NON-CURRENT ASSETS		1,466,883	2,706,466
TOTAL ASSETS		12,396,315	13,533,567
CURRENT LIABILITIES			
Trade and other payables		1,668,485	1,657,020
Provisions		1,487	3,959
TOTAL CURRENT LIABILITIES		1,669,972	1,660,979
TOTAL LIABILITIES		1,669,972	1,660,979
NET ASSETS		10,726,343	11,872,588
EQUITY			
Issued capital	3	49,686,804	49,686,804
Reserves	4	3,356,880	2,968,832
Accumulated losses		(42,317,341)	(40,783,048)
TOTAL EQUITY		10,726,343	11,872,588

The accompanying notes form part of this financial report



**CONDENSED CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

	Note	2007 \$	2006 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		1,672,464	2,789,720
Payments to suppliers & employees		(1,451,084)	(1,533,622)
Interest received		103,894	164,849
NET CASH FROM/(USED IN) OPERATING ACTIVITIES		325,274	1,420,947
CASH FLOWS FROM INVESTING ACTIVITIES			
Exploration expenditure		(694,183)	(8,951,933)
Purchase of property, plant and equipment		(3,467)	(321,874)
Proceeds from sale of property, plant and equipment		2,408	—
Proceeds from sale of investments		—	1,300,532
NET CASH FROM/(USED IN) INVESTING ACTIVITIES		(695,242)	(7,973,275)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from equity issues		—	10,661,435
Share issue costs		—	(416,256)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES		—	10,245,179
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Net foreign exchange differences		(369,968)	3,692,851
Cash and cash equivalents at beginning of period		(166,925)	—
		8,741,155	4,833,288
CASH AND CASH EQUIVALENTS AT END OF PERIOD	5	8,204,262	8,526,139

The accompanying notes form part of this financial report



**CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

<u>Attributable to Members of the Company</u>	Issued Capital \$	Option Premium Reserve \$	Currency Translation Reserve \$	Accumulated Losses \$	Total Equity \$
<i>At 1 July 2006</i>	39,441,625	—	(66,164)	(30,197,978)	9,177,483
Currency translation differences	—	—	927,580	—	927,580
Loss for period	—	—	—	(8,812,075)	(8,812,075)
TOTAL LOSS FOR THE PERIOD	—	—	927,580	(8,812,075)	(7,884,495)
Securities issued	10,661,435	450,000	—	—	11,111,435
Capital raising costs	(416,256)	—	—	—	(416,256)
At 31 DECEMBER 2006	49,686,804	450,000	861,416	(39,010,053)	11,988,167

<u>Attributable to Members of the Company</u>	Issued Capital \$	Option Premium Reserve \$	Currency Translation Reserve \$	Accumulated Losses \$	Total Equity \$
<i>At 1 July 2007</i>	49,686,804	1,550,000	1,418,832	(40,783,048)	11,872,588
Currency translation differences	—	—	388,048	—	388,048
Loss for period	—	—	—	(1,534,293)	(1,534,293)
TOTAL LOSS FOR THE PERIOD	—	—	—	(1,534,293)	(1,146,245)
At 31 DECEMBER 2007	49,686,804	1,550,000	1,806,880	(42,317,341)	10,726,343

The accompanying notes form part of this financial report



NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

NOTE 1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report. The half-year financial report should be read in conjunction with the annual Financial Report of Lion Energy Limited as at 30 June 2007. It is also recommended that the half year financial report be considered together with any public announcements made by Lion Energy Limited during the half year ended 31 December 2007 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

Basis of accounting and statement of compliance

The half-year financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements. The interim financial statements were approved by the Board of Directors on the date the Directors Report is dated. The accounting policies applied by the Company in this interim financial report are the same as those applied by the Company in its financial report for the year ended 30 June 2007. Since 1 July 2007, the Company has adopted the following Standards and Interpretations mandatory for annual periods on or after 1 January 2007. Adoption of these standards did not have any effect on the financial performance or position of the Company.

AASB 7 Financial Instruments: Disclosures

AASB 2005-10 Amendments to Australian Accounting Standards (AASB 132,101,114,117,133,139,1,4, 1023 and 1038)

AASB 2007-04 Amendments to Australian Accounting Standards arising from ED 151 and other amendments

AASB 2007-7 Amendments to Australian Accounting Standards (AASB 1, 2, 4, 5, 107 and 108)

Interpretation 8 Scope of AASB 2 Share Based Payment.

Interpretation 9 Reassessment of Embedded Derivatives

Interpretation 10 Interim Financial Reporting and Impairment.

The half-year financial report has been prepared on a historical cost basis, except for held-for-trading financial assets that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged with fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged. For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

Statement of compliance

The half-year financial report complies with the Corporations Act 2001 and AASB 134 "Interim Financial Reporting". Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting".

Significant Accounting Policies

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2007.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

	Half-Year to 31 December 2007 \$	Half-Year to 31 December 2006 \$
NOTE 2. REVENUE, INCOME AND EXPENSES		
<i>The loss before income tax expense includes the following revenues and expenses where disclosure is relevant in explaining the performance of the Company:</i>		
REVENUE		
Oil sales	1,582,418	1,127,617
Interest received from other persons	103,894	201,152
Rental income	90,046	—
	<u>1,776,358</u>	<u>1,328,769</u>
OTHER INCOME		
Other	—	140,785
	<u>—</u>	<u>140,785</u>
CHARGING AS EXPENSES		
Exploration expenses	—	183,412
Impairment of capitalised exploration costs	1,465,984	6,088,719
Write down of joint venture interest	—	1,985,559
Foreign exchange loss	554,973	247,383
Cost of share based payment	—	400,000
Other	964,277	918,814
	<u>2,985,234</u>	<u>9,823,887</u>
	Half-Year to 31 December 2007 \$	Year to 30 June 2007 \$
NOTE 3. ISSUED CAPITAL		
ORDINARY SHARES		
60,922,354 (30 June 2007: 60,922,354) fully paid ordinary shares	49,686,804	49,686,804
	<u>49,686,804</u>	<u>49,686,804</u>
MOVEMENTS IN ORDINARY SHARES		
At the beginning of the period	49,686,804	39,441,625
3,046,124,356 shares issued on 20 October 2006	—	10,661,435
Capital raising costs	—	(416,256)
AT THE END OF THE FINANCIAL PERIOD	<u>49,686,804</u>	<u>49,686,804</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

	Half-Year to 31 December 2007 \$	Year to 30 June 2007 \$
NOTE 4. RESERVES		
Option premium reserve	1,550,000	1,550,000
Currency translation reserve	1,806,880	1,418,832
	3,356,880	2,968,832

MOVEMENTS IN OPTION PREMIUM RESERVE

At the beginning of the period	1,550,000	—
8,000,000 free options issued on 6 December 2006	—	400,000
1,000,000 free options issued on 6 December 2006	—	50,000
20,000,000 options issued on 16 January 2007 for 5 cents each	—	1,000,000
2,000,000 free options issued on 3 April 2007	—	100,000
	1,550,000	1,550,000

AT THE END OF THE FINANCIAL YEAR

NOTE 5. RECONCILIATION OF CASH AND CASH EQUIVALENTS

For the purposes of the Condensed Cash Flow Statement, cash and cash equivalents comprise cash at bank.

NOTE 6. SEGMENT INFORMATION

PRIMARY REPORTING BUSINESS SEGMENTS

During the half-year ended 31 December 2007 and also during the half-year ended 31 December 2006, the Consolidated Entity operated entirely in the oil and gas industry.

SECONDARY REPORTING GEOGRAPHICAL SEGMENTS

	External Revenue \$	Inter-Segment Revenue \$	Total Revenue \$	Segment Profit/(Loss) \$
HALF-YEAR TO 31 DECEMBER 2007				
South East Asia/Australasia	1,776,358	—	1,776,358	(32,670)
North America	—	—	—	(1,501,623)
TOTAL	1,776,358	—	1,776,358	(1,534,293)

	External Revenue \$	Inter-Segment Revenue \$	Total Revenue \$	Segment Profit/(Loss) \$
HALF-YEAR TO 31 DECEMBER 2006				
South East Asia/Australasia	1,469,554	—	1,469,554	(2,466,277)
North America	—	—	—	(6,345,798)
TOTAL	1,469,554	—	1,469,554	(8,812,075)

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



NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

NOTE 7. CONTINGENT LIABILITIES

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

NOTE 8. CONTINGENT ASSETS

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

OCS-G 26190 NH 16-07 Viosca Knoll 79

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

OCS-G 27078 LA3B Vermilion Area South Addition 317

OCS-G 27089 LA3C South Marsh Island South Addition 138

OCS-G 27091 LA3C South Marsh Island South Addition 152

The Leases are subject to a 16% Federal royalty and between a 3% to 4% royalty in favour of certain third parties who generated the properties.

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

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

As the receipt of funds pursuant to this agreement is contingent on events that are not reasonably certain, the potential receipt of funds from this agreement has not been included in these financial statements.

NOTE 9. EVENTS SUBSEQUENT TO BALANCE DATE

No matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial periods.

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

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Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Lion Energy Limited (the Company) and the entities it controlled (the consolidated entity), which comprises the condensed balance sheet as at 31 December 2007, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, a statement of accounting policies, and other selected explanatory notes. The consolidated entity comprises both the Lion Energy Limited (the Company) and the entities it controlled during that half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the consolidated entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards including the Australian Accounting Interpretations and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagement ASRE 2410: *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the Corporations Regulations 2001. As the auditor of Lion Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

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Grant Thornton (WA) Partnership is an independent business entitled to trade under the international name Grant Thornton.
Grant Thornton is a trademark owned by Grant Thornton International and used under licence by independent firms and entities throughout the world.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Lion Energy Limited is not in accordance with the Corporations Act 2001, including:

- a) giving a true and fair view of Lion Energy Limited's financial position as at 31 December 2007 and of its performance for the half-year ended on that date.
- b) complying with Accounting Standard AASB 134: *Interim Financial Reporting* and Corporations Regulations 2001.

GRANT THORNTON (WA) PARTNERSHIP



MJ Hillgrove
Partner
Perth

Date: 22 February 2008.

**AUDITORS' INDEPENDENCE DECLARATION
TO THE DIRECTORS OF LION ENERGY LIMITED**

Grant Thornton (WA) Partnership
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In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of Lion Energy Limited for the half-year ended 31 December 2007, I declare that, to the best of my knowledge and belief, there have been:

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

GRANT THORNTON (WA) PARTNERSHIP



MJ Hillgrove
Partner
Perth

Date: 22 February 2008.

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