Lion Energy Limited

ABN 51 000 753 640

Financial Report for the Half-Year to
31 December 2005

This document should be read in conjunction with the annual report of Lion Energy Limited for the year ended 30 June 2005

DIRECTORS:	Russell Brimage (Chairman) Paul Garner Martin Bennett
COMPANY SECRETARY:	Jack Hugh Toby FCA AACS
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AUDITORS:	**Stanton Partners** Level 1 1 Havelock St West Perth WA 6005 Tel: +61 (8) 9481 3188 Fax: +61 (8) 9321 1204
SHARE REGISTRY:	**Computershare Investor Services Pty Ltd** Level 2, Reserve Bank Building 45 St Georges Terrace Perth, Western Australia 6000 GPO Box D182 Perth, Western Australia 6840 Tel: +61 1300 557 010 Fax: +61 (8) 9323 2033

The directors present the financial report of Lion Energy Limited A.C.N. 000 753 640 ("Company") including the consolidated financial statements of the Company and its controlled entities ("Consolidated Entity")for the half-year ended 31 December 2005.

DIRECTORS

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

Russell Brimage	(appointed 10-Aug-05)
Paul Garner	(appointed 10-Aug-05)
Martin Bennett	(appointed 20-Dec-05)
Guiseppe Mercorella	(resigned 10-Aug-05)
Carmine Barone	(resigned 10-Aug-05)
Julian Waterman	(retired 21-Dec-05)

OPERATING RESULTS

The operating profit for the Company, after income tax amounted to $363,069.

SIGNIFICANT CHANGES AND REVIEW OF OPERATIONS

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

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. These shares were cancelled on 11 October 2005.

The listed securities of the Company were suspended on 3 August 2005 by the Australian Stock Exchange Ltd.

On 16 August 2005, the Company issued 1,400,000 convertible notes redeemable on 15 August 2006 with interest of 10% per annum. The notes were convertible at the lenders discretion to fully paid ordinary shares in the Company at $0.0025 per share. Convertibility was subject to shareholder approval. However, shareholder approval was not obtained within the timeframe required by the convertible note agreements and consequently all of the convertible notes were repaid by the Company on 13 December 2005 and thereby extinguished.

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 received 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.

On 19 December 2005, the Company issued 337,320,568 fully paid ordinary shares at 0.25 cents per share.

EVENTS SUBSEQUENT TO BALANCE DATE

On 14 March 2006, the Company issued 400,000,000 fully paid ordinary shares at 0.34 cents per share. The issue of these shares was approved at the Annual General Meeting of the Company held on 21 December 2005.

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

AUDITORS INDEPENDENCE DECLARATION

In accordance with the Corporations Act 2001 section 307C the auditors of the Company, Stanton Partners have provided a signed auditors independence declaration to the directors in relation to the half-year ended 31 December 2005. 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.

Paul Garner
Director

15 March 2006
Perth, Western Australia

LION ENERGY LIMITED
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 Company;

   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 Company's financial position as at 31 December 2005 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:

Paul Garner
Director

15 March 2006
Perth, Western Australia

LION ENERGY LIMITED
CONDENSED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Note	Consolidated 2005 $	2004 $
CONTINUING OPERATIONS			
Revenue		1,718,453	3,636,216
Cost of Sales		(303,545)	(2,858,586)
GROSS PROFIT		1,414,908	777,630
Other income	2	5,635,236	177,717
Other expenses	2	(7,012,884)	(1,832,812)
PROFIT/(LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAX		37,260	(877,465)
Income tax expense		—	—
PROFIT/(LOSS) FROM CONTINUING OPERATIONS AFTER INCOME TAX		37,260	(877,465)
DISCONTINUED OPERATIONS			
Other income	5	3,226,999	—
Other expenses		2,901,190	
PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS BEFORE INCOME TAX		325,809	—
Income tax expense		—	—
PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS AFTER INCOME TAX		325,809	—
NET PROFIT/(LOSS) ATTRIBUTABLE TO MEMBERS		363,069	(877,465)
BASIC EARNINGS/(LOSS) PER SHARE (CENTS)		0.0159	(0.049)
BASIC EARNINGS/(LOSS) PER SHARE FOR CONTINUING OPERATIONS (CENTS)		0.0016	(0.049)

The accompanying notes form part of this financial report

LION ENERGY LIMITED
CONDENSED BALANCE SHEET
AS AT 31 DECEMBER 2005

	Note	Consolidated 31 December 2005 $	Consolidated 30 June 2005 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		3,985,769	448,115
Trade and other receivables		6,931,131	3,725,779
Inventories		451,351	1,083,909
TOTAL CURRENT ASSETS		11,368,251	5.257,803
NON-CURRENT ASSETS			
Plant and equipment		39,546	1,737,999
Mining Tenements		2,101,613	2,334,251
Other financial assets		248,803	753,716
TOTAL NON-CURRENT ASSETS		2,389,962	4,825,966
TOTAL ASSETS		13,758,213	10,083,769
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		7,704,031	4,596,169
Provisions		28,636	64,009
TOTAL CURRENT LIABILITIES		7,732,667	4,660,178
NON-CURRENT LIABILITIES			
Provisions		83,512	1,194,855
TOTAL NON-CURRENT LIABILITIES		83,512	1,194,855
TOTAL LIABILITIES		7,816,179	5,855,033
NET ASSETS		5,942,034	4,228,736
EQUITY			
Issued capital	3	37,939,675	37,288,352
Reserves		(18,675)	(717,581)
Accumulated losses		(31,978,966)	(32,342,035)
TOTAL EQUITY		5,942,034	4,228,736

The accompanying notes form part of this financial report

LION ENERGY LIMITED
CONDENSED CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Note	Consolidated 2005 $	2004 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		3,234,991	2,160,433
Payments to suppliers & employees		(3,571,676)	(3,320,823)
Interest received		27,670	7,764
Interest and finance costs paid		(78,258)	—
Other		1,584,461	—
NET CASH FROM/(USED IN) OPERATING ACTIVITIES		1,197,188	(1,152,626)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment			(228,529)
Exploration expenditure		(1,859,548)	(57,970)
Proceeds from sale of investments		123,345	—
Proceeds from sale of Bula		3,425,346	—
Investment in joint ventures		—	(855,118)
Loans to unrelated parties		—	(125,000)
Loan repayments from unrelated parties		—	120,303
Purchase of investment		—	(220,000)
Overdraft forgone on sale of subsidiary		—	2,627
NET CASH FROM/(USED IN) INVESTING ACTIVITIES		1,689,143	(1,363,687)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from equity issues		843,301	3,977,435
Share buy back		(97,314)	—
Refund of oversubscriptions		—	(20,000)
Share issue costs		(94,664)	—
Loan proceeds – Tulloch Lodge Ltd		—	180,000
Loan repayments – Tulloch Lodge Ltd		—	(1,514,388)
Loan proceeds from previous subsidiary			297,814
Interest paid			(40,852)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES		651,323	2,880,009
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		3,537,654	363,696
Cash and cash equivalents at beginning of period		448,115	2,163,435
CASH AND CASH EQUIVALENTS AT END OF PERIOD	4	3,985,769	2,527,131

The accompanying notes form part of this financial report

LION ENERGY LIMITED
CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

Attributable to Members of the Company	Issued Capital $	Accumulated Losses $	Total Equity $
At 1 July 2004	33,481,757	(23,389,656)	10,092,101
Loss for period	—	(877,465)	(877,465)
TOTAL LOSS FOR THE PERIOD	—	(877,465)	(877,465)
Shares issued	3,977,435	—	3,977,435
Capital distribution	(176,352)	—	(176,352)
AT 31 DECEMBER 2004	37,282,840	(24,267,121)	13,015,719

Attributable to Members of the Company	Issued Capital $	Exchange Rate Reserve $	Accumulated Losses $	Total Equity $
At 1 July 2005	37,288,352	(717,581)	(32,342,035)	4,228,736
Currency translation differences	—	698,906	—	698,906
Profit for period	—	—	363,069	363,069
TOTAL PROFIT FOR THE PERIOD	—	698,906	363,069	1,061,975
Shares issued	843,301	—	—	843,301
Share buy back	(97,314)	—	—	(97,314)
Capital raising costs	(94,664)	—	—	(94,664)
AT 31 DECEMBER 2005	37,939,675	(18,675)	(31,978,966)	5,942,034

The accompanying notes form part of this financial report

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 2005, which was prepared based on Australian Accounting Standards applicable for financial years beginning before 1 January 2005 ('AGAAP'). 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 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

Basis of accounting

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 half-year financial report has been prepared on a historical cost basis, except for available-for-sale 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.

Going Concern

These financial statements have been prepared on a going concern basis. However, the ability of the Company to actively explore and continue as a going concern and to meet its debts and commitments as they fall due, is dependent on further capital raisings. Accordingly, there is a significant uncertainty whether the Company will continue as a going concern, and therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial statements. The Directors are confident that the Company will be successful in raising further capital and, accordingly, have prepared these financial statements on a going concern basis. At this time the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in these financial statements. Accordingly, no adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

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”.

This is the first half-year financial report prepared based on AIFRS and comparatives for the half-year ended 31 December 2004 and full-year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies of the Group under AIFRS are disclosed below.

Summary of Significant Accounting Policies

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

a) Basis of consolidation

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

b) Foreign currency translation

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

c) Taxes

Income Tax

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

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

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

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

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

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

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

Other Taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet. Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

d) Employee Benefits

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

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

e) Cash and cash equivalents

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

f) Revenue recognition

Revenue from services rendered is recognised upon the delivery of goods or services to customers. Interest revenue is recognised when control of the right to receive interest has been obtained.

g) Goods and Services Tax (GST)

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

h) Recoverable amount

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash generating unit to which the asset belongs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

i) Leases

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

j) Issued capital

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

k) Property, Plant and Equipment

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

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

Impairment

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

l) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred. Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis. Bills of exchange, promissory notes and deposits are measured at the lower of cost and net realisable value. Terms of payment are 30 to 60 days.

m) Trade and other payables

Liabilities for trade creditors and other amounts are carried at mortised cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group. Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis. Deferred cash settlements are recognised at the present value of the outstanding consideration payable on the acquisition of an asset discounted at prevailing commercial borrowing rates. Terms of payment are 30 to 60 days.

n) Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process. For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment. Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date i.e. the date that the Group commits to purchase the asset.

o) Share-based payment transactions

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

p) AASB 1 Transitional exemptions

The Company has made its election in relation to the transitional exemptions allowed by AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' as follows:

Exemption from the requirement to restate comparative information for AASB 132 and AASB 139

The Group has elected to adopt this exemption and has not applied AASB 132 'Financial Instruments: Presentation and Disclosure' and AASB 139 'Financial Instruments: Recognition and Measurement' to its comparative information. The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 ('AGAAP') are illustrated below.

Share-based payment transactions

AASB 2 'Share-Based Payments' is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

q) Impact of adoption of AIFRS

The impacts of adopting AIFRS on total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 (“AGAAP”) are illustrated below:

Reconciliation of total equity as presented under AGAAP to that under AIFRS	**Issued Capital**	**Option Premium Reserve**	**Accumulated Losses**	**Total Equity**
	$	**$**	**$**	**$**
Under AGAAP at 30 June 2005	37,288,352	—	(33,648,884)	3,639,468
Gain on financial instruments	—	—	589,268	589,268
Foreign exchange	—	(717,581)	717,581	—
UNDER AIRFS AT 30 JUNE 2005	37,288,352	(717,581)	(32,342,035)	4,228,736

There were no material impacts to equity from adopting AIFRS for the 6 months ended 31 December 2004. There were no material impacts to the income statement from adopting AIFRS for the 6 months ended 31 December 2004 and for the year ended 30 June 2004.

NOTE 2. REVENUE AND EXPENSES

The profit before income tax expense includes the following revenues and expenses where disclosure is relevant in explaining the performance of the Group:

	Consolidated 2005	**Consolidated 2004**
	$	**$**
REVENUE		
Oil sales	1,718,453	3,636,216
	1,718,453	3,636,216
OTHER INCOME		
Interest received from other persons	27,670	8,010
Disposal of Bula	5,220,201	—
Other	387,365	169,707
TOTAL REVENUE	5,635,236	177,717

	Consolidated 2005 $	2004 $
CHARGING AS EXPENSES		
Depreciation	104,900	349,646
Foreign exchange gain/(loss)	(59,679)	151,340
Exploration	101,162	57,970
Joint venture interest written down	4,621,938	—
Other administration expenses	2,244,563	1,273,856
	7,012,884	1,832,812

NOTE 3. ISSUED CAPITAL

ORDINARY SHARES		
2,586,124,356 fully paid ordinary shares	37,939,675	—
2,262,705,792 fully paid ordinary shares	—	37,288,352
	37,939,675	37,288,352

MOVEMENTS IN ORDINARY SHARES		
At the beginning of the period	37,288,352	37,282,840
13,902,004 shares cancelled on 11 October 2005	(97,314)	—
337,320,568 shares issued on 19 December 2005	843,301	—
245,000 shares issued on 19 February 2005	—	5,512
Capital raising costs	(94,664)	—
AT THE END OF THE FINANCIAL YEAR	37,939,675	37,288,352

NOTE 4. RECONCILIATION OF CASH

For the purposes of the Condensed Cash Flow Statement, cash and cash equivalents comprise cash at bank at 31 December 2005 and 31 December 2004.

NOTE 5. DISCONTINUED OPERATIONS

During the half-year ended 31 December 2005 the Group sold its interest in the in the Bula Block PSC and the service company interests. These interests were held in subsidiaries PT Prima Jasa Energi and Indonesia Prima Energy Services Ltd which have also been sold. The results for the entities disposed of are as follows:

	2005 $	2004 $
Revenue	3,226,999	3,510,599
Expenses	(2,901,190)	3,434,195
PRE-TAX PROFIT	325,809	(76,404)
Income tax expense	—	—
TOTAL REVENUE	325,809	(76,404)

The major classes of assets and liabilities sold are as follows:

	2005 $
ASSETS	
Cash and cash equivalents	4,525
Trade and other receivables	2,940,059
Plant and equipment	480,055
TOTAL ASSETS	3,424,639
LIABILITIES	
Trade and other payables	1,599,773
Provisions	604,292
TOTAL LIABILITIES	2,204,065
NET LIABILITIES ATTRIBUTABLE TO DISCONTINUED OPERATIONS	1,220,574
BASIC EARNINGS/(LOSS) PER SHARE FOR DISCONTINUED OPERATIONS (CENTS)	0.0143

NOTE 6. SEGMENT INFORMATION

During the half-year ended 31 December 2005 and 31 December 2004, the Group was engaged in the energy sector and operated entirely in Asia.

NOTE 7. CONTINGENT LIABILITIES

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

NOTE 8. EVENTS SUBSEQUENT TO BALANCE DATE

On 14 March 2006, the Company issued 400,000,000 fully paid ordinary shares at 0.34 cents per share. The issue of these shares was approved at the Annual General Meeting of the Company held on 21 December 2005.

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

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QUALIFIED INDEPENDENT AUDIT REVIEW REPORT TO THE MEMBERS OF LION ENERGY LIMITED

Scope

We have reviewed the financial report comprising the income statement, balance sheet, statement of cash flows, statement of changes in equity, accompanying notes to the financial statements and the directors' declaration of Lion Energy Limited (the Company) for the half-year ended 31 December 2005 as set out on pages 3 to 15. The financial report includes the consolidated financial statements of the consolidated entity comprising the disclosing entity and the entities it controlled at the end of the half year or from time to time during the half year. The disclosing entity's directors are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", 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.

Review approach

We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities and Investments Commission and the Australian Stock Exchange.

Our review has been conducted in accordance with Australian Auditing and Assurance Standards applicable to review engagements. A review is limited primarily to inquiries of the disclosing entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the Company, and have met the independence requirements of Australian ethical pronouncements and the Corporations Act 2001. We have given the directors of the Company a written Auditor's Independence Declaration.

Qualification

We have been unable to obtain audit reviewed financial statements for Lion Petroleum Seram Limited ("LPS") as at 31 October 2005 being the deemed date of the sale of the petroleum assets of LPS to a third party and the financial statements of LPS for the six months ended 31 December 2005. Additionally, we have been unable to obtain audit reviewed financial statements of PT Prima Energy Services Limited ("PJE") as at 30 September 2005 being the date of the deemed sale of PJE to a third party. Accordingly, we are not in a position to determine whether the profit on sale of the petroleum assets of LPS and the profit on sale of the investment in PJE from a consolidated point of view have been properly determined in

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arriving at the consolidated results for the period. Additionally, we are unable to determine whether the assets and liabilities of LPS included in the consolidated balance sheet are fairly stated as at 31 December 2005. The net liabilities included in the consolidated balance sheet as at 31 December 2005 pertaining to LPS total $1,567,655 (current assets $1,269,696 and current liabilities of $2,837,351). Management has advised us that the Company is liable for the collection of the outstanding receivables and payment of the payables of PJE as at 30 September 2005. Management has also advised us that as at 31 December 2005 the consolidated receivables include $1,990,642 pertaining to PJE and the consolidated payables include $1,562,313 pertaining to PJE plus unearned income (described as payables) of $428,329 which are the amounts outstanding at the deemed sale date of 30 September 2005. We have been unable to confirm these balances.

Statement

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the limitation discussed in the qualification paragraph not existed, based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Lion Energy Limited is not in accordance with:

a) the Corporations Act 2001, including:

  i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half year ended on that date; and

  ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

b) other mandatory financial reporting requirements in Australia.

STANTON PARTNERS

Stanton Partners
JVanDieren

J P Van Dieren
Partner
West Perth, Western Australia
15 March 2006

STANTON PARTNERS

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15 March 2006

Board of Directors
Lion Energy Limited
45 Ventnor Avenue
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 review of the financial statements of Lion Energy Limited for the half year ended 31 December 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 review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely,
STANTON PARTNERS

John Van Dieren
Partner