

Lion Energy Limited

ABN 51 000 753 640

Condensed Consolidated Financial Report for the Half-Year to 31 December 2006

This document should be read in conjunction with the annual report of Lion Energy Limited for the year ended 30 June 2006

Lion Energy Limited ABN 51 000 753 640 and Controlled Entities

DIRECTORS: Jian Wu (Appointed 03-October-2006)
Russell Brimage (Executive Director)
Zhong Wang (Appointed 20-November-2006)
Paul Garner
Weidong Zhang (Appointed 20-November-2006)
Martin Bennett (Retired 20-November-2006)

COMPANY SECRETARY: Jack Hugh Toby FCA AACS

REGISTERED OFFICE: 15 Rheola Street (Grd Floor)
West Perth WA 6005
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AUDITORS: **Stantons International**
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1 Havelock St
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SHARE REGISTRY: **Computershare Investor Services Pty Ltd**
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Lion Energy Limited ABN 51 000 753 640 and Controlled Entities

DIRECTORS' REPORT

Your directors present their report on the company and its controlled entities for the half-year ended 31 December 2006.

Directors

The names of directors in office at any time during or since the end of the half-year are:

Jian Wu (Appointed 03-October-2006)

Paul Garner

Russell Brimage

Weidong Zhang (Appointed 20-November-2006)

Zhong Wang (Appointed 20-November-2006)

Martin Bennett (Retired 20-November-2006)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Company Secretary

The following person held the position of company secretary at the end of the half-year ended 31 December 2006:

Jack Hugh Toby

Principal Activities

The principal activities of the economic entity during the half-year ended 31 December 2006:

— Oil and gas exploration, development and production

The following significant changes in the nature of the principal activities occurred during the financial year:

- The economic entity entered into a Letter of Intent with Ridgelake Energy Inc of Louisiana in order to earn up to a 30% interest in five Gulf of Mexico Federal Offshore Leases held by Ridgelake;
- The economic entity embarked on a major change of direction with a commitment to participate in exploration activity in five (5) blocks in the low risk mature Gulf of Mexico Federal Offshore Waters.

There were no other significant changes in the nature of the economic entity's principal activities during the financial year.

Operating Results

The consolidated net (loss) /profit after income tax \$(8,812,075) (2005= Profit \$363,069).

On the 9th February 2007 well OCS-G 27089#1 in offshore lease South Marsh Island Block 138 ("SMI 138") in the Gulf of Mexico Outer Continental Shelf waters was plugged and abandoned. The impairment loss of \$6,088,719 was brought into account at period end 31st December 2006.

In compliance with auditing standards the company's interest in the Seram (Non-Bula) Block PSC joint venture was written down by \$1,985,559.

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

Review of Operations

Seram (Non-Bula) PSC

During the period under review crude oil production from the Seram (Non-Bula) Block PCS was 949,522 barrels. On November 2nd 2006, a load out of 361,101 net barrels of HSFO (High Sulphur Fuel Oil) was completed. A Naphtha lifting of 61,558 barrels was completed on October 22nd 2006.

Gulf of Mexico

Drilling commenced on the company's highly prospective South Marsh Island Block 138 in the Gulf of Mexico with the spudding of well OCS-G 27089#1 at 05:30 hours CST on 6th January 2007.

Financial Position

The net assets of the economic entity have increased by \$2,810,682 from 30 June 2006 to \$11,988,165 by 31

Lion Energy Limited ABN 51 000 753 640 and Controlled Entities

DIRECTORS' REPORT

December 2006. This increase has largely resulted from the following factors:

- Proceeds received from a rights issue raising \$10,661,435 and
- During October 2006 the company sold the 4,365,965 Entek Energy Ltd shares it held with sale proceeds of \$894,892 net of brokerage.
- During October 2006 the company sold the 4,209,000 GulfX Ltd shares it held with sale proceeds of \$605,640 net of brokerage.

The directors believe the group is in a strong and stable financial position to expand and grow its current operations.

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the parent entity occurred during the half-year:

- (i) On 19th September 2006 the holding company made a non-renounceable pro-rata offer of fully paid ordinary shares to existing shareholders. The issue was fully underwritten by Intersuisse Limited. The non-renounceable pro-rata offer was made on the basis of one fully paid ordinary share in the capital of the Company ("Share") for every one share held by shareholders on the record date of the 19th September 2006 at an issue price of \$0.0035 (0.35 cents) per share. The rights issue expanded the Company's issued share capital to 6,092,248,712 shares.
- (ii) After the rights issue, the company sought shareholder approval to consolidate its share capital on a 1 for 100 basis to reduce the number of shares on issue. On 20th November 2006, Lion Energy Limited Shareholders approved a capital consolidation on a 1 for 100 basis reducing the share capital of the company to 60,922,354 shares.
- (iii) On the 6th December 2006 the company issued 4,000,000 Options to Russell Brimage (Director) 4,000,000 options to Paul Garner (Director) and 1,000,000 options to RidgeLake Energy Inc. All 9,000,000 options were issued at no cost, with an exercise price of \$0.35 each and an expiry date of 31st August 2011. The option issue had been approved at the Annual General Meeting of the Company held on 20 November 2006.

Changes in controlled entities and divisions:

- (i) During the half-year the parent company established 100% owned subsidiaries in the USA by the name of Lion Energy Limited USA Inc and Lion Energy Limited LLC.
- (ii) Citic Seram agreed to grant to Lion Petroleum Seram Limited (LPSL) a Put Option, pursuant to which LPSL has the right (but not the obligation) to sell to, and require Citic Seram to acquire the LPSL Participating Interest from LPSL for a consideration of US\$4,774,510 subject to adjustment.

After Balance Sheet Date Events

The prospectus of Lion Energy Limited to issue 20,000,000 Options at an issue price of \$0.05 each with an exercise price of \$0.35 each expiring on the 31st August 2011 to raise up to \$1 million was closed on the 16th January 2007.

On the 9th February 2007 well OCS-G 27089#1 in offshore lease South Marsh Island Block 138 ("SMI 138") in the Gulf of Mexico Outer Continental Shelf waters was plugged and abandoned. A total of AUD\$6,088,719 was written off as a result of this plug and abandonment of the well.

No other matters or circumstances have arisen since 31st December 2006 which significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state affairs of the economic entity in subsequent financial years.

Lion Energy Limited ABN 51 000 753 640 and Controlled Entities

Auditor's Independence Declaration

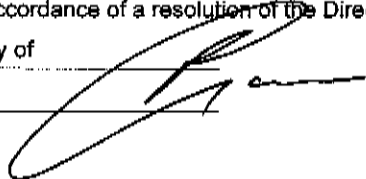
A copy of the Auditor's Independence Declaration as required Under Section 307C of the Corporations Act is set out on page 15

The report is made in accordance of a resolution of the Directors.

DATED at Perth this day of

28th February 2007

Paul Charles Garner
Director

A handwritten signature in black ink, appearing to read 'Paul Charles Garner', is written over a horizontal line. The signature is stylized and cursive.

Lion Energy Limited ABN 51 000 753 640 and Controlled Entities

CONDENSED CONSOLIDATED INCOME STATEMENT FOR HALF-YEAR ENDED
31 DECEMBER 2006

	Note	Consolidated	
		DECEMBER 2006	DECEMBER 2005
		\$	\$
CONTINUING OPERATIONS			
Revenue	2	1,127,617	1,718,453
Cost of Sales		(454,458)	(303,545)
GROSS PROFIT		673,159	1,414,908
Other Income	2	341,947	5,635,236
Other expenses	3	(9,823,887)	(7,012,884)
Profit before income tax		(8,808,791)	37,260
Income tax expense		(3,284)	-
Profit from continuing operations		(8,812,075)	37,260
DISCONTINUED OPERATIONS			
Other income		-	3,226,999
Other expense		-	2,901,190
Profit/(loss) from discontinued operations		-	325,809
Income tax expense		-	-
PROFIT/(LOSS) FROM DISCONTINUING OPERATIONS AFTER INCOME TAX			325,809
NET PROFIT/ (LOSS) ATTRIBUTABLE TO MEMBERS OF THE PARENT		(8,812,075)	363,069
Basic earnings/(loss) per share (cents per share)		(20,55)	1,59

The accompanying notes form part of these financial statements.

Lion Energy Limited ABN 51 000 753 640 and Controlled Entities

CONDENSED CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2006

	Note	Consolidated	
		DECEMBER 2006	JUNE 2006
		\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	8,526,139	4,833,288
Trade and other receivables		1,359,683	3,477,887
Inventories		838,820	799,421
Financial assets		—	567,445
TOTAL CURRENT ASSETS		10,724,642	9,678,041
NON-CURRENT ASSETS			
Plant and equipment		326,192	35,116
Capitalised exploration expenditure		3,442,441	1,714,466
Other financial assets		102,406	—
TOTAL NON-CURRENT ASSETS		3,871,039	1,749,582
TOTAL ASSETS		14,595,681	11,427,623
CURRENT LIABILITIES			
Trade and other payables		2,353,710	2,114,951
Other financial liabilities		250,505	—
Provisions		3,300	36,564
TOTAL CURRENT LIABILITIES		2,607,515	2,151,515
NON-CURRENT LIABILITIES			
Provisions		—	98,625
TOTAL NON-CURRENT LIABILITIES		—	98,625
TOTAL LIABILITIES		2,607,515	2,250,140
NET ASSETS		11,988,166	9,177,483
EQUITY			
Issued capital	5	49,686,804	39,441,625
Reserves		1,311,416	(66,164)
Accumulated losses		(39,010,054)	(30,197,978)
TOTAL EQUITY		11,988,166	9,177,483

The accompanying notes form part of these financial statements.

Lion Energy Limited ABN 51 000 753 640 and Controlled Entities

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR HALF-YEAR ENDED
31 DECEMBER 2006**

	Note	Issued Capital	Foreign Currency Translation	Accumulated Losses	Option Reserve	Total Equity
		\$	\$	\$	\$	\$
Balance at 1 July 2005		37,288,352	(717,581)	(32,342,035)	—	4,228,736
Adjustments from translation of foreign controlled entities		—	698,906	—	—	698,906
Profit/(Loss) for period		—	—	363,069	—	363,069
		<u>37,288,352</u>	<u>(18,675)</u>	<u>(31,978,966)</u>	<u>—</u>	<u>5,290,771</u>
Shares issued during the half-year		843,301	—	—	—	843,301
Transaction costs		(94,664)	—	—	—	(94,664)
Shares bought back during the half- year.		(97,314)	—	—	—	(97,314)
Balance at 31 December 2005		<u>37,939,675</u>	<u>(18,675)</u>	<u>(31,978,966)</u>	<u>—</u>	<u>5,942,034</u>
Balance at 1 July 2006		39,441,625	(66,164)	(30,197,978)	—	9,177,483
Adjustments from translation of foreign controlled entities		—	927,580	—	—	927,580
Profit/(Loss) for period		—	—	(8,812,075)	—	(8,812,075)
		<u>39,441,625</u>	<u>861,416</u>	<u>(39,010,053)</u>	<u>—</u>	<u>1,292,988</u>
Shares issued during the half-year		10,661,435	—	—	—	10,661,435
Capital raising costs		(416,256)	—	—	—	(416,256)
Options issued during the half-year		—	—	—	450,000	450,000
Balance at 31 December 2006		<u>49,686,804</u>	<u>861,416</u>	<u>(39,010,053)</u>	<u>450,000</u>	<u>11,988,167</u>

The accompanying notes form part of these financial statements.

Lion Energy Limited ABN 51 000 753 640 and Controlled Entities

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR HALF-YEAR ENDED 31
DECEMBER 2006**

	Note	Consolidated	
		DECEMBER 2006 \$	DECEMBER 2005 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		2,789,720	3,234,991
Payments to suppliers and employees		(1,533,622)	(3,571,676)
Interest received		164,849	27,670
Finance costs		—	(78,258)
Other		—	1,584,461
Net cash provided by operating activities		<u>1,420,947</u>	<u>1,197,188</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investments		1,300,532	123,345
Exploration expenditure		(8,951,933)	(1,859,548)
Purchase of property, plant and equipment		(321,874)	—
Proceeds from disposal of Bula		—	3,425,346
Net cash provided by (used in) operating activities		<u>(7,973,275)</u>	<u>1,689,143</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		10,661,435	843,301
Share buy-back payment		—	(97,314)
Share issue costs		(416,256)	(94,664)
Net cash provided by (used in) financing activities		<u>10,245,179</u>	<u>651,323</u>
Net increase in cash and cash equivalents.		3,692,851	3,537,654
Cash and cash equivalents at beginning of period		4,833,288	448,115
Cash and cash equivalent at end of period	4	<u>8,526,139</u>	<u>3,985,769</u>

The accompanying notes form part of these financial statements.

Lion Energy Limited ABN 51 000 753 640 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The half year consolidated financial report covers the economic entity Lion Energy Limited and controlled entities. Lion Energy Limited is a listed public company, incorporated and domiciled in Australia.

The half year consolidated financial report of Lion Energy Limited and controlled entities, complies with all Australian equivalents to International Financial Reporting Standards (IFRS) in their entirety. The half-year consolidated 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 2006. 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 2006 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

Basis of Preparation

Reporting Basis and Conventions

The financial report has been prepared on an accrual basis and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Lion Energy Limited ABN 51 000 753 640 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

Note	Consolidated	
Note 2: Revenue	DECEMBER 2006	DECEMBER 2005
	\$	\$
Operating activities		
— sale of oil	1,127,617	1,718,453
	1,127,617	1,718,453
Other income		
— interest received	201,152	27,670
— disposal of Bula	—	5,220,201
— other	140,785	387,365
	1,469,554	5,635,236
Total Revenue		

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

Note	Consolidated	
Note 3: Profit from Ordinary Activities	DECEMBER 2006	DECEMBER 2005
	\$	\$
(a) Expenses		
Depreciation	29,705	104,900
Foreign exchange gains/(losses)	247,383	(59,679)
Exploration expenditure	183,412	101,162
Write-down of joint venture interest	1,985,559	4,621,938
Other administration expenses	889,109	2,244,563
Impairment of capitalised exploration costs	6,088,719	—
Share based payments	400,000	—
	9,823,887	7,012,884

Lion Energy Limited ABN 51 000 763 640 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

Note	Consolidated	
Note 4: Cash Assets	DECEMBER 2006	JUNE 2006
	\$	\$
For the purposes of Condensed Cash Flow Statement, cash and cash equivalents comprise.		
Cash at bank and in hand	2,190,823	4,833,288
Short-term bank deposits	6,335,316	—
	8,526,139	4,833,288

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

Note 5: Issued Capital	Consolidated	
	DECEMBER 2006	JUNE 2006
	\$	\$
60,922,354 (30 June 2006: 3,046,124,356) fully paid ordinary shares	49,686,804	39,441,625
	49,686,804	39,441,625

(a) Ordinary Shares	No.	No.
At the beginning of reporting period	3,046,124,356	2,586,124,356
Shares issued during the year		
<i>14-March-2006</i>		400,000,000
<i>10-May-2006</i>		35,000,000
<i>19-May-2006</i>		25,000,000
<i>19-September-2006</i>	3,046,124,356	
Capital consolidation during the period	(6,031,326,358)	
<i>20-September-2006 (1 for 100 basis)</i>		
At reporting date	60,922,354	3,046,124,356

Lion Energy Limited ABN 51 000 753 640 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

Note 6: Segment Reporting

Primary Reporting — Business Segments

Secondary Reporting — Geographical Segments

Accounting Policies

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings. Segment assets and liabilities do not include deferred income taxes.

Business and Geographical Segments

Business segments

The economic entity has the following two business segments:

- Exploration division is involved in the exploration of oil and gas.
- Production division is involved in the production of oil which is then sold by the Joint Venture Operator on the Singapore spot market.

Geographical segments

The economic entity's exploration segments is located in the USA with the production division has operations in Indonesia.

Impairment Losses

An impairment loss amounting to \$6,088,719 relating to drilling an unsuccessful well within the exploration segment was recognised as an expense for the half-year ended 31-December-2006. The expenses related to the USA geographical segment.

Note 7: Contingent Liabilities

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

Note 8: Events After the Balance Sheet Date

- (a) The prospectus for Lion Energy Limited to issue 20,000,000 Options at an issue price of \$0.05 each with an exercise price of \$0.35 each expiring on the 31st August 2011 to raise up to \$1 million was closed on the January 2007.

On the 9th February 2007 well OCS-G 27089#1 in offshore lease South Marsh Island Block 138 ("SMI 138") in the Gulf of Mexico Outer Continental Shelf waters was plugged and abandoned. The impairment loss of \$6,088,719 as mentioned above was brought into account at period end.

Lion Energy Limited ABN 51 000 753 640 and Controlled Entities

DIRECTORS' DECLARATION

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 6 to 13, 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 **31 December 2006** and of the performance for the half-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 half-year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the financial half-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.

Director

.....
Paul Charles Garner

Dated this 28th day of February 2007

Stantons International

ABN 41 103 088 697

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WEST PERTH WA 6005, AUSTRALIA
PH: 61 8 9481 3188 • FAX: 61 8 9321 1204
www.stantons.com.au

28 February 2007

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

Dear Sirs

RE: LION ENERGY LIMITED

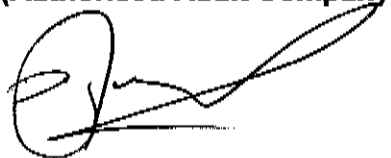
In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Lion Energy Limited.

As Audit Director for the review of the financial statements of Lion Energy Limited for the period ended 31 December 2006, 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

STANTONS INTERNATIONAL
(Authorised Audit Company)



Keith Lingard
Director

Stantons International

ABN 41 103 088 697

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WEST PERTH WA 6005, AUSTRALIA
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INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF LION ENERGY LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Lion Energy Limited, which comprises the condensed balance sheet as at 31 December 2006, 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, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company 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 designing, implementing and maintaining internal controls 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 Engagements 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 Company's financial position as at 31 December 2006 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 have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, has been provided to the directors of Lion Energy Limited on 28 February 2007.

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 the Company's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

STANTONS INTERNATIONAL

A handwritten signature in black ink, appearing to read 'K Lingard', with a large, stylized flourish at the end.

K Lingard
Director

West Perth, Western Australia
28 February 2007