



LION
ENERGY LIMITED

ABN 51 000 753 640

**Consolidated Financial Report for the Half-Year
to 31 December 2008**



LION ENERGY LIMITED
CORPORATE DIRECTORY

DIRECTORS: Jian Wu (Chairman)
Russell Brimage
Weidong Zhang

COMPANY SECRETARY: Jack Hugh Toby FCA AACS

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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 2008. The Company is a listed public company limited by shares, incorporated and domiciled in Australia.

DIRECTORS

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

Jian Wu (Chairman)
Russell Brimage
Weidong Zhang

OPERATING RESULTS

The operating profit for the Consolidated Entity, after income tax amounted to \$1,641,606.

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

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

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



DIRECTORS' REPORT

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

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

On 9 December 2008, the Company announced that it had received notice of a claim from the solicitors for Tulloch Lodge Limited (In Liquidation) demanding payment of an amount of \$1,481,244.00 plus interest of \$398,855.99 alleged to be due under a loan agreement entered into in January 2003. The company is confident that the claim is without foundation, and has instructed its solicitors to provide urgent advice in relation to the matter.

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 2008. 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

26 February 2009
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 2008 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

26 February 2009
Perth, Western Australia



**INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

	Note	2008 \$	2007 \$
Sales Revenue	2	1,870,051	1,582,418
Cost of sales		(1,457,523)	(325,417)
GROSS PROFIT		412,528	1,257,001
Other revenue	2	213,268	193,940
Other income	2	4,370,073	—
Other expenses	2	(3,354,263)	(2,985,234)
PROFIT/(LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAX		1,641,606	(1,534,293)
Income tax		—	—
PROFIT/(LOSS) FROM CONTINUING OPERATIONS AFTER INCOME TAX		1,641,606	(1,534,293)
NET PROFIT/(LOSS) ATTRIBUTABLE TO MEMBERS		1,641,606	(1,534,293)
BASIC EARNINGS/(LOSS) PER SHARE (CENTS PER SHARE)		1.95	(2.52)
DILUTED EARNINGS/(LOSS) PER SHARE (CENTS PER SHARE)		1.95	(2.52)

The accompanying notes form part of this financial report



**BALANCE SHEET
AS AT 31 DECEMBER 2008**

	Note	31 December 2008 \$	30 June 2008 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		7,968,418	7,243,285
Trade and other receivables	3	467,086	10,202
Inventories		887,109	1,340,216
TOTAL CURRENT ASSETS		9,322,613	8,593,703
NON-CURRENT ASSETS			
Plant and equipment		193,746	222,703
Trade and other receivables	4	1,181,067	1,008,901
Capitalised exploration expenditure		2,847,105	1,356,550
Other financial assets		3,000,000	2,971,047
TOTAL NON-CURRENT ASSETS		7,221,918	5,559,201
TOTAL ASSETS		16,544,531	14,152,904
CURRENT LIABILITIES			
Trade and other payables		1,836,247	3,060,156
TOTAL CURRENT LIABILITIES		1,836,247	3,060,156
NON-CURRENT LIABILITIES			
Trade and other payables		527,556	—
TOTAL NON-CURRENT LIABILITIES		527,556	—
TOTAL LIABILITIES		2,363,803	3,060,156
NET ASSETS		14,180,728	11,092,748
EQUITY			
Issued capital	5	51,691,088	49,686,804
Reserves	6	3,537,842	4,095,752
Accumulated losses		(41,048,202)	(42,689,808)
TOTAL EQUITY		14,180,728	11,092,748

The accompanying notes form part of this financial report



**CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

	Note	2008 \$	2007 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		1,870,051	1,672,464
Payments to suppliers & employees		(603,666)	(1,451,084)
Interest received		88,084	103,894
Other income		125,184	—
NET CASH FROM/(USED IN) OPERATING ACTIVITIES		1,479,653	325,274
CASH FLOWS FROM INVESTING ACTIVITIES			
Exploration expenditure		(2,775,678)	(694,183)
Purchase of property, plant and equipment		(4,453)	(3,467)
Proceeds from sale of property, plant and equipment		—	2,408
Loans to other entities		(452,171)	—
NET CASH FROM/(USED IN) INVESTING ACTIVITIES		(3,232,302)	(695,242)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from equity issues		2,014,284	—
Share issue costs		(10,000)	—
Repayment of borrowings		(1,852,029)	—
NET CASH FROM/(USED IN) FINANCING ACTIVITIES		152,255	—
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(1,600,394)	(369,968)
Net foreign exchange differences		2,325,527	(166,925)
Cash and cash equivalents at beginning of period		7,243,285	8,741,155
CASH AND CASH EQUIVALENTS AT END OF PERIOD	7	7,968,418	8,204,262

The accompanying notes form part of this financial report



**STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

<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
<u>Attributable to Members of the Company</u>	Issued Capital \$	Option Premium Reserve \$	Currency Translation Reserve \$	Accumulated Losses \$	Total Equity \$
<i>At 1 July 2008</i>	49,686,804	1,550,000	2,545,752	(42,689,808)	11,092,748
Currency translation differences	—	—	(557,910)	—	(557,910)
Profit for period	—	—	—	1,641,606	1,641,606
TOTAL PROFIT FOR THE PERIOD	—	—	(557,910)	1,641,606	1,083,696
Securities issued	2,014,284	—	—	—	2,014,284
Capital raising costs	(10,000)	—	—	—	(10,000)
At 31 DECEMBER 2008	51,691,088	1,550,000	1,987,842	(41,048,202)	14,180,728

The accompanying notes form part of this financial report



NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

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 2008. 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 2008 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 2008.

The half-year financial report has been prepared on an accrual and 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.

At the date of authorisation of the financial report, the following Standards and Interpretations were in issue but not yet effective. Implementation of these Standards and Interpretations are not expected to have any effect on the financial statements or the performance of the Group:

AASB 8 – Operating Segments, effective from 31 December 2009

AASB 101 – Presentation of Financial Statements, effective from 31 December 2009

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 2008.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

	Half-Year to 31 December 2008 \$	Half-Year to 31 December 2007 \$
NOTE 2. REVENUE, INCOME AND EXPENSES		
<i>The profit/(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	1,870,051	1,582,418
Interest received	88,084	103,894
Rental income	125,184	90,046
	<u>2,083,319</u>	<u>1,776,358</u>
OTHER INCOME		
Foreign exchange gains	4,370,073	—
	<u>4,370,073</u>	<u>—</u>
CHARGING AS EXPENSES		
Impairment of capitalised exploration costs	319,874	1,465,984
Impairment of investment	1,013,921	—
Foreign exchange loss	—	554,973
Indonesian First Tranche Petroleum royalty	474,171	—
Evaluation of new projects	454,074	—
Impairment of receivables	340,555	—
Other	751,668	964,277
	<u>3,354,263</u>	<u>2,985,234</u>
	Half-Year to 31 December 2008 \$	Year to 30 June 2008 \$
NOTE 3. TRADE AND OTHER RECEIVABLES (CURRENT)		
Receivables due from other parties	452,171	—
GST receivables due	14,915	10,202
	<u>467,086</u>	<u>10,202</u>
NOTE 4. TRADE AND OTHER RECEIVABLES (NON-CURRENT)		
Joint Venture receivables	1,078,661	906,495
Deposits	102,406	102,406
	<u>1,181,067</u>	<u>1,008,901</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

	Half-Year to 31 December 2008 \$	Year to 30 June 2008 \$
NOTE 5. ISSUED CAPITAL		
ORDINARY SHARES		
94,493,754 (30 June 2008: 60,922,354) fully paid ordinary shares	51,691,088	49,686,804
	<u>51,691,088</u>	<u>49,686,804</u>
MOVEMENTS IN ORDINARY SHARES		
At the beginning of the period	49,686,804	49,686,804
33,571,400 shares issued on 27 August 2008	2,014,284	—
Capital raising costs	(10,000)	—
	<u>51,691,088</u>	<u>49,686,804</u>
NOTE 6. RESERVES		
Option premium reserve	1,550,000	1,550,000
Currency translation reserve	1,987,842	2,545,752
	<u>3,537,842</u>	<u>4,095,752</u>
MOVEMENTS IN CURRENCY TRANSLATION RESERVE		
At the beginning of the period	2,545,752	1,418,832
Consolidation adjustment for the half-year	(557,910)	1,126,920
	<u>1,987,842</u>	<u>2,545,752</u>
NOTE 7. RECONCILIATION OF CASH AND CASH EQUIVALENTS		
For the purposes of the Condensed Cash Flow Statement, cash and cash equivalents comprise cash at bank.		
NOTE 8. SEGMENT INFORMATION		
PRIMARY REPORTING BUSINESS SEGMENTS		
During the half-year ended 31 December 2008 and also during the half-year ended 31 December 2007, the Consolidated Entity operated entirely in the oil and gas industry.		



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

SECONDARY REPORTING GEOGRAPHICAL SEGMENTS

	External Revenue \$	Inter-Segment Revenue \$	Total Revenue \$	Segment Profit/(Loss) \$
HALF-YEAR TO 31 DECEMBER 2008				
South East Asia/Australasia	2,083,319	—	2,083,319	1,643,851
North America	—	—	—	(2,245)
TOTAL	2,083,319	—	2,083,319	1,641,606

	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)

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.

NOTE 9. CONTINGENT LIABILITIES

The Company has received a notice of a claim from the solicitors for Tulloch Lodge Limited (In Liquidation) demanding payment of an amount of \$1,481,244.00 plus interest of \$398,855.99 alleged to be due under a loan agreement entered into in January 2003. The company is confident that the claim is without foundation, and has instructed its solicitors to provide urgent advice in relation to the matter. There has been no other significant change in contingent liabilities since the last annual reporting date.

NOTE 10. RELATED PARTY TRANSACTIONS

At 30 June 2008, Lion International Investment Limited, a wholly owned controlled entity of the Company owed \$2,100,000 to Mr Wu, a director of the Company and also a director of Lion International Investment Limited. The loan is unsecured and interest free. During the financial half-year an amount of \$ 1,852,029 was repaid to Mr Wu, leaving \$247,971 owing at 31 December 2008. The remaining balance of \$247,971 was repaid to Mr Wu subsequent to the end of the financial half-year.

NOTE 11. 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**

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Lion Energy Limited, which comprises the consolidated interim balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during that half-year.

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 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 consolidated 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 and Other Financial Reports 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 2008 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.

Grant Thornton (WA) Partnership ABN 17 735 344 518, a subsidiary or related entity of Grant Thornton Australia Limited ABN 41 127 556 389.

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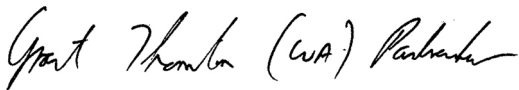
Independence

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

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:

- 1 giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- 2 complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.



GRANT THORNTON (WA) PARTNERSHIP
Chartered Accountants




MJ Hillgrove
Partner

Perth, 26 February 2009.

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

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 2008, I declare that, to the best of my knowledge and belief, there have been:

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



GRANT THORNTON (WA) PARTNERSHIP
Chartered Accountants



MJ Hillgrove
Partner

Perth, 26 February 2009.

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