

LION ENERGY LIMITED

ABN 51 000 753 640

NOTICE OF ANNUAL GENERAL MEETING

PROXY FORM

AND

EXPLANATORY MEMORANDUM

DATE OF MEETING

20 November 2006

TIME OF MEETING

10.30 am WST

PLACE OF MEETING

45 Ventnor Avenue
West Perth Western Australia

This Notice of Annual General Meeting and Explanatory Memorandum should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser without delay.

LION ENERGY LIMITED
ABN 51 000 753 640

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Annual General Meeting of Lion Energy Limited (“**Company**”) will be held at the offices of the Company, 45 Ventnor Avenue, West Perth, Western Australia on Monday, 20 November 2006 commencing at 10.30 am WST.

An Explanatory Memorandum containing information in relation to the following Resolutions accompanies this Notice of Meeting.

Please note terms used in the Resolutions contained in this Notice of Meeting have the same meaning as set out in the glossary of the Explanatory Memorandum accompanying this Notice.

AGENDA

ORDINARY BUSINESS

Financial Report for the Period Ended 30 June 2006

To receive and consider the financial report of the Company, the Directors’ Report and the Auditor’s Report for the period ended 30 June 2006.

Resolution 1 – Adoption of Remuneration Report

To consider, and if thought fit, to pass the following resolution as an **ordinary resolution**:

"That shareholders adopt the Remuneration Report for the financial year ended 30 June 2006 set out in the Company's financial report for the same financial year."

Note: The vote on this resolution is advisory only and does not bind the Directors.

Resolution 2 – Election of Mr Martin Bennett as a Director

To consider and, if thought fit, pass the following resolution as an **ordinary resolution**:

"That Mr Martin Bennett, having been appointed by the Board as an additional Director on 21 December 2005 and being eligible for re-election, be elected a Director."

Resolution 3 – Election of Mr Jian Wu as a Director

To consider and, if thought fit, pass the following resolution as an **ordinary resolution**:

"That Mr Jian Wu, having been appointed by the Board as an additional Director on 3 October 2006 and being eligible for re-election, be elected a Director."

Resolution 4 – Re-Election of Mr Paul Garner as a Director

To consider and, if thought fit, pass the following resolution as an **ordinary resolution**:

"That Paul Garner, who retires by rotation in accordance with Rule 13.2 of the Company's constitution and who offers himself for re-election, be re-elected a Director."

SPECIAL BUSINESS

Resolution 5 – Ratification of Previous Issues of Shares

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purpose of Listing Rule 7.4 and for all other purposes, the Company ratifies the allotment and issue of 337,320,568 fully paid ordinary shares in the capital of the Company at an issue price of \$0.0025 per Share, to the parties and on the terms set out in the Explanatory Memorandum accompanying this Notice of Meeting."

The Company will disregard any votes cast on this Resolution 5 by persons who participated in the issue and any associates of those persons. However, the Company need not disregard a vote if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 6 – Ratification of Previous Issues of Shares

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purpose of Listing Rule 7.4 and for all other purposes, the Company ratifies the allotment and issue of 35,000,000 fully paid ordinary shares in the capital of the Company at an issue price of \$0.0034 per Share, to the parties and on the terms set out in the Explanatory Memorandum accompanying this Notice of Meeting."

The Company will disregard any votes cast on this Resolution 6 by persons who participated in the issue and any associates of those persons. However, the Company need not disregard a vote if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 7 – Ratification of Previous Issue of Shares

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purpose of Listing Rule 7.4 and for all other purposes, the Company ratifies the allotment and issue of 25,000,000 fully paid ordinary shares in the capital of the Company at an issue price of \$0.0034 per Share, to the parties and on the terms set out in the Explanatory Memorandum accompanying this Notice of Meeting."

The Company will disregard any votes cast on this Resolution 7 by persons who participated in the issue and any associates of those persons. However, the Company need not disregard a vote if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 8 – Consolidation of Capital

To consider, and if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purpose of Section 254H of the Corporations Act and the Company's Constitution and for all other purposes, with effect from the day following the date this Resolution is passed:

- (a) the then issued capital of the Company be consolidated on the basis that every 100 fully paid ordinary shares in the capital of the Company be consolidated into one fully paid ordinary share; and*
- (b) where the number of shares held by a member of the Company as a result of the consolidation effected by paragraph (a) of this Resolution includes any fraction of a share, that fraction be cancelled and extinguished."*

Resolution 9 – Grant of Options

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, subject to the passing of Resolution 8 and the consolidation of fully paid ordinary shares the subject of Resolution 8 taking effect, for the purpose of Listing Rule 7.1 and for all other purposes, approval is given for the Company to grant up to 20,000,000 Options (on a post consolidation basis) at an issue price of 5 cents each, each Option having an exercise price of \$0.35 and an expiry date of 31 August 2011, on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice of Meeting."

The Company will disregard any votes cast on this Resolution 9 by a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary

securities, if the resolution is passed, or any associate of those persons. However, the Company need not disregard a vote if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 10 – Issue of Shares

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, subject to the passing of Resolution 8 and the consolidation of fully paid ordinary shares the subject of Resolution 8 taking effect, for the purpose of Listing Rule 7.1 and for all other purposes, approval is given for the Company to allot and issue up to 20,000,000 fully paid ordinary shares in the capital of the Company (on a post consolidation basis) at an issue price of \$0.35 per Share, on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice of Meeting."

The Company will disregard any votes cast on this Resolution 10 by a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed, or any associate of those persons. However, the Company need not disregard a vote if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 11 – Grant of Director Options to Paul Garner

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, subject to the passing of Resolution 8 and the consolidation of fully paid ordinary shares the subject of Resolution 8 taking effect, for the purpose of section 208 of the Corporations Act and Listing Rule 10.11 and for all other purposes, the Company approve and authorise the grant of up to 4,000,000 Director Options (on a post consolidation basis) for no consideration to Mr Paul Garner, or his nominee, each Director Option having an exercise price of \$0.35 and an expiry date of 31 August 2011, on the terms set out in the Explanatory Memorandum accompanying this Notice of Meeting."

The Company will in accordance with section 224 of the Corporations Act disregard any votes cast on this Resolution 11 by Paul Garner or any associate of Paul Garner. However, the Company need not disregard a vote if it is cast by a person as a proxy appointed in writing that specifies how the proxy is to vote on the proposed resolution and it is not cast on behalf of Paul Garner or an associate of Paul Garner in accordance with section 224(2) of the Corporations Act.

Resolution 12 – Grant of Director Options to Russell Brimage

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, subject to the passing of Resolution 8 and the consolidation of fully paid ordinary shares the subject of Resolution 8 taking effect, for the purpose of section 208 of the Corporations Act and Listing Rule 10.11 and for all other purposes, the Company approve and authorise the grant of up to 4,000,000 Director Options (on a post consolidation basis) for no consideration to Mr Russell Brimage, or his nominee, each Director Option having an exercise price of \$0.35 and an expiry date of 31 August 2011, on the terms set out in the Explanatory Memorandum accompanying this Notice of Meeting."

The Company will in accordance with section 224 of the Corporations Act disregard any votes cast on this Resolution 12 by Russell Brimage or any associate of Russell Brimage. However, the Company need not disregard a vote if it is cast by a person as a proxy appointed in writing that specifies how the proxy is to vote on the proposed resolution and it is not cast on behalf of Russell Brimage or an associate of Russell Brimage in accordance with section 224(2) of the Corporations Act.

Resolution 13 – Employee Share Option Plan

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purpose of Listing Rule 7.2, Exception 9 of the Listing Rules and for all other purposes, the Company approve the issue of securities under the employee incentive option scheme for employees and directors known as "Lion Energy Limited Employee Share Option Plan", the rules of which are annexed as Annexure B to the Explanatory Memorandum accompanying this Notice of Meeting, as an exception to Listing Rule 7.1."

The Company will disregard any votes cast on this Resolution 13 by a director of the Company and any associates of those persons. However, the Company need not disregard a vote if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 14 – Grant of Ridgelake Options

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, subject to the passing of Resolution 8 and the consolidation of fully paid ordinary shares the subject of Resolution 8 taking effect, for the purpose of Listing Rule 7.1 and for all other purposes, approval is given for the Company to grant 1,000,000 Ridgelake Options (on a post consolidation basis) for no consideration to

Ridgelake Energy, Inc., or nominee, each Ridgelake Option either:

- (1) having an exercise price of \$0.387 and an expiry date of 31 December 2008, on the terms set out in the Explanatory Memorandum accompanying this Notice of Meeting; or*
- (2) having an exercise price of \$0.35 and an expiry date of 31 August 2011, on the terms set out in the Explanatory Memorandum accompanying this Notice of Meeting."*

The Company will disregard any votes cast on this Resolution 14 by a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed, or any associate of those persons. However, the Company need not disregard a vote if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 15 – Grant of Options to Zhong Wang

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, subject to the passing of Resolution 8 and the consolidation of fully paid ordinary shares the subject of Resolution 8 taking effect, for the purpose of Listing Rule 7.1 and for all other purposes, approval is given for the Company to grant 1,000,000 Options (on a post consolidation basis) for no consideration to Mr Zhong Wang, or his nominee, each Option having an exercise price of \$0.35 and an expiry date of 31 August 2011, on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice of Meeting."

The Company will disregard any votes cast on this Resolution 15 by a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed, or any associate of those persons. However, the Company need not disregard a vote if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 16 – Grant of Options to Weidong Zhang

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, subject to the passing of Resolution 8 and the consolidation of fully paid ordinary shares the subject of Resolution 8 taking effect, for the purpose of Listing Rule 7.1 and for all other purposes, approval is given for the Company to grant

1,000,000 Options (on a post consolidation basis) for no consideration to Mr Weidong Zhang, or his nominee, each Option having an exercise price of \$0.35 and an expiry date of 31 August 2011, on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice of Meeting."

The Company will disregard any votes cast on this Resolution 16 by a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed, or any associate of those persons. However, the Company need not disregard a vote if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

By Order of the Board of Directors

Jack Toby
Company Secretary
Lion Energy Limited

12 October 2006

PROXIES

- Votes at the Annual General Meeting may be given personally or by proxy, attorney or representative.
- A Shareholder entitled to attend and vote at the above meeting may appoint not more than two proxies to attend and vote at this meeting. Where more than one proxy is appointed, each proxy must be appointed to represent a specified proportion of the Shareholder's voting rights.
- A proxy may but need not be a Shareholder of the Company.
- The instrument appointing the proxy must be in writing, executed by the appointor or his attorney duly authorised in writing or, if such appointor is a corporation, either under seal or under hand of an officer of his attorney duly authorised.
- The instrument of proxy (and the power of attorney or other authority, if any, under which it is signed) must be lodged by person, post, courier or facsimile and reach the Registered Office of the Company at least 48 hours prior to the meeting. For the convenience of Shareholders a Proxy Form is enclosed.

To vote by proxy, please complete and sign the proxy form enclosed and send the proxy form:

- send the proxy form by post to Lion Energy Limited, Ground Floor, 45 Ventnor Avenue, West Perth, Western Australia 6005; or
- send the proxy form by facsimile to the Company on facsimile number (08) 9389 4462,
- deliver the proxy form to the Company's Share Registry, Computershare Investor Services Pty Ltd, Level 2 Reserve Bank Building, 45 St Georges Terrace, Perth, Western Australia on facsimile number (08) 9323 2033 (International: + 61 8 9323 2033).

so that it is received not later than 10:30am (WST) on 18 November 2006.

Proxy forms received later than this time will be invalid.

ENTITLEMENT TO VOTE

For the purposes of section 1074E(2) of the Corporations Act 2001 and regulation 7.11.37 of the Corporations Regulations 2001, the Company determines that members holding ordinary shares at 5.00 pm WST on 18 November 2006 will be entitled to attend and vote at the Annual General Meeting.

CORPORATIONS

A corporation may elect to appoint a representative in accordance with the Corporations Act in which case the Company will require written proof of the representative's appointment which must be lodged with, or presented to the Company before the meeting.

LION ENERGY LIMITED
ABN 51 000 753 640

EXPLANATORY MEMORANDUM

This Explanatory Memorandum has been prepared for the Shareholders of Lion Energy Limited ("**Company**") in connection with the business to be conducted at an Annual General Meeting of the Company to be held at the offices of the Company, 45 Ventnor Avenue, West Perth, Western Australia on Monday, 20 November 2006 commencing at 10.30 am (WST).

This Explanatory Memorandum should be read in conjunction with the accompanying Notice of Annual General Meeting.

The Directors recommend that Shareholders read this Explanatory Memorandum before determining whether or not to support the Resolutions.

FINANCIAL REPORTS

Shareholders will be given an opportunity to ask questions of the Directors and the Company's auditors in relation to the accounts of the Company at the Annual General Meeting.

Resolution 1 – Adoption of Remuneration Report

Section 298 of the Corporations Act requires that the annual Directors' Report contain a Remuneration Report prepared in accordance with section 300A of the Corporations Act.

By way of summary, the Remuneration Report:

- (a) discusses the Company's policy and the process for determining the remuneration of its executive officers and Directors;
- (b) addresses the relationship between the remuneration of the Company's executive officers and the performance of the Company; and
- (c) sets out remuneration details for each Director and each of the executive officers of the Company named in the Remuneration Report for the financial year ended 30 June 2006.

Section 250R(2) of the Corporations Act requires companies to put a resolution to their members that the Remuneration Report be adopted. Pursuant to section 250R(3), the vote on this resolution is advisory only and does not bind the Board or the Company.

A reasonable opportunity will be provided for discussion of the Remuneration Report at the meeting.

The Board unanimously recommends that shareholders vote in favour of Resolution 1.

Resolution 2 – Election of Mr Martin Bennett as a Director

Resolution 2 deals with the appointment of Mr Martin Bennett to the Board. Mr Bennett was appointed by the Directors on 21 December 2005.

Mr Bennett is a lawyer with over 28 years corporate experience.

Rule 13.5 of the Company's constitution provides that the Directors may at any time appoint a person to be a Director as an addition to the existing Directors however any Director so appointed holds office only until the next following annual general meeting and is then eligible for re-election.

Martin Bennett retires from office in accordance with this requirement and submits himself for re-election.

Resolution 3 – Election of Mr Jian Wu as a Director

Resolution 3 deals with the appointment of Mr Jian Wu to the Board. Mr Wu was appointed by the Directors on 3 October 2006. Mr Wu is the new chairman of the Board.

Mr Wu is well known for his achievements in the petro-chemical industry in China. He founded the Kunming Jianqiang Industrial Development Corporation, establishing a refinery to produce lubricants for vehicles and industrial uses. Over ten years as its chairman and general manager, the company grew to a value of US\$30 million.

He subsequently founded Guangxi Dongyou Co. Ltd., establishing an oil refinery producing petro-chemical products for Chinese markets. Within five years the company had 500 employees and grew to a value of US\$200 million.

Mr Wu has a Bachelor of Science in Construction Engineering from Hunan University. He is currently based in Vancouver and travels frequently to China and Australia.

Jian Wu retires from office in accordance with the requirement set out in Rule 13.5 of the Company's constitution (as detailed above) and submits himself for re-election.

Resolution 4 – Re-Election of Mr Paul Garner as a Director

Resolution 4 seeks approval for the re-election of Paul Garner as a Director with effect from the end of the meeting.

Rule 13.2 of the Company's constitution provides that at each annual general meeting one-third of the Directors or, if their number is not a multiple of three, then such number as is appropriate to ensure that no Director holds office for more than 3 years, shall retire from office.

Paul Garner retires from office in accordance with this requirement and submits himself for re-election.

Resolution 5 – Ratification of Previous Issues of Shares

The Company issued 337,320,568 Shares on 19 December 2005 at an issue price of \$0.0025 per Share under its 15% placement capacity and now seeks pursuant to this Resolution 5, shareholder approval to ratify, in accordance with Listing Rule 7.4, the issue of the 337,320,568 Shares.

Listing Rule 7.4

Listing Rule 7.4 permits the ratification of previous issues of securities made without prior shareholder approval, provided the issue did not breach the 15% threshold set by Listing Rule 7.1. The effect of such a ratification is to restore a company's maximum discretionary power to issue further shares up to 15% of the issued capital of the company without requiring shareholder approval.

Additional Information

The following information is provided to Shareholders for the purposes of Listing Rule 7.5:

- (a) the number of Shares allotted was 337,320,568;
- (b) the price at which the Shares were allotted was \$0.0025 each;
- (c) the Shares allotted were fully paid ordinary shares which rank equally with all other fully paid ordinary shares on issue;
- (d) the names of the allottees are:

Allottee	Shares
Equity Investment Holdings Pty Ltd	140,000,000
Arthur Henry Blaquiere	40,000,000
Ken John Bull	20,000,000
Mocter Pty Ltd	59,320,568
Diamond Pacific Pty Ltd	60,000,000
Colin & Burnice Bennett	18,000,000
TOTAL	337,320,568

None of the allottees are related parties of the Company; and

- (e) the funds raised have been applied towards the payment of cash calls and general working capital.

Resolution 6 – Ratification of Previous Issues of Shares

The Company issued 35,000,000 Shares on 10 May 2006 at an issue price of \$0.0034 per Share under its 15% placement capacity and now seeks pursuant to this Resolution 6, shareholder approval to ratify, in accordance with Listing Rule 7.4, the issue of the 35,000,000 Shares.

Listing Rule 7.4

Listing Rule 7.4 permits the ratification of previous issues of securities made without prior shareholder approval, provided the issue did not breach the 15% threshold set by Listing Rule 7.1. The effect of such a ratification is to restore a company's maximum discretionary power to issue further shares up to 15% of the issued capital of the company without requiring shareholder approval.

Additional Information

The following information is provided to Shareholders for the purposes of Listing Rule 7.5:

- (a) the number of Shares allotted was 35,000,000;
- (b) the price at which the Shares were allotted was \$0.0034 each;
- (c) the Shares allotted were fully paid ordinary shares which rank equally with all other fully paid ordinary shares on issue;
- (d) the names of the allottees are:

Allottee	Shares
Silvija Pesich Pty Ltd	3,000,000
Mainpass Holdings Pty Ltd	3,000,000
Andrew & Kimberly Moffa	2,000,000
Dr & R Patrick Super Fund	10,000,000
Gilles Holdings Pty Ltd	10,000,000
Chong Kwee Ch'ng	7,000,000
TOTAL	35,000,000

None of the allottees are related parties of the Company; and

- (e) the funds raised have been applied towards expenditure on the Company's oil and gas interests and general working capital.

Resolution 7 – Ratification of Previous Issues of Shares

The Company issued 25,000,000 Shares on 19 May 2006 at an issue price of \$0.0034 per Share under its 15% placement capacity and now seeks pursuant to this Resolution 7, shareholder approval to ratify, in accordance with Listing Rule 7.4, the issue of the 25,000,000 Shares.

Listing Rule 7.4

Listing Rule 7.4 permits the ratification of previous issues of securities made without prior shareholder approval, provided the issue did not breach the 15% threshold set by Listing Rule 7.1. The effect of such a ratification is to restore a company's maximum discretionary power to issue further shares up to 15% of the issued capital of the company without requiring shareholder approval.

Additional Information

The following information is provided to Shareholders for the purposes of Listing Rule 7.5:

- (a) the number of Shares allotted was 25,000,000;
- (b) the price at which the Shares were allotted was \$0.0034 each;
- (c) the Shares allotted were fully paid ordinary shares which rank equally with all other fully paid ordinary shares on issue;
- (d) the name of the allottee is Amberwood Nominees Pty Ltd. Amberwood Nominees Pty Ltd is not a related party of the Company; and
- (e) the funds raised have been applied towards expenditure on the Company's oil and gas interests and general working capital.

Resolution 8 – Consolidation of Capital

Resolution 8 seeks shareholder approval to consolidate the Company's issued capital by consolidating every 100 existing Shares into one new Share. The consolidation is proposed by the Company in order to reduce the number of Shares on issue.

Section 254H of the Corporations Act provides that a company may, by resolution passed in general meeting, convert all or any of its shares into a larger or smaller number of shares.

As at the date of this Notice, the Company has 3,046,124,356 Shares on issue, however, the Company is currently undertaking an underwritten entitlements issue of Shares on a one for one basis which will, on completion, result in the issue of a further 3,046,124,356 Shares. Accordingly, if Resolution 8 is passed and assuming completion of the entitlements issue, the number of Shares on issue will be reduced from 6,092,248,712 to approximately 60,922,487. The Company does not currently have any options on issue.

Implementation of Consolidation

The consolidation will take effect on the date of the meeting ("**Effective Date**") in accordance with the following proposed reorganisation timetable:

20 November 2006	Shareholder approval.
21 November 2006	Trading commences in the reorganised securities on a deferred settlement basis.
27 November 2006	From this date, the Company may not register transfers on a pre-consolidation basis. In the case of certified holdings, last day for the Company to register transfers on a pre-consolidation basis.
28 November 2006	First day for the Company to send a notice to all Shareholders and first day for the Company to register securities on a post-consolidation basis. First day for uncertificated security holding statements for the Shares to be issued to Shareholders. From this date, the Company rejects transfers accompanied by a certificate that was issued before the consolidation.
4 December 2006	Despatch date. Deferred settlement market ends. Last day for the Company to send notice to all Shareholders. Last day for securities to be entered into the holders' security holdings.

Fractional Entitlements

The capital consolidation will result in any Shareholder whose existing holding is not a multiple of 100 receiving a fraction of a Share. These fractional entitlements will be rounded down as part of the consolidation, so that the consolidated holding will be rounded down to the nearest whole number.

Resolution 9 – Grant of Options

Background

The grant of the Options is intended to form part of the Company's capital raising initiatives to raise funds for its exploration projects and general working capital.

Listing Rule 7.1

Listing Rule 7.1 requires shareholder approval to the proposed grant of Options. Listing Rule 7.1 broadly provides, subject to certain exceptions, that shareholder approval is required for any issue of securities by a listed company, where the securities proposed to be issued represent more than 15% of a company's shares then on issue. Approval pursuant to Listing

Rule 7.1 is now sought in order for the Company to retain its capacity to issue up to 15% of its issued capital, if required, in the next 12 months without shareholder approval.

The following information is provided to Shareholders for the purposes of Listing Rule 7.3:

- (a) the maximum number of Options the Company will be granting under Resolution 9 is 20,000,000 (on a post consolidation basis);
- (b) the Options will be granted no later than 3 months after the date of this Annual General Meeting, or such later date as approved by ASX. The Options will be allotted progressively;
- (c) the Options will have an issue price of 5 cents each, to raise a maximum of \$1,000,000;
- (d) the allottees of the Options are unknown as at the date of this Notice but will be chosen at the discretion of the Directors. The Company will disclose the names of the allottees when the Options are granted. None of the allottees will be related parties of the Company;
- (e) the Options will be granted with an exercise price of 35 cents each and an expiry date of 31 August 2011 and will be granted otherwise on the terms and conditions set out in Annexure A of this Explanatory Memorandum; and
- (f) the funds raised from the grant of the Options will be used towards expenditure on the Company's oil and gas interests and general working capital.

Resolution 10 – Issue of Shares

Background

The issue of Shares is intended to form part of the Company's capital raising initiatives to fund the Company's share of exploration expenses with respect to earning an interest in the five leases off the Gulf of Mexico, administration expenses and working capital.

Listing Rule 7.1

Listing Rule 7.1 requires shareholder approval to the proposed issue of shares. Listing Rule 7.1 broadly provides, subject to certain exceptions, that shareholder approval is required for any issue of securities by a listed company, where the securities proposed to be issued represent more than 15% of a company's shares then on issue. Approval pursuant to Listing Rule 7.1 is now sought in order for the Company to retain its capacity to issue up to 15% of its issued capital, if required, in the next 12 months without shareholder approval.

The following information is provided to Shareholders for the purposes of Listing Rule 7.3:

- (a) the maximum number of Shares the Company will be issuing under Resolution 10 is 20,000,000 Shares (on a post consolidation basis);

- (c) the Shares will be issued no later than 3 months after the date of this Annual General Meeting, or such later date as approved by ASX. The Shares will be allotted progressively;
- (d) the Shares will be issued at an issue price of 35 cents per Share, to raise a maximum of \$7,000,000;
- (e) the allottees of the Shares are unknown as at the date of this Notice but will be chosen at the discretion of the Directors and may be in conjunction with a member firm of the ASX. The Company will disclose the names of the allottees when the Shares are issued. None of the allottees will be related parties of the Company;
- (f) the Shares to be issued are fully paid ordinary shares which rank equally with all other existing fully paid ordinary shares on issue; and
- (g) the funds raised from the issue of the Shares will be used towards funding the Company's share of exploration expenses with respect to earning an interest in the five leases off the Gulf of Mexico, administration expenses and working capital.

Resolutions 11 and 12 – Grant of Director Options to Paul Garner and Russell Brimage

Introduction

The Company proposes to grant a total of 8,000,000 Director Options (on a post consolidation basis) to Paul Garner and Russell Brimage (together the "**Participating Directors**"), or their nominees, as follows:

<u>Name</u>	<u>Director Options</u>
Paul Garner, or his nominee	4,000,000
Russell Brimage, or his nominee	4,000,000

The terms of the Director Options are set out in Annexure A to this Explanatory Memorandum.

Each Participating Director has agreed that 1,000,000 of the respective 4,000,000 Director Options granted to them, or their nominees, will be voluntarily escrowed for a period of 12 months from the date of grant.

The grant of Director Options is designed to encourage the performance of the Participating Directors as well as reward the Participating Directors for their past services to the Company.

Under the Company's current circumstances, it is considered that the incentives to the Participating Directors represented by the issue of these Director Options are a cost effective and efficient reward and incentive for the Company, as opposed to alternative forms of incentive, such as the payment of cash compensation. The Participating Directors agree that it is better for the Company that each of them be rewarded by way of securities in the Company, rather than by way of cash.

The number of Director Options to be granted to Messrs Garner and Brimage and their exercise price and expiry date has been determined based upon the Directors' wish to ensure that the remuneration offered is competitive with market standards. The Directors consider the proposed number of Director Options to be issued will ensure that Messrs Garner's and Brimage's overall remuneration is in line with market standards.

Related Party Transactions

Chapter 2E of the Corporations Act prohibits a public company from giving a financial benefit to a related party of the public company unless either:

- (a) the giving of the financial benefit falls within one of the nominated exceptions to the provision; or
- (b) shareholder approval is obtained prior to the giving of the financial benefit and the benefit is given within 15 months after obtaining such approval.

For the purposes of Chapter 2E, the Participating Directors are each a related party of the Company.

Resolutions 11 and 12 provide for the grant of Director Options to the Participating Directors which is a financial benefit for the purposes of Chapter 2E of the Corporations Act.

In accordance with section 219 of the Corporations Act, the following information is provided to Shareholders:

- (a) The related parties to whom the proposed resolutions would permit the financial benefit to be given are as follows:

<u>Name</u>	<u>Director Options</u>
Paul Garner, or his nominee	4,000,000
Russell Brimage, or his nominee	4,000,000

- (b) The nature of the financial benefit proposed to be given:

The nature of the financial benefit proposed to be given is the grant of the Director Options for no consideration on the terms and conditions set out in Resolutions 11 and 12 and Annexure A to this Explanatory Memorandum.

- (c) Directors' recommendation:

All Directors were available to consider Resolutions 11 and 12.

Mr Garner declined to make a recommendation to Shareholders in respect of Resolution 11 as he has a material personal interest in the outcome of the Resolution by virtue of the proposed grant of Director Options to him or his nominee.

Messrs Brimage and Bennett (who do not have an interest in Resolution 11) recommend that the Shareholders approve the grant of Director Options under Resolution 11 to Mr Garner for the reasons outlined above.

Mr Brimage declined to make a recommendation to Shareholders in respect of Resolution 12 as he has a material personal interest in the outcome of the Resolution by virtue of the proposed grant of Director Options to him or his nominee.

Messrs Garner and Bennett (who do not have an interest in Resolution 12) recommend that the Shareholders approve the grant of Director Options under Resolution 12 to Mr Brimage for the reasons outlined above.

- (d) Other information that is reasonably required by Shareholders to make a decision whether it is in the best interests of the Company to pass Resolutions 11 and 12 that is known to the Company or any of its Directors:
- (i) The proposed resolutions would have the effect of giving power to the Directors to grant up to 8,000,000 Director Options (on a post consolidation basis) on the terms and conditions as set out in Annexure A to this Explanatory Memorandum and as otherwise mentioned above. Assuming completion of the underwritten entitlements issue of 3,046,124,356 Shares, the Company has 6,092,248,712 listed Shares on issue (although assuming consolidation the subject of Resolution 8 takes effect, the Company will have approximately 60,922,487 Shares on issue). The Company does not currently have any options on issue.
 - (ii) The Director Options have been valued using the Ross & Rubinstein Binomial Option Pricing Model (“BModel”), which uses a model of the varying price over time of financial instruments. The BModel allows the calculation of options which may be exercised at any time over their life.

Accordingly, the BModel is an appropriate model to use in the valuation.

The following table incorporates the assumptions used in determining the value for the Director Options to be valued and the results of the valuation methodologies employed.

Item	Note	
Underlying security spot price	1	\$0.30
Exercise price		\$0.35
Dividend rate	2	-
Risk free rate		5.25%
Valuation date	3	20/09/06
Grant date		31/10/06
Expiration date		31/08/11
Volatility	4	180.8%, 69.5%, 3.4%
Binomial valuation (\$ per security)		\$0.23

Notes:

1. The underlying security spot price used for the purposes of this valuation is based on the closing price of the security on the ASX at 19 September 2006 (on a post-consolidation basis).
2. As at the date of the valuation, the Company has not forecast any future dividend payments. For the purposes of this valuation, an assumption is made that the Company's Share price is "ex-dividend".
3. The valuation date is 20 September 2006.
4. The valuation is an average of the Director Options valued using three different methods to obtain volatility factor. These are close price method resulting in a volatility of 180.8%, lambda (EWMA) method resulting in a volatility factor of 69.5% and GARCH method resulting in a volatility factor of 3.4%.

Any change in the variables applied in the BModel between the date of the valuation and the date the Director Options are granted would have an impact on their value.

- (iii) If any Director Options granted as proposed are exercised, the effect would be to dilute the shareholding of existing Shareholders. Based on the number of Shares on issue following completion of the underwritten entitlements issue of 3,046,124,356 Shares and assuming the consolidation the subject of Resolution 8 takes effect, then, assuming all Director Options are exercised, the total dilution would be approximately 11.61%. The market price of the Company's Shares during the period of the Director Options will normally determine whether or not option holders exercise the Director Options. At the time any Director Options are exercised and Shares are issued pursuant to the exercise of the Director Options, the Company's Shares may be trading on ASX at a price which is higher than the exercise price of the Director Options.
- (iv) As at the date of this Notice (pre-consolidation), the Participating Directors and their associates have relevant interests in securities in the Company as follows:

Name	Number of Shares (on a pre-consolidation basis)	Number of Shares (on a post-consolidation basis)
Paul Garner	Nil	Nil
Russell Brimage	5,440,000	54,400

- (v) The Participating Directors will be receiving the following remuneration for their roles as Directors:

Name	Role	Remuneration (\$)
Paul Garner	Executive Director	\$10,000 per month and 50% of mobile phone costs.
Russell Brimage	Executive Director	\$15,000 per month.

- (vi) The following table gives details of the highest, lowest and latest price of the Company's Shares trading on ASX over the past 12 months ending on 20 September 2006:

Security	Highest Price (\$)	Date of highest price	Lowest Price (\$)	Date of lowest price	Latest Price on 20 September 2006 (\$)
Ordinary Shares	0.006	26/06/06	0.003	19/09/06	0.003

Over the last 12 months, the Company's Shares were suspended from trading on 3 August 2005 with trading recommencing on 7 March 2006.

- (vii) Under the Australian Equivalent of IFRS, the Company is required to expense the value of the Director Options in its statement of financial performance for the current financial year. Other than as disclosed in this Explanatory Memorandum, the Directors do not consider that from an economic and commercial point of view, there are any costs or detriments including opportunity costs or taxation consequences for the Company or benefits foregone by the Company in granting the Director Options pursuant to the Resolutions.
- (viii) Neither the Directors nor the Company are aware of any other information that would be reasonably required by Shareholders to make a decision in relation to the financial benefits contemplated by the proposed Resolutions.

Listing Rule 10.11

Listing Rule 10.11 requires shareholder approval by ordinary resolution to any issue by a listed company of securities to a related party. Accordingly, Listing Rule 10.11 requires Shareholders to approve the grant of Director Options to the Participating Directors.

Additional Information

The following information is provided to Shareholders for the purposes of Listing Rule 10.13:

- (a) the Director Options will be granted to the Participating Directors, who are executive Directors, or their nominees;
- (b) the maximum number of Director Options to be granted is 8,000,000 (on a post consolidation basis);
- (c) the Director Options will be allotted and granted on a date which will be no later than 1 month after the date of this Annual General Meeting, or such later date as approved by ASX;
- (d) the Director Options will be granted for no consideration;

- (e) no funds will be raised by the grant of the Director Options; and
- (f) the terms and conditions of the Director Options are set out in Annexure A to this Explanatory Memorandum.

If approval is given for the grant of the Director Options under Listing Rule 10.11, approval is not required under Listing Rule 7.1.

Resolution 13 – Employee Share Option Plan

The Directors considered that it was desirable to establish an option plan under which employees may be offered the opportunity to subscribe for options to acquire shares in the Company in order to increase the range of potential incentives available to them and to strengthen links between the company and its employees and accordingly adopted the Lion Energy Limited Employee Share Option Plan ("**Plan**") on 20 September 2006.

The Plan is designed to provide incentives to the employees of the Company and to recognise their contribution to the Company's success. Under the Company's current circumstances the Directors consider that the incentives to employees are a cost effective and efficient incentive for the Company as opposed to alternative forms of incentives such as cash bonuses or increased remuneration. To enable the Company to secure employees and Directors who can assist the Company in achieving its objectives, it is necessary to provide remuneration and incentives to such personnel. The Plan is designed to achieve this objective, by encouraging continued improvement in performance over time and by encouraging personnel to acquire and retain significant shareholdings in the Company.

Shareholder approval is required if any issue of Employee Options pursuant to the Plan is to fall within the exception to the calculation of the 15% limit imposed by Listing Rule 7.1 on the number of securities which may be issued without shareholder approval. Accordingly, shareholder approval is sought for the purposes of Listing Rule 7.2 Exception 9(b) which provides that Listing Rule 7.1 does not apply to an issue of securities under an employee incentive scheme that has been approved by the holders of ordinary securities within three years of the date of issue.

Prior shareholder approval will be required before any Director or related party of the Company can participate in the Plan.

Under the Plan, the Board may offer to Eligible Persons the opportunity to subscribe for such number of Employee Options in the Company as the Board may decide and on the terms set out in the rules of the Plan, a copy of which is contained in Annexure B of this Explanatory Memorandum. Employee Options granted under the Plan will be offered to participants in the Plan on the basis of the Board's view of the contribution of the Eligible Person to the Company.

In accordance with the requirements of Listing Rule 7.2 Exception 9(b) the following information is provided:

- (a) a copy of the rules of the Plan is attached as Annexure B to the Notice;

- (b) no Employee Options have previously been issued under the Plan; and
- (c) a voting exclusion statement has been included for the purposes of Resolution 13.

Resolution 14 – Grant of Ridgelake Options

Background

On 17 August 2006, the Company's wholly owned US subsidiary, Lion Energy Limited LLC ("**Lion USA**"), entered into a Letter of Intent with Ridgelake pursuant to which Lion USA may earn interests in 5 Gulf of Mexico Federal OCS offshore leases owned by Ridgelake.

Pursuant to the Letter of Intent and as part consideration for the opportunity to earn an interest in the leases, the parties have agreed that Ridgelake shall be issued, subject to shareholder approval and the execution of the Participation Agreement and the Joint Operating Agreement:

- (a) 100,000,000 pre-consolidation Ridgelake Options at no cost and exercisable no later than 31 December 2008 at an exercise price of the volume weighted average price of the Shares over the 5 trading days preceding the date the Participation Agreement is executed by Lion USA; or
- (b) 1,000,000 post-consolidation Ridgelake Options at no cost and exercisable no later than 31 December 2008, at an exercise price which is 100 times the volume weighted average price of the Shares over the 5 trading days preceding the date the Participation Agreement is executed by Lion USA.

The Participation Agreement was executed on 18 September 2006 and the volume weighted average price has been calculated at \$0.00387.

Resolution 14 contains an alternative set of terms and conditions attaching to the Ridgelake Options, being the terms and conditions set out in Annexure A to this Explanatory Memorandum. The Company's entitlements issue prospectus sets out the agreed number, expiry date and exercise price of the Ridgelake Options, being those set out in the terms and conditions contained in Annexure C of this Explanatory Memorandum, however, the Company considers that it may negotiate with Ridgelake to grant the Ridgelake Options on the terms and conditions set out in Annexure A of this Explanatory Memorandum. If the parties reach an agreement then Shareholders will be advised by the Company making an announcement to that effect to the ASX.

Accordingly, Resolution 14 has been included so that Shareholders may approve, pursuant to Listing Rule 7.1, the proposed grant of Ridgelake Options.

Listing Rule 7.1

Listing Rule 7.1 requires shareholder approval to the proposed grant of Ridgelake Options. Listing Rule 7.1 broadly provides, subject to certain exceptions, that shareholder approval is required for any issue of securities by a listed company, where the securities proposed to be issued represent more than 15% of a company's shares then on issue. Although the grant of

the Ridgelake Options does not represent more than this 15% threshold, approval pursuant to Listing Rule 7.1 is sought in order for the Company to retain its capacity to issue up to 15% of its issued capital, if required, in the next 12 months without shareholder approval.

The following information is provided to Shareholders for the purposes of Listing Rule 7.3:

- (a) the maximum number of Ridgelake Options the Company will be granting under Resolution 14 is 1,000,000 (on a post consolidation basis);
- (b) the Ridgelake Options will be allotted and granted on one date which will be no later than 3 months after the date of this Annual General Meeting, or such later date as approved by ASX;
- (c) the Ridgelake Options will be granted for no consideration;
- (d) the Ridgelake Options will be granted to Ridgelake Energy, Inc. or its nominee(s). None of the allottees will be related parties of the Company;
- (e) the Ridgelake Options will be granted either:
 - (i) with an expiry date of 31 December 2008 and an exercise price of \$0.387, which is 100 times the volume weighted average price of the Shares over the five trading days preceding the date of execution of the Participation Agreement. This exercise price was calculated on the Company's pre-consolidation share price. The Ridgelake Options will be granted otherwise on the terms and conditions set out in Annexure C of this Explanatory Memorandum; or
 - (ii) with an expiry date of 31 August 2011 and an exercise price of \$0.35 and otherwise on the terms and conditions set out in Annexure A of this Explanatory Memorandum,as the case may be; and
- (f) no funds will be raised from the grant of the Ridgelake Options.

Resolution 15 – Grant of Options to Zhong Wang

Background

Mr Zhong Wang has acted as an adviser to the Company and provided valuable assistance to the Company in its recent capital raising activities. Accordingly, the Company considers the grant of the 1,000,000 Options to Mr Wang is a suitable reward for his efforts.

Mr Wang has agreed the Options granted to him, or his nominee(s), will be voluntarily escrowed for a period of 12 months from the date of grant.

Listing Rule 7.1

Listing Rule 7.1 requires shareholder approval to the proposed grant of Options. Listing Rule 7.1 broadly provides, subject to certain exceptions, that shareholder approval is required for any issue of securities by a listed company, where the securities proposed to be issued represent more than 15% of a company's shares then on issue. Although the Options proposed to be granted pursuant to Resolution 15 does not represent more than 15% of a company's shares on issue, approval pursuant to Listing Rule 7.1 is sought in order for the Company to retain its capacity to issue up to 15% of its issued capital, if required, in the next 12 months without shareholder approval.

The following information is provided to Shareholders for the purposes of Listing Rule 7.3:

- (a) the maximum number of Options the Company will be granting under Resolution 15 is 1,000,000 (on a post consolidation basis);
- (b) the Options will be allotted and granted on one date which will be no later than 3 months after the date of this Annual General Meeting, or such later date as approved by ASX;
- (c) the Options will be granted for no consideration;
- (d) the Options will be granted to Zhong Wang, or his nominee(s). The allottee will not be a related party of the Company;
- (e) the Options will be granted with an exercise price of 35 cents each and an expiry date of 31 August 2011 and will be granted otherwise on the terms and conditions set out in Annexure A of this Explanatory Memorandum; and
- (f) no funds will be raised from the grant of the Options.

Resolution 16 – Grant of Options to Weidong Zhang

Background

Mr Weidong Zhang has also acted as an adviser to the Company and provided valuable assistance to the Company in its recent capital raising activities. Accordingly, the Company considers the grant of Options to Mr Zhang is a suitable reward for his efforts.

Mr Zhang has agreed the Options granted to him, or his nominee(s), will be voluntarily escrowed for a period of 12 months from the date of grant.

Listing Rule 7.1

Listing Rule 7.1 requires shareholder approval to the proposed grant of Options. Listing Rule 7.1 broadly provides, subject to certain exceptions, that shareholder approval is required for any issue of securities by a listed company, where the securities proposed to be issued represent more than 15% of a company's shares then on issue. Although the Options proposed to be granted pursuant to Resolution 16 does not represent more than 15% of a company's shares on issue, approval pursuant to Listing Rule 7.1 is sought in order for the

Company to retain its capacity to issue up to 15% of its issued capital, if required, in the next 12 months without shareholder approval.

The following information is provided to Shareholders for the purposes of Listing Rule 7.3:

- (a) the maximum number of Options the Company will be granting under Resolution 16 is 1,000,000 (on a post consolidation basis);
- (b) the Options will be allotted and granted on one date which will be no later than 3 months after the date of this Annual General Meeting, or such later date as approved by ASX;
- (c) the Options will be granted for no consideration;
- (d) the Options will be granted to Weidong Zhang, or his nominee(s). The allottee will not be a related party of the Company;
- (e) the Options will be granted with an exercise price of 35 cents each and an expiry date of 31 August 2011 and will be granted otherwise on the terms and conditions set out in Annexure A of this Explanatory Memorandum; and
- (f) no funds will be raised from the grant of the Options.

GLOSSARY

In this Explanatory Memorandum and the Notice, the following terms have the following meanings unless the context otherwise requires:

ASIC	means Australian Securities and Investments Commission.
ASX	means Australian Stock Exchange Limited ACN 008 624 691.
Board	means the board of Directors of the Company.
Business Day	means Monday to Friday inclusive except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day and any other day that ASX declares is not a business day.
Company	means Lion Energy Limited ABN 51 000 753 640.
Constitution	means the constitution of the Company.
Corporations Act	means Corporations Act 2001.
Corporations Regulations	means Corporations Regulations 2001.
Director	means a director of the Company.
Director Option	means an option to acquire one Share granted for no consideration

exercisable at 35 cents each on or before 31 August 2011 and otherwise on the terms and conditions set out in Annexure A to this Explanatory Memorandum.

Eligible Persons	has the same meaning as in the Plan.
Employee Options	means options to acquire Shares granted pursuant to the Plan.
Letter of Intent	means the letter of intent between Lion USA and Ridgelake dated 17 August 2006.
Lion USA	means Lion Energy Limited LLC, a wholly owned subsidiary of the Company incorporated in the United States of America.
Listing Rules	means the Listing Rules of ASX.
Notice or Notice of Meeting	means the Notice of Annual General Meeting accompanying this Explanatory Memorandum.
Option	means an option to acquire one Share exercisable at 35 cents each on or before 31 August 2011 and otherwise on the terms and conditions set out in Annexure A to this Explanatory Memorandum.
Participation Agreement	means the agreement dated 18 September 2006 between Lion USA and Ridgelake and pursuant to which Lion USA is to have the right to earn interests in 5 leases in the United States of America.
Plan	means the Company's employee share option plan known as the "Lion Energy Limited Employee Share Option Plan" adopted by the Company on 20 September 2006.
Resolution	means a resolution contained in the Notice.
Ridgelake	means Ridgelake Energy, Inc., a company incorporated in the United States of America of PO Box 8470 Metairie Louisiana 70011 – 8470.
Ridgelake Option	means an option to acquire one Share granted on the terms and conditions set out in Annexure A to this Explanatory Memorandum or Annexure C to this Explanatory Memorandum, as the case may be.
Share	means a fully paid ordinary share in the capital of the Company.
Shareholder	means an ordinary shareholder of the Company.
WST	means Australian Western Standard Time.

ANNEXURE A

TERMS AND CONDITIONS OF OPTIONS

- (a) Each Option entitles the holder to subscribe for 1 Share upon the payment of \$0.35 per Share subscribed for.
- (b) The Options will lapse at 5.00pm, Western Standard Time on 31 August 2011.
- (c) The Options may not be listed for official quotation on the ASX, however, the Company may, in its absolute discretion, apply for the Options to be listed for official quotation on the ASX in the future. The Company is under no obligation to apply for the Options to be listed for official quotation on the ASX. In the event that the Options are listed for official quotation on the ASX in the future, the Company is under no obligation to maintain the listing and may take any action that may result in the delisting of the Options on the ASX.
- (d) Options may be transferred at any time prior to the Expiry Date;
- (e) There are no participating rights or entitlements inherent in these Options and holders of the Options will not be entitled to participate in new issues of capital that may be offered to Shareholders during the currency of the Option.

However Optionholders have the right to exercise their Options prior to the date of determining entitlements to any capital issues to the then existing Shareholders of the Company made during the currency of the Options, and will be granted a period of at least nine (9) business days before books closing date to exercise the Options.

- (f) In the event of any re-organisation (including reconstruction, consolidation, subdivision, reduction or return of capital) of the issued capital of the Company, the Options will be re-organised as required by the Listing Rules, but in all other respects the terms of exercise will remain unchanged.
- (g) The Options shall be exercisable by the delivery to the registered office of the Company of a notice in writing stating the intention of the Optionholder to exercise all or a specified number of Options held by them accompanied by an Option Certificate and a cheque made payable to the Company for the subscription monies for the Shares. An exercise of only some Options shall not affect the rights of the Optionholder to the balance of the Options held by them.
- (h) The notice of exercise of Options shall be deemed by the Company to be received at the end of the calendar month in which it is actually received and the Company shall comply with the Listing Rules with respect to the allotment of resultant Shares and the issue of a statement of shareholding.
- (i) Shares allotted pursuant to an exercise of Options shall rank, from the date of allotment, equally with the existing Shares of the Company in all respects.

- (j) The Company shall make an application to have those Shares allotted pursuant to an exercise of Options listed for official quotation by the Australian Stock Exchange Limited.
- (k) If there is a bonus share issue to the holders of Shares, the number of Shares over which an Option is exercisable will be increased by the number of Shares which the Optionholder would have received if the Option had been exercised before the record date for the bonus issue.
- (l) There is no right to change the exercise price of the Options nor the number of underlying shares over which the Options can be exercised, if the Company completes a pro rata issue.

ANNEXURE B

RULES OF LION ENERGY LIMITED EMPLOYEE SHARE OPTION PLAN

LION ENERGY LIMITED
ABN 51 000 753 640

RULES OF EMPLOYEE SHARE OPTION PLAN

Blakiston & Crabb
Solicitors
1202 Hay Street
WEST PERTH WA 6005
Tel: (08) 9322 7644
Fax: (08) 9322 1506
Ref: ML.MB.LIO/13664

RULES OF EMPLOYEE SHARE OPTION PLAN

LION ENERGY LIMITED

ABN 51 000 753 640

RULES OF EMPLOYEE SHARE OPTION PLAN

(adopted by the Board on 20 September 2006)

1. NAME OF PLAN

1.1 This Plan shall be called the Lion Energy Limited Employee Share Option Plan.

2. ESTABLISHMENT AND TERMINATION OF THE PLAN

2.1 The Board may establish and administer the Plan in accordance with the terms and conditions set out in these Rules and otherwise as it determines from time to time in its absolute discretion.

2.2 The Board may terminate the Plan, or suspend its operation for any period it considers desirable, at any time that it considers appropriate.

2.3 The Board may not issue any further Options after the Plan has been terminated. However, these Rules will continue to apply to Options on issue at the date of such termination until the last of those Options lapses or is exercised.

3. PURPOSE OF PLAN

3.1 The purpose of this Plan is to:

- (a) recognise the ongoing ability of the employees of the Company and their expected efforts and contribution in the long term to the performance and success of the Company;
- (b) provide an incentive to the employees of the Company to remain in their employment in the long term;
- (c) attract persons of experience and ability to employment with the Company and foster and promote loyalty between the Company and its employees; and
- (d) provide employees of the Company with the opportunity to acquire Options, and ultimately Shares, in the Company, in accordance with these Rules.

4. OPERATION OF THE PLAN

4.1 The Plan operates according to these Rules which bind the Company and each Participant.

4.2 The number of Shares to be received on exercise of the Options the subject of an offer under the Plan when aggregated with:

- (a) the number of Shares which would be issued were each outstanding offer or Option, being an offer made or Option acquired pursuant to the Plan or any other employee share scheme extended only to employees or Directors of the Company, exercised; and
- (b) the number of Shares issued during the previous 5 years pursuant to the Plan or any other employee share scheme extended only to employees or Directors of the Company,

but disregarding any offer made, or Option acquired or Share issued by way of or as a result of:

- (c) an offer under the Plan to a person situated at the time of receipt of the Offer outside Australia; or
- (d) an offer under the Plan that did not need disclosure to investors because of section 708 of the Corporations Act; or
- (e) an offer made under a disclosure document,

must not exceed 5% of the total number of issued Shares as at the time of the offer under the Plan.

5. ELIGIBILITY

5.1 Subject to these Rules, the Board may from time to time determine that any Eligible Person is entitled to participate in the Plan and the extent of that participation. Prior to making that determination, the Board must consider:

- (a) the seniority of the relevant Eligible Person and the position the Eligible Person occupies within the Company;
- (b) the length of service of the Eligible Person with the Company;
- (c) the record of employment of the Eligible Person with the Company;
- (d) the potential contribution of the Eligible Person to the growth of the Company;
- (e) the extent (if any) of the existing participation of the Eligible Person (or any Permitted Nominee in relation to that Eligible Person) in the Plan; and
- (f) any other matters which the Board considers relevant.

5.2 The Board may exercise its powers in relation to the participation of any Eligible Person on any number of occasions.

6. OFFER OF OPTIONS

- 6.1 Subject to these Rules and to the Listing Rules, the Company (acting through the Board) may offer Options to any Eligible Person at such times and on such terms as the Board considers appropriate. Each offer must state:
- (a) the name and address of the Eligible Person to whom the offer is made;
 - (b) that the Eligible Person to whom the offer is addressed may accept the whole or any lesser number of Options offered;
 - (c) the minimum number of Options and any multiple of such minimum or any other number which may be accepted;
 - (d) the period within which the offer may be accepted, and the period or periods during which the Options or any of them may be exercised and the Expiry Date;
 - (e) the method of calculation of the Exercise Price; and
 - (f) any other matters which the Board may determine.

7. ACCEPTING OFFERS

- 7.1 Upon receipt of an offer of Options, an Eligible Person may, within the period specified in the offer:
- (a) accept the whole or any lesser number of Options offered by giving to the Company an Application Form; or
 - (b) nominate a nominee in whose favour the Eligible Person wishes to renounce the offer by notice in writing to the Board. The Board may, in its absolute discretion, resolve not to allow such renunciation of an offer in favour of a nominee without giving any reason for such decision.
- 7.2 Upon:
- (a) receipt of the Application Form referred to in clause 7.1(a); or
 - (b) the Board resolving to allow a renunciation of an offer in favour of a nominee ("**Permitted Nominee**") and the Permitted Nominee accepting the whole or any lesser number of Options offered by giving the Company an Application Form,
- then the Eligible Person or the Permitted Nominee, as the case may be, will be taken to have agreed to be bound by these Rules and will be granted Options subject to these Rules.
- 7.3 If Options are issued to a Permitted Nominee or an Eligible Person, the Eligible Person must, without limiting any provision in these Rules, ensure that the Permitted Nominee complies with these Rules.

7.4 On the issue of Options following receipt by the Company of an Application Form, an Eligible Person or the Permitted Nominee, as the case may be, becomes a Participant.

8. NO CONSIDERATION

8.1 No consideration is payable by an Eligible Person for a grant of an Option, unless the Board decides otherwise.

9. CERTIFICATES

9.1 The Company must give a Participant one or more Certificates stating:

- (a) the number of Options issued to the Participant;
- (b) the Exercise Price of those Options; and
- (c) the Issue Date of those Options.

9.2 The Certificates for the Options will be dispatched within 10 Business Days after the Issue Date.

10. QUOTATION

10.1 The Company need not apply for Official Quotation of any Options.

10.2 If shares of the same class as those allotted pursuant to the exercise of Options granted under the Plan are listed on the ASX, the Company must apply for Official Quotation of those Shares allotted pursuant to the exercise of Options within the time required by the Listing Rules after the date of allotment.

11. OPTIONS TRANSFERABLE

11.1 Subject to clause 14.2, Options are transferable subject to compliance with the Corporations Act and Listing Rules, where applicable.

12. EXERCISE OF OPTIONS

12.1 Subject to these Rules and the terms of the Options, Options may be exercised at any time during the period commencing on the Issue Date and ending on the Expiry Date.

12.2 Notwithstanding clause 12.1, all Options may be exercised:

- (a) during a Bid Period; or
- (b) at any time after a Change of Control Event has occurred; or
- (c) on an application under section 411 of the Corporations Act, if a court orders a meeting to be held concerning a proposed compromise or arrangement for the purposes of or in connection with a scheme for the

reconstruction of the Company or its amalgamation with any other company.

- 12.3 Options may only be exercised by the Participant giving notice in writing to the Board delivered to the registered office of the Company. The notice must specify the number of Options being exercised and the Exercise Price for the Options specified in the notice and must be accompanied by:
- (a) the Certificate for those Options, for cancellation by the Company; and
 - (b) a cheque payable to the Company (or another form of payment acceptable to the Board) in the amount of the product of the number of Options then being exercised by the Participant and the Exercise Price.

The notice is only effective (and only becomes effective) when the Company has received value for the full amount referred to in clause 12.3(b).

- 12.4 Subject to clause 14.1, within 10 Business Days after the notice referred to in clause 12.3 becoming effective, the Board must:
- (a) allot and issue the number of Shares to be issued in respect of the Options being exercised;
 - (b) cancel the Certificate for the Options being exercised; and
 - (c) if applicable, issue a new Certificate for any remaining Options covered by the Certificate accompanying the notice.
- 12.5 The Board may, at its discretion, by notice to the Participant reduce, waive or vary (provided such variation is not adverse to the Participant) the Exercise Conditions attaching to Options (if any) in whole or in part at any time and in any particular case.

13. SHARES ALLOTTED ON EXERCISE OF OPTIONS

- 13.1 All Shares allotted upon exercise of the Options rank *pari passu* in all respects with Shares previously issued and, in particular, entitle the holders of Shares to participate fully in:
- (a) dividends declared by the Company after the date of allotment; and
 - (b) all issues of securities made or offered pro rata to holders of Shares.

14. LAPSE OF OPTIONS

- 14.1 Options not validly exercised on or before the Expiry Date will automatically lapse.
- 14.2 If at any time prior to the Expiry Date of any Options a Holder dies, the deceased Holder's Legal Personal Representative may:

- (a) elect to be registered as the new Holder of the deceased Holder's Options;
- (b) whether or not he or she becomes so registered, exercise those Options in accordance with and subject to these Rules as if he or she were the Holder of them; and
- (c) if the deceased Holder had already given the Company a notice of exercise of his or her Options, pay the Exercise Price in respect of those Options.

15. PARTICIPATION RIGHTS, BONUS ISSUES, RIGHTS ISSUES, REORGANISATIONS OF CAPITAL AND WINDING UP

15.1 New Issues

- (a) Participants are not entitled to participate in any new issue of securities to existing holders of Shares in the Company unless:
 - (i) they have become entitled to exercise their Options under the Plan; and
 - (ii) they do so before the record date for the determination of entitlements to the new issue of securities and participate as a result of being holders of Shares.
- (b) The Company must give Participants, in accordance with the Listing Rules, notice of any new issue of securities before the record date for determining entitlements to the new issue.

15.2 Bonus Issues

If there is a bonus share issue ("**Bonus Issue**") to the holders of Shares, the number of Shares over which an Option is exercisable will be increased by the number of Shares which the Holder would have received if the Option had been exercised before the record date for the Bonus Issue ("**Bonus Shares**"). The Bonus Shares must be paid up by the Company out of the profits or reserves (as the case may be) in the same manner as was applied in the Bonus Issue and upon issue rank *pari passu* in all respects with the other shares of that class on issue at the date of issue of the Bonus Shares.

15.3 Pro Rata Issues

If there is a pro rata issue (other than a Bonus Issue) to the holders of Shares during the currency of, and prior to the exercise of any Options, the Exercise Price of an Option will be adjusted in the manner provided for in the Listing Rules.

15.4 Reorganisation of Capital

If, prior to the expiry of any Options, there is a reorganisation of the issued capital of the Company, then the rights of a Participant (including the number

of Options to which each Participant is entitled and the Exercise Price) is changed to the extent necessary to comply with the Listing Rules applying to a reorganisation of capital at the time of the reorganisation.

15.5 Winding Up

If, prior to the expiry of any Options, a resolution for a members' voluntary winding up of the Company is proposed (other than the purpose of a reconstruction or amalgamation) the Board may, in its absolute discretion, give written notice to Participants of the proposed resolution. Subject to the Exercise Conditions (if any), the Participants may, during the period referred to in the notice, exercise their Options.

15.6 Fractions of Shares

For the purpose of this clause 15, if Options are exercised simultaneously, then the Participant may aggregate the number of Shares or fractions of Shares for which the Participant is entitled to subscribe. Fractions in the aggregate number only will be disregarded in determining the total entitlement of a Participant.

15.7 Calculations and Adjustments

Any calculations or adjustments which are required to be made under this clause 15 will be made by the Board and, in the absence of manifest error, are final and conclusive and binding on the Company and the Participant.

15.8 Notice of Change

The Company must within a reasonable period give to each Participant notice of any change under clause 15 to the Exercise Price of any Options held by the Participant or to the number of Shares which the Participant is entitled to subscribe for on exercise of an Option.

16. EXERCISE PRICE OF OPTIONS

16.1 The method of calculation of the Exercise Price of each Option will be determined by the Board with regard to the Market Value of the Shares when it resolves to offer the Option.

17. AMENDMENTS TO THE RULES

17.1 Board May Alter Rules

The Board may subject to the Listing Rules alter, delete or add to these Rules at any time (save for the provisions of clause 4).

17.2 Consent of Participants

If any amendment to be made under clause 17.1 would adversely affect the rights of Participants in respect of any Options then held by them, the Board

must obtain the consent of Participants who between them hold not less than 75% of the total number of those Options held by all those Participants before making the amendment.

17.3 Eligible Persons Outside Australia

The Board may make any additions, variations or modifications to the Rules, in relation to the implementation of the Plan and the specific application of the Rules to Eligible Persons residing outside Australia.

18. POWERS OF THE BOARD

18.1 The Plan shall be administered by the Board who shall have the power to:

- (a) determine appropriate procedures and make regulations for the administration of the Plan which are consistent with these Rules;
- (b) resolve conclusively all questions of fact or interpretation arising in connection with the Plan;
- (c) terminate or suspend the operation of the Plan at any time, provided that the termination or suspension does not adversely affect or prejudice the rights of Participants holding Options at that time;
- (d) delegate those functions and powers it considers appropriate, for the efficient administration of the Plan, to any one or more persons whom the Board reasonably believes to be capable of performing those functions and exercising those powers, for such period and on such conditions as the Board may determine;
- (e) take and rely upon independent professional or expert advice in or in relation to the exercise of any of their powers or discretions under these Rules;
- (f) administer the Plan in accordance with these Rules as and to the extent provided in these Rules; and
- (g) make regulations for the operation of the Plan consistent with these Rules.

19. NOTICES

19.1 Notices may be given by the Company to any Holder either personally or by sending by post to his or her address as noted in the Company's records or to the address (if any) within the Commonwealth of Australia supplied by him to the Company for the giving of notices. Notices for any overseas Holders shall be forwarded and posted by air. Where a notice is sent by post the notice shall be deemed to be served on the day after posting. The signature of any notice may be given by any Director or secretary of the Company. A notice of exercise given under clause 12.3 shall not be deemed to be served on the Company until actually received.

20. NO COMPENSATION OR DAMAGES

- 20.1 The rights and obligations of any Holder under the terms of his or her employment with the Company are not affected by his or her participation in the Plan.
- 20.2 These Rules do not form part of, and will not be incorporated into, any contract of engagement or employment between a Holder and the Company.
- 20.3 No Holder has any rights to compensation or damages as a result of the termination of his or her employment, so far as those rights arise or may arise from the Holder ceasing to have rights under the Plan as a result of the termination.
- 20.4 Participants do not, as Participants, have any right to attend or vote at general meetings of holders of Shares.

21. GOVERNING LAW

- 21.1 The Plan and any Options issued under it are governed by the laws of Western Australia and the Commonwealth of Australia.
- 21.2 Each Participant irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of Western Australia, the Commonwealth of Australia and courts entitled to hear appeals from those courts.

22. ADVICE

- 22.1 Eligible Persons should obtain their own independent advice at their own expense on the financial, taxation and other consequences to them of or relating to participation in the Plan.

23. DEFINITIONS AND INTERPRETATION

- 23.1 In these Rules, unless the context otherwise requires, the following words and expressions shall have the following meanings:

"Application Form" means a duly completed and executed application for the issue of Options made by an Eligible Person or Permitted Nominee in respect of an Offer, in the form approved by the Board from time to time;

"ASX" means Australian Stock Exchange Limited;

"Bid Period", in relation to a takeover bid in respect of shares in the Company, means the period referred to in the definition of that expression in section 9 of the Corporations Act provided that where a takeover bid is publicly announced prior to the service of a bidder's statement on the Company in relation to that takeover bid, the Bid Period shall be deemed to have commenced at the time of that announcement;

"Board" means the Directors acting as the board of directors of the Company or a committee appointed by such board of directors;

"Business Day" means a day on which banks are open for business in Perth excluding a Saturday, Sunday or public holiday;

"Certificate" means the certificate issued in accordance with clause 9 by the Company to a Holder in respect of an Option;

"Change of Control Event" means a shareholder, or a group of associated shareholders, becoming entitled to sufficient shares in the Company to give it or them the ability, and that ability is successfully exercised, in general meeting, to replace all or a majority of the Board;

"Company" means Lion Energy Limited ABN 51 000 753 640;

"Corporations Act" means *Corporations Act 2001 (Cth)*;

"Director" means a director of the Company from time to time but does not include a person who is only a director by virtue of being an alternate director;

"Eligible Person" means at any time a person who then is a Director or an employee (whether full-time or part-time) of the Company or of an associated body corporate of the Company;

"Exercise Condition" means the performance, vesting or other conditions (if any) determined by the Board and specified in an Offer which are, subject to these Rules, required to be satisfied, reached or met before an Option can be exercised;

"Exercise Price" means, in respect of an Option, the subscription price per Share, determined in accordance with clause 16, payable by a Holder on exercise of the Option;

"Expiry Date" means, in relation to an Option, the date determined by the Board prior to the offer of the relevant Options, subject to any restriction in the Corporations Act from time to time but in any event no longer than 5 years from the Issue Date;

"Holder" means, in relation to an Option, the person (whether an Eligible Person or a Permitted Nominee) entered in the Company's register of options as the holder of that Option;

"Issue Date" means, in relation to an Option, the date on which the Company grants that Option;

"Legal Personal Representative" means the executor of the will or an administrator of the estate of a deceased person, the trustee of the estate of a person under a legal disability or a person who holds an enduring power of attorney granted by another person;

"Listing Rules" means the Official Listing Rules of ASX as they apply to the Company from time to time;

"Market Value" means, if the Company is admitted to the official list of ASX:

- (a) the weighted average closing sale price of the Shares recorded on the stock market of ASX over the five trading days immediately preceding the day on which the Board resolves to offer an Option; or
- (b) in circumstances where there has been no trading in the Shares during the five trading days immediately preceding the day on which the Board resolves to offer an Option, the last sale price recorded on the stock market of ASX;

"Offer" means an invitation to an Eligible Person made by the Company under clause 6.1 to apply for an issue of Options;

"Official Quotation" has the meaning ascribed to it in the Listing Rules;

"Option" means an option issued under the Plan to subscribe for a Share;

"Participant" means a person who holds Options issued under the Plan and includes, if a Participant dies or becomes subject to a legal disability, the Legal Personal Representative of the Participant;

"Permitted Nominee" has the meaning given to it by clause 7.2;

"Plan" means the Lion Energy Limited Employee Share Option Plan established in accordance with these Rules;

"Rules" means these rules, as amended from time to time;

"Series" means, in relation to Options, Options with a common Issue Date;

"Shares" means fully paid ordinary shares in the capital of the Company; and

"Tax" means any tax, levy, impost, GST, deduction, charge, rate, contribution, duty or withholding which is assessed (or deemed to be assessed), levied, imposed or made by any government or any governmental, semi-governmental or judicial entity or authority together with any interest, penalty, fine, charge, fee or other amount assessed (or deemed to be assessed), levied, imposed or made on or in respect of any or all of the foregoing.

23.2 In these Rules, unless a contrary intention appears:

- (a) where an expression is defined, another part of speech or grammatical form of that expression has a corresponding meaning;
- (b) the singular includes the plural and vice versa;
- (c) a reference to a gender includes all genders; and

- (d) an expression defined in, or given a meaning for the purposes of, the Corporations Act has the same meaning where used in these Rules.

ANNEXURE C

TERMS AND CONDITIONS OF RIDGELAKE OPTIONS

The terms and conditions of the Ridgelake Options are:

1. each option will entitle the holder to subscribe for one fully paid ordinary share in Lion Energy Limited ("**Company**");
2. upon issuance, the options shall be priced at an exercise price of \$0.387 per share, being the volume weighted average closing price of the Shares for the five trading days preceding the date the Participation Agreement is executed;
3. the options shall expire at 5p.m. (Western Standard Time) on 31 December 2008 ("**Expiry Date**");
4. the options may be exercised wholly, or in part, by notice in writing to the directors of the Company given prior to or on the Expiry Date. Any notice of exercise of an option will be deemed to be dated as at the last day of the month on which the Company receives the notice;
5. an option may be transferred at any time prior to the Expiry Date;
6. there are no participating rights or entitlements inherent in the options and optionholders will not be entitled to participate in new shares of capital offered to shareholders during the currency of the options. However, the Company will ensure that for the purposes of the proposed issue, notice of the new issue will be given to optionholders at least seven (7) business days before the record date. This will give optionholders the opportunity to exercise their options prior to the date for determining entitlements to participate in any such issue;
7. there is no right to change the exercise price of options nor the number of underlying fully paid ordinary shares over which the options can be exercised, if the Company completes a bonus or entitlements issue;
8. in the event of any reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Company prior to the Expiry Date, all rights of the optionholder will be varied in accordance with the Listing Rules; and
9. options not exercised by the Expiry Date will automatically expire.

LION ENERGY LIMITED
ABN 51 000 753 640
PROXY FORM

The Company Secretary
Lion Energy Limited
Registered Office Address:

Ground Floor
45 Ventnor Avenue
WEST PERTH WA 6005
(08) 9389-4400

Facsimile:

I/We (name of shareholder)
of (address)
being a member/members of Lion Energy Limited HEREBY APPOINT
(name)
of (address)
and/or failing him (name)
of (address)

or failing that person then the Chairperson of the Annual General Meeting as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at the offices of Lion Energy Limited, 45 Ventnor Avenue, West Perth, Western Australia on Monday, 20 November 2006 commencing at 10.30 am Western Standard Time and at any adjournment of the meeting.

Should you so desire to direct the Proxy how to vote, you should place a cross in the appropriate box(es) below:

I/We direct my/our Proxy to vote in the following manner:

	For	Against	Abstain
Resolution 1 – Adoption of Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2 – Election of Mr Martin Bennett as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3 – Election of Mr Jian Wu as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4 – Re-Election of Mr Paul Garner as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5 – Ratification of Previous Issue of Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6 – Ratification of Previous Issue of Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7 – Ratification of Previous Issue of Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 8 – Consolidation of Capital	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 9 – Grant of Options	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 10 – Issue of Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 11 – Grant of Director Options to Paul Garner	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 12 – Grant of Director Options to Russell Brimage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 13 – Employee Share Option Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 14 – Grant of Ridgelake Options	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 15 – Grant of Options to Zhong Wang	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 16 – Grant of Options to Weidong Zhang	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If no directions are given my proxy may vote as the proxy thinks fit or may abstain.

If the Chair of the meeting is appointed as your proxy, or may be appointed by default and you do not wish to direct your proxy how to vote as your proxy in respect of Resolution 13, please place a mark in this box..

By marking this box, you acknowledge that the Chair of the meeting may exercise your proxy even if he has an interest in the outcome of Resolution 13 and that votes cast by the Chair of the meeting for Resolution 13 other than as proxy holder will be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chair will not cast your vote on Resolution 13 and your vote will not be counted in calculating the required majority if a poll is called on Resolution 13.

The Chairperson intends to vote any undirected proxies in favour of the Resolutions.

<p><i>This Proxy is appointed to represent ___ % of my voting right, or if 2 proxies are appointed Proxy 1 represents ___% and Proxy 2 represents ___% of my total votes My total voting right is ___ shares</i></p>

If the shareholder(s) is an individual:

Dated: 2006

Dated: 2006

If the shareholder is a company:

Affix common seal (if required by Constitution)

Director/Sole Director and Secretary
Dated: 2006

Director/Secretary

INSTRUCTIONS FOR APPOINTMENT OF PROXY

1. A Shareholder entitled to attend and vote is entitled to appoint no more than two proxies to attend and vote at this Annual General Meeting as the Shareholder's proxy. A proxy need not be a Shareholder of the Company.
 2. Where more than one proxy is appointed, each proxy must be appointed to represent a specific proportion of the Shareholder's voting rights. If such appointment is not made then each proxy may exercise half of the Shareholder's voting rights. Fractions shall be disregarded.
 3. The proxy form must be signed personally by the Shareholder or his attorney, duly authorised in writing. If a proxy is given by a corporation, the proxy must be executed under either the common seal of the corporation or under the hand of an officer of the company or its duly authorised attorney. In the case of joint Shareholders, this proxy must be signed by at least one of the joint Shareholders, personally or by a duly authorised attorney.
 4. If a proxy is executed by an attorney of a Shareholder, then the original of the relevant power of attorney or a certified copy of the relevant power of attorney, if it has not already been noted by the Company, must accompany the proxy form.
 5. To be effective, forms to appoint proxies must be received by the Company no later than 48 hours before the time appointed for the holding of this Annual General Meeting, by post, facsimile or e-mail to the respective addresses stipulated in this proxy form.
 6. If the proxy form specifies a way in which the proxy is to vote on any of the resolutions stated above, then the following applies:
 - (a) the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way;
 - (b) if the proxy has 2 or more appointments that specify different ways to vote on the resolution, the proxy must not vote on a show of hands;
 - (c) if the proxy is Chairperson, the proxy must vote on a poll and must vote that way; and
 - (d) if the proxy is not the Chairperson, the proxy need not vote on a poll, but if the proxy does so, the proxy must vote that way.
- If a proxy is also a Shareholder, the proxy can cast any votes the proxy holds as a Shareholder in any way that the proxy sees fit.
7. The Chairperson intends to vote in favour of all resolutions in relation to undirected proxies.