

LION ENERGY LIMITED

ABN 51 000 753 640

NOTICE OF GENERAL MEETING

PROXY FORM

EXPLANATORY MEMORANDUM

and

INDEPENDENT EXPERT'S REPORT

The Independent Expert has concluded that the proposal the subject of Resolution 5 is fair and reasonable to the non-associated Shareholders of the Company.

DATE OF MEETING

3 April 2007

TIME OF MEETING

2.30 pm WST

PLACE OF MEETING

Ground Floor, 15 Rheola Street
West Perth, Western Australia

This Notice of 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 GENERAL MEETING

NOTICE IS HEREBY GIVEN that a General Meeting of Lion Energy Limited (“**Company**”) will be held at the offices of the Company, Ground Floor, 15 Rheola Street, West Perth, Western Australia on Tuesday, 3 April 2007 commencing at 2.30pm WST.

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

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

AGENDA

BUSINESS

Resolution 1 – Election of Mr Zhong Wang as a Director

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

"That Mr Zhong Wang having been appointed by the Board as an additional Director on 20 November 2006 and being eligible for re-election, be re-elected as a Director."

Resolution 2 – Election of Mr Weidong Zhang as a Director

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

"That Mr Weidong Zhang having been appointed by the Board as an additional Director on 20 November 2006 and being eligible for re-election, be re-elected as a Director."

Resolution 3 – Grant of Options to Mr Zhong Wang

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 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 1,000,000 Options 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 set out in the Explanatory Memorandum accompanying this Notice of Meeting."

<p>The Company will in accordance with section 224 of the Corporations Act disregard any votes cast on this Resolution 3 by Zhong Wang or any associate of Zhong Wang. 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 Zhong Wang or an associate of Zhong Wang in accordance with section 224(2) of the Corporations Act.</p>
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Resolution 4 – Grant of Options to Mr Weidong Zhang

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 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 1,000,000 Options 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 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 4 by Weidong Zhang or any associate of Weidong Zhang. 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 Weidong Zhang or an associate of Weidong Zhang in accordance with section 224(2) of the Corporations Act.

Resolution 5 – Approval of Acquisition of Shares

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

"That, for the purpose of section 611 item 7 of the Corporations Act and for all other purposes, the Company agrees to the acquisition of up to 8,529,148 fully paid ordinary shares in the capital of the Company by Mr Jian Wu from Mr Weidong Zhang on the terms and conditions more particularly described in the Explanatory Memorandum accompanying this Notice of Meeting."

No votes can be cast on Resolution 5 by Mr Wu, Mr Zhang or any of their associates.

Notes:

1. Further details of the above acquisitions are set out in the Explanatory Memorandum accompanying this Notice of Meeting, including further information required to be disclosed to Shareholders under ASIC Policy Statement 74 and the Listing Rules.
2. Shareholders are urged to read the Independent Expert's Report prepared by Bentleys MRI Perth Financial Services Pty Ltd which report is attached to the Explanatory Memorandum accompanying this Notice of Meeting. The Independent Expert has concluded that the proposal the subject of Resolution 5 is ***fair and reasonable*** to the non-associated Shareholders of the Company.

Resolution 6 – Adoption of Constitution

To consider, and if thought fit, to pass the following resolution as a **special resolution**:

"That, the Constitution contained in the document submitted to this meeting and signed by the Chairman for identification purposes be approved and adopted as the Constitution of the Company in substitution for the existing Constitution of the Company."

By Order of the Board of Directors

Jack Toby
Company Secretary
Lion Energy Limited

13 February 2007

PROXIES

- Votes at the 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, 15 Rheola St, West Perth, Western Australia 6005; or
- send the proxy form by facsimile to the Company on facsimile number (08) 9213 4311,
- 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 48 hours prior to the meeting.

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 1 April 2007 will be entitled to attend and vote at the 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 a General Meeting of the Company to be held at the offices of the Company, 15 Rheola Street, West Perth, Western Australia on Tuesday, 3 April 2007 at 2.30pm (WST).

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

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

Resolution 1 – Election of Mr Zhong Wang as Director

Pursuant to clause 13.5 of the Constitution, the Directors may appoint any person to be a Director, either as an addition to the existing Directors or to fill a casual vacancy. However, under clause 13.5, any such appointment terminates at the end of the next Annual General Meeting following the appointment.

Resolution 1 is an ordinary resolution and provides for confirmation of the appointment of Mr Zhong Wang to the Board pursuant to the Constitution.

Mr Wang was appointed as a Director of the Company on 20 November 2006 by the Board.

Mr Wang has gained wide experience in the roles of principal and general manager in a variety of companies in China. Mr Wang was also the senior manager in the investment banking division of an investment management group in Beijing. As a research associate he participated in an agriculture development research project. Mr Wang has also worked as a sales manager for an import-export company in Xining.

Mr Wang was employed by Sino Mining International in Sydney as an associate and project manager handling training in funding and financial trading management. During this time he also worked on the pre-due diligence process for a merger with Channar Iron Ore. He was based in Chicago for three years as a marketing manager handling a Sino-US joint venture project.

Mr Wang gained a Bachelor of Science in Economic Geography & Urban Planning at Northwest University in Shannxi, China, and a Masters of Science in Financial Markets & Trading at the Illinois Institute of Technology in Chicago, USA.

Resolution 2 – Election of Mr Weidong Zhang as Director

Pursuant to clause 13.5 of the Constitution, the Directors may appoint any person to be a Director, either as an addition to the existing Directors or to fill a casual vacancy. However, under clause 13.5, any such appointment terminates at the end of the next Annual General Meeting following the appointment.

Resolution 2 is an ordinary resolution and provides for confirmation of the appointment of Mr Weidong Zhang to the Board pursuant to the Constitution.

Mr Zhang was appointed as a Director of the Company on 20 November 2006 by the Board.

Mr Zhang obtained his PhD degree in chemical engineering from the University of Auckland in 1992. He worked for Comalco Limited, a wholly owned subsidiary of Rio Tinto Limited, for 5 years involved in process development and aluminium smelting operations. Mr Zhang has had considerable commercial experience, joining Sino Mining International Limited in Sydney in 1997 working in the corporate finance area and later in the business development international resources industry. Since 2001, Mr Zhang has been involved in general management of an alumina subsidiary of Sino Mining International Limited, Sino Mining Alumina Limited.

Mr Zhang is also a director of other three Australian resources-related companies.

Resolutions 3 and 4 – Grant of Options to Zhong Wang and Weidong Zhang

Introduction

On 20 November 2006 Shareholders voted at the Company's Annual General Meeting ("AGM") to approve the grant of 1,000,000 Options each to Messrs Zhong Wang and Weidong Zhang in accordance with Listing Rule 7.1.

Although approval to grant the Options to Messrs Wang and Zhang was obtained at the AGM, the Options have not been granted. This is because at the time of the AGM, the Company contemplated appointing Messrs Wang and Zhang as Directors. Messrs Wang and Zhang were appointed Directors on 20 November 2006. Persons who are proposed to be related parties in the future are also considered to be related parties of the Company. As a consequence, Shareholder approval for the grant of the Options sought at the AGM should have been obtained pursuant to section 208 of the Corporations Act and under Listing Rule 10.11 rather than under Listing Rule 7.1.

Accordingly, Resolutions 3 and 4 are now, once again, put before Shareholders to approve the grant of Options to Messrs Wang and Zhang pursuant to section 208 of the Corporations Act and Listing Rule 10.11.

The Company proposes to grant a total of 2,000,000 Options to Messrs Wang and Zhang (together the "**Participating Directors**"), or their nominees, as follows:

<u>Name</u>	<u>Options</u>
Zhong Wang, or his nominee	1,000,000
Weidong Zhang, or his nominee	1,000,000

The Options are exercisable \$0.35 on or before 31 August 2011. The full terms of the Options are set out in Annexure A to this Explanatory Memorandum.

Each Participating Director has agreed that the 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 the Options to Messrs Wang and Zhang is in recognition of the valuable contribution the Participating Directors have made to the Company. Messrs Wang and Zhang have both acted in the capacity of advisor to the Company and have provided valuable assistance to the Company in its recent capital raising activities.

Accordingly, the Company considers the grant of the 1,000,000 Options each to Messrs Wang and Zhang is a suitable reward for their efforts.

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 3 and 4 provide for the grant of 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>
Zhong Wang, or his nominee	1,000,000
Weidong Zhang, or his nominee	1,000,000

- (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 Options for no consideration on the terms and conditions set out in Resolutions 3 and 4 and Annexure A to this Explanatory Memorandum.

- (c) Directors' recommendation:

All Directors were available to consider Resolutions 3 and 4.

Messrs Russell Brimage, Jian Wu, Weidong Zhang and Paul Garner (who do not have an interest in Resolutions 3) recommend that the Shareholders approve the grant of the Options under Resolutions 3 to Mr Wang for the reasons outlined above.

Mr Wang declined to make a recommendation to Shareholders in respect of Resolution 3 as he has a material personal interest in the outcome of the Resolution by virtue of the proposed grant of Options to him or his nominee.

Messrs Russell Brimage, Jian Wu, Zhong Wang and Paul Garner (who do not have an interest in Resolutions 4) recommend that the Shareholders approve the grant of the Options under Resolutions 4 to Mr Zhang for the reasons outlined above.

Mr Zhang declined to make a recommendation to Shareholders in respect of Resolution 4 as he has a material personal interest in the outcome of the Resolution by virtue of the proposed grant of Options to him or his nominee.

- (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 3 and 4 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 2,000,000 Options on the terms and conditions as set out in Annexure A to this Explanatory Memorandum and as otherwise mentioned above. The Company currently has 29,000,000 options and 60,922,354 Shares on issue.
 - (ii) The Options have been valued using the Cox, 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 Options to be valued and the results of the valuation methodologies employed.

Item	Note	
Underlying security spot price	1	\$0.45
Exercise price		\$0.35
Dividend rate	2	-
Risk free rate		5.25%
Valuation date	3	05/02/07
Estimated grant date		15/03/07
Expiration date		31/08/11
Volatility	4	180.8%, 69.5%, 3.4%
Binomial valuation (\$ per security)		\$0.30

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 2 February 2007.
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 5 February 2007.

4. The valuation is an average of the 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 Options are granted would have an impact on their value.

- (iii) If any Options granted as proposed are exercised, the effect would be to dilute the shareholding of existing Shareholders. Based on the number of Shares and options on issue, then, assuming all options and Options are exercised, the total dilution would be approximately 2.18%. The market price of the Company's Shares during the period of the Options will normally determine whether or not option holders exercise the Options. At the time any Options are exercised and Shares are issued pursuant to the exercise of the Options, the Company's Shares may be trading on ASX at a price which is higher than the exercise price of the Options.
- (iv) As at the date of this Notice, the Participating Directors and their associates have relevant interests in securities in the Company as follows:

Name	Number of Shares	Number of Options
Zhong Wang	8,529,148	NIL
Weidong Zhang	8,529,148	NIL

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

Name	Role	Remuneration (\$)
Zhong Wang	Executive Director and Chief Financial Officer	\$120,000 per year
Weidong Zhang	Director	\$52,000 per year

- (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 [9/02/2007]:

Security	Highest Price (\$)	Date of highest price	Lowest Price (\$)	Date of lowest price	Latest Price on 09/02/2007 (\$)
Ordinary Shares	0.60	16/06/2006	0.30	07/04/2006	0.29

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 Options will be granted to the Participating Directors, or their nominees;
- (b) the maximum number of Options to be granted is 2,000,000;
- (c) the Options will be allotted and granted on a date which will be no later than 1 month after the date of this General Meeting, or such later date as approved by ASX;
- (d) the Options will be granted for no consideration;
- (e) no funds will be raised by the grant of the Options; and
- (f) the terms and conditions of the Options are set out in Annexure A to this Explanatory Memorandum.

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

Resolution 5 – Approval of Acquisition of Shares

Resolution 5 seeks Shareholder approval, pursuant to section 611 Item 7 of the Corporations Act and for all other purposes, for the acquisition by Mr Jian Wu from Mr Weidong Zhang of Shares in the Company.

Introduction and Summary of the Transaction

On 11 January 2007, the Company was advised that the Chairman of the Company, Mr Jian Wu, entered into a share sale agreement with Mr Weidong Zhang, also a Director of the Company, whereby Mr Wu will acquire from Mr Zhang 8,529,148 Shares ("**Sale Shares**") for

a total consideration of approximately \$3,155,785 (representing \$0.37 per Share) ("**Agreement**").

The consideration payable by Mr Wu for the Sale Shares will be approximately \$3,155,785 payable to Mr Zhang by bank cheque or as otherwise directed by Mr Zhang on completion.

Completion of the purchase of all of the Sale Shares is subject to Shareholders approving the purchase of the Sale Shares by Mr Wu in accordance with Item 7 of section 611 of the Corporations Act and satisfaction of any regulatory requirements of ASIC or the ASX. Completion of the purchase is scheduled to take place three Business Days after the satisfaction of the conditions precedent or any other date that Mr Wu and Mr Zhang agree to in writing.

Resolution 5 is an ordinary resolution. The passing of Resolution 5 will empower Mr Wu to acquire the Sale Shares upon the above terms and conditions.

Section 611 of the Corporations Act

Section 606 of the Corporations Act prohibits a person acquiring a relevant interest in issued voting shares in a listed company if, as a result of the acquisition, that person's or someone else's voting power in the company increases from less than 20% to more than 20%, or from a starting point that is above 20% and below 90%.

A person's "voting power" for these purposes means the total number of votes that the person and his or its associates has a relevant interest in, expressed as a percentage of total votes attaching to all shares in the entity.

A person has a relevant interest in securities if they:

- (a) are the holder of the securities; or
- (b) have power to exercise, or control the exercise of, a right to vote attached to securities; or
- (c) have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

A person is an "associate" of another person if, amongst other things, they have entered into an agreement, arrangement or understanding for the purpose of controlling or influencing the composition of a company's board of directors or the conduct of affairs of such company.

There are various exceptions to the prohibition in section 606, including under section 611 item 7 of the Corporations Act. Section 611 item 7 provides an exception to the prohibition in section 606, in circumstances where the shareholders of the company approve an acquisition of shares by virtue of an allotment or acquisition at a meeting at which no votes are cast by parties involved in the proposed acquisition, including their associates.

Mr Wu's associates currently hold 7,993,540 Shares and 13.12% of the voting power in the Company as set out below:

Associate	No. of Shares	Voting Power (%)
Ms Ling Gu	7,993,540	13.12
Total	7,993,540	13.12

Pursuant to the terms of the Agreement, Mr Wu has, subject to Shareholder approval, agreed to acquire the Sale Shares.

Accordingly, if Mr Wu acquires the Sale Shares Mr Wu, and his associates, will hold up to 16,522,688 Shares and 27.12% of the voting power in the Company.

The following paragraphs set out information required to be provided to Shareholders under ASIC Policy Statement 74. Shareholders are also referred to the Independent Expert's Report prepared by Bentleys MRI Perth Financial Services Pty Ltd attached to this Explanatory Memorandum.

1. Identity of Persons who will hold a relevant interest in the Shares to be acquired

The identity of the acquirer is Mr Wu as noted above who will, at the point in time of acquisition of the Sale Shares the subject of Resolution 5, have a relevant interest in 27.12% of the issued capital of the Company.

Mr Jian 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, with Mr Wu as its chairman and general manager, the company grew to a value of US\$30m.

Mr Wu 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\$200m.

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

Ms Ling Gu was born on 15th June, 1966. She graduated in 1989 from Kunming Medical College, China after five years of study there. Since July 1989, she worked in Kunming Yan'an Hospital, China. In November 2002, Ms Gu migrated to Canada where she commenced building her investment portfolio.

2. Shares to which the allottees will be entitled immediately before and after the allotment

The tables and commentary set out above and the Independent Expert's Report sets out the present relevant interests in Shares held by Mr Wu and his associates and the maximum number and percentage of Shares Mr Wu will obtain as a result of the approval of Resolution 5 by Shareholders.

3. *The identity, associations and qualifications of proposed directors*

If Shareholders pass Resolution 5, it is not currently proposed to appoint any further Directors to the Board of the Company.

4. *Intentions of the Acquirers regarding the future of the Company*

As at the date of this document, the Company understands that Mr Wu:

- (a) has no intention of changing the business of the Company;
- (b) does not propose to inject further capital into the Company;
- (c) intends to retain the present employees of the Company;
- (d) does not propose that any property be transferred between the Company and Mr Wu or any person associated with Mr Wu; and
- (e) has no intention to otherwise re-deploy any fixed assets of the Company.

5. *Intentions regarding the financial or dividend policies of the Company*

There is no present intention to change the Company's existing policies in relation to financial matters or dividends.

6. *Reasons for the proposed purchase of Shares*

Mr Wu intends to increase his exposure to the Company which he regards as an attractive investment in the oil and gas exploration industry.

7. *Are the allotments fair and reasonable?*

The Board has commissioned Bentley's MRI Perth Financial Services Pty Ltd to report on whether or not the proposal is fair and reasonable to Shareholders not associated with Mr Wu and Mr Zhang. The report of Bentley's MRI Perth Financial Services Pty Ltd is attached to this Explanatory Memorandum. Shareholders are urged to read the Independent Expert's Report.

The Independent Expert concludes the proposal the subject of Resolution 5 is fair and reasonable to the non-associated Shareholders of the Company.

8. *Details of the Directors Interests*

As noted above, Mr Jian Wu is the Chairman of the Company and Mr Weidong Zhang is a Director of the Company.

Each of Messrs Brimage, Wang and Garner have no interest in the transaction for which section 611 item 7 approval is sought under Resolution 5.

9. *Recommendations of non-associated Directors*

Messrs Brimage, Wang and Garner are considered independent for the purposes of Resolution 5, as they do not have any personal interest in the outcome of Resolution 5.

Messrs Brimage, Wang and Garner recommend that Shareholders vote in favour of Resolution 5 as the acquisition: The reasons for the Directors' recommendation are:

- if Resolution 5 is not passed and Mr Wu is not permitted to acquire the Sale Shares, Mr Zhang may sell all or some of the Sale Shares on market having the likely effect of depressing Share prices; and
- the Independent Expert is of the opinion that the proposal outlined by Resolution 5 is fair and reasonable.

All of the non-associated Directors were available to consider the proposed Resolution 5 and have approved the proposal to put the Resolution to Shareholders.

In accordance with the Corporations Act, no votes can be cast on Resolution 5 by Mr Wu, Mr Zhang or any associates of those persons.

Resolution 6– Adoption of Constitution

Resolution 6 asks members to approve a special resolution adopting a new Constitution in substitution for the existing Constitution of the Company. The Company's present Constitution was first adopted in November 2000 under the Corporations Law and reflects the former name of the Company, Kalrez Energy Limited. The new Constitution complies with the Listing Rules of the Australian Securities Exchange and the Australian Corporations Act 2001 and is consistent with constitutions for publicly listed companies in Australia.

Copies of the current and proposed Constitution are available for perusal by Shareholders at the Company's registered office.

The Directors of the Company unanimously recommend that Shareholders vote to approve Resolution 6 and adopt the proposed new Constitution for the Company.

The Constitution proposed to be adopted is substantially similar to the present Constitution but differs from the present Constitution in the following material respects:

a) Preference Shares (Clause 2.4)

Under the new Constitution, current clauses 2.4(c), (d) and (e) have been deleted and replaced by a new clause 2.4(c). New clause 2.4(c) provides that in respect of any preference Shares issued by the Company, subject to the terms of any particular class of preference Shares, the issue of securities ranking equally, or any conversion of existing securities to securities ranking equally, to an existing class of preference Shares is not taken to be a variation or abrogation of the rights attached to that existing class of preference Shares. Under the current clause 2.4(d), such issue or conversion is considered a variation or abrogation of the rights attaching to that existing class of preference Shares.

Under the new Constitution there is no longer the requirement to ensure that the total nominal value of issued preference Shares does not exceed the nominal value of the issued ordinary Shares at any time as is required under the current clause 2.4(c).

The current clause 2.4(e) requiring all conditions, restrictions or rights attaching or relating to any preference Shares issued be set out in the Constitution by amendment

to the Constitution prior to the issue of any such Shares has been deleted in the new Constitution.

b) Reductions of capital (Clause 9.2)

Clause 9.2 has been inserted and provides that in the event the Company reduces its Share capital by distributing to its Shareholders shares, options or other securities in another Corporation, Shareholders are deemed to have agreed to become members of that corporation and that each Shareholder appoints the Company or any of its Directors as its agent to execute any transfer or other document required to effect the distribution of shares, option or other securities to the Shareholders.

c) General Meeting of Shareholders (Clause 11.5)

Subject to sections 249D(5) and 250N of the Corporations Act, new clause 11.5 provides the Directors may postpone a meeting of Shareholders, cancel a meeting of Shareholders or change the place for a general meeting by written notice to the ASX. If the meeting is postponed for 1 month or more, the Company must give a new notice of the postponed meeting.

d) Chairman

Clause 12.4 of the new Constitution enables the Directors to elect an individual to act as Chairman at meetings of Company members. In the event a Chairman has not been elected or is not present within 15 minutes of the scheduled commencement time of the meeting, the Directors may elect any individual present to be Chairman of the general meeting. New clause 12.4 removes the requirement on Directors to elect another Director to act as Chairman for general meetings.

e) Chairman's casting vote during general meeting proceedings (Clause 12.7(c))

In the case of an equality of votes on a show of hands or poll, the Chairman of the meeting has a casting vote in addition to any vote to which the Chairman may be entitled as a Shareholder, or as a proxy, attorney or properly appointed representative of a Shareholder.

f) Instrument of proxy (Clause 12.18(b))

New clause 12.18(b) provides that if a notice of meeting specifies an electronic means by which a Shareholder may give an instrument of proxy, any instrument of proxy sent by electronic means will be taken to be duly signed provided it has been authenticated in a manner approved by the Directors in accordance with the Corporations Act.

g) Remuneration (Clause 13.8)

This provision reflects the position stated in ASX Listing Rule 10.17 requiring Shareholder approval for any increase in fees paid to Directors for their services as a Director. Clause 13.8 simply clarifies the position that Shareholder approval is not required to set or increase the remuneration of the Managing Director or Executive Directors, which is determined by the Board. The current clause 17.2 (which remains unchanged) currently acknowledges this.

h) Qualification of Directors (Clause 13.10)

This provision amends the current clause 13.10 by removing the requirement that a person of or over the age of 72 years can only be appointed or re-appointed as a Director by a resolution of the Company in accordance with the Corporations Act.

i) Quorum (Clause 15.3)

Clause 15.3 enables quorum at a Directors' meeting to be met by two Directors, or any greater number as identified by Directors, entitled to present either in person or by instantaneous communication device. Previously, clause 15.3 required at least two Directors to be present in person before quorum could be met.

j) Casting Votes (Clause 15.5)

Clause 15.5 of the current Constitution provides that in the case of an equality of votes at a Directors' meeting, the Chairman shall have a second or casting vote, except in circumstances where there are only 2 Directors competent to vote on the question.

Under the new Constitution this clause has been removed so that the Chairman does not have a casting vote.

k) Disclosure of Interests and Voting (Clause 15.14)

New clause 15.14 provides that a Director must disclose a material personal interest in a matter which relates to the affairs of the Company where required by the Corporations Act, informing the other Directors of the nature and extent of the interest and the relation of the interest to the affairs of the Company at a Directors' meeting as soon as practicable after the Director becomes aware of the interest. Unless otherwise permitted under the Corporations Act, the Director with the material personal interest must not be present while the matter is being considered at a Directors' meeting or vote on the matter.

l) Contracts not Avoided (Clause 15.15)

Clause 15.15, provides that no Director shall be disqualified by his office from contracting with the Company, or that any contract entered into by or on behalf of the Company where a Director has an interest shall not be avoided or prejudiced on that account, nor shall any Director be liable to account to the Company for any profit arising from such a contract merely because the Director holds that office provided that the Director has complied with new clause 15.15. The current clause 15.15 simply provides that a Director shall not vote on any resolution relating to a contract or arrangement in which he has directly or indirectly a material interest.

m) Related Body Corporate Contracts (Clause 15.16)

Under the current Constitution clause 15.16 provides that a Director shall not be deemed to be interested or to have been at any time interested in any contract or arrangement simply because the contract or arrangement has been made with, for the benefit of, or on behalf of a Related Body Corporate, where the Director is a shareholder in that Related Body Corporate. This clause has been deleted under the

new Constitution as it is effectively covered by new clause 15.14 which reflects the current law under the Corporations Act.

n) Voting, Affixation of Seal (Clause 15.17)

Under the current Constitution clause 15.17 provides that a Director may in all respects act as a Director in relation to any contract or arrangement which he is interested, including in relation to the use of the Seal. However, the Director may not vote in relation to any contract or proposed contract or arrangement in which the Director has a direct or indirect material interest. In these circumstances the Director must comply with section 195 of the Corporations Law. This clause has been deleted under the new Constitution as it is effectively covered by new clause 15.14 which reflects the current law under the Corporations Act.

o) Alternative Method of Payment of Dividend (Clause 22.6)

New clause 22.6(b) provides that in the event the Company is required to distribute to its Shareholders by way of dividends, shares, options or other securities in another corporation, Shareholders are deemed to have agreed to become members of that corporation and that each Shareholder appoints the Company or any of its Directors as its agent to execute any transfer or other document required to effect the distribution of shares, option or other securities to the shareholders.

p) Notices - Service (Clause 26)

New clauses 26.1(c), (d) and (e) permits the Company to send notices by fax, electronic address, or any other electronic means nominated by the person who is to receive a notice under the Constitution, or by giving notice in accordance with section 249J(3A) of the Corporations Act.

q) Notices - Service by Person or Post (Clause 26)

Clause 26.2 provides that all notices sent by post are deemed to be effected on the day after the date of its posting by properly addressing, prepaying and posting a letter containing the notice. Under the current clause 26.2 the forgoing only applies only to a notice of a meeting. In all other cases service is effected by post at a time when a letter is received in ordinary course of post.

r) Notices - Service by Facsimile or electronic notification (Clause 26)

Clause 26.3 provides that where a notice is sent by facsimile or electronic notification, it is deemed to have been served on the day of its transmission, except if it was transmitted on a day which is not a Business Day or after 5pm (local time in the place of receipt) on a day which is a Business Day, in which case it is taken to be served on the next Business Day. Under the current clause 26.3 notice is deemed to have been served on next Business Day following its dispatch.

s) Indemnity (Clause 28)

Clause 28 extends the current provision providing that an indemnity to officers of the Company in respect of liability incurred in their capacity as an officer of the Company is to now also include auditors in the indemnity cover.

t) Documentary Indemnities (Clause 28.3)

New clause 28.3 enables the Company, where the Directors consider it appropriate, to execute a documentary indemnity in any form in favour of any officer of the Company or a subsidiary.

u) Directors' access to information (Clause 29)

New clause 29 provides that where the Directors consider it is appropriate, the Company may give a former Director access to certain papers and documents.

v) Inadvertent omissions (Clause 31)

Clause 31 provides that if some formality required by the Constitution is inadvertently omitted or is not carried out, the omission does not invalidate any resolution, act, matter of thing which but for the omission would have been valid unless it is proved to the satisfaction of the Directors that the omission has directly prejudiced any Shareholder financially.

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 ASX Limited ABN 98 008 624 691 and, where the context permits, the Australian Securities Exchange operated by ASX Limited.
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 <i>Corporations Act 2001</i> (Cth).
Corporations Regulations	means <i>Corporations Regulations 2001</i> (Cth).
Director	means a director of the Company.
Independent Expert	means Bentleys MRI Perth Financial Services Pty Ltd ACN 064 260 260.
Listing Rules	means the Listing Rules of ASX.

Notice or Notice of Meeting	means the Notice of General Meeting accompanying this Explanatory Memorandum.
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.
Resolution	means a resolution contained in the Notice.
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 Securities Exchange.

- (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.

12 February 2007

The Directors
Lion Energy Ltd
15 Rheola Street
WEST PERTH WA 6005

Attention: Mr Zhong Wang

Dear Sirs,

LION ENERGY LIMITED (“LION” OR “COMPANY”) (ABN 51 000 753 640) MEETING OF SHAREHOLDERS PURSUANT TO SECTION 611 OF THE CORPORATIONS ACT (“TCA”) RELATING TO THE PROPOSAL TO ACQUIRE SHARES IN THE COMPANY

1. INTRODUCTION

- 1.1 We have been requested by the Directors of Lion to prepare an Independent Expert’s Report to determine the fairness and reasonableness relating to the proposal pursuant to Resolution 5 detailed in the Notice of General Meeting to Lion Shareholders (the “Notice”).
- 1.2 Resolution 5 proposes that shareholders approve the acquisition of up to 8,529,148 fully paid ordinary shares in the Company by Mr Jian Wu from Mr Weidong Zhang.
- 1.3 On 11 January 2007, the Chairman of the Company, Mr Wu, entered in a share sale agreement (“Agreement”) whereby Mr Wu will acquire from Mr Zhang, a Director of the Company, up to a total of 8,529,148 shares (“Sale Shares”). The consideration payable for the Sale Shares is \$3,155,785, representing 37 cents per share and is payable in cash or bank cheque.
- 1.4 Completion of the purchase of all of the Sale Shares is subject to shareholders approving the purchase of Sale Shares by Mr Wu in accordance with Item 7 of section 611 of TCA and satisfaction of any regulatory requirements of Australian Securities and Investment Commission (“ASIC”) or the Australian Securities Exchange (“ASX”).
- 1.5 Under Section 606 of the TCA, a person must not acquire a relevant interest in issued voting shares in a company if because of the transaction, that persons or someone else’s voting power in the company increases:
 - a) from 20% or below to more than 20%; or
 - b) from a starting point that is above 20% and below 90%.

Under Section 611 (Item 7) of TCA, section 606 does not apply in relation to any acquisition of shares in a company approved by resolution passed at a general meeting at which no votes were cast in favour of the resolution by the acquirer or the disposer or their respective associates. In addition to the information which section 611 requires the Company to give to the shareholders, ASIC Policy Statement 74 requires inclusion in the Notice of Meeting of an independent expert’s report on the fairness and reasonableness of the transaction.

- 1.6 Under the TCA a person's voting power in a company is the total of the votes attaching to the shares in that company in which that person has a relevant interest, and that person's associates (within the meaning of the TCA) have a relevant interest.
- 1.7 The voting power of a person in a company is determined by reference to section 610 TCA. By virtue of section 608 TCA, in addition to being the registered holder of shares, a relevant interest in shares is also achieved by having power to exercise or control the exercise of votes or disposal of the shares. In addition, a person will have a relevant interest in securities held by a company, if the person has over 20% voting power in that company.
- 1.8 Associates are determined as a matter of fact, for example where a person controls or influences the board or the conduct of a company's business affairs, or acts in concert with a person in relation to the entity's business affairs.
- 1.9 Mr Wu does not currently hold shares in the Company. His wife, Ms Ling Gu, currently holds 7,993,540 shares in the Company or 13.12 % of the issued capital of the Company. Under TCA, it is considered that Mr Wu, because of his association with Ms Gu, currently holds a relevant interest of 13.12% of the issued capital of the Company. For the purposes of this report Mr Wu and Ms Gu are deemed associated parties ("Associated Parties").

At the date of this report the Associated Parties hold 13.12% of the voting power of the current issued capital in Lion. Assuming Resolution 5 is passed and consummated the voting power of the Associated Parties will increase by 14% to 27.12%.

- 1.10 We are advised by Mr Zhang that due to his other investment commitments he wishes to sell his holding of shares in the Company. Further, he states by selling off-market there will be no negative impact on the Company share price.
- 1.11 There are five other resolutions being put to the shareholders of Lion. We are not reporting on the fairness and reasonableness of any resolutions other than Resolution 5.
- 1.12 Apart from this introduction, this report considers the following:
- Summary of opinion
 - Implications of the proposals
 - Corporate history and nature of business of Lion
 - Fairness and reasonableness of the offer
 - Sources of information
 - Appendix A

2. SUMMARY OF OPINION

- 2.1 In determining the fairness and reasonableness of the transaction pursuant to Resolution 5, we have had regard for the definitions set out by the Australian Securities and Investments Commission ("ASIC") in its Policy Statements 74. Policy Statement 74 states that in all cases, where an acquisition of shares by way of an allotment is to be approved by shareholders pursuant to section 611 (Item 7) of TCA, a report by an Independent Expert should be presented stating whether or not the proposal is fair and reasonable, having regard to the interest, of shareholders other than the proposed allottees (namely the Associated Parties).

Accordingly, our report relating to Resolution 5 is concerned with the fairness and reasonableness of the proposal with respect to the existing shareholders of Lion who are not associated with the Associated Parties ("Non-Associated Shareholders").

2.2 In our opinion:

The proposal as outlined in Resolution 5 which provides for the acquisition of 8,529,148 ordinary fully paid shares in the Company by the Associated Parties from Mr Zhang, a

Director of the Company, is considered on balance **fair and reasonable** to the non-associated shareholders.

The opinion expressed above is to be read in conjunction with the more detailed analysis and comments made in this report.

3. IMPLICATIONS OF THE PROPOSALS

3.1 As at 11 January 2007, there were 60,922,354 ordinary fully paid shares on issue in Lion. The six significant shareholders at that date held 53.97% of the issued capital and are as follows:

	No. of fully paid shares	% of issued fully paid shares
Mr Zhong Wang	8,529,148	14.00
Mr Weidong Zhang	8,529,148	14.00
Associated Parties*	7,993,540	13.12
Mr Tianxing Zheng	3,000,000	4.92
Mrs Wenmei Hu	2,815,310	4.62
Zapac Pty Ltd	2,011,523	3.30
Other investors	28,043,685	46.03
Total Shares on Issue	<u>60,922,354</u>	<u>100</u>

*Comprises shares held by Ms Gu, whom is the wife of the Chairman of the Company, Mr Wu.

3.2 Assuming Resolution 5 is passed and consummated the Associated Parties will acquire 8,529,148 ordinary shares from Mr Zhang for a total consideration of \$3,155,785 representing a payment of 37 cents per share. The increase in the voting power of the Associated Parties will be by 14% to 27.12% as follows:

	No. of fully paid shares	% of issued fully paid shares
Associated Parties*	16,522,688	27.12
Mr Zhong Wang	8,529,148	14.00
Mr Tianxing Zheng	3,000,000	4.92
Mrs Wenmei Hu	2,815,310	4.62
Zapac Pty Ltd	2,011,523	3.30
Other investors	28,043,685	46.03
Total Shares on Issue	<u>60,922,354</u>	<u>100</u>

*Comprises shares held by Ms Gu (7,993,540) and Mr Wu (8,529,148).

Upon approval and consummation of Resolution 5 the Associated Parties will become the largest individual shareholder of the Company, as illustrated in the table above.

3.3 The purchase consideration of \$3,155,785 is a private transaction between Messrs Zhang and Wu and as such these funds will not transact in the accounts of the Company. Further, the passing and consummation of Resolution 5 will not alter the total number of shares and options on issue in the Company.

3.4 At the time of this report Lion has issued 29 million options exercisable at 35 cents each and expiring on 31 August 2011.

We are advised by the Directors of the Company that the Associated Parties do not hold any options in the Company. Given the share price has exceeded the exercise price several times in December 2006 and January 2007 it is reasonable to assume that the current option holders may exercise their options. If this does occur then the voting power of the Associated Parties in the Company will be diluted.

3.5 If Resolution 5 is not passed and consummated the Associated Parties will not become the largest individual shareholder holding 27.12% of the voting power of the Company, but will retain its current shareholding of 13.12% of the voting power (refer table 3.1). We are advised by the Directors of the Company that if Resolution 5 is not passed then the Associated Parties will not be permitted to acquire the Sale Shares and there may be uncertainty in relation to whether Mr Zhang will sell all or some of the Sale Shares on-market. This may negatively impact the share trading price.

4. RECENT HISTORY AND FUTURE DIRECTIONS OF LION

4.1 Lion Energy Ltd is a public company listed on the ASX and its activities include the participation in the exploration and production in the upstream oil and gas sector.

4.2 The Company's strategy includes the acquisition of exploration and development of oil and gas opportunities and is focused on South East Asia. Its primary asset is a strategic interest in a production sharing contract on the island of Seram in Indonesia. On 23 November 2006, the Company announced it has received a Put Option to sell its interests in this project for approximately USD \$4.7 million, subject to adjustment.

4.3 In September 2006 the Company announced it had entered into a Letter of Intent to earn up to a 30% interest in various mining leases in the Gulf of Mexico. It also issued a prospectus in September 2006 and raised before costs \$10,661,435. On 14 December 2006 the Company announced its intention to commence drilling in the Gulf of Mexico.

4.2 We have been advised by the Directors of Lion that:

- There are no proposals currently contemplated whereby Lion will acquire any property or assets from the Associated Parties or any other party associated with them. Further, there are no proposals to transfer any of the Company's property or assets to the Associated Parties or any other party associated with them;
- The composition of the Board will not change but is subject to the passing of Resolutions 1 and 2;
- There is no intention to change the dividend or financial policy or employment arrangements or business direction of the Company; and
- The Associated Parties do not have any present intention to inject further funds into the Company.

The Directors of the Company advise that it will focus on major exploration and resource extension drilling programmes in the Gulf of Texas. Further, under the Put Option agreement the Company had a three month period from 2 November 2006 to decide if it will sell its interest in the production sharing contract in Seram, Indonesia. This has now expired.

5. FAIRNESS AND REASONABLENESS OF THE PROPOSAL

5.1 Resolution 5 contemplates the Associated Parties acquiring up to a total of 8,529,148 shares for a total consideration of \$3,155,785. Should Resolution 5 be passed and consummated there will be no impact upon the financial position of the Company. Further, there will be no change in the number of shares on issue and no dilution of voting power will occur to the non-associated shareholders of the Company.

5.2 Should Resolution 5 be passed the Associated Parties will acquire 8,529,148 shares and increase their voting power from 13.12% to 27.12%, as illustrated in paragraph 3.1 and 3.2 of this report. Assuming no new shares are issued, the Associated Parties will become the largest shareholder in the Company.

The above will transfer significant control of the Company to the Associated Parties, whom would have the ability to influence future decisions that may be for their own purposes. However, we note that the Associated Parties will not obtain absolute control of the Company and presumably all shareholders will benefit from decisions that are intended to increase share prices or generate future profits.

5.3 The Share Sale Agreement provides that the Associated Parties will pay for the acquisition of the 8,529,148 shares a purchase price calculated by the volume weighted average share price in the five trading days commencing 1 January 2007.

As the share sale is off-market then the non-associated shareholders are not affected by the price paid by the Associated Parties. However, if Mr Zhang was to sell his 8,529,148 holding of shares on-market it is likely this sale may depress the share price.

Further, if the non-associated shareholders do not approve Resolution 5, then arguably there may be uncertainty in the market as to whether Mr Zhang would seek to sell shares on-market and thereby may depress the share price.

5.4 After taking into account the matters referred above and elsewhere in this report, we are of the opinion that the proposal as outlined in Resolution 5, on balance, be considered fair and reasonable to the non-associated shareholders of Lion.

6. SOURCES OF INFORMATION

6.1 In making our assessment as to whether the proposal is fair and reasonable, we have reviewed relevant published available information and other unpublished information of the Company that is relevant to the current circumstances. In addition, we have held discussions with the directors and management of Lion about the present and future operations of Lion. Statements and opinions contained in this report are given in good faith but in the preparation of this report, we have relied in part on information provided by the directors and management of Lion.

6.2 Information we have received includes, but is not limited to:

- Draft Notice of General Meeting of Shareholders of Lion and draft Explanatory Statement prepared to 12 February 2007;
- Discussions with management and directors of Lion;
- Details of historical market trading of Lion ordinary fully paid shares recorded by the ASX to 12 February 2007;
- Annual Report and audited accounts for Lion as at 30 June 2006;
- Announcements made by Lion to the ASX to 12 February 2007;
- Share Sale Agreement between Messrs Zhang and Wu dated 11 January 2007; and

- Lion internet website.

6.3 Our report includes Appendix A attached to this report.

Yours faithfully

BENTLEYS MRI PERTH FINANCIAL SERVICES PTY LTD
(Australian Financial Services Licence No. 259864)



MAURICE L ANGHIE
DIRECTOR



MICHAEL HILLGROVE
DIRECTOR

APPENDIX 1

FINANCIAL SERVICES GUIDE

Bentley MRI Perth Financial Services Pty Ltd

1. Bentley's MRI Perth Financial Services Pty Ltd (ABN 92 064 260 260) (BMRIFS) is a specialist valuation firm which provides valuation advice, valuation reports and Independent Expert's Reports in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
2. BMRIFS holds Australian Financial Services Licence No 259864.

Financial Services Guide

3. The Corporations Act 2001 authorises BMRIFS to provide this Financial Services Guide (FSG) in connection with its provision of the Independent Expert Report (Report) to be sent to Lion Energy Ltd (Lion) in relation to the acquisition of shares by the Associated Parties.
4. This FSG is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about BMRIFS generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

5. Our Australian financial services licence allows us to provide financial product advice for the following classes of financial products:
 - securities; and
 - superannuationto retail and wholesale clients.

General financial product advice

6. The Report contains only general product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
7. You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your own situation. You may wish to obtain personal financial product advice from the holder of an Australia Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

8. BMRIFS charges fees to produce reports, including this Report. These fees are negotiated and agreed with the entity who engages BMRIFS to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us.
9. Neither BMRIFS nor its directors and officers receive any commissions or other benefits, except for the fees for services referred to above.
10. All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of

performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.

11. We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

12. If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
13. If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Industry Complaints Service (FICS), an external complaints resolution service. You will not be charged for using the FICS service.

Contact details

14. BMRIFS can be contacted by sending a letter to the following address:

Level 1
10 Kings Park Road
West Perth WA 6005

QUALIFICATIONS, DECLARATIONS AND CONSENTS

Qualifications

1. BMRIFS is a licensed investment adviser under the Corporations Act. BMRIFS's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared numerous valuations and Independent Expert's Reports.
2. This report was prepared by Messrs Anghie and Hillgrove whom are directors of BMRIFS. They have considerable experience in the provision of valuation advice.

Declarations

3. This Report has been prepared at the request of Lion and is to be used in the Notice of the General Meeting in February 2007. It is not intended that this Report should serve any purpose other than as an expression of our opinion in relation the matters it refers.

Interests

4. At the date of this report, neither BMRIFS nor Messrs Angie and Hillgrove has any interest in the outcome of the Resolution considered in the Report. BMRIFS is entitled to receive a fee for the preparation of this report based on time expended at our standard hourly professional rates. With the exception of the above fee, BMRIFS will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.

Indemnification

5. As a condition of BMRIFS's agreement to prepare this report, Lion agrees to indemnify BMRIFS in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Lion which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

6. BMRIFS does not consent to the inclusion of this report in the form and context in which it is any publication without its express authority.

LION ENERGY LIMITED
ABN 51 000 753 640
PROXY FORM

The Company Secretary
 Lion Energy Limited
 Registered Office Address:

Ground Floor
 15 Rheola Street
 WEST PERTH WA 6005
 (08) 9213 4311

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 General Meeting as my/our proxy to vote for me/us and on my/our behalf at the General Meeting of the Company to be held at the offices of Lion Energy Limited, 15 Rheola Street, West Perth, Western Australia on Tuesday, 3 April 2007 commencing at 2.30 pm 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 – Election of Mr Zhong Wang as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2 – Election of Mr Weidong Zhang as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3 – Grant of Options to Mr Zhong Wang	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4 - Grant of Options to Mr Weidong Zhang	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5 - Approval of Acquisition of Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6 - Adoption of Constitution	<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.

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

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

If the Shareholder(s) is an individual:

 Dated: 2007

 Dated: 2007

If the Shareholder is a company:

Affix common seal (if required by Constitution)

 Director/Sole Director and Secretary
 Dated: 2007

 Director/Secretary
 Dated: 2007

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 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 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.