

LION ENERGY LIMITED

ACN 000 753 640

NOTICE OF SPECIAL GENERAL MEETING

PROXY FORM

EXPLANATORY MEMORANDUM

NOTE: Stantons International Pty Ltd, the Independent Expert engaged by the Company has determined that the proposal under Special Resolution 1 is in the absence of a superior proposal, on balance, NOT FAIR NOR REASONABLE to the shareholders of the Company who are not associated with the Participating Shareholders. The full Independent Experts Report is annexed to this Notice of Meeting.

Date of Meeting

17 February 2012

Time of Meeting

2:00 pm

Place of Meeting

31 Ord Street, West Perth, Western Australia 6005

Notice of Special General Meeting

Lion Energy Limited
ACN 000 753 640
(Company)

Place: 31 Ord Street, West Perth, Western Australia 6005

Date and time: 2:00pm WST, Friday, 17 February 2012

Notice is hereby given of a special general meeting of members of the Company (**Meeting**) at the time and place specified in this Notice. The Meeting is being held to consider and approve several matters that relate to the restructure and recapitalisation of the Company, including a selective buy-back of the Company's Shares (**Selective Buy-Back**).

Proposed Resolutions

The Resolutions which will be considered are as follows:

Resolution 1 – Approval of Selective Buy Back

To consider and, if thought fit, to pass the following Resolution:

“Resolved as a special resolution that in accordance with Section 257D of the Corporations Act, for the purposes of section 208 of the Corporations Act and Listing Rule 10.1, and all other purposes, the Company approves the terms of the selective buy-back agreement dated 1 December 2011 pursuant to which 61,734,292 Shares will be bought back by the Company from the Participating Shareholders and the Participating Shareholders will receive as consideration US\$200,000, 100% of the shares in Lion Nanning, an assignment of the debt owed by Lion Nanning to LII and the Participating Shareholders will provide LII with an indemnity against certain indebtedness, and otherwise on the terms and conditions set out in the accompanying Explanatory Memorandum.”

Voting Exclusion

The Company will disregard any votes cast on Resolution 1 by the Participating Shareholders and 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 Chairperson 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 2 – Ratification of the Prior Placement Shares

To consider and, if thought fit, to pass the following resolution:

“Resolved as an ordinary resolution that, for the purpose of Listing Rule 7.4 and for all other purposes, the Company ratify the allotment and issue of 14,174,063 Shares at an issue price of \$0.02 each on 1 December 2011 to the persons described in the Explanatory Memorandum, on the terms and conditions set out in the Explanatory Memorandum.”

Voting Exclusion

The Company will disregard any votes cast on Resolution 2 by any persons who participated in the issue the subject of Resolution 2 and any associate of those persons. However, the Company need not disregard a vote if the vote is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or the vote is

cast by the Chairperson 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 3 – Approval for issue of Options to Prior Placement Participants

To consider and, if thought fit, to pass the following resolution:

“Resolved as an ordinary resolution that, for the purpose of Listing Rule 7.1 and for all other purposes, the Company approve the allotment and issue of 14,174,063 Options with an exercise price of \$0.03 each to the Prior Placement Participants, on the terms and conditions set out in the Explanatory Memorandum.”

Voting Exclusion

The Company will disregard any votes cast on Resolution 3 by any person who may receive Options under the issue the subject of Resolution 3 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 and any associate of those persons. However, the Company need not disregard a vote if the vote is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or the vote is cast by the Chairperson 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 4 – Approval for issue of Options to underwriter

To consider and, if thought fit, to pass the following resolution:

“Resolved as an ordinary resolution that, for the purpose of Listing Rule 7.1 and for all other purposes, the Company approve the allotment and issue of 4,000,000 Options with an exercise price of \$0.03 each to Pendulum Capital or its nominee, on the terms and conditions set out in the Explanatory Memorandum.”

Voting Exclusion

The Company will disregard any votes cast on Resolution 4 by Pendulum Capital 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 and any associate of those persons. However, the Company need not disregard a vote if the vote is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or the vote is cast by the Chairperson 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 5 – Approval of 50 million Share placement (\$0.02)

To consider and, if thought fit, to pass the following resolution:

“Resolved as an ordinary resolution that, for the purpose of Listing Rule 7.1 and for all other purposes, the Company approve the allotment and issue of 50,000,000 Shares at an issue price of \$0.02 each, as a placement, to persons to be identified, on the terms and conditions set out in the Explanatory Memorandum.”

Voting Exclusion

The Company will disregard any votes cast on Resolution 5 by any person who may participate in the issue the subject of Resolution 5 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 and any associate of those persons. However, the Company need not disregard a

vote if the vote is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or the vote is cast by the Chairperson 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 – Approval of 50 million Share placement (no less than \$0.03)

To consider and, if thought fit, to pass the following resolution:

“Resolved as an ordinary resolution that, for the purpose of Listing Rule 7.1 and for all other purposes, the Company approve the allotment and issue of 50,000,000 Shares at an issue price of no less than \$0.03 each as a placement, to persons to be identified, on the terms and conditions set out in the Explanatory Memorandum.”

Voting Exclusion

The Company will disregard any votes cast on Resolution 6 by any person who may participate in the issue the subject of Resolution 6 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 and any associate of those persons. However, the Company need not disregard a vote if the vote is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or the vote is cast by the Chairperson 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 – Approval of 80 million Option issue

To consider and, if thought fit, to pass the following resolution:

“Resolved as an ordinary resolution that, for the purpose of Listing Rule 7.1 and for all other purposes, the Company approve the allotment and issue of 80,000,000 Options at an issue price of \$0.001 each and with an exercise price of \$0.03, to persons to be identified, on the terms and conditions set out in the Explanatory Memorandum.”

Voting Exclusion

The Company will disregard any votes cast on Resolution 7 by any person who may participate in the issue the subject of Resolution 7 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 and any associate of those persons. However, the Company need not disregard a vote if the vote is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or the vote is cast by the Chairperson 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 – Approval for Mr Russell Brimage to participate in 50 million Share Placement (\$0.02)

To consider and, if thought fit, to pass the following resolution:

“Resolved as an ordinary resolution that, subject to Resolution 5 being passed, for the purposes of Listing Rule 10.11 and for all other purposes, approval is given for the Directors to allot and issue up to 10,000,000 of the Shares the subject of Resolution 5 to Mr Russell Brimage (or his nominee) on the terms and conditions set out in the Explanatory Memorandum.”

Voting Exclusion

The Company will disregard any votes cast on Resolution 8 by Mr Russell Brimage 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 and any associate of those persons. However, the Company need not disregard a vote if the vote is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or the vote is cast by the Chairperson 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 9 – Approval for Mr Russell Brimage to participate in 80 million Option issue

To consider and, if thought fit, to pass the following resolution:

“Resolved as an ordinary resolution that, subject to Resolution 7 being passed, for the purposes of Listing Rule 10.11 and for all other purposes, approval is given for the Directors to allot and issue up to 10,000,000 of the Options the subject of Resolution 7 to Mr Russell Brimage (or his nominee) on the terms and conditions set out in the Explanatory Memorandum.”

Voting Exclusion

The Company will disregard any votes cast on Resolution 9 by Mr Russell Brimage 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 and any associate of those persons. However, the Company need not disregard a vote if the vote is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or the vote is cast by the Chairperson 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.

Proxies

In relation to the form of proxy attached to this notice of meeting:

- (a) each Shareholder has a right to appoint a proxy;
- (b) the proxy need not be a Shareholder;
- (c) if a Shareholder is entitled to cast 2 or more votes, that Shareholder may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise;
- (d) the Company has determined that for the purpose of voting at the Meeting, Shares will be taken to be held by those Shareholders whose names are recorded in the register of members at 5:00pm WST on 15 February 2012; and
- (e) to be valid, proxy forms must be lodged by 2:00pm WST on 15 February 2012 in person or by post at:

Lion Energy Limited
Ground Floor
31 Ord Street
West Perth WA 6005

Proxies may also be sent by fax to +61 8 9213 4311.

**Information for
Shareholders**

Shareholders should read the information in the accompanying Explanatory Memorandum including the independent expert's report prepared by Stantons International Pty Ltd and, if necessary, consult their own advisers before deciding how to vote at the Meeting.

Further information

If any Shareholder requires further information about the business proposed to be transacted at the Meeting, they should contact the Company Secretary, Mr Jack Toby on +61 8 9213 4300.

Jack Toby
Company Secretary

Dated: 9 January 2012

Lion Energy Limited ACN 000 753 640 (Company)

Explanatory Memorandum to Notice of Special General Meeting

This Explanatory Memorandum provides information about the Resolutions set out in the Notice of Meeting of the Company dated 9 January 2012. If any Shareholder requires any further information about the business proposed to be transacted at the Meeting they should contact the Company Secretary, Mr Jack Toby on +61 8 9213 4300.

1 Background

In light of events affecting the Company over the last 12 months, the Board has been considering a number of options to restructure and recapitalise the Company, so that it is in a position to focus on its core business of oil and gas exploration, development and production and investment in the resources industry. In summary, the relevant events are:

- (a) On 16 November 2010, the Company announced that, through its wholly owned subsidiary Lion Nanning, it would, subject to Shareholder approval, acquire an interest in Qinghai First New Energy Limited, a Chinese company planning to construct a 1000MW solar thermal power plant in Qinghai, China. The Company subsequently announced on 27 April 2011, that it had elected not to proceed with the acquisition of that interest. Certain Shareholders would like to pursue the opportunity which Lion Nanning had identified, on their own behalf, and the Board is supportive of them being able to do so.
- (b) On 6 July 2011, the Company announced that it had received a claim for \$1,082,388.35 plus interest from the liquidator of Tulloch, in respect of an alleged loan made to the Company by Tulloch in January 2003. While the Company disputed that it owed any amount to Tulloch, the claim was settled on 7 October 2011 for an amount of \$737,500. Payment of this amount has reduced the funds available to the Company to pursue its core operations.

Accordingly, the Company decided to undertake a restructure and recapitalisation.

As an overview, the main items in the restructure and recapitalisation proposal that the Board has implemented or proposes to implement are as follows:

- (a) a placement of 14,174,063 Shares issued for \$0.02 each (**Prior Placement Shares**), to raise \$283,481.26. The Shares were issued to clients of Pendulum Capital. This placement was completed on 1 December 2011. The Company proposes, subject to Shareholder approval, to issue free Options to the allottees of the Prior Placement Shares;
- (b) undertaking a selective share buy-back of the Shares held by the Participating Shareholders under which the Participating Shareholders will receive as consideration for their 65% shareholding in the Company, 100% of the shares the Company holds in Lion Nanning, US\$200,000 and an assignment of a debt owed by Lion Nanning to LII and the Participating Shareholders will provide LII with an indemnity against certain indebtedness;
- (c) raising funds by way of:
 - (i) the underwritten rights issue which was announced on 25 November 2011 (**Rights Issue**). The Rights Issue is underwritten by Pendulum Capital. As part of their underwriting fee, the Company will (subject to Shareholder approval) issue 4 million Options to Pendulum Capital or its nominee, with an exercise price of \$0.03; and
 - (ii) undertaking a further placement or placements of Shares within 3 months of Shareholders approving Resolutions 5 and 6 for an issue of up to 50 million Shares at \$0.02 and up to a further 50 million Shares at not less than \$0.03; and

- (d) issuing up to 80 million Options within 3 months of Shareholders approving Resolution 7 at an issue price of \$0.001 and an exercise price of \$0.03, to provide further capital to the Company in 2012 and 2013.

The funds raised under the placement (or placements) of Shares and the Rights Issue will be used to fund the Company's restructure, exploration and development expenditure, administration expenses and working capital.

The purpose of this Meeting is to seek approval for the Selective Buy-Back and the proposed future issues of Shares and Options and ratification of the Prior Placement Shares.

2 Special Resolution 1 – Selective Buy-Back

2.1 General

As announced to the market on 1 December 2011, on 1 December 2011 the Company entered into a Selective Buy-Back agreement under which the Company will buy back all of the Shares held by:

- (a) Mrs Wenmei Hu;
- (b) Mr Yuda Chen;
- (c) Mr Xianjun Yang;
- (d) Mr Jian Wu (a Director);
- (e) Mr Tianxing Zheng; and
- (f) Ms Ling Gu,

(Participating Shareholders).

In consideration for the buy-back of those Shares, the Company will:

- (a) pay US\$200,000 to the Participating Shareholders;
- (b) transfer 100% of the shares it holds in Lion Nanning to the Participating Shareholders; and
- (c) assign the debt owed by Lion Nanning to LII to the Participating Shareholders,

each in proportion to the number of Shares they hold.

The Participating Shareholders will also assume the liability for US\$500,000 and CNY2,200,000 (A\$334,400) in respect of the evaluation of the petrochemical project and the solar project (respectively).

The Selective Buy-Back is conditional upon the Company obtaining Shareholder approval.

This approval is now being sought under Resolution 1.

2.2 Requirement for approvals under the Corporations Act and the Listing Rules

Under section 257A of the Corporations Act, a company may buy back its own shares if:

- (a) the buy-back does not materially prejudice the company's ability to pay its creditors; and
- (b) the company follows the procedures laid down in Division 2 of the Corporations Act.

Selective buy-backs by a company may only be effected by an agreement entered into in accordance with, or conditional upon:

- (a) a special resolution (which is a resolution passed by at least 75% of the votes cast by members entitled to vote on the resolution), with no votes being cast in favour of the resolution by any person (or by their associates) whose shares are proposed to be bought back; or
- (b) a unanimous resolution agreed to, at a general meeting, by all ordinary shareholders (section 257D(1)).

Pursuant to section 257D(2) of the Corporations Act, the Company must include with the Notice a statement setting out all information known to the Company that is material to the decision on how to vote on the Resolution. However, the Company does not have to disclose information if it would be unreasonable to require the Company to do so because the Company had previously disclosed the information to Shareholders.

ASIC Regulatory Guide 110 – Share buy-backs sets out what ASIC expects a company to disclose to shareholders in a notice of meeting that seeks approval for a selective buy-back.

Approval under Resolution 1 is also sought under Chapter 2E of the Corporations Act as one of the Participating Shareholders is also a Director (ie Mr Jian Wu).

Chapter 2E 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.

A “related party” for the purposes of section 228 of the Corporations Act is defined widely and includes a director of a public company.

Section 219 of the Corporations Act and ASIC Regulatory Guide 76 specify the content requirements for the notice of meeting in relation to an approval under Chapter 2E.

Listing Rule 10.1 requires the approval of non-associated holders of the entity’s ordinary securities where that entity purchases a substantial asset from, or disposes of a substantial asset to, a related party or a substantial shareholder if the party and the party’s associates have a relevant interest, or had a relevant interest at any time in the 6 months before the transaction, in at least 10% of the total votes attached to the voting securities. As noted above, Mr Wu is a related party.

Under section 15 of the Corporations Act, an associate includes a person who is acting in concert with the primary person in respect of the matter to which the associate reference relates.

Mr Jian Wu and Ms Ling Gu are husband and wife and are therefore associates by virtue of section 15 of the Corporations Act.

Mr Wu holds 7.47% of the Shares and Ms Gu holds 6.34% of the Shares. Together they hold 13.81% of the Shares (which is over 10%).

A substantial asset is defined under the Listing Rules as an asset that has a value, or the value of the consideration for it is, equivalent to 5% or more of the equity interests of the entity as set out in the latest accounts provided to the ASX.

The consideration to be paid (collectively) to the Participating Shareholders under the Selective Buy-Back equals 5% or more of the equity interests of the Company. For the purposes of Listing Rule 10.1, separate transactions will be aggregated if, in ASX’s opinion, they form part of the same commercial transaction.

On this basis, Listing Rule 10.1 approval is required for the Selective Buy-Back.

Listing Rule 10.10 requires that the notice of meeting to approve the Selective Buy-Back be accompanied by a report from an independent expert stating whether the Selective Buy-Back is fair and reasonable to the non-associated Shareholders.

Accordingly, the Company commissioned Stantons International to provide a report for the purposes of Listing Rule 10.1, the Selective Buy-Back and Chapter 2E of the Corporations Act. This report is attached in Schedule 1.

The information below is intended to satisfy the requirements of the Corporations Act, ASIC Regulatory Guides 76 and 110 and Listing Rule 10.1.

2.3 Rationale

The Company is undertaking the Selective Buy-Back due to the fact that the Participating Shareholders hold a vision for the Company that is inconsistent with the Company's profile as an Australian-incorporated, ASX-listed oil and gas company. This prevents the Company from being able to aggressively pursue opportunities consistent with that profile.

The Board believes that an off-market selective buy-back represents an efficient means of separating its business interests from the Participating Shareholders and simultaneously returning value to the Participating Shareholders by allowing them to acquire Lion Nanning.

2.4 Summary of the Selective Buy-Back

The material terms of the Selective Buy-Back are as follows:

Shares The offer is for all of the Shares held by the Participating Shareholders.

Consideration As consideration for the Buy-Back Shares, the Participating Shareholders (including Mr Jian Wu, a Director and therefore a related party of the Company) will receive:

- (a) 100% of the Shares in Lion Nanning;
- (b) USD \$200,000; and
- (c) an assignment of the debt owed by Lion Nanning to LII to the Participating Shareholders.

This is the nature of the financial benefit to be given to Mr Wu.

Conditions The offer is conditional on the Company obtaining Shareholder approval for the Selective Buy-Back in accordance with the requirements of the Corporations Act, completion of a capital raising of \$1,000,000 (by way of a placement, rights issue or otherwise) and the Board determining that completion of the Selective Buy-Back will not materially prejudice the interests of the Company's creditors.

LII Liabilities Mr Wu will assume the liability to pay amounts of US\$500,000 and CNY2,200,000 (\$A334,400) owed by LII in respect of the evaluation of a petrochemical project and the solar project, on completion of the Selective Buy-Back, or will provide evidence to the Company that the creditors of LII have agreed to release LII from any further obligations in relation to those debts.

Board composition On completion of the Selective Buy-Back, Mr Jian Wu will resign as a Director and as a director of LII. The Board intends to appoint a new

Director in place of Mr Wu at that time (to be determined by the Board).

2.5 Effect on capital of the Company

Pursuant to section 257H(3) of the Corporations Act, immediately after the registration of the transfer to the Company of the Buy-Back Shares, the Buy-Back Shares will be cancelled. Therefore, the overall effect on the capital of the Company of the Selective Buy-Back is as follows:

Shares on issue as at the date of this Notice	108,667,817*
Shares proposed to be issued under the Rights Issue	54,333,909
Shares on issue prior to completion of the Selective Buy-Back	163,001,726
Shares on issue after completion of the Selective Buy-Back	101,267,434

*Including the Placement Shares.

The following unaudited Consolidated pro forma Statement of Financial Position of the Company is based on the unaudited management financial report as at 31 October 2011, adjusted for the following transactions:

Rights Issue Transactions:

- the Prior Placement;
- the Rights Issue;
- issue of 4,000,000 free options pursuant to the underwriting agreement (the issue of which is subject to Shareholder approval) valued at \$78,103;
- fees for the placement of \$17,009; and.
- Expenses of the issue of \$92,005.

Share Buy-Back Transactions

- Payment of US\$200,000 by Lion Energy Limited to the Participating Shareholders.
- Transfer of all the shares in Lion Nanning Petro-Chemical Limited by Lion International Investment Limited to the Participating Shareholders.
- Transfer of the receivable due by Lion Nanning Petro-Chemical Limited to Lion International Investment Limited to the Participating Shareholders.
- Adoption of liabilities of Lion International Investment Limited by the Participating Shareholders comprising US\$500,000 plus CNY2,200,000.

Exchange rates of 1.0509US\$ for AUD\$1.00 and 6.6755 CNY for AUD\$1.00 is assumed.

LION ENERGY LIMITED

PRO FORMA STATEMENT OF FINANCIAL POSITION

	Consolidated	
	Unaudited 31 October 2011 \$	Pro-Forma Unaudited 31 October 2011 \$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	6,112,335	1,398,624
Trade and other receivables	967,643	967,643
Inventories	324,587	324,587
TOTAL CURRENT ASSETS	7,404,565	2,690,854
NON-CURRENT ASSETS		
Plant and equipment	44,618	44,618
Capitalised exploration expenditure	1,419,782	1,419,782
TOTAL NON-CURRENT ASSETS	1,464,400	1,464,400
TOTAL ASSETS	8,868,965	4,155,254
CURRENT LIABILITIES		
Trade and other payables	1,301,792	496,446
TOTAL CURRENT LIABILITIES	1,301,792	496,446
NON-CURRENT LIABILITIES		
Trade and other payables	527,529	527,529
TOTAL NON-CURRENT LIABILITIES	527,529	527,529
TOTAL LIABILITIES	1,829,321	1,023,975
NET ASSETS	7,039,644	3,131,279
EQUITY		
Issued capital	53,241,088	49,254,620
Reserves	(1,317,749)	(1,239,646)
Accumulated losses	(44,883,695)	(44,883,695)
TOTAL EQUITY	7,039,644	3,131,279

2.6 Effect on control of the Company

The completion of the Selective Buy-Back will have an effect on the voting power of the remaining Shareholders.

Following completion of the Selective Buy-Back, the Participating Shareholders will no longer hold Shares.

As a result of the Placement and the Rights Issue, Shares will be issued to investors and existing Shareholders (respectively). The substantial Shareholders following completion of the Selective Buy-Back will depend on how many Shares are taken up and by whom.

2.7 Source of consideration for the Selective Buy-Back

The Company has sufficient cash resources to fund the cash component of the consideration for the Selective Buy-Back, without impacting its ability to pay its creditors.

The Lion Nanning Shares, cash consideration and debt assignment will be distributed amongst the Participating Shareholders in proportion to their holding of Buy-Back Shares (as set out below).

Shareholder	No of shares in the Company held	Proportion of Buy-Back Shares
Mrs Wenmei Hu	22,688,916	36.75%
Mr Yuda Chen	10,000,000	16.20%
Mr Xianjun Yang	10,000,000	16.20%
Mr Jian Wu	7,058,296	11.43%
Mr Tianxing Zheng	6,000,000	9.72%
Ms Ling Gu	5,987,080	9.70%

2.8 Lion Nanning

Lion Nanning's only asset is a bank account with a balance of CNY 38,614,720.05 (A\$5,869,437.45) cash as at 30 September 2011 (plus subsequent interest) and its only liability is the CNY37,035,353 owed to LII.

2.9 The Lion Nanning Shares

Lion Nanning Shares are being offered as part of the consideration under the Selective Buy-Back.

As set out in Lion Nanning's Memorandum of Articles, all of the activities of the Company must comply with Chinese Laws and Regulations which must not compromise the public safety and public interest in China.

2.10 Valuation

Stantons International, in their independent expert's report as set out in Schedule 1 confirm that the proposal under special resolution 1 is, in the absence of a superior proposal, on balance, not fair nor reasonable to the shareholders of the Company who are not associated with the Participating Shareholders.

2.11 Directors' interests

Mr Wu has an interest in the Selective Buy-Back in that he intends to participate in the Selective Buy-Back. He will not be permitted to vote in respect of the Selective Buy-Back.

None of the Directors other than Mr Wu have a personal interest in LII, Lion Nanning or the Selective Buy-Back.

2.12 Advantages and disadvantages of the Selective Buy-Back

- (a) The Board believes that the Selective Buy-Back will provide the following advantages to Shareholders if approved:
- (i) the Company, on a consolidated basis, will reduce its liabilities by the total amount of the LII liabilities described in section 2.4;
 - (ii) the Company's operations will be focussed on its core business of oil and gas exploration, development and production and investment in the resources industry; and
 - (iii) the Company may proceed with projects that are consistent with its profile as an Australian-incorporated, ASX-listed oil and gas company.
- (b) The Board believes the disadvantages to Shareholders of the Selective Buy-Back include the fact that the Company will:
- (i) be spending USD\$200,000 of its cash reserves; and
 - (ii) will be effectively paying a further CNY 38,614,720.05 (A\$5,869,437.45) plus interest subsequent to 30 September 2011 by the transfer of both the ownership of Lion Nanning and the transfer of the debt owed by Lion Nanning to LII,
- as part of the consideration under the Share Buy-Back.

2.13 Trading price of Shares

The trading history of the Shares on ASX in the 12 months before the date of this Notice is set out below:

	Price	Date
Highest	\$0.054	24 February 2011
Lowest	\$0.02	30 December 2011
Last	\$0.02	30 December 2011

2.14 Offer price and value

The Board considers that the consideration offered under the Selective Buy-Back is an appropriate return to Participating Shareholders based on the recent trading history of the Shares and the Selective Buy-Back. The Board has engaged Stantons International to prepare an independent report on the value of the Lion Nanning Shares. **Stantons International has valued the Lion Nanning Shares being offered as part of the consideration and has concluded that the Selective Buy-Back is not fair nor reasonable to the Shareholders (excluding the Participating Shareholders).**

2.15 Directors' recommendation

The Directors, other than Mr Wu, recommend that Shareholders vote in favour of the Selective Buy-Back, as they consider that the advantages outlined above outweigh the disadvantages. **However, Stantons International, the independent expert, has concluded that the selective Buy-Back is not fair nor reasonable to the Shareholders (excluding the Participating Shareholders).**

Mr Wu has an interest in the Selective Buy-Back and as a result does not wish to make a recommendation in relation to this Resolution.

2.16 Other material information

There is no information material to the making of a decision by a Shareholder whether or not to approve this Resolution that is known to any of the Directors which has not been previously disclosed to Shareholders, other than as disclosed in this Explanatory Memorandum.

3 Resolution 2 – Ratification of the Prior Placement Shares

3.1 General

As set out above, on 1 December 2011 the Company announced the completion of a placement of 14,174,063 Shares at an issue price of \$0.02 to clients of Pendulum Capital to raise \$283,481.26.

The funds raised under the Prior Placement will be used to fund the Company's proposed restructure and recapitalisation set out under section 1 above, exploration and development expenditure, administration expenses and working capital.

The Directors recommend Shareholders vote in favour of Resolution 2.

3.2 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 prescribed by Listing Rule 7.1. This then refreshes the Company's ability to issue up to the 15% threshold in future. Resolution 2 seeks this approval with respect to the issue of the Prior Placement Shares.

3.3 Information required by Listing Rule 7.5

The following information in relation to the Prior Placement Shares is provided to Shareholders for the purposes of Listing Rule 7.5:

- (a) 14,174,063 Shares were allotted and issued.
- (b) The Shares were issued at an issue price of \$0.02 each.
- (c) The Shares issued were fully paid ordinary shares in the capital of the Company and rank equally in all respects with the existing fully paid ordinary shares on issue.
- (d) The Shares were issued to clients of Pendulum Capital, who are not related parties of the Company.
- (e) Funds raised from the issue were used for the proposed restructure set out in section 1 above, exploration and development expenditure, administration expenses and working capital.

4 Resolution 3 – Approval for issue of Options to Prior Placement Participants

4.1 General

Subject to Shareholder approval, the Company intends to issue 14,174,063 Options to the Prior Placement Participants.

No funds will be raised from the issue of the Options. However, if they are all exercised, the Company will raise \$425,221.89. Any funds raised following the exercise of Options will be used as working capital for the Company's activities.

The Directors recommend Shareholders vote in favour of Resolution 3.

4.2 Listing Rule 7.1

Listing Rule 7.1 restricts the Company's ability to issue a number of equity securities (which includes options) which exceeds 15% of the Company's issued capital, in any 12 month period, without obtaining shareholder approval. Resolution 3 seeks this approval with respect to the Options proposed to be issued to the Prior Placement Participants.

Further, if the issue of Options is approved, no further Shareholder approval will be required for the issue of Shares on exercise of the Options, as any such issue of Shares will fall within Listing Rule 7.2, Exception 4. This exception provides that the issue of securities upon conversion of convertible securities does not count towards the Company's annual 15% threshold, provided that the Company complied with the Listing Rules when it issued the convertible securities.

4.3 Information required by Listing Rule 7.3

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

- (a) The number of Options which will be issued is 14,174,063.
- (b) The Options will be issued within 3 months of the date of approval of the issue.
- (c) The Options will be issued for no consideration.
- (d) The Options will be issued to the Prior Placement Participants, being clients of Pendulum Capital who subscribed for Shares under the Prior Placement.
- (e) The terms of issue of the Options are as set out in Schedule 2. However, a summary is set out below:

Issue price	Nil
Exercise price	\$0.03
Expiry date	31 December 2013
Rights on exercise	The holder will receive 1 Share on exercise.
Transfer of Options	The Options are transferable by the Optionholder. The Company intends to apply to have the Options listed on the ASX.
Other rights	The Options do not carry any voting rights, rights to receive dividends or rights to participate in any new issues of securities.

- (f) No funds will be raised from the issue of the Options. The Company will use any funds raised on exercise of the Options as working capital.
- (g) The allotment of the Options will occur progressively.

5 Resolution 4 – Approval for issue of Options to underwriter

5.1 General

Subject to Shareholder approval, the Company intends to issue 4,000,000 Options to Pendulum Capital or its nominee, in part payment for its services as underwriter of the Rights Issue.

No funds will be raised from the issue of the Options. However, if they are all exercised, the Company will raise \$120,000. Any funds raised following the exercise of Options will be used as working capital for the Company's activities.

The Directors recommend Shareholders vote in favour of Resolution 4.

5.2 Listing Rule 7.1

Section 4.2 describes the effect of Listing Rule 7.1. Resolution 4 seeks approval under Listing Rule 7.1 for the proposed issue of Options to Pendulum Capital.

Further, as noted in section 4.2, if the issue of Options is approved, no further Shareholder approval will be required for the issue of Shares on exercise of the Options.

5.3 Information required by Listing Rule 7.3

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

- (a) The number of Options which will be issued is 4,000,000.
- (b) The Options will be issued within 3 months of the date of approval of the issue.
- (c) The Options will be issued for no consideration.
- (d) The Options will be issued to Pendulum Capital or its nominee. No Options will be issued to a related party of the Company.
- (e) The terms of issue of the Options are as set out in section 4.3(e).
- (f) No funds will be raised from the issue of the Options. The Company will use any funds raised on exercise of the Options for working capital.
- (g) The allotment of the Options will occur progressively.

6 Resolution 5 – Approval of 50 million Share placement (\$0.02)

6.1 General

Subject to Shareholder approval, the Company intends to issue up to 50,000,000 Shares under a placement, at \$0.02 per Share, to raise a total of \$1,000,000. These funds will be used for exploration and development expenditure, administration expenses and working capital.

The Directors recommend Shareholders vote in favour of Resolution 5.

6.2 Listing Rule 7.1

Section 4.2 describes the effect of Listing Rule 7.1. Resolution 5 seeks approval under Listing Rule 7.1 for the proposed issue of up to 50 million Shares under a placement.

6.3 Information required by Listing Rule 7.3

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

- (a) The maximum number of Shares which will be issued is 50,000,000.
- (b) The Shares will be issued within 3 months of the date of approval of the issue.
- (c) The Shares will be issued for \$0.02 per Share.
- (d) The Company has not yet identified parties who may participate in the placement for 50 million Shares. However, participants will not be related parties of the Company (except in the case of Russell Brimage if Resolution 8 is passed).
- (e) The Shares will be fully paid ordinary shares in the capital of the Company and will rank equally in all respects with the existing fully paid ordinary shares on issue.
- (f) The maximum amount which may be raised is \$1,000,000. The Company will use any funds raised as working capital.
- (g) The allotment of the Shares will occur progressively.

7 Resolution 6 – Approval of 50 million Share placement (not less than \$0.03)

7.1 General

Subject to Shareholder approval, the Company intends to issue up to 50,000,000 Shares under a placement, at an amount of no less than \$0.03 per Share, to raise a minimum of \$1,500,000. These funds will be used to fund the working capital requirements of the Company.

The Directors recommend Shareholders vote in favour of Resolution 6.

7.2 Listing Rule 7.1

Section 4.2 describes the effect of Listing Rule 7.1. Resolution 6 seeks approval under Listing Rule 7.1 for the proposed issue of up to 50 million Shares under a placement.

7.3 Information required by Listing Rule 7.3

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

- (a) The maximum number of Shares which will be issued is 50,000,000.
- (b) The Shares will be issued within 3 months of the date of approval of the issue.
- (c) The issue price for the Shares will be no less than \$0.03.
- (d) The Company has not yet identified parties who may participate in the placement for 50 million Shares. However, participants will not be related parties of the Company.
- (e) The Shares will be fully paid ordinary shares in the capital of the Company and will rank equally in all respects with the existing fully paid ordinary shares on issue.
- (f) The minimum amount which may be raised by the issue of 50,000,000 Shares is \$1,500,000. The Company will use any funds raised as working capital.

- (g) The allotment of the Shares will occur progressively.

8 Resolution 7 – Approval of 80 million Option issue

8.1 General

Subject to Shareholder approval, the Company intends to issue up to 80,000,000 Options as part of a placement.

The Company will raise \$80,000 from the issue of the Options. In addition, if they are all exercised, the Company will raise a further \$2,400,000. Any funds raised following the exercise of Options will be used as working capital for the Company's activities.

The Directors recommend Shareholders vote in favour of Resolution 7.

8.2 Listing Rule 7.1

Section 4.2 describes the effect of Listing Rule 7.1. Resolution 7 seeks approval under Listing Rule 7.1 for the proposed issue of Options.

Further, as noted in section 4.2, if the issue of Options is approved, no further approval will be required for the issue of Shares on exercise of the Options.

8.3 Information required by Listing Rule 7.3

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

- (a) The number of Options which will be issued is 80,000,000.
- (b) The Options will be issued within 3 months of the date of approval of the issue.
- (c) The Options will be issued for \$0.001 each.
- (d) The Company has not yet identified parties who may participate in the placement of the Options. However, participants will not be related parties of the Company (except in the case of Russell Brimage if Resolution 9 is passed).
- (e) The terms of issue of the Options are set out in Schedule 2. However, a summary is set out below:

Issue price	\$0.001
Exercise price	\$0.03
Expiry date	31 December 2013
Rights on exercise	The holder will receive 1 Share on exercise
Transfer of Options	The Options are transferable by the Optionholder. The Company intends to apply to have the Options listed on the ASX.
Other rights	The Options do not carry any voting rights, rights to receive dividends or rights to participate in any new issues of securities.

(f) A maximum of \$80,000 will be raised from the issue of the Options. The Company will use any funds raised on exercise of the Options for working capital.

(g) The allotment of the Options will occur progressively.

9 Resolutions 8 & 9 – Approval for Mr Russell Brimage to participate in 50 million Share placement (\$0.02) and 80 million Option placement

9.1 General

Resolution 8 seeks Shareholder approval for the issue of up to 10,000,000 Shares to Mr Russell Brimage (or his nominee) as part of the Shares to be issued under the 50,000,000 Share placement (\$0.02) the subject of Resolution 5.

Resolution 9 seeks Shareholder approval for the issue of up to 10,000,000 Options to Mr Russell Brimage (or his nominees) as part of the Options to be issued under the Option placement the subject of Resolution 7.

The Directors (other than Mr Brimage) recommend Shareholders vote in favour of Resolutions 8 and 9.

Given that Mr Brimage has a material personal interest in the outcome of Resolutions 8 and 9, Mr Brimage does not make a recommendation in relation to those Resolutions.

9.2 Chapter 2E

As set out at section 2.2, Chapter 2E of the Corporations Act requires that for a public company, or an entity that the public company controls, to give a financial benefit to a related party of the public company, the public company or entity must:

- (a) obtain the approval of the public company's members in the manner set out in sections 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in sections 210 to 216 of the Corporations Act.

The issue of securities constitutes giving a financial benefit.

Mr Brimage is a related party of the Company because he is a Director.

It is the view of the Board (other than Mr Brimage) that the arm's length exception set out in section 210 of the Corporations Act applies in relation to Resolutions 8 and 9.

In making this determination the Directors (other than Mr Brimage) have considered the factors set out in ASIC Regulatory Guide 76, which are, in summary:

- (a) how the terms of the transaction compare with those of comparable transactions on an arm's length basis;
- (b) the nature and content of the bargaining process;
- (c) the impact of the transaction on the Company; and
- (d) any other options available to the Company.

The Directors (other than Mr Brimage) consider that the section 210 arm's length exception may be applied in this case, given that the Shares and Options will be issued to Mr Brimage on the same

terms as non-related party participants in the placement of Shares and Options described in Resolutions 5 and 7 and, as such, the giving of the financial benefit is on arm's length terms.

Therefore, Shareholder approval is not sought for the purposes of section 208 of the Corporations Act.

9.3 Listing Rule 10.11

Listing Rule 10.11 also requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in Listing Rule 10.12 applies.

The Board believes that the exceptions set out in ASX Listing Rule 10.12 do not apply in the current circumstances. Accordingly, Shareholder approval is sought pursuant to Listing Rule 10.11.

If approval is given under Listing Rule 10.11, approval is not required under Listing Rule 7.1. The issue of Shares and Options to Mr Brimage will not be included in the 15% calculation for the purposes of Listing Rule 7.1

9.4 Information required by ASX Listing Rule 10.11

Pursuant to and in accordance with ASX Listing Rule 10.13, the following information is provided in relation to the proposed issue of Shares and Options to Mr Brimage:

- (a) Mr Russell Brimage (or his nominee) is proposing to participate in the placements of Shares and Options described in Resolutions 5 and 7. He is a related party of the Company as he is a Director.
- (b) The maximum number of Shares and Options to be issued to Mr Brimage will be 10,000,000 Shares and 10,000,000 Options. However, there is no obligation on Mr Brimage to subscribe for all (or any) of those Shares or Options. The Shares and Options which may be issued to Mr Brimage will form part of the Shares and Options to be issued if Resolution 5 (in respect of Shares) and Resolution 7 (in respect of Options) are passed. As such, the issue to Mr Brimage is conditional on Resolution 5 and/or Resolution 7 being passed. The Shares and Options may be issued to Mr Brimage on a different date to the rest of the Shares and Options to be issued under Resolutions 5 and 7, that is, no later than one month after the date of the General Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that allotment will occur progressively during this time.
- (c) The issue price of the Shares will be \$0.02 per Share.
- (d) The issue price of the Options will be \$0.001 per Option.
- (e) The Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares.
- (f) The Options will be issued on the terms and conditions set out in Schedule 2.
- (g) As outlined in sections 6.1 and 8.1 above, the Company intends to use the funds raised from the 50 million Share Placement (\$0.02) and the Option placement for exploration and development expenditure, administration expenses and working capital..

Dictionary

In this Notice:

A\$ or \$ means the lawful currency of the Commonwealth of Australia.

ASIC means the Australian Securities and Investments Commission.

ASX means the Australian Securities Exchange.

Board means the board of Directors.

Buy-Back Shares means the Shares held by the Participating Shareholders to be bought back by the Company.

CNY means the lawful currency of the People's Republic of China.

Company means Lion Energy Limited ACN 000 753 640.

Corporations Act means *Corporations Act 2001* (Cth).

Director means a director of the Company.

Explanatory Memorandum means the explanatory memorandum that accompanies this Notice.

LII means Lion International Investment Limited, a company incorporated under the laws of the Cayman Islands, which is a subsidiary of the Company.

Lion Nanning means Lion Nanning Petro-Chemical Limited, a company incorporated under the laws of the People's Republic of China.

Lion Nanning Share means a share in Lion Nanning.

Listing Rules means the Listing Rules of the ASX.

Meeting has the meaning given to that term in the Notice.

Notice means this notice of meeting.

Options means options to subscribe for Shares issued on the terms described in the Explanatory Memorandum.

Participating Shareholders means:

- (a) Mrs Wenmei Hu;
- (b) Mr Yuda Chen;
- (c) Mr Xianjun Yang;
- (d) Mr Jian Wu (a Director);
- (e) Mr Tianxing Zheng; and
- (f) Ms Ling Gu.

Pendulum Capital means Pendulum Capital Pty Limited ACN 108 119 848.

Prior Placement means the placement of the Prior Placement Shares on 1 December 2011.

Prior Placement Participants means the persons who subscribed for the Prior Placement Shares.

Prior Placement Shares has the meaning given to that term in section 1(a) of the Explanatory Memorandum.

Resolution means the resolutions the subject of this Notice.

Rights Issue means the fully underwritten rights issue conducted by the Company, as announced on 8 December 2011.

Selective Buy-Back means the buy-back of Shares as set out in the Notice.

Shareholder means the holder of a Share.

Share means an ordinary share in the capital of the Company.

Stantons International means Stantons International Pty Ltd.

Tulloch means Tulloch Lodge Ltd (in liquidation) ACN 003 157 533.

USD\$ means the lawful currency of the United States of America.

Note: All amounts shown in CNY and A\$ have been converted at the rate of A\$0.152 for one CNY.

Schedule 1
Independent Expert's Report

NOTE: Stantons International Pty Ltd, the Independent Expert engaged by the Company has determined that the proposal under Special Resolution 1 is in the absence of a superior proposal, on balance, NOT FAIR NOR REASONABLE to the shareholders of the Company who are not associated with the Participating Shareholders. The full Independent Experts Report is annexed to this Notice of Meeting.

25 November 2011

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

Dear Sirs

RE: LION ENERGY LIMITED ("LION" OR "COMPANY") (ACN 000 753 640) MEETING OF SHAREHOLDERS PURSUANT TO SECTION 257 D(1) OF THE CORPORATIONS ACT ("TCA") AND LISTING RULE 10.1 OF THE AUSTRALIAN SECURITIES EXCHANGE LIMITED ("ASX") ON THE PROPOSAL TO SELECTIVELY BUY BACK 61,734,292 SHARES IN LION FROM PARTICIPATING SHAREHOLDERS FOR THE CONSIDERATION PAYABLE TO THE PARTICIPATING SHAREHOLDERS OF \$200,000 CASH, SALE OF 100% OF THE SHARES IN LION NANNING PETROCHEMICAL LIMITED ("LION NANNING") AND AN ASSIGNMENT OF THE DEBT OWING BY LION NANNING TO LION INTERNATIONAL INVESTMENT LIMITED ("LII") TO THE PARTICIPATING SHAREHOLDERS

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 as outlined in resolution 1 which authorises the Company to buy back the shares from the Participating Shareholders and as noted below and as detailed in the Notice of Meeting to Lion shareholders (the "Notice") and the Explanatory Statement to Shareholders ("ESS") attached to the Notice planned to be mailed to shareholders in December 2011.

We also consent to the Company providing this report to the Participating Shareholders pursuant to section 257E of TCA before the Selective Buy Back Agreement is entered into.

1.2 The material terms of the Selective Buy-Back are as follows:

Shares The offer is for all of the 61,734,292 Shares ("Buy Back Shares") held by the Participating Shareholders.

Consideration As consideration for the Buy-Back Shares, the Participating Shareholders (including Mr Jian Wu, a Lion Director and therefore a related party of the Company) will receive:

100% of the Shares in Lion Nanning; USD\$200,000 cash; and an assignment of the debt owed by Lion Nanning to LII (CNY 37,035,353) (approximately \$5,400,000 to \$6,000,000).

This is the nature of the financial benefit to be given to Mr Wu.

Conditions	The offer is conditional on the Company obtaining Shareholder approval for the Selective Buy-Back in accordance with the requirements of TCA, completion of a capital raising of \$1,000,000 (by way of a placement, rights issue or otherwise) and the Board determining that completion of the Selective Buy-Back will not materially prejudice the interests of the Company's creditors.
Board composition	On completion of the Selective Buy-Back, Mr Jian Wu will resign as a Director and as a director of LII. The Board intends to appoint a new Director in place of Mr Wu at that time (to be determined by the Board).
LII Liabilities	Mr Wu will assume the liability to pay amounts of US\$500,000 and CNY 2,200,000 (approximately \$342,000) owed by LII in respect of the evaluation of a petrochemical project and the solar project, on completion of the Selective Buy-Back, or will provide evidence to the Company that the creditors of LII have agreed to release LII from any further obligations in relation to those debts.

As announced to the market on 25 November 2011, the Company proposes to enter into a Selective Buy-Back Agreement under which the Company will buy back all of the Buy Back Shares (61,734,292 shares in total) held by:

Buy Back Shares to be Bought Back

Mrs Wenmei Hu;	22,688,916 shares
Mr Yuda Chen;	10,000,000 shares
Mr Xianjun Yang;	10,000,000 shares
Mr Jian Wu (a Director);	7,058,296 shares
Mr Tianxing Zheng;	6,000,000 shares
Ms Ling Gu	5,987,080 shares

(the "Participating Shareholders"). The Buy Back Shares will subsequently be cancelled.

1.3 Under section 257A of TCA, a company may buy back its own shares if:

- the buy-back does not materially prejudice the company's ability to pay its creditors; and
- the company follows the procedures laid down in Part 2J.1. Division 2 of TCA.

Selective buy-backs by a company may only be effected by an agreement entered into in accordance with, or conditional upon:

- a special resolution (which is a resolution passed by at least 75% of the votes cast by members entitled to vote on the resolution), with no votes being cast in favour of the resolution by any person (or by their associates) whose shares are proposed to be bought back; or
- a unanimous resolution agreed to, at a general meeting, by all ordinary shareholders (section 257D(1)).

Pursuant to section 257D(2) of TCA, the Company must include with the Notice a statement setting out all information known to the Company that is material to the

decision on how to vote on the selective buy back resolution. However, the Company does not have to disclose information if it would be unreasonable to require the Company to do so because the Company had previously disclosed the information to shareholders.

Pursuant to section 257A of TCA, before the Selective Buy Back Agreement is entered into, the Company must provide with the offer to the Participating Shareholders a statement setting out all information known to the Company that is material to the Participating Shareholders accepting the offer.

Australian Investment and Securities Commission (“ASIC”) Regulatory Guide 110 - Share buy-backs sets out what ASIC expects a company to disclose to shareholders in a buy-back offer (as per section 257G of TCA) and a notice of meeting that seeks approval for a selective buy-back (as per section 257D(2) of TCA).

RG110 states that the offer statement and notice of meeting must include an independent expert’s report if a company proposes to buy back a significant percentage of its shares.

Approval under resolution 1 is also sought under Chapter 2E of TCA as one of the Participating Shareholders is also a Director (ie Mr Jian Wu). Chapter 2E 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.

A “related party” for the purposes of section 228 of TCA is defined widely and includes a director of a public company.

Section 219 of TCA and ASIC Regulatory Guide 76 specify the content requirements for the notice of meeting in relation to an approval under Chapter 2E.

Listing Rule 10.1 requires the approval of non-associated holders of the entity’s ordinary securities where that entity purchases a substantial asset from, or disposes of a substantial asset to, a related party or a substantial shareholder if the party and the party’s associates have a relevant interest, or had a relevant interest at any time in the 6 months before the transaction, in at least 10% of the total votes attached to the voting securities. As noted above, Mr Wu is a related party.

Under section 15 of TCA, an associate includes a person who is acting in concert with the primary person in respect of the matter to which the associate reference relates. Mr Jian Wu and Ms Ling Gu are husband and wife and are therefore associates by virtue of section 15 of TCA. Mr Wu holds 7.47% of the Shares and Ms Gu holds 6.34% of the Shares. Together they hold 13.81% of the Shares (which is over 10%).

A substantial asset is defined under the Listing Rules as an asset that has a value, or the value of the consideration for it is, equivalent to 5% or more of the equity interests of the entity as set out in the latest accounts provided to the ASX.

The consideration to be paid (collectively) to the Participating Shareholders under the Selective Buy-Back equals 5% or more of the equity interests of the Company. For the purposes of Listing Rule 10.1, separate transactions will be aggregated if, in ASX’s opinion, they form part of the same commercial transaction.

On this basis, Listing Rule 10.1 approval is required for the Selective Buy-Back.

Listing Rule 10.1 requires that the notice of meeting to approve the Selective Buy-Back be accompanied by a report from an independent expert stating whether the Selective Buy-Back is fair and reasonable to the non-associated Shareholders.

- 1.4 Under Section 257A of the TCA, a company may buy back its own shares if (inter-alia):
- (c) the buy-back does not materially prejudice the Company's ability to pay its creditors; and
 - (d) The company follows the procedures set out under Part 2J.1 Division 2 of TCA.

Under the TCA, the proposal to buy back 61,734,292 Buy Back Shares is deemed a Selective Buy Back and the shareholders approval is required pursuant to section 257D(1).

- 1.5 In determining the fairness and reasonableness of the Proposals under resolution 1 we have had regard for the definitions set out by ASIC in its Regulatory Guide 111, "Content of Expert Reports". Regulatory Guide 111 states that an opinion as to whether an offer is fair and/or reasonable shall entail a comparison between the offer price and the value that may be attributed to the securities under offer (fairness) and an examination to determine whether there is justification for the offer price on objective grounds after reference to that value (reasonableness). The concept of "fairness" is taken to be the value of the offer price, or the consideration, being equal to or greater than the value of the securities in the above mentioned offer. An offer is "reasonable" if it is fair. An offer may also be reasonable, if despite not being "fair", there are sufficient grounds for security holders to accept the offer in the absence of any higher bid before the close of the offer.
- 1.6 The Company has requested Stantons International Pty Ltd (trading as Stantons International Securities) to prepare an Independent Expert's Report to determine whether the Proposals outlined in resolution 1 are fair and reasonable to the shareholders of Lion (the Non Participating Shareholders) and do not materially prejudice the Company in its ability to pay its creditors.
- 1.7 Apart from this introduction, this report considers the following:
- Summary of opinion
 - Implications of the Proposals under resolution 1
 - Corporate history and nature of business of the Lion Group
 - Future direction of Lion
 - Basis of valuation of Lion Shares
 - Basis of valuation of Lion Nanning
 - Consideration as to fairness and reasonableness
 - Conclusion as to fairness and reasonableness
 - Sources of information
 - Appendices A and B and Financial Services Guide
- 1.8 In our opinion, the Proposals as outlined in resolution 1 are, in the absence of a more superior proposal, on balance, not fair and reasonable to the shareholders of Lion not associated with the Participating Shareholders. The cancellation of the 61,734,292 Buy Back Shares (in conjunction with the First Placement and the Placement that will raise a gross \$1,283,481) does not affect the financial viability of the Lion Group (other than incurring cash costs estimated at up to \$50,000 in relation to the consummation of the Proposals) but there will be significantly less cash on hand as compared with the position prior to the Proposals.**

However, some shareholders may consider the retirement of the Participating Shareholders from the share register of Lion that will allow Lion to focus on its core business of oil and gas exploration, development and production and investment in the resources industry to be reasonable notwithstanding that there is a significant cash loss to the Lion Group.

The opinions expressed above must be read in conjunction with the more detailed analysis and comments made in this report. Our report refers to an 18 November 2011 Independent Valuation Report ("Valuation Report") on the Energy Assets (a 2.5% interest in the Seram (Non Bula) PSC in Indonesia) owned by the Lion Group prepared by Mulready Consulting Services Pty Ltd (author, Jack Mulready) ("Mulready"). The Valuation Report as it came up with a preferred valuation very near the carrying value and that it did not materially affect the assessed valuation of a share in Lion (and would not change our final opinion), we have not included the Valuation Report as an appendix to our report. A full copy of the Valuation Report, however, is available for inspection at the registered office of Lion.

1.9 There are eight other resolutions being put to the shareholders of Lion in the Notice. We are not reporting on the merits or otherwise of the other resolutions (resolutions 2 to 9) included in the Notice. However, we note that the proposal under resolution 5 (to raise \$1,000,000) is a condition precedent to complete the proposals under resolution 1. As part of the restructure of Lion, Lion is proposing, in addition to the proposal under resolution 1 to:

- ratify the issue 14,174,063 shares ("First Placement Shares") at 2 cents each to raise \$283,481 (with one free attaching share option for each share issued exercisable at 3 cents each, on or before 31 December 2013 subject to the passing of resolution 3). The First Placement Shares will be issued before the Notice is dispatched to shareholders;
- issue of 14,174,063 free options exercisable at 3 cents each, on or before 31 December 2013 to those shareholders referred to in resolution 2 (resolution 3);
- issue 4,000,000 share options exercisable on the same terms of the above share options to Pendulum Capital as part of the fees to raise the \$283,481 (resolution 4);
- issue 50,000,000 shares at 2 cents each to raise a gross \$1,000,000 as a Placement (resolution 5 refers) ("Placement Shares") (the estimated capital raising costs are \$60,000);
- issue of a further 50,000,000 shares at not less than 3 cents per share ("Further Placement") (resolution 6 refers);
- issue of 80,000,000 share options ("Placement options") at an issue price of 0.1 cent each to raise a gross \$80,000 and each option is exercisable at 3 cents each, on or before 31 December 2013 (resolution 7 refers);
- allow Russell Brimage a director of Lion to acquire up to 10,000,000 shares in the Placement referred to in resolution 5 (resolution 8 refers);
- allow Russell Brimage a director of Lion to acquire up to 10,000,000 options in the Option Placement referred to in resolution 7 (resolution 9 refers);

2. Implications of the Proposals

2.1 As at 24 November 2011, the number of ordinary shares on issue in Lion totals 94,493,754 all of which are listed on ASX and as at 18 November 2011 the top six shareholders are disclosed as follows:

	Existing Significant Shareholders (all the Participating Shareholders)	Significant shareholders (after consummation of resolutions 1 to 6)
Mrs Wenmei Hu	22,688,916	24.01
Mr Yuda Chen	10,000,000	10.58
Mr Xianjun Yang	10,000,000	10.58
Mr Jian Wu	7,058,296	7.47
Mr Yianxing Zheng	6,000,000	6.35
Ms Ling Gu	5,987,080	6.34
	<u>61,734,292</u>	<u>65.33</u>

The top 20 shareholders as at 18 November 2011 hold approximately 85.70% of the issued capital of Lion. The Participating Shareholders collective shareholding interest will reduce from approximately 65.33% (as at 18 November 2011) (approximately 56.81% immediately after the placement of 14,174,063 First Placement Shares as noted above) to nil% following the completion of the proposals under resolutions 1 to 6.

2.2 The movement in the issued capital of Lion is proposed to be as follows:

As at 24 November 2011	94,493,754
Issue of First Placement Shares in November 2011	<u>14,174,063</u>
On issue post the First Placement Shares	108,667,817
Issue of Placement shares pursuant to resolution 5	<u>50,000,000</u>
Shares on issue post the Placement Shares	158,667,817
Cancellation of the Buy Back Shares	<u>(61,734,292)</u>
Shares on issue post the Share Buy Back	96,933,525
Potential issue of further shares	
Further placement of shares (resolution 6)	<u>50,000,000</u>
	146,933,525
Exercise of share options	
Prior placement options	14,174,063
Pendulum Capital Options	4,000,000
Placement Options	<u>80,000,000</u>
Potential shares on issue after all share options exercised	<u>245,107,588</u>

2.3 The current Board of Directors of Lion is comprised of Jian Wu, Russell Brimage and Weidong Zhang. If resolutions 1 to 9 are passed and resolution 1 consummated, it is proposed that Jian Wu would resign as a director. It is not contemplated to change the other Board members in the immediate future but may change in the event that new businesses are acquired.

2.4 The pro-forma consolidated statement of financial position (Pro-forma A) post the consummation of the proposals under resolutions 1 to 6 will be as noted in paragraph 5.4.1 below. In the main, the sum of \$200,000 will be paid to the Participating Shareholders, the Lion Group will cease to own Lion Nanning that has cash at bank of CNY 38,614,720 as at 31 October 2011 (approximately \$6,000,000 using the 16 November 2011 AUS/CNY (China) exchange rate of 1AUS\$= 6.43319 CNY). Based on the FX rates over the past two months, the CNY 38,614,720 approximates between \$5,697,000 and \$6,179,000. In addition, the debt of CNY 37,035,353 (approximately \$5,757,000) owing to LII will be assigned to the Participating Shareholders. Furthermore, the Participating Shareholders will assume the liability for US\$500,000 (assume to be approximately \$500,000) and CNY 2,200,000 (approximately \$342,000) owing by LII as at 31 October 2011.

3. Corporate History and Nature of Business of the Lion Group

3.1 The Company has been in the businesses of oil and gas exploration and production over many years. Lion is listed on the ASX. For the years ended 30 June 2010 and 2011, the Company has recorded consolidated operating losses before a profit on sale of investments in 2010 of approximately \$1,028,000 (profit of \$1,186,000 after accounting for the profit on sale of investment of \$2,214,000) and \$741,000 respectively on total sales revenue of approximately \$2,096,000 and \$1,791,000 respectively. In light of events affecting the Company over the last 12 months, the Board has been considering a number of options to restructure and recapitalise the Company, so that it is in a position to focus on its core business of oil and gas exploration, development and production and investment in the resources industry. In summary, the relevant events are:

- a) On 16 November 2010, the Company announced that, through its wholly owned subsidiary Lion Nanning, it would, subject to shareholder approval, acquire an interest in Qinghai First New Energy Limited, a Chinese company planning to construct a 1000MW solar thermal power plant in Qinghai, China. The Company subsequently announced on 27 April 2011, that it had elected not to proceed with the acquisition of that interest as following consultation with ASX the Company had been advised by ASX that in ASX's opinion Listing Rule 10.7 would apply to the proposed transaction, and that ASX will not grant a waiver to Listing Rule 10.7. Listing Rule 10.7 provides that if an acquisition to which Listing Rule 10.1 applies is of a classified asset, the consideration must be restricted securities. The effect of ASX's determination is that the Company was unable to proceed with the proposed transaction as it would require the Company to issue restricted securities instead of cash consideration. The terms of the acquisition agreement did not allow for consideration to be provided in the form of restricted securities.
- b) On 6 July 2011, the Company announced that it had been served with a proceeding for a claim for \$1,082,388.35 plus interest from the liquidator of Tulloch, in respect of an alleged loan made to the Company by Tulloch in January 2003. While the Company disputed that it owed any amount to Tulloch, the claim was settled on 7 October 2011 for an amount of \$737,500. Payment of this amount has reduced the funds otherwise available to the Company to pursue its core operations.

3.2 The Company maintains a 2.5% working interest in the Seram Joint Venture (Seram Non Bula PSC) that is producing oil out of Indonesia. This JV interest has been independently valued as noted below in the range of US\$790,000 to US\$2,870,000 with an arithmetic mean of US\$1,830,000. As the US/AUS exchange rate is close to 1 for 1, we have assumed that the value in US dollars is equal to the value Australian dollars.

4. Future Directions of Lion

4.1 We have been advised by the directors and management of Lion that post approval of the proposals as envisaged in resolutions 1 to 9 that:

- there are no proposals currently contemplated either whereby Lion will acquire property or assets from the Participating Shareholders or where Lion would transfer any of its other property or assets to the Participating Shareholders (but refer to paragraph 1.2 above on the proposals with the Participating Shareholders);
- the composition of the Board is expected to change in the immediate future as noted in paragraph 2.3 above but may well further change if any new additional significant acquisition is undertaken;

- the Company proposes to complete the proposals as noted under resolutions 1 to 9 and section 1.9 of this report;
- no dividend policy has been set and it is not proposed to be set until such time as the Company is profitable and has a positive cash flow; and
- after the Selective Share Buy Back and other proposals, the Company intends to seek further new business opportunities. Discussions are being held with various parties.

5. Basis of Valuation of Lion Shares

5.1 Shares

5.1.1 In considering the proposals outlined in resolution 1, we have sought to determine if the consideration payable by the Participating Shareholders that includes the cancellation of 61,734,292 Buy Back Shares is fair and reasonable to the existing non-associated shareholders of Lion and Lion in general.

5.1.2 The proposal pursuant to resolution 1 would be fair to the existing non-associated shareholders if the value of the assets being sold (that includes the shares in Lion Nanning) by Lion is greater than the implicit value of the Consideration to be received that includes the 61,734,292 Share Buy Back Shares being cancelled as part consideration. Accordingly, we have sought to determine a value that could reasonably be placed on Lion shares for the purposes of this report.

5.1.3 The valuation methodologies we have considered in determining a theoretical value of a Lion share are:

- capitalise maintainable earnings/discounted cash flow;
- takeover bid - the price at which an alternative acquirer might be willing to offer;
- adjusted net backing and windup value; and
- the average market price of Lion shares.

5.2 Capitalise maintainable earnings and discounted cash flows.

5.2.1 To 30 June 2011, Lion has not been profitable and in the year ended 30 June 2011 had accumulated consolidated losses as at 30 June 2011 total approximately \$43.920 million. We do not believe it relevant or suitable for the purposes of this report to attempt to assess a "technical" value of a Lion share based on discounting future cash flows for the reasons outlined above.

5.3 Takeover Bid

5.3.1 It is possible that a potential bidder for Lion could purchase all or part of the existing shares, however no certainty can be attached to this occurrence.

5.3.2 To our knowledge, there are no current bids in the market place and the directors of Lion have formed the view that there is unlikely to be any takeover bids made for Lion in the immediate future. It is noted that the Participating Shareholders combined shareholding in Lion will approximate 56.81% after the issue of the 14,174,063 shares (currently approximately 65.33% before the issue of the 14,174,063 shares) but this will reduce to nil% on completion of the Proposals as outlined above due to the proposal to cancel the Share Buy Back Shares.

5.4 Net Asset Backing

5.4.1 We set out below an unaudited consolidated Statement of Financial Position of the Lion Group as at 31 October 2011. We also disclose the unaudited pro-forma consolidated Statement of Financial Position A of the Lion Group immediately following the sale of Lion Nanning and completion of the Proposals using the unaudited 31 October 2011 Lion Group figures and ignoring any losses or profits post 31 October 2011.

	Lion Consolidated 31 October 2011 (un-audited)	Pro-Forma A Lion Consolidated 31 October 2011 (un-audited)
	\$'000's	\$'000's
Current Assets		
Cash and cash equivalents	6,112	1,551
Trade and other receivables	967	967
Inventories	325	325
	7,404	2,843
Non Current Assets		
Plant or equipment	44	44
Oil and gas exploration	1,420	1,420
	1,464	1,464
Total Assets	8,868	4,307
Current Liabilities		
JV creditors	438	438
Other creditors	64	64
Solar project evaluation	324	-
LII Petro-Chem Evaluation	476	-
	1,302	502
Non Current Liabilities		
Deferred royalty	528	528
	528	528
Total Liabilities	1,830	1,030
Net Assets	7,038	3,277

5.4.2 Based on the 31 October 2011 book values, this equates to a value per fully paid ordinary share (94,493,754 shares currently on issue) of approximately 7.44 cents (ignoring the value, if any, of non-booked tax benefits and subsequent losses and share issues). If we took into account the proposed capital raising of \$283,481 in November 2011 (to be ratified as per resolution 2), the book net asset backing would total \$7,321,000 and the asset backing per share would approximate 6.73 cents (108,667,817 shares on issue).

On a post de-consolidation basis and after the cancellation of the 61,734,292 Buy Back Shares, the book net assets using the unaudited 31 October 2011 figures would approximate \$3,277,000 and the value per share (96,933,525 shares would then be on issue) would approximate 3.38 cents.

5.4.3 No detailed review was made by us on the assets and liabilities disclosed in the consolidated statement of financial position as at 31 October 2011. We have been assured by the management of Lion that they believe the carrying value of all current assets, fixed assets and liabilities at 31 October 2011 are fair and not materially misstated. However, the Lion Group has a 2.5% working interest in the Seram JV in Indonesia and this interest has been valued by Mulready. We, in conjunction with the Company commissioned Jack Mulready to value the Seram JV interest. The Valuation

Report is available for inspection (see paragraph 1.8) at the registered office of the Company. We have used and relied on the Valuation Report on the Seram JV interest and have satisfied ourselves that:

- Mulready is a suitably qualified petroleum consultant and has relevant experience in assessing the merits of oil and gas projects and preparing oil and gas asset valuations;
- Mulready is independent from Lion; and
- Mulready has employed sound and recognised methodologies in the preparation of the Valuation Report.

Mulready indicates that the 2.5% working interest in the Seram JV has a value in the range from US\$790,000 to US\$2,870,000 with a preferred value range of approximately US\$1,830,000. The consolidated carrying value of the capitalised exploration expenditure for the 2.5% working interest in the Seram JV as at 31 October 2011 approximates \$1,420,000. If we adjusted the unaudited book net assets as at 31 October 2011 to reflect the underlying fair value of the 2.5% working interest in the Seram JV as noted by Mulready and adjusted for the capital raising of \$283,481, the adjusted book asset backing per share may be as low as 6.15 cents and as high as 8.07 cents with a preferred technical book value per share of around 7.11 cents (assuming a 1 for 1 A\$ and US\$).

5.4.4 We note that the market has been informed of all of the current projects and joint ventures entered into between Lion and other parties by releasing various statements and notices to the ASX. We also note it is not the present intention of the directors of Lion to liquidate the Company and therefore any theoretical value based upon wind up value or even net book value (as adjusted), is just that, theoretical. For accounting purposes, the consideration for the cancellation of Lion Buy Back Shares may either be booked at market value that is around 2.7 cents per share or the underlying technical value of a Lion share. After taking into account the value of the oil interests, the major asset of the Lion Group is cash that as at 31 October 2011 totalled \$6,112,000 (of which approximately \$5,785,000 was the cash in the books of Lion Nanning but now approximately \$6,000,000). There is the argument that as the shares in Lion are thinly traded and the primary asset is cash on deposits, it may be more appropriate to value a Lion share on a technical net asset backing basis.

5.5 Market Price of Lion fully paid shares

5.5.1 The shares in Lion are thinly traded (as around 65% of the shares to late October 2011 are held by the Participating Shareholders). Over the past four months, the shares in Lion have traded on ASX at between 2.3 cents and 3.5 cents with the last sale on 26 October 2011 of 2.7 cents and one sale on 17 November 2011 at 2.3 cents.

5.5.2 The future value of an Lion share will depend upon, inter alia:

- the future profitability, if any, of the Lion Group;
- new ventures entered into by Lion post the implementation of the Proposals outlined in section 1.2;
- the state of Australian and overseas stock markets;
- membership and quality of the Board and its management;
- general economic and environmental conditions; and
- liquidity of shares in Lion.

The unaudited asset backing is well in excess of recent market values as noted via share trading in Lion shares on ASX. It would appear that the technical value of a Lion share may be in the range of 6.15 cents and 8.07 cents and an average mid valuation of around 7.11 cents. Losses may have occurred post 31 October 2011 to reduce the

technical values but not to the extent that the technical value would equal the ASX market value (of say between 2.3 cents and 2.7 cents).

It is our view that it may be more appropriate to value the shares in Lion on an adjusted technical book value in assessing the fairness or reasonableness of the Proposals under resolution 1.

6. Valuation of the Shares in Lion Nanning

- 6.1 The unaudited statement of financial position of Lion Nanning as at 31 October 2011 discloses cash at bank (in a Chinese bank account) of CNY 38,614,720 that approximates \$5,785,000 (but as at 21 November 2011 approximately \$6,000,000) and a liability of CNY 37,035,353 (approximately \$5,757,000) so the adjusted net asset backing approximates \$243,000.

7. Considerations as to Fairness and Reasonableness

- 7.1 Under the Proposals, the Consideration receivable (that assumes a US/AUS FX rate of 1 for 1) by the Participating Shareholders is as follows:

Cash (US\$200,000)	200,000
Shares in Lion Nanning	243,000
Assumption receivable	5,757,000
Less: Liabilities assumed	
Payables relating to the Petro Chem Evaluation	(500,000)
Payables relating to the Solar Project evaluation	<u>(340,380)</u>
Total net Consideration receivable	<u>5,459,620</u>

The assessed technical values of the shares in Lion are in the range of 6.15 cents to 8.07 cents with a preferred technical value per share of approximately 7.11 cents. Thus the assessed technical value of the 61,734,292 Buy Back Shares being given up by the Participating Shareholders is in the range of \$3,796,658 to \$4,981,957 with a preferred technical value of approximately \$4,367,978.

Thus, the Participating Shareholders are receiving a greater value than the value of the Buy Back Shares being bought back (and to be cancelled by Lion). On such a basis, the Proposal pursuant to resolution 1 would **not be fair**. The market value of a Lion share approximates between 2.3 cents and 2.7 cents each and thus the value of the Buy Back Shares would approximate between \$1,419,903 and \$1,668,259 that also would lead to the conclusion that the Proposals pursuant to resolution 1 would not be fair.

- 7.2 The Lion Group would cease to have a group of Chinese related shareholders (the Participating Shareholders) (that includes Mr Jian Wu, a director of Lion and Lion Nanning) that wish to take a different direction to that of the rest of the Board. Arguably, having differences of opinion can be detrimental to the Board and a company in general. The cancellation of the Buy Back Shares would result in the Participating Shareholders ceasing to be shareholders in Lion and Mr Jian Wu would cease to be a director of Lion. The Board is supportive of any desire of any of the Participating Shareholders to pursue investment in solar power in China. The new Board (a new director will need to be appointed so that Lion has a minimum of three directors as required by law) may seek other business opportunities in the oil and gas sector.
- 7.3 The net assets of the Lion Group (using book values as at 31 October 2011 as adjusted for the proposed capital raising of \$283,481) reduce from around \$7,321,000 to around \$3,277,000 and the book asset backing per share reduces from approximately 6.73 cents to 3.38 cents following completion of the Proposal and the capital raising under resolution 5. Shareholders are technically worse off.

- 7.4 The Lion Group is relieved of paying certain creditors of LII that total US\$840,380 as a result of the consummation of the Proposals under resolution 1 and as per the Selective Share Buy Back Agreement. This is of some benefit to the Lion Group.
- 7.5 The cancellation of the 61,734,292 Buy Back Shares does not affect the financial viability of the Lion Group (other than incurring cash costs estimated at up to \$50,000 in relation to the consummation of the Proposals) but there will be significantly less cash on hand as compared with the position prior to the Proposals. The Company may need to raise further cash to pursue new investments in the oil and gas sector. It is noted that resolution 6 allows Lion to issue a further 50,000,000 shares at no less than 3 cents per share (minimum capital raised would be \$1,500,000) but this must be completed within 3 months of approval by shareholders. The existing shareholders (those as at 25 November 2011) would further be diluted.
- 7.6 The Company will post divestiture of the shares in Lion Nanning and cancellation of the Buy Back Shares will be able to seek new business opportunities that may provide better opportunities to earn profits and provide an improved cash flow.

8. Conclusion as to Fairness and Reasonableness

- 8.1 **Taking into account all factors noted above, it is our opinion that the Proposals under resolution 1 are, in the absence of a superior proposal, on balance, not fair and reasonable to the shareholders of Lion not associated with the Participating Shareholders who are also participating in the selective capital reduction.** The cancellation of the 61,734,292 Buy Back Shares (in conjunction with the First Placement and the Placement that will raise a gross \$1,283,481) does not affect the financial viability of the Lion Group (other than incurring cash costs estimated at up to \$50,000 in relation to the consummation of the Proposals) but there will be significantly less cash on hand as compared with the position prior to the Proposals.

However, some shareholders may consider the retirement of the Participating Shareholders from the share register of Lion that will allow Lion to focus on its core business of oil and gas exploration, development and production and investment on the resources industry to be reasonable notwithstanding that there is a significant cash loss to the Lion Group.

9. Sources of Information

- 9.1 In making our assessment as to whether the Proposals under resolution 1 are fair and reasonable, we have reviewed relevant published available information and other unpublished information of the Company (including Lion Nanning) that is relevant to the current circumstances. In addition, we have held discussions with the 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.
- 9.2 Information we have received includes, but is not limited to:
- drafts of Notice of General Meeting of Shareholders of Lion and draft Explanatory Memorandum To Shareholders prepared to 24 November 2011;
 - discussions with management and directors of Lion and the Australian solicitors for Lion;
 - details of historical market trading of Lion ordinary fully paid shares recorded by ASX from 1 January 2011 to 24 November 2011 (last sale was on 17 November 2011);
 - shareholding details of Lion as supplied by the company's share registry as at 18 November 2011;

- un-audited management accounts of Lion and its subsidiaries and the Lion Group for the three and four months ended 30 September 2011 and 31 October 2011 respectively;
- audited accounts of the Lion Group for the years ended 30 June 2010 and 2011;
- announcements made by Lion to the ASX from 1 January 2011 to 25 November 2011;
- the Valuation Report of Mulready Valuation Services Pty Ltd of 18 November 2011;
- website of Lion and information from such site; and
- the Draft Selective Share Buy Back Agreement between Lion and the Participating Purchasers prepared to 24 November 2011.

9.3 Our report includes Appendix A and our Financial Services Guide attached to this report.

Yours faithfully

STANTONS INTERNATIONAL SECURITIES



J P Van Dieren
Director

APPENDIX A

AUTHOR INDEPENDENCE AND INDEMNITY

This annexure forms part of and should be read in conjunction with the report of Stantons International Securities dated 25 November 2011, relating to the share buy back of 61,734,292 Buy Back Shares as outlined in paragraph 1.2 of the report and resolution 1 in the Notice of Meeting to Shareholders proposed to be distributed to Lion shareholders in December 2011.

At the date of this report, Stantons International Securities does not have any interest in the outcome of the Proposals. There are no relationships with Lion or the Participating Shareholders other than acting as an independent expert for the purposes of this report. There are no existing relationships between Stantons International Securities and the parties participating in the transactions detailed in this report which would affect our ability to provide an independent opinion. The fee to be received for the preparation of this report is based on the time spent at normal professional rates plus out of pocket expenses and is estimated at \$10,000. The fee is payable regardless of the outcome. With the exception of the fee, neither Stantons International Securities nor John P Van Dieren have received, nor will, or may they receive, any pecuniary or other benefits, whether directly or indirectly, for or in connection with the making of this report.

Stantons International Securities does not hold any securities in Lion. There are no pecuniary or other interests of Stantons International Securities that could be reasonably argued as affecting its ability to give an unbiased and independent opinion in relation to the proposal. Stantons International Securities and Mr J Van Dieren have consented to the inclusion of this report in the form and context in which it is included as an annexure to the Notice.

QUALIFICATIONS

We advise Stantons International Securities is the holder of an Australian Financial Services Licence (no 319600) under the Corporations Act 2001 relating to advice and reporting on mergers, takeovers and acquisitions that involve securities. A number of the directors of Stantons International Pty Ltd are the directors of Stantons International Securities and Stantons International Securities has an affiliation with Stantons International Audit and Consulting Pty Ltd, a company that provided audit and management services. Stantons International Securities has extensive experience in providing advice pertaining to mergers, acquisitions and strategic for both listed and unlisted companies and businesses.

Mr John P Van Dieren, FCA, the person responsible for the preparation of this report, has extensive experience in the preparation of valuations for companies and in advising corporations on takeovers generally and in particular on the valuation and financial aspects thereof, including the fairness and reasonableness of the consideration offered. The professionals employed in the research, analysis and evaluation leading to the formulation of opinions contained in this report, have qualifications and experience appropriate to the task they have performed.

DECLARATION

This report has been prepared at the request of the Directors of Lion in order to assist the shareholders of Lion to assess the merits or otherwise of the Proposals to buy back 61,734,292 Buy Back Shares for the Consideration outlined in paragraph 1.2 of the report and as outlined in resolution 1 and the Explanatory Statement to which this report relates. This report has been prepared for the benefit of Lion's shareholders and does not provide a general expression of Stantons International Securities opinion as to the longer term value of Lion its assets, its subsidiaries and their businesses. Stantons International Securities does not imply, and it should not be construed, that it has carried out any form of audit on the accounting or other records of Lion, its subsidiaries that includes Lion Nanning. Neither the whole nor any part of this report, nor any reference thereto may be included in or with or attached to any document, circular, resolution, letter or statement, without the prior written consent of Stantons International Securities to the form and context in which it appears.

DISCLAIMER

This report has been prepared by Stantons International Securities with due care and diligence. However, except for those responsibilities, which by law cannot be excluded, no responsibility arising in any way whatsoever for errors or omission (including responsibility to any person for negligence) is assumed by Stantons International Securities and Stantons International Pty Ltd (and its affiliated entity, Stantons International Audit and Consulting Pty Ltd), their directors, employees or consultants for the preparation of this report.

DECLARATION AND INDEMNITY

Recognising that Stantons International Securities may rely on information provided by Lion and its officers (save whether it would not be reasonable to rely on the information having regard to Stantons International Securities experience and qualifications), Lion has agreed:

- (a) To make no claim by it or its officers against Stantons International Securities (and Stantons International Pty Ltd and its affiliated entity, Stantons International Audit and Consulting Pty Ltd) to recover any loss or damage which Lion may suffer as a result of reasonable reliance by Stantons International Securities on the information provided by Lion; and
- (b) To indemnify Stantons International Securities (and Stantons International Pty Ltd and its affiliated entity, Stantons International Audit and Consulting Pty Ltd) against any claim arising (wholly or in part) from Lion or any of its officers providing Stantons International Securities any false or misleading information or in the failure of Lion or its officers in providing material information, except where the claim has arisen as a result of wilful misconduct or negligence by Stantons International Securities.

A draft of this report was presented to Lion directors for a review of factual information contained in the report. Comments received relating to factual matters were taken into account, however the valuation methodologies and conclusions did not alter.

**FINANCIAL SERVICES GUIDE
FOR STANTONS INTERNATIONAL PTY LTD
(Trading as Stantons International Securities)
Dated 25 November 2011**

1. Stantons International Securities ACN 103 088 697 ("SIS" or "we" or "us" or "ours" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

2. Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client a Financial Services Guide ("FSG"). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- who we are and how we can be contacted;
- the services we are authorised to provide under our Australian Financial Services Licence, Licence No: 319600;
- remuneration that we and/or our staff and any associated receive in connection with the general financial product advice;
- any relevant associations or relationships we have; and
- our complaints handling procedures and how you may access them.

3. Financial services we are licensed to provide

We hold an Australian Financial Services Licence which authorises us to provide financial product advice in relation to:

- Securities (such as shares, options and notes)

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

4. General Financial Product Advice

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

5. Benefits that we may receive

We charge fees for providing reports. These fees will be agreed with, and paid by, the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis.

Except for the fees referred to above, neither SIS, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

6. Remuneration or other benefits received by our employees

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

7. Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

8. Associations and relationships

SIS is a division of Stantons International Pty Ltd a professional advisory and accounting practice. Our directors may be directors in Stantons International Pty Ltd and/or Stantons International Audit and Consulting Pty Ltd (that provides audit, corporate and management advisory services).

From time to time, SIS and Stantons International Audit and Consulting Pty Ltd and/or their related entities may provide professional services, including audit, accounting and financial advisory services, to financial product issuers in the ordinary course of its business.

9. Complaints Resolution

- Internal complaints Resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to:

The Complaints Officer
Stantons International Securities
Level 1
1 Havelock Street
WEST PERTH WA 6005

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaints within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service Limited ("FOSL"). FOSL is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOSL are available at the FOSL website www.fos.org.au or by contacting them directly via the details set out below.

Financial Ombudsman Service Limited
PO Box 3
MELBOURNE VIC 8007

Toll Free: 1300 78 08 08
Facsimile: (03) 9613 6399

10. Contact details

You may contact us using the details set out at the top of our letterhead on page 1 of this FSG.

Schedule 2 Option Terms

The Options entitle the holder to subscribe for Shares on the following terms and conditions:

- (a) Each Option entitles the holder to subscribe for one (1) Share upon the payment of 3 cents per Share subscribed for.
- (b) The Options will lapse at 5.00pm, Western Standard Time on 31 December 2013.
- (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) The Option holder must not offer any of the Options, or the Shares issued on exercise of the Options, for sale to any person (**Secondary Offer**) within 12 months from the respective date of issue of those Options or Shares (as applicable) unless:
 - (i) the Secondary Offer does not require disclosure as a result of sections 707 or 708 of the Corporations Act (excluding section 708(1) of the Corporations Act);
 - (ii) the Secondary Offer does not require disclosure as a result of section 708A or ASIC Class Order 04/671 or any variation or replacement of such Class Order;
 - (iii) the Secondary Offer is made pursuant to a disclosure document in accordance with the Corporations Act; or
 - (iv) the Secondary Offer is received by a person outside Australia.

For the avoidance of doubt, paragraph (d)(iii) does not create any obligation on the Company to issue a disclosure document (whether at its cost or otherwise).

- (e) There are no participating rights or entitlements inherent in the 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.
- (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 ASX 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 Option holder to exercise all or a specified number of Options held by them accompanied by an Option Certification and payment to the Company for the subscription monies for the Shares. An exercise of only some Options shall not affect the rights of the Option holder to the balance of the Options held by them.
- (h) The notice of exercise of Options may 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 ASX 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 ASX.
- (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.

Proxy form

Lion Energy Limited
ACN 000 753 640
(Company)

APPOINTMENT OF PROXY TO VOTE ON YOUR BEHALF LION ENERGY LIMITED - ACN 000 753 640

SPECIAL GENERAL MEETING

I/We

of

being a member of Lion Energy Limited entitled to attend and vote at the Special General Meeting, hereby

Appoint

Name of proxy

OR

the Chairperson as my proxy

or failing the person so named or, if no individual or body corporate is named, the Chairperson, as my/our proxy to act generally at the Meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Special General Meeting of Lion Energy Limited to be held at 31 Ord Street, West Perth, Western Australia, at 2:00pm (WST) on 17 February 2012 and at any adjournment of that Meeting.

Important for Resolutions 1 to 9 – If the Chairperson is appointed as your proxy or is appointed as your proxy by default.

By marking the box below, you are directing the Chairperson to vote in accordance with the Chairperson's voting intentions as set out below and in the Notice of Meeting. If you do not mark the box below, and you have not directed the Chairperson how to vote on Resolutions **1 to 9**, the Chairperson will not cast your votes on Resolutions **1 to 9** and your votes will not be counted in computing the required majority if a poll is called on these Resolutions. If you appoint the Chairperson as your proxy you can direct the Chairperson how to vote by either marking the boxes below (for example, if you wish to vote against or abstain from voting) or by marking this box (in which case the Chairperson will vote in favour of Resolutions **1 to 9**).

The Chairperson intends to vote all available proxies in favour of Resolutions 1 to 9.

I/We direct the Chairperson to vote in accordance with the Chairperson's voting intentions on Resolutions **1 to 9** (except where I/we have indicated a different voting intention below) and acknowledge that the Chairperson may exercise my proxy even if the Chairperson has an interest in the outcome of these items and any votes cast by the Chairperson, other than as proxy holder, would be disregarded because of that interest.

Items of Business

PLEASE NOTE: If you mark the Abstain box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

Business	For	Against	Abstain
Resolution 1 – Approval of Selective Buy-Back			
Resolution 2 – Ratification of Prior Placement Shares			
Resolution 3 – Approval for issue of Options to Prior Placement Participants			

Business	For	Against	Abstain
Resolution 4 – Approval for issue of Options to underwriter			
Resolution 5 – Approval of 50 million Share placement (\$0.02)			
Resolution 6 – Approval of 50 million Share placement (\$0.03)			
Resolution 7 – Approval of 80 million Option issue			
Resolution 8 – Approval for Russell Brimage to participate in 50 million Share placement (\$0.02)			
Resolution 9 – Approval for Russell Brimage to participate in 80 million Option issue			

The Chairperson intends to vote all available proxies in favour of each item of business

Signature of Securityholder(s) *This item must be completed*

Individual or Securityholder 1

Securityholder 2

Securityholder 3

Sole Director/Company Secretary

Director

Director/Company Secretary

Contact Name: _____ **Telephone:** _____ **Contact Daytime Date:** ____/____/____