

# **LION ENERGY LIMITED**

**ACN 000 753 640**

## **PROSPECTUS**

For the pro-rata non-renounceable rights issue to Eligible Shareholders of approximately 54,333,909 New Shares and 1 free Attaching Option per New Share on the basis of 1 New Share for every 2 Shares held on the Record Date, at an issue price of \$0.02 per New Share, for the purpose of raising approximately \$1,086,678 before expenses.

For the issue to Pendulum Capital Pty Ltd or its nominee of 4,000,000 free Fee Options to subscribe for Shares in the Company.

**UNDERWRITER:**  
**Pendulum Capital Pty Limited**  
**ACN 108 119 848**

**THE RIGHTS ISSUE CLOSES AT 5.00 PM AWST ON 11 JANUARY 2012.**

### **IMPORTANT NOTICE**

This document is important and requires your immediate attention. It should be read in its entirety. If you do not understand its contents, or are in doubt as to the course you should follow, you should consult your stockbroker, accountant or professional adviser.

Investment in securities offered by this Prospectus should be considered speculative.

## **CORPORATE DIRECTORY**

### **DIRECTORS**

Mr Jian Wu (Executive Chairman)  
Russell Brimage (Director and Chief Executive Officer)  
Mr Weidong Zhang (Non-Executive Director)

### **SECRETARY**

Jack Toby

### **REGISTERED AND PRINCIPAL OFFICE**

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WEST PERTH WA 6005  
AUSTRALIA  
Telephone: +61 8 9213 4300  
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Email: [info@lionenergy.com.au](mailto:info@lionenergy.com.au)  
Website: [www.lionenergy.com.au](http://www.lionenergy.com.au)

### **UNDERWRITER**

Pendulum Capital Pty Limited  
Telephone: +61 8 9282 5400  
Facsimile: +61 8 9282 5444  
Email: [info@pendulumgroup.com.au](mailto:info@pendulumgroup.com.au)

### **SOLICITORS**

Gilbert + Tobin  
1202 Hay Street  
WEST PERTH WA 6005  
AUSTRALIA

### **AUDITORS**

Grant Thornton Audit Pty Ltd  
Level 1, 10 Kings Park Road  
WEST PERTH WA 6005  
AUSTRALIA

### **SHARE REGISTRY**

Computershare Investor Services Pty Limited  
Level 2, 45 St Georges Terrace  
PERTH WA 6000  
AUSTRALIA  
Telephone: +61 8 9323 2000  
Facsimile: +61 8 9323 2033  
Email: [perth.services@computershare.com.au](mailto:perth.services@computershare.com.au)  
Investor Enquiries: 1300 557 010

GPO Box D182  
PERTH WA 6840  
AUSTRALIA

### **ASX CODE**

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## IMPORTANT NOTES AND STATEMENTS

This Prospectus is dated 8 December 2011. A copy of this Prospectus was lodged with the ASIC on 8 December 2011. Neither the ASIC nor the ASX take any responsibility for the contents of this Prospectus. No New Shares or Options will be issued on the basis of this Prospectus later than 13 months after the date of issue of this Prospectus. New Shares and Options issued pursuant to this Prospectus will be issued on the terms and conditions set out in this Prospectus.

The Company will apply for the New Shares and Options offered pursuant to this Prospectus to be listed on ASX. An application for New Shares will only be accepted on the "Entitlement and Acceptance Form" accompanying this Prospectus.

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom it would not be lawful to make such an offer or invitation. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

In preparing this Prospectus regard has been had to the fact that the Company is a disclosing entity for the purposes of the Corporations Act and that certain matters may reasonably be expected to be known to investors and professional advisers who investors may consult. No person is authorised to give any information or to make any representation in connection with the Rights Issue described in this Prospectus. Any information or representation which is not contained in this Prospectus or disclosed by the Company pursuant to its continuous disclosure obligations may not be relied upon as having been authorised by the Company in connection with the issue of this Prospectus.

Shareholders should read this Prospectus in its entirety and, if in doubt, should consult their professional advisers before deciding whether to accept their Entitlements.

### Summary of Important Dates\*

Announcement of Rights Issue	25 November 2011
Prospectus lodged at ASIC and ASX	8 December 2011
Lodgement of Appendix 3B with ASX	8 December 2011
Notice containing information required by Appendix 3B sent to Shareholders	12 December 2011
"Ex" Date (date Shares are quoted ex-rights)	13 December 2011
Record Date to determine Entitlements	19 December 2011
Prospectus with Entitlement and Acceptance Form despatched to Shareholders	23 December 2011
Opening Date	23 December 2011
Closing Date for acceptance and receipt of applications under the Rights Issue	11 January 2012
New Shares quoted on a deferred settlement basis	12 January 2012
Notification to ASX of under-subscriptions	16 January 2012
Allotment date with respect to New Shares	19 January 2012
Despatch of holding statements	19 January 2012
Date of quotation of New Shares issued under the Rights Issue	19 January 2012

\* These dates are indicative only. The Directors reserve the right to vary the key dates without prior notice, subject to the Listing Rules.

\* The Directors may extend the Closing Date by giving at least six Business Days notice to ASX prior to the Closing Date. As such, the date the New Shares are expected to commence trading on ASX may vary.

### **Key Definitions**

Throughout this Prospectus, for ease of reading, various words and phrases have been defined rather than used in full on each occasion and are set out in Section 6 of this Prospectus.

# Section 1 DETAILS OF THE RIGHTS ISSUE AND FEE OPTION ISSUE

## 1.1 Rights Issue

This Prospectus invites Eligible Shareholders to participate in a pro-rata non-renounceable Rights Issue of approximately 54,333,909 fully paid ordinary New Shares in the capital of the Company with 1 free Attaching Option per New Share on the basis of 1 New Share for every 2 Shares held at 5.00pm (AWST) on the Record Date of 19 December 2011, at an issue price of \$0.02 per New Share, for the purpose of raising approximately \$1,086,678 less expenses of the Rights Issue.

Any fractional entitlements will be rounded up to the nearest whole number in calculating each Eligible Shareholder's entitlement to New Shares and Attaching Options.

As at the date of this Prospectus, 108,667,817 Shares are on issue (this does not include the Fee Options which are expected to be issued immediately after Shareholder approval for their issue is obtained at the general meeting of Shareholders expected to be held in late January or February 2012 - see Section 1.4 and capital structure in Section 2.3).

## 1.2 No Rights Trading

Entitlements to New Shares and Attaching Options pursuant to the Rights Issue are non-renounceable and accordingly Eligible Shareholders may not dispose of or trade any part of their Entitlement.

## 1.3 Opening and Closing Dates

The Rights Issue will open for receipt of acceptances at 9.00am AWST on 23 December 2011 and will close at 5.00pm AWST on 11 January 2011, or such later date as the Directors, in their absolute discretion and subject to compliance with the Listing Rules, may determine and provided that the Company gives ASX notice of the change at least 6 Business Days prior to the Closing Date.

## 1.4 Underwriting

The Rights Issue is underwritten by Pendulum Capital (refer to Section 4.9 for full details). Pursuant to the Capital Raising Mandate and the Underwriting Agreement, the Company will pay a capital raising fee for the Placement and the Rights Issue of 6%, being \$82,210 (plus GST) and will grant 4,000,000 Fee Options with an exercise price of \$0.03 each expiring on 31 December 2013 to the Underwriter or its nominee. The offer of the 4,000,000 Fee Options to be issued to Pendulum Capital or its nominees on the same terms and conditions as the free Attaching Options is a separate offer made pursuant to this Prospectus. A summary of the material terms of the Underwriting Agreement including rights of termination are set out in Section 4.9.

No brokerage or stamp duty will be payable by investors.

## 1.5 Entitlements and Acceptance

The number of New Shares to which you are entitled (**Entitlement**) is shown in the accompanying Entitlement and Acceptance Form.

In determining Entitlements, any fractional entitlement will be rounded up to the nearest whole number.

Your acceptance of the Offer must be made on the Entitlement and Acceptance Form accompanying this Prospectus. Your acceptance must not exceed your Entitlement as shown on that form. If it does, your acceptance will be deemed to be for the maximum Entitlement.

You may participate in the Offer as follows:(a) if you wish to accept your Entitlement in full:

- (i) pay the amount indicated on your Entitlement and Acceptance Form via BPAY using the BPAY code and personalised reference number indicated so that the funds are received before 3.00pm (WST) on the Closing Date; or
  - (ii) complete the Entitlement and Acceptance Form, filling in the details in the spaces provided and attach your cheque for the amount indicated on your Entitlement and Acceptance Form;
- (b) if you only wish to accept part of your Entitlement:
- (i) pay a lesser amount than indicated on your Entitlement and Acceptance Form via BPAY using the BPAY code and personalised reference number indicated so that the funds are received before 3.00pm (WST) on the Closing Date; or
  - (ii) fill in the number of Securities you wish to accept in the space provided on the Entitlement and Acceptance Form and attach your cheque for the appropriate application monies (at \$0.02 per Share); or
- (c) if you do not wish to accept all or part of your Entitlement, you are not obliged to do anything.

All cheques must be drawn on an Australian bank or bank draft made payable in Australian currency to **"Lion Energy Limited – Trust Account"** and crossed **"Not Negotiable"**.

Your completed Entitlement and Acceptance Form and cheque must be mailed to:

Computershare Investor Services Pty Limited

GPO Box 505  
MELBOURNE VIC 3001

and received by no later than 5.00pm (WST) on the Closing Date.

If you choose to pay via BPAY® you are not required to submit your Entitlement and Acceptance Form.

Your payment will not be accepted after 3.00pm (WST) on the Closing Date and no Shares or Attaching Options will be issued to you in respect of that application.

If you have multiple holdings you will have multiple BPAY reference numbers. To ensure you receive your Shares in respect of that holding, you must use the specific biller code and the customer reference number shown on each personalised Application Form when paying for any Shares that you wish to apply for in respect of that holding. If you inadvertently use the same Customer Reference Number for more than one of your applications, you will be deemed to have applied only for the application to which that Customer Reference Number applies and any excess amount will be refunded.

Applicants should be aware that their own financial institution may implement earlier cut off times with regards to electronic payment, and should therefore take this into consideration when making payment. You may also have your own limit on the amount that can be paid via BPAY. It is your responsibility to check that the amount you wish to pay via BPAY does not exceed your limit.

The Offer to Shareholders is non-renounceable. Accordingly, a Shareholder may not sell or transfer all or part of their Entitlement.

### ***Non-Acceptance of Entitlement***

If you do not wish to take up any part of your Entitlement under the Rights Issue, you are not required to take any action. If you decide not to accept all or part of your Entitlement, the New Shares and Attaching Options not accepted will be dealt with in accordance with Section 1.6.

### ***Minimum Subscription***

There is no minimum subscription in respect of the Offer.

### ***Taxation Implications***

Shareholders should obtain independent advice on the taxation implications arising out of their participation in the Rights Issue.

### ***Inquiries***

If you have any queries regarding your Entitlement, please contact the Company by telephone on +61 8 9213 4300 or your stockbroker or professional adviser.

**PLEASE NOTE IF YOU DO NOT ACCEPT YOUR ENTITLEMENT IN FULL IN ACCORDANCE WITH THE INSTRUCTIONS SET OUT ABOVE, ANY PART OF AN ENTITLEMENT NOT ACCEPTED IN FULL WILL FORM PART OF THE SHORTFALL.**

## **1.6 Shortfall**

If you decide not to accept all or part of your Entitlement pursuant to the Rights Issue, you are not required to take any action. The New Shares and Attaching Options not accepted will form part of the Shortfall and will be allocated by the Underwriter following consultation with the Company in accordance with the Underwriting Agreement. In these circumstances, you will receive no benefit.

## **1.7 Limit**

The Underwriter will ensure that no person, entity or Shareholder will, through the allocation of the Shortfall, acquire a holding of Shares of, or (in the case of existing Shareholders) increase their holding to, an amount in excess of 19.9% of all of the Shares on issue following completion of the Offer.

## **1.8 Allotment of New Shares and Attaching Options**

The New Shares are expected to be allotted by no later than 19 January 2011. Until issue and allotment of the New Shares under this Prospectus, the application monies will be held in trust in a separate bank account opened and maintained for that purpose only. Any interest earned on the application money will be for the benefit of the Company and will be retained by it irrespective of whether allotment of the New Shares and Attaching Options takes place.

## **1.9 ASX Listing**

The Company will make application to ASX within seven (7) days following the date of this Prospectus for Official Quotation of the New Shares and, as a new class of listed securities, the Attaching Options and Fee Option.

If approval is not granted by ASX within three (3) months after the date of this Prospectus, the Company will not allot any New Shares and Attaching Options and will repay all application monies (where applicable) as soon as practicable, without interest.

A decision by ASX to grant Official Quotation of the New Shares and Attaching Options is not to be taken in any way as an indication of ASX's view as to the merits of the Company, or the New Shares and Attaching Options now offered for subscription.

#### 1.10 **No Issue of New Shares and Attaching Options on Fee Options after 13 Months**

No New Shares and Attaching Options or the Fee Options will be allotted or issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

#### 1.11 **Overseas Investors**

The Company is of the view that it is unreasonable to make an offer under this Prospectus to Shareholders outside of Australia and New Zealand (**Excluded Shareholders**) having regard to:

- (a) the number of Shareholders outside of Australia and New Zealand;
- (b) the number and value of the securities to be offered to Shareholders outside of Australia and New Zealand; and
- (c) the cost of complying with the legal requirements and requirements of regulatory authorities in the overseas jurisdictions.

Accordingly, the Company is not required to, and does not, make offers under the Prospectus to Shareholders outside of Australia and New Zealand.

The Offer contained in this Prospectus to Eligible Shareholders with registered addresses in New Zealand is made in reliance on the Securities Act (Overseas Companies) Exemption Notice 2002 (New Zealand). Members of the public in New Zealand who are not existing Shareholders on the Record Date are not entitled to apply for any New Shares.

All rights that would have been offered to Excluded Shareholders will be allowed to lapse and they will form part of the Shortfall.

#### 1.12 **Purpose of the Rights Issue**

On 25 November 2011 the Company announced that it had made an offer to six substantial shareholders (**Participating Shareholders**) to undertake a selective buy-back of 61,734,292 Shares to restructure and recapitalise the Company. This is being proposed in order to provide an exit strategy for the Participating Shareholders thereby allowing the Company, as an Australian-incorporated, ASX-listed company to focus on its core business of oil and gas exploration, development and production and investment in the resources industry.

On 1 December 2011 the Company announced the execution of a selective buy-back agreement with the Participating Shareholders (**Buy-back Agreement**). The Buy-back Agreement is conditional upon, among other things, the Company raising at least \$1,000,000 (by way of a placement, rights issue or otherwise).

The purpose of the Rights Issue is to satisfy this condition and raise funds for the Company's proposed restructure and recapitalisation (as announced on 25 November 2011) (including expenses of the Rights Issue).

If there are funds remaining after funds are applied to the restructure, those remaining funds will be used for:

- (a) administration of the Company; and
- (b) working capital.

The application of funds raised from the **Rights Issue** is summarised below:

<b>Description</b>	<b>Use of Funds (\$)</b>
Funds to be raised under the Rights Issue	1,086,678
Less:	
• administration/working capital/expenses of the Rights Issue	92,005
<b>TOTAL NET FUNDS</b>	<b>994,673</b>

It is anticipated that these funds will be applied over the next 12 months. The above proposed use of funds is subject to ongoing review and evaluation by the Company and the actual use of funds raised under the Rights Issue may change depending on the outcome of the programs as they proceed.

### 1.13 **Placement**

On 1 December 2011 the Company announced the completion of a placement of 14,174,063 Shares (**Placement Shares**) at an issue price of \$0.02 per Share to "sophisticated investors" and/or "professional investors" who are clients of Pendulum Capital and are not related parties of the Company to raise \$283,481.26 (**Placement**).

The Placement Shares were issued on 1 December 2011 under the Company's Listing Rule 7.1 placement capacity. Shareholder ratification of the Placement Shares under Listing Rule 7.4 will be sought at a general meeting to be held in late January or February 2012. The allottees under the Placement are eligible to participate in the Rights Issue as the issue of the Placement Shares occurred prior to the Record Date.

The proceeds of \$283,481.26 from the Placement will be used to fund the Company's proposed restructure and recapitalisation.

The Placement participants will also receive 14,174,063 Options with an exercise price of \$0.03 each expiring on 31 December 2013, provided that Listing Rule 7.1 Shareholder approval is obtained prior to the grant of those Options.

### 1.14 **Strategy Update**

The Company, through its wholly owned subsidiary LII, holds a 2.5% contractor working interest in the Seram PSC in Indonesia. This interest involves current production, ongoing field development and continued exploration effort by the joint venture.

The Company intends to pursue other upstream oil and gas opportunities.

## **Section 2 EFFECT OF THE RIGHTS ISSUE AND FEE OPTION ISSUE ON THE COMPANY**

### **2.1 Principal Effects**

The principal effects on the Company of the Rights Issue (which is fully underwritten by Pendulum Capital) are as follows:

- (a) the Company will issue approximately 54,333,909 New Shares and approximately 54,333,909 Attaching Options and the total number of Shares and Options on issue will increase to up to 163,001,726 Shares and 85,333,909 Options but not including the 4,000,000 Fee Options, the issue of which is subject to Shareholder approval) (before the selective buy-back referred to at section 1.12 is undertaken;
- (b) following the issue of the New Shares and Attaching Options, the cash reserves of the Company will increase by approximately \$1,086,678 (less the expenses of the Rights Issue); and
- (c) the equity of Eligible Shareholders who do not participate in the Rights Issue will be diluted as is evidenced from the figures set out above.

Further, pursuant to the Underwriting Agreement, the Company will issue 4,000,000 Fee Options to Pendulum Capital or its nominees, bringing the total number of Options to be issued to 58,333,909. The terms and conditions of the 4,000,000 Fee Options to be offered to Pendulum Capital or its nominees in which Options are to be on the same terms and conditions as the free Attaching Options and are being offered as a separate offer made pursuant to this Prospectus.

### **2.2 Unaudited Pro Forma Consolidated Statement of Financial Position**

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:

- the Placement of 14,174,063 Shares on 1 December 2011 to raise \$283,481;
- the Rights Issue of 54,333,909 New Shares and Attaching Options to raise \$1,086,678;
- issue of 4,000,000 free Fee 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.

**LION ENERGY LIMITED**

**PRO FORMA STATEMENT OF FINANCIAL POSITION**

	<b>Consolidated</b>	
	<b>Unaudited 31 October 2011 \$</b>	<b>Pro-forma Unaudited 31 October 2011 \$</b>
<b>• ASSETS</b>		
<b>• CURRENT ASSETS</b>		
Cash and cash equivalents	6,112,335	7,373,480
Trade and other receivables	967,643	967,643
Inventories	324,587	324,587
<b>TOTAL CURRENT ASSETS</b>	<b>7,404,565</b>	<b>8,665,710</b>
<b>• NON-CURRENT ASSETS</b>		
Plant and equipment	44,618	44,618
Capitalised exploration expenditure	1,419,782	1,419,782
<b>TOTAL NON-CURRENT ASSETS</b>	<b>1,464,400</b>	<b>1,464,400</b>
<b>TOTAL ASSETS</b>	<b>8,868,965</b>	<b>10,130,110</b>
<b>• CURRENT LIABILITIES</b>		
Trade and other payables	1,301,792	1,301,792
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,301,792</b>	<b>1,301,792</b>
<b>• NON-CURRENT LIABILITIES</b>		
Trade and other payables	527,529	527,529
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>527,529</b>	<b>527,529</b>
<b>TOTAL LIABILITIES</b>	<b>1,829,321</b>	<b>1,829,321</b>
<b>NET ASSETS</b>	<b>7,039,644</b>	<b>8,300,789</b>
<b>• EQUITY</b>		
Issued capital	53,241,088	54,424,130
Reserves	(1,317,749)	(1,239,646)
Accumulated losses	(44,883,695)	(44,883,695)
<b>TOTAL EQUITY</b>	<b>7,039,644</b>	<b>8,300,789</b>

### 2.3 Capital Structure of the Company

The pro-forma capital structure of the Company following the Rights Issue (assuming full subscription) (before the selective buy-back referred to at section 1.12 is undertaken) and Fee Option issue pursuant to this Prospectus is set out below:

<b>Shares</b>	<b>Number</b>
Existing Shares on issue	108,667,817
Approximate number of New Shares to be issued pursuant to this Prospectus (assuming no existing Options are exercised)	54,333,909
<b>Total Shares on issue after the Rights Issue</b>	<b>163,001,726</b>

<b>Options</b>	<b>Number</b>
Approximate number of Attaching Options to be issued pursuant to this Prospectus	54,333,909
Number of Fee Options to be issued to Pendulum Capital or its nominee pursuant to this Prospectus	4,000,000
<b>Total Options on issue after the Rights Issue and issue to Pendulum Capital or its nominee</b>	<b>58,333,909</b>

## Section 3 RISK FACTORS

### 3.1 Introduction

This Section identifies the areas the Directors regard as the major risks associated with an investment in the Company. Investors should be aware that an investment in the Company involves many risks, which may be higher than the risks associated with an investment in other companies. Intending investors should read the whole of this Prospectus in order to fully appreciate such matters and the manner in which the Company intends to operate before any decision is made to apply for New Shares.

There are numerous widespread risks associated with investing in any form of business and with investing in the share market generally. There is also a range of specific risks associated with the Company's business and its involvement in the oil and gas exploration industry. These risk factors are largely beyond the control of the Company and its Directors because of the nature of the business of the Company. The following summary, which is not exhaustive, represents some of the major risk factors which potential investors need to be aware of.

### 3.2 Risk Factors

#### (a) General Risk Factors for Operations

##### (i) Changes in Legislation and Government Regulation

Changes to legislation or government policy in those countries in which the Company has interests, including changes to the taxation system, may affect future earnings and the relative attractiveness of investing in the Company.

##### (ii) Economic Conditions

Economic conditions in Australia and globally may affect the performance of the Company. Factors such as currency fluctuations, inflation, interest rates, global share market sentiment, oil and gas prices and disruption caused by adverse weather conditions may have an impact on operating costs and share market prices. The Company's future possible revenue and price of its securities can be affected by these factors all of which are beyond the control of the Company or its Directors. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company. In addition, the Company's ability to raise additional capital, should it be required, may be affected.

##### (iii) Foreign Exchange Risk

The Company's current operations are based in Indonesia and it is anticipated other opportunities to be pursued in line with the Company's strategy may be located in countries other than Australia. As a result, the Company's revenues, cash flows, expenses, cash deposits, capital expenditure and commitments regarding these operations will be primarily denominated in US dollars.

To comply with Australian reporting requirements for the Company, the income, expenditure and cash flows from the Company interest in the overseas operations will need to be accounted for in Australian dollars. This will result in the income, expenditure and cash flows of the Company being exposed to the fluctuations and volatility of the price of oil and gas and exchange rates, as determined in international markets.

##### (iv) Oil and Gas Price Volatility

The demand for, and prices of, oil and natural gas are dependent on a variety of factors, including supply and demand, the level of consumer product demand, weather

conditions, the price and availability of alternative fuels, actions taken by governments and international cartels, and global economic political developments.

(v) Weather Conditions

Adverse weather events have the potential to disrupt operations in the upstream oil and gas sector.

(b) Oil and Gas Operations

(i) The Company's oil and gas operations are subject to the extensive regulations of the oil and gas industry in the areas of operations. If the Company fails to comply with the many regulations, it may be liable to penalties.

(ii) Oil and gas exploration involves significant risk. There is no assurance that exploration and development of the Company's prospects, or any other projects that may be acquired in the future, will result in the discovery of an economic oil and gas deposit. Even if an apparently viable deposit is identified, there is no guarantee that it can be profitably exploited.

(iii) It may not always be possible for the Company to participate in the exploitation of successful discoveries made in any areas in which the Company has an interest.

(iv) Hydrocarbon reserve estimates are expressions of judgement based on knowledge, experience and industry practice. They may be imprecise and depend to some extent on interpretations, which may prove inaccurate.

(c) Risks Associated with the Company's Operations

(v) Additional Requirements for Funding

The Company's funding requirements depend on numerous factors including the Company's ability to generate income. It may require further financing.

Additional equity financing, if available, may be dilutive to shareholders and at lower prices than the current market price. Debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion.

(vi) Joint Venture Parties and Contractors

The Directors are unable to predict the risk of:

- financial failure, non compliance with obligations or default by a participant in any joint venture to which the Company is, or may become, a party; or
- insolvency or other managerial failure by any of the contractors used by the Company in its exploration activities; or
- insolvency or other managerial failure by any of the other service providers used by the Company for any activity.

(d) Risks of Operations in Indonesia

The Company's wholly owned subsidiary LII, holds a 2.5% strategic equity interest in the Seram PSC.

There are a number of risks associated with an investment in Indonesia including the following:

(i) Government Policy Change

Government policies are subject to review and changes from time to time. Such changes are likely to be beyond the control of the Company and may affect industry profitability as well as the Company's capacity to explore and produce.

At present, The Company is not aware of any reviews or changes that would affect its permits. However, changes in community attitudes on matters such as taxation and environmental issues may bring about reviews and possibly changes in government policies. There is a risk that such changes may affect the Company's exploration plans or its rights and obligations in respect of its permits. Any such government action may also require increased capital or impose increased operating expenditures and could prevent or delay certain operations by the Company.

(ii) Environmental Risk

The operations and proposed activities of the Company are subject to Indonesian laws, concerning the environment. As with most exploration projects and production operations, the Company's activities are expected to have an impact on the environment, particularly if advanced exploration or production development proceeds. It is the Company's intention to conduct its activities to the highest standard of environmental obligation, including compliance with all environmental laws.

(iii) Sovereign Risk

The Company is conducting its exploration and development activities primarily in Indonesia. There is no assurance that future political and economic conditions in this country will not result in the government adopting policies precluding foreign development and ownership of hydrocarbon resources. Any such changes in policy may result in changes in laws affecting ownership of assets, taxation, rates of exchange, environmental protection, labour relations, repatriation of income and return of capital, which may affect both the Company's ability to undertake exploration and development activities in respect of future properties in the manner currently contemplated, as well as its ability to continue to explore and develop those properties in respect of which it has obtained exploration and development rights to date. The possibility that a future government may adopt substantially different policies, which might extend to expropriation of assets, cannot be ruled out. There can be no assurance that the government of Indonesia will not impose measures that could have material adverse effects on the Company's operations or will renew or issue new exploration or exploitation licenses to the Company.

(vi) Title Risk

Although the Company has obtained legal advice with respect to its Indonesian assets, there is no guarantee that title to such properties will not be challenged or impugned. The properties may be subject to prior unregistered agreements or transfers or land claims and title may be affected by undetected defects.

There is no guarantee that the exploration licenses granted by the government of Indonesia in connection with the properties will be renewed upon their termination. In addition, according to the terms and conditions of its exploration licenses and agreements with other parties relating to some of its permits, the Company undertook certain obligations with respect to the exploration activities to be conducted on these permits. If the Company does not meet its obligations, it may lose its interests in the permits.

Government approvals and permits are currently, and may in the future be, required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from proceeding with planned exploration or development of hydrocarbon permits.

(vii) Legal Risk

The introduction of new legislation or amendments to existing legislation by governments, developments in existing common law, or the respective interpretation of the legal requirements in any of the legal jurisdictions which govern the Company's operations or contractual obligations, could impact adversely on the assets, operations and, ultimately, the financial performance of the Company and its shares. In addition there is a commercial risk that legal action may be taken against the Company in relation to commercial matters.

Indonesia, and other countries in which the Company might operate in the future may have a less developed legal system than more established economies which could result in risks such as effective legal redress in the local courts being more difficult to obtain; a higher degree of discretion on the part of governmental authorities; the lack of judicial or administrative guidance on interpreting applicable rules and regulations; inconsistencies or conflicts between and within various laws; or relative inexperience of the judiciary and courts.

(e) Share Investment

Applicants should be aware that there are risks associated with any share investment. The prices at which the Shares trade may be above or below the issue price for the New Shares under this Prospectus. The trading price of the Shares is likely to be highly volatile and could be subject to wide fluctuations in response to factors such as actual or anticipated variations in the Company's testing and evaluation programs, operating environment, expenditure programs and its impact on cash flow. This is especially the case with companies involved in hydrocarbon exploration and evaluation.

The New Shares allotted under this Prospectus carry no guarantee whatsoever in respect of profitability, dividends, return of capital, or the price at which they may trade on the ASX.

Economic conditions, both domestic and global, may affect the performance of the Company. Factors such as currency fluctuation, inflation, interest rates, supply and demand and industrial disruption may have an impact on operating costs. The performance of the Company may also be impacted by commodity prices, including energy prices and the potential availability and saleability of carbon credits or renewable energy certificates, the existence or otherwise of carbon taxes, potential availability of competitive alternative energy sources, government subsidies and/or support for alternative energy sources, technological improvements/efficiencies making alternative energy more competitive and share market prices. The Company's future possible revenue and share price can be affected by these factors all of which are beyond the control of the Company and the Directors. In addition, the Company's ability to raise additional capital, should it be required, may be affected.

(f) Drilling Risk

Drilling activities may be curtailed, delayed or cancelled as a result of weather conditions, mechanical difficulties, shortages or delays in the delivery of drill rigs or other equipment or delays in or inability to obtain regulatory or other required approvals.

Exploration and development for hydrocarbon resources are dependent on the availability of drilling rigs and related equipment and the provision of third party

services in the particular areas where such activities will be conducted. From time to time equipment and services may be in short supply and may not be readily available at the times and places required. Demand for limited equipment such as drilling rigs may affect the availability of such equipment to the Company and may delay development and exploration activities and result in high prices to secure a suitable drilling rig. Failure by the Company to secure necessary equipment could adversely affect the Company's business, results of operations or financial condition. The failure of a third party provider, or supplier, to competently perform its contractual obligations, or an inability to achieve a commercially viable contract with a third party provider or supplier would have a material adverse impact on the Company's business, the results of operations or financial condition.

(g) Other Risks

The future viability and profitability of the Company is also dependent on a number of other factors affecting performance of all industries and not just the oil and gas exploration industries, including, but not limited to, the following:

- the strength of the equity and share markets in Australia and throughout the world;
- general economic conditions in Australia and its major trading partners and, in particular, inflation rates, interest rates, commodity supply and demand factors and industrial disruptions;
- financial failure or default by a participant in any of the joint ventures or other contractual relationships to which the Company is, or may become, a party;
- insolvency or other managerial failure by any of the contractors used by the Company in its activities;
- changes in government, monetary policies, taxation and other laws can have a significant influence on the outlook for companies and the returns to investors ;
- industrial disputation in Australia and overseas; and
- ability of the Company to source other projects on reasonable commercial terms.

Potential investors should consider that the investment in the Company is speculative and should consult their professional advisers before deciding whether to apply for New Shares in the Company.

## Section 4 ADDITIONAL INFORMATION

### 4.1 Legal Framework of this Prospectus

The Company is a "disclosing entity" under the Corporations Act and is subject to the regime of continuous disclosure and periodic reporting requirements. Specifically as a listed company, the Company is subject to the Listing Rules which require continuous disclosure to the market of any information possessed by the Company which a reasonable person would expect to have a material effect on the price or value of its shares.

### 4.2 Applicability of Corporations Act

As a "disclosing entity", the Company has issued this Prospectus in accordance with section 713 of the Corporations Act applicable to prospectuses for an offer of securities which are quoted enhanced disclosure (**ED**) securities and the securities are in a class of securities that were quoted ED securities at all times in the 12 months before the issue of this Prospectus.

Having taken such precautions and having made such enquiries as are reasonable, the Company believes that it has complied with the provisions of the Listing Rules as in force from time to time which apply to disclosing entities, and which require the Company to notify ASIC of information available to the stock market conducted by ASX, throughout the 12 months before the issue of this Prospectus.

The ASX maintains files containing publicly disclosed information about all listed companies. The Company's file is available for inspection at ASX in Perth during normal working hours. In addition, copies of documents lodged by, or in relation to, the Company with ASIC may be obtained from, or inspected at, any regional office of ASIC.

The New Shares to be issued under this Prospectus are in a class of shares that were quoted on the stock market of ASX at all times in the 12 months before the issue of this Prospectus.

### 4.3 Information Available to Shareholders

The Company will provide a copy of each of the following documents, free of charge, to any investor who so requests during the application period under this Prospectus:

- (a) the Annual Financial Report for the Company for the year ending 30 June 2011;
- (b) the following documents used to notify ASX of information relating to the Company during the period after lodgement of the Annual Financial Report of the Company for the period ending 30 June 2011 and before the issue of this Prospectus:

6/12/2011	LIO Seram Exploration Well Lofin-1
1/12/2011	LIO Execution of Share Buy-Back and Placement 3B
25/11/2011	LIO Share Buy-back and Appendices 3C and 3B
22/11/2011	LIO Meeting Rules
25/10/2011	LIO ASX Appendix 5B September 2011
25/10/2011	LIO Quarterly Activities Report to September 2011
17/10/2011	LIO Notice of AGM 22 November 2011
07/10/2011	LIO Tulloch Lodge Settlement

#### 4.4 Rights Attaching to Shares

The New Shares to be issued pursuant to this Prospectus will rank equally in all respects with existing Shares in the Company.

Full details of the rights attaching to the Company's Shares are set out in its Constitution, a copy of which can be inspected at the Company's registered office.

The following is a summary of the principal rights which attach to the Company's Shares:

(a) Voting

Every holder of Shares present in person or by proxy, attorney or representative at a meeting of shareholders has one vote on a vote taken by a show of hands, and, on a poll every holder of shares who is present in person or by proxy, attorney or representative has one vote for every Share held by him or her, and a proportionate vote for every Share, registered in such shareholder's name on the Company's share register.

A poll may be demanded by the chairman of the meeting, by any five shareholders entitled to vote on the particular resolution present in person or by proxy, attorney or representative, or by any one or more shareholders who are together entitled to not less than 5% of the total voting rights of, or paid up value of, the Shares of all those shareholders having the right to vote on the resolution.

(b) Dividends

Dividends are payable out of the Company's profits and are declared by the Directors.

(c) Transfer of Shares

A shareholder may transfer Shares by a market transfer in accordance with any computerised or electronic system established or recognised by the Listing Rules or the Corporations Act for the purpose of facilitating transfers in Shares or by an instrument in writing in a form approved by ASX or in any other usual form or in any form approved by the Directors.

The Directors of the Company may refuse to register any transfer of Shares, (other than a market transfer) where the Company is permitted or required to do so by the Listing Rules or the ASTC Settlement Rules. The Company must not prevent, delay or interfere with the registration of a proper market transfer in a manner which is contrary to the provisions of any of the Listing Rules or the ASTC Settlement Rules.

(d) Meetings and Notice

Each shareholder is entitled to receive notice of and to attend general meetings for the Company and to receive all notices, accounts and other documents required to be sent to shareholders under the constitution of the Company, the Corporations Act or the Listing Rules.

(e) Liquidation Rights

The Company has only issued one class of shares, which all rank equally in the event of liquidation. Once all the liabilities of the Company are satisfied, a liquidator may, with the authority of a special resolution of shareholders divide among the shareholders the whole or any part of the remaining assets of the Company. The liquidator can with the sanction of a special resolution of the Company's shareholders vest the whole or any part of the assets in trust for the benefit of shareholders as the liquidator thinks fit, but no shareholder of the Company can be compelled to accept any shares or other securities in respect of which there is any liability.

(f) Shareholder Liability

As the shares under the Prospectus are fully paid shares, they are not subject to any calls for money by the Directors and will therefore not become liable for forfeiture.

(g) Alteration to the Constitution

The constitution can only be amended by a special resolution passed by at least three quarters of shareholders present and voting at the general meeting. At least 28 days' written notice, specifying the intention to propose the resolution as a special resolution must be given.

(h) ASX Listing Rules

If the Company is admitted to the Official List, then despite anything in the constitution of the Company, if the Listing Rules prohibit an act being done, the act must not be done. Nothing in the constitution prevents an act being done that the Listing Rules require to be done. If the Listing Rules require an act to be done or not to be done, authority is given for that act to be done or not to be done (as the case may be). If the Listing Rules require the constitution to contain a provision or not to contain a provision the constitution is deemed to contain that provision or not to contain that provision (as the case may be). If a provision of the constitution is or becomes inconsistent with the Listing Rules, the constitution is deemed not to contain that provision to the extent of the inconsistency.

#### 4.5 Terms and conditions of Attaching Options and Fee Options

- (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) 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.
- (e) In the event of any re-organisation (including reconstruction, consolidation, subdivision, reduction or return of capital) of the issued capital of the Company, the Options will be re-organised as required by the Listing Rules, but in all other respects the terms of exercise will remain unchanged.
- (f) 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.
- (g) 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 Listing Rules with respect to the allotment of resultant Shares and the issue of a statement of shareholding.
- (h) 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.

- (i) The Company shall make an application to have those Shares allotted pursuant to an exercise of Options listed for official quotation by ASX.
- (j) 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.
- (k) 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.

#### 4.6 Interests of Directors

- (a) At the date of this Prospectus the relevant interest of each of the Directors in the securities of the Company are as follows:

Director	Associates	Number of Shares		Number of Options	
		Direct	Indirect	Direct	Indirect
Jian Wu	Ms Ling Gu	7,058,296	5,987,080 <sup>1</sup>	Nil	Nil
Russell Brimage	-	54,400	Nil	Nil	Nil
Weidong Zhang	-	Nil	Nil	Nil	Nil

#### Notes:

1. Ms Ling Gu is Mr Wu's spouse.

- (b) The Constitution of the Company provides that the non-executive Directors may collectively be paid as remuneration for their services a fixed sum not exceeding the aggregate maximum sum per annum from time to time determined by the Company in general meeting (which is currently \$400,000 per annum).

A Director may be paid fees or other amounts as the Directors determine where a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director. A Director may also be reimbursed for out of pocket expenses incurred as a result of their directorship or any special duties.

Details of remuneration provided to Directors and their associated entities during the past two financial years are as follows:

#### Financial year up to 30 June 2010

Directors	Director's Fees/ Salaries \$	Super- annuation \$	Other non- monetary remuneration \$	Total \$
Mr Jian Wu	213,135	-	-	213,135
Mr Russell Ernest Brimage	52,000	-	-	52,000
Mr Weidong Zhang	52,000	-	-	52,000
<b>Total</b>	<b>317,135</b>	<b>-</b>	<b>-</b>	<b>317,135</b>

## Financial year up to 30 June 2011

Directors	Director's Fees/ Salaries	Super- annuation	Other non- monetary remuneration	Total
	\$	\$	\$	\$
Mr Jian Wu	200,100	-	-	200,100
Mr Russell Ernest Brimage	52,000	-		52,000
Mr Weidong Zhang	52,000	-		52,000
<b>Total</b>	<b>304,100</b>	<b>-</b>	<b>-</b>	<b>304,100</b>

(c) The following directors and/or entities have agreed to participate in the issue by sub-underwriting the issue as priority sub-underwriters on the same terms and conditions as other priority sub-underwriters to the following extent:

- Pouvoir Pty Ltd (of which Russell Brimage is a director), \$250,000 or 12,500,000 shares; and
- ReachCo Pty Ltd (of which Weidong Zhang is a director), \$50,000 or 2,500,000 shares.

Each of Pouvoir Pty Ltd and ReachCo Pty Ltd will receive a fee of 5% of the amount sub underwritten.

The Rights Shares underwritten by Pendulum Capital Pty Ltd which have not been validly applied for by the Closing Date will comprise the Shortfall. The Shortfall will be firstly allocated pro rata to priority sub-underwriters (**Priority Sub-underwriters Shortfall**) with the balance being allocated pro rata to general sub-underwriters. The determination of each priority sub-underwriter's share of the Priority Sub-underwriters Shortfall is calculated by the percentage of their priority sub-underwritten amount to the total priority sub-underwritten amount. Pouvoir's share of the Priority Sub-underwriters Shortfall is 43.6% and ReachCo's share is 8.7%.

(d) Except as disclosed in this Prospectus, no Director (whether individually or in consequence of a Director's association with any company or firm or in any material contract entered into by the Company) has now, or has had, in the 2 year period ending on the date of this Prospectus, any interest in:

- the formation or promotion of the Company; or
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Rights Issue; or
- the Rights Issue.

Except as disclosed in this Prospectus, no amounts of any kind (whether in cash, Shares, Options or otherwise) have been paid or agreed to be paid to any Director or to any company or firm with which a Director is associated to induce him to become, or to qualify as, a Director, or otherwise for services rendered by him or his company or firm with which the Director is associated in connection with the formation or promotion of the Company or the Rights Issue.

The Company has paid insurance premiums to insure each of the Directors against liabilities for costs and expenses incurred by them in defending any legal proceedings while acting in the capacity of a Director.

#### 4.7 **Interests of Named Persons**

Except as disclosed in this Prospectus, no promoter or other person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of the Prospectus, holds, or during the last two years has held, any interest in:

- the formation or promotion of the Company;
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Rights Issue; or
- the Rights Issue,

and no amounts of any kind (whether in cash, Shares, Options or otherwise) have been paid or agreed to be paid to a promoter or any person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of the Prospectus for services rendered by that person in connection with the formation or promotion of the Company or the Rights Issue.

Gilbert + Tobin have acted as solicitors to the Rights Issue. The Company will pay approximately \$10,000 (plus GST) to Gilbert + Tobin for these services. Gilbert + Tobin have provided other professional services to the Company during the last two years for which the Company has paid fees totalling approximately \$36,849 (plus GST).

Pendulum Capital has acted as Underwriter for which it will, pursuant to the Capital Raising Mandate and the Underwriting Agreement, receive a capital raising fee for the Placement and Rights Issue of 6%, being \$82,210 (plus GST), and 4,000,000 Fee Options with an exercise price of \$0.03 each and an expiry date of 31 December 2013. Pendulum Capital has reserved the right under the Capital Raising Mandate and the Underwriting Agreement to pass some or all of the capital raising fee and Fee Options to other parties. The Underwriting Agreement is summarised in Section 4.9. The amounts disclosed above are exclusive of any amount of GST payable by the Company in respect of those amounts. Further, the Company must pay, indemnify and keep indemnified the Underwriter for all costs and expenses incurred by the Underwriter in connection with the Rights Issue, including legal fees and disbursements and the reasonable costs of travel and accommodation, marketing and communication costs. Pendulum Capital has received fees totalling \$27,009 (including GST) for corporate advisory, capital raising and underwriting services provided to the Company since Pendulum Capital's initial appointment on 31 October 2011.

#### 4.8 **Consents**

Each of the other parties referred to in this Section 4.8:

- does not make, or purport to make, any statement in this Prospectus or on which a statement made in the Prospectus is based other than as specified in this Section; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus other than a reference to its name and a statement included in this Prospectus with the consent of that party as specified in this Section.

Each of the following has consented to being named in the Prospectus in the capacity as noted below and have not withdrawn such consent prior to the lodgement of this Prospectus with the ASIC:

- (a) Gilbert + Tobin as solicitors to the Company;
- (b) Pendulum Capital Pty Limited as Underwriter; and

(c) Grant Thornton Audit Pty Limited as auditor to the Company.

Computershare Investor Services Pty Limited has had no involvement in the preparation of any part of the Prospectus other than being named as Share Registrar to the Company. Computershare Investor Services Pty Limited has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for any part of the Prospectus.

There are a number of persons referred to elsewhere in this Prospectus who are not experts and who have not made statements included in this Prospectus nor are there any statements made in this Prospectus on the basis of any statements made by those persons. These persons did not consent to being named in the Prospectus and did not authorise or cause the issue of the Prospectus.

#### 4.9 Underwriting Agreement

Pursuant to an Underwriting Agreement dated 8 December 2011 between the Company and Pendulum Capital, Pendulum Capital has agreed to underwrite all of the New Shares and Attaching Options pursuant to this Prospectus.

Pursuant to the Underwriting Agreement, the Company will pay the Underwriter an underwriting fee equal to 6% of the total amount to be raised under the Rights Issue, being approximately \$65,201 (plus GST) and will grant to the Underwriter or its nominee 4,000,000 Fee Options with an exercise price of \$0.03 each expiring on 31 December 2013.

In addition, the Company shall be responsible for all reasonable costs and expenses of and incidental to the Offer including but not limited to:

1. the cost of preparing, advertising, printing and distributing the Prospectus (including postage);
2. the professional fees payable to each expert whose report appears in the Prospectus (if any);
3. ASX listing fees;
4. the negotiation, preparation, execution, delivery, stamping, registration, lodgement, completion, variation and discharge of this agreement, the Prospectus or the Offer;
5. due diligence in relation to the matters set out at paragraph 4 above;
6. the enforcement, protection or waiver, or attempted or contemplated enforcement or protection of any rights of the Underwriter under the Underwriting Agreement or in relation to the Offer;
7. any enquiry by a government agency involving the Company; and
8. the fees payable to ASIC in relation to applications (if any) for modifications to the Corporations Act.

The Company indemnifies and holds harmless the Underwriter and shall keep the Underwriter indemnified and held harmless from and against all those costs, fees and expenses notwithstanding that the Underwriter may have validly terminated its obligations under the Underwriting Agreement or that the Offer does not, for any reason, proceed to completion.

In addition, the Company must indemnify the Underwriter, its directors, officers, employees and advisors (Indemnified Parties) against any action, demand, suit, proceeding, judgement, loss or expense or liability incurred or suffered by or brought or made or recovered against the Indemnified Parties directly arising from:

1. any misleading or deceptive statement in or any material omission from:
  - a. the Prospectus; or
  - b. any information, announcement, advertisement or publicity in relation to the Prospectus made by the Company or with the Company's consent;
2. any legal non-compliance by the Company;
3. any material breach by the Company of its representations, warranties and undertakings under the Underwriting Agreement;
4. reliance by an Indemnified Party (which is not unreasonable) on information supplied by the Company to the Indemnified Party;

5. the Offer; or
6. any investigation, enquiry or hearing by ASX or ASIC relating to the Offer.

The Company has given warranties and covenants to the Underwriter which are usual in an agreement of this nature.

The Underwriting Agreement provides that the Underwriter may, in its absolute discretion, terminate the Underwriting Agreement without any cost or liability to itself by written notice to the Company before the date by which the Underwriter must lodge applications for the Shortfall Shares upon the occurrence of certain events including if:

1. the Company breaches the Underwriting Agreement;
2. any of the representations, warranties or undertakings given by the Company under the Underwriting Agreement cease to be, or are found not to have been, true and correct in all material respects;
3. there is a material misstatement or inaccuracy in, or omission from, this Prospectus, or any statement in this Prospectus is or becomes misleading or deceptive in a material respect;
4. there is a material adverse change in the financial position or prospects of the Company;
5. the Company withdraws this Prospectus;
6. an event as defined in section 652C of the Corporations Act occurs in relation to the Company, as though the Company were a target company other than any allotment or issue of securities, and any grant of security contemplated in this Prospectus;
7. ASIC makes an application for an order under section 1324B of the Corporations Act in relation to this Prospectus and that application has not been dismissed or withdrawn;
8. this Prospectus does not comply with sections 710, 711 or any other relevant provision of the Corporations Act and, as far as non-compliance can be remedied by lodging a supplementary or replacement prospectus without (in the reasonable opinion of the Underwriter) having a material adverse effect on the Offer, there is a refusal or omission to lodge a supplementary or replacement prospectus in relation to this Prospectus;
9. there is a refusal or omission to lodge a supplementary or replacement prospectus in relation to this Prospectus which, in the reasonable opinion of the Underwriter, is required to be lodged in accordance with Part 6D.2 of the Corporations Act;
10. any supplementary prospectus is lodged with ASIC in relation to this Prospectus which:
  - a. in the reasonable opinion of the Underwriter may have a material adverse effect on the Offer; and
  - b. is lodged without the prior written approval of the Underwriter;
11. any party withdraws its written consent to the inclusion of statements made by it in this Prospectus pursuant to section 716 of the Corporations Act;
12. a stop order or interim stop order or notice of intention to hold a hearing being issued by ASIC in relation to this Prospectus or any supplementary prospectus relating thereof, in accordance with section 739 of the Corporations Act;
13. a resolution is passed or an order made by a court of competent jurisdiction for the winding up of the Company;
14. a receiver or receiver and manager or administrator or other controller is appointed to all or any part of the assets or undertakings of the Company;
15. the Company enters into any scheme of arrangement with its creditors or any class of them or indicates its intention or endeavouring to do so;
16. the Company suspends payment of its debts or is unable to pay its debts within the meaning of section 95A of the Corporations Act;
17. ASIC commences or the Company or the Underwriter becomes aware of, the intention to commence an investigation under the Australian Securities and Investments Commission Act 1989 into all or any part of the Company;
18. a provisional liquidator is appointed to the Company;
19. an inspector is appointed pursuant to the Corporations Act to investigate all or any part of the affairs of the Company;

20. the Company or an officer of the Company is charged with or convicted of an offence in relation to the Company's constituent documents or any law relating to companies or securities, or the Listing Rules;
21. if without the prior consent of the Underwriter, which consent will not be unreasonably withheld, a material contract is terminated (whether by breach or otherwise), rescinded, altered or amended or any such contract is found to be void, voidable or unenforceable;
22. the Company alters or announces an intention to alter its capital structure or its Constitution without the prior consent of the Underwriter, which shall not be unreasonably withheld;
23. ASX refuses, does not grant, on terms acceptable to the Underwriter, or withdraws approval for the granting of Official Quotation for the Rights Shares and Rights Options comprising the Offer or ASX makes a statement to that effect to the Company, the Underwriter or any other persons;
24. ASX withdraws approval for the Company to be admitted to the Official List or ASX makes a statement to that effect to the Company, the Underwriter or any other person;
25. any of the S&P/ASX200 Index, or the S&P/ASX 300 Energy Index as published by ASX is, at any time after the date of this agreement, 10% or more below its respective level at the close of business on the Business Day prior to the date of this agreement;
26. the West Texas Immediate Cushing contract as published by Bloomberg under the code USCRWTIC:IND is 10% or more below its respective level at the close of business on the Business Day prior to the date of this agreement; or
27. any of the Company Sub-underwriters do not comply with their obligations under the sub-underwriting agreements or threaten to not comply with their respective obligations under the sub-underwriting agreements.

If the Underwriter terminates the Underwriting Agreement, the Company is not obliged to pay to the Underwriter the underwriting fee as set out above.

#### 4.10 **Material Contracts**

Set out below is a brief summary of contracts which have been entered into by the Company and which have been identified as material and relevant to potential investors.

##### ***Capital Raising Mandate***

The Company executed a capital raising mandate with Pendulum Capital on 31 October 2011 (**Capital Raising Mandate**). The Capital Raising Mandate provides for the provision of capital raising services to the Company by Pendulum Capital. Pendulum Capital will receive capital raising fees for the Placement and the Rights Issue totalling \$82,210, a corporate advisory fee of \$10,000 as well as receiving the 4,000,000 Fee Options. The terms of the underwriting to be provided by Pendulum Capital with respect to the Rights Issue are contained in the Underwriting Agreement (which is summarised at section 4.9).

##### ***Seram PSC Joint Venture Agreement***

##### **Seram (Non Bula) Area**

The Company currently participates in exploration and production in the upstream oil and gas sector through its wholly-owned subsidiary, Lion International Investments Limited, a company incorporated under the laws of the Cayman Islands (**LII**).

On 1 November 1969, a production sharing contract was entered into between P.N. Pertambangan Minyak Dan Gas Bumi Nasional (**Pertamina**) and Gulf + Western Industries Inc. over the "Seram Area" which comprised of lands under the jurisdiction of Indonesia (**1969 PSC**). The 1969 Contract was subsequently assigned to various parties including a farmout of the "Seram (Non Bula) Area" pursuant to the terms set out in a farmout agreement dated 1 November 1985 (**Farmout Agreement**). The parties to the Farmout Agreement then entered into a joint operating agreement dated 1 November 1985 in respect of (among other things)

the exploration for and the production of petroleum in the "Seram (Non Bula) Area" (**Seram JOA**).

The joint venture interests held under the Seram JOA were also assigned and transferred by and between several different parties such that they are currently held as follows:

Citic Seram Energy Limited ( <b>Citic</b> ), as operator	51%
Kufpec (Indonesia) Limited ( <b>Kufpec</b> )	30%
Gulf Petroleum Investment Company k.s.c.c. ( <b>Gulf</b> )	16.5%
LII	2.5%

The Farmout Agreement caused there to be two joint ventures operating in the "Seram Area" the subject of the 1969 Contract. By an agreement dated 22 May, 2000 (effective 21 March 1997) Pertamina and Kufpec (as contractor) agreed to amend and renew the 1969 Contract in respect of the "Seram (Non Bula) Area", in particular develop the "Oseil" field (**Seram (Non Bula) PSC**). The Seram (Non Bula) PSC was subsequently transferred by Pertamina to Badan Pelaksana Kegiatan Usaha Hulu Minyak Dan Gas Bumi (**BPMIGAS**).

Under the Seram (Non Bula) PSC, the named contractor is responsible to BPMIGAS for carrying out all operations on the "Seram (Non Bula) Area" in accordance with the provisions set out in the Seram (Non Bula) PSC and is appointed as the exclusive company to conduct all exploration, development, extraction, production, transportation, marketing, abandonment and site restoration operations authorised or contemplated under the Seram (Non Bula) PSC. The Contractor will bear all risk and is responsible for providing all financial and technical assistance for all such operations.

The total of all crude oil produced in the conduct of operations under the Seram (Non Bula) PSC shall be divided as follows:

BPMIGAS	62.5%
Contractor	37.5%

The current Contractor under the Seram (Non Bula) PSC is Citic and while each of the parties to the Seram JOA are not officially recognised as contractors under the Seram (Non Bula) PSC, their interests are recognised by BPMIGAS.

#### 4.11 **Market Prices of Shares on ASX**

The highest and lowest closing market sale prices of Shares on ASX during the three (3) months immediately preceding the date of this Prospectus and the respective dates of those sales were 0.030 cents on 1 December 2011, 2 December 2011, 5 December 2011, 6 December 2011 and 7 December 2011 and 0.023 cents on 17 November 2011 to 29 November 2011 (respectively).

The latest available market sale price of Shares on ASX at the close of trading on the date of this Prospectus was 0.030 cents on 7 December 2011.

#### 4.12 **Expenses of the Rights Issue**

The estimated expenses of the Offer are as follows:

	<b>\$</b>
ASIC fees	2,137
ASX fees	4,667
Underwriting fees	65,201
Legal expenses	10,000
Printing and other expenses	10,000
<b>Total</b>	<b>92,005</b>

## **Section 5 DIRECTORS' RESPONSIBILITY STATEMENT & CONSENT**

The Directors state that they have made all reasonable enquiries and on that basis have reasonable grounds to believe that any statements made by the Directors in this Prospectus are not misleading or deceptive and that in respect to any other statements made in the Prospectus by persons other than Directors, the Directors have made reasonable enquiries and on that basis have reasonable grounds to believe that persons making the statement or statements were competent to make such statements, those persons have given their consent to the statements being included in this Prospectus in the form and context in which they are included and have not withdrawn that consent before lodgement of this Prospectus with the ASIC, or to the Directors knowledge, before any issue of New Shares and Attaching Options and Fee Options pursuant to this Prospectus.

The Prospectus is prepared on the basis that certain matters may be reasonably expected to be known to likely investors or their professional advisers.

Each Director has consented to the lodgement of this Prospectus with the ASIC and has not withdrawn that consent.

Dated: 8 December 2011



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Russell Brimage

## Section 6 DEFINED TERMS

"**A\$ and \$**" means Australian dollars, unless otherwise stated;

"**ASX Settlement**" means ASX Settlement Pty Ltd ACN 008 504 532;

"**ASX Settlement Rules**" means the settlement operating rules of ASX Settlement as amended from time to time;

"**ASIC**" means the Australian Securities & Investments Commission;

"**ASX**" means Australian Securities Exchange Limited;

"**Attaching Options**" means the Options attaching one a 1:1 basis to the New Shares issued under the Rights Issue;

"**AWST**" means Australian Western Standard Time;

"**Board**" means the board of Directors;

"**Business Day**" means every day other than a Saturday, Sunday, New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day and any other day that ASX declares is not a business day;

"**Buy-Back Agreement**" has the meaning given to it in Section 1.12;

"**Capital Raising Mandate**" means the capital raising mandate between Pendulum Capital and the Company dated 31 October 2011;

"**Closing Date**" means 5.00pm AWST on 11 January 2011;

"**Company**" means Lion Energy Limited ACN 000 753 640;

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

"**Directors**" means the directors of the Company;

"**Eligible Shareholder**" means a Shareholder whose details appear on the Register as at the Record Date;

"**Entitlement**" means the entitlement of an Eligible Shareholder to apply for New Shares pursuant to the Rights Issue;

"**Entitlement and Acceptance Form**" means the entitlement and acceptance form accompanying this Prospectus;

"**Fee Options**" mean the Options with an expiry date of 31 December 2013 and an exercise price of \$0.03 per Fee Option granted by the Company to Pendulum Capital following completion of the Placement as part of the capital raising fee;

"**LII**" means Lion International Investment Limited;

"**Listing Rules**" means the Listing Rules of ASX;

"**New Share**" means a Share being offered pursuant to this Prospectus;

"**Offer**" means the offer of:

- (a) New Shares and Attaching Options; and
- (b) Fee Options,

being made pursuant to this Prospectus;

**"Official List"** means the Official List of the ASX;

**"Official Quotation"** means quotation of the Shares on the Official List;

**"Option"** means an option that has been or is pursuant to this Prospectus to be granted by the Company over an unissued Share;

**"Participating Shareholders"** has the meaning given to it in Section 1.12;

**"Pendulum Capital"** means Pendulum Capital Pty Ltd ACN 108 119 848;

**"Placement"** means the placement announced by the Company on 1 December 2011 of 14,174,063 Shares at an issue price of \$0.02 per Share;

**"Placement Options"** means the 14,174,063 Options granted to the Placement participants with an exercise price of \$0.03 and expiring on 30 December 2013;

**"Placement Shares"** means the 14,174,063 Shares at an issue price of \$0.02 per Share placed under the Placement;

**"Prospectus"** means this prospectus dated 8 December 2011 for:

- (a) the pro-rata non-renounceable rights issue of up to 54,333,909 New Shares and 1 free Attaching Option per New Share on the basis of 1 New Share for every 2 Shares held on the Record Date, at an issue price of \$0.02 per New Share, for the purpose of raising \$1,086,678 less expenses of the Rights Issue; and
- (b) the issue of 4,000,000 Fee Options to be on the same terms as the Attaching Options to Pendulum Capital or its nominee;

**"Record Date"** means 5.00pm AWST on 19 December 2011;

**"Register"** means the register of Shareholders;

**"Rights"** means the rights of Eligible Shareholders to subscribe for New Shares under the Rights Issue;

**"Rights Issue"** means the pro-rata non-renounceable rights issue of up to 54,333,909 New Shares and 1 free Attaching Option per New Share on the basis of 1 New Share for every 2 Shares held on the Record Date, at an issue price of \$0.02 per New Share, for the purpose of raising \$1,086,678 less expenses of the Rights Issue;

**"Seram PSC"** means Seram (Non-Bula) Block Production Sharing Contract;

**"Share"** means an ordinary fully paid share in the capital of the Company;

**"Shareholder"** means the registered holder of a Share;

**"Shortfall"** means the New Shares forming the Entitlements, or parts of Entitlements, not accepted by Eligible Shareholders; and

**"Underwriter" or "Pendulum Capital"** means Pendulum Capital Pty Limited ACN 108 119 848.



