Fundamental Research Corp.

Investment Analysis for Intelligent Investors

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Lion Energy Corp. (formerly Raytec Metals Corp.) (TSX-V: LEO) – Completes sale of potash assets for equity; Focus on oil and gas projects in East and Central Africa

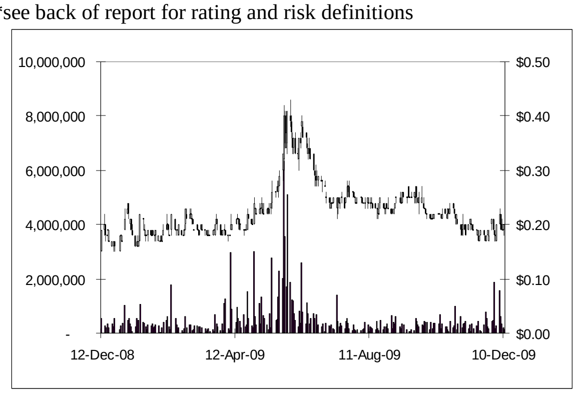
Sector/Industry: Junior Resource

www.lionenergycorp.com

Market Data (as of December 14, 2009)

Current Price	C$0.185
Fair Value	**C$0.59 (↓)**
Rating*	**BUY**
Risk*	**5 (Highly Spec)**
52 Week Range	C$0.15 – C$0.43
Shares O/S	85.19 mm
Market Cap	C$15.76 mm
Current Yield	N/A
P/E	N/A
P/B	0.47
YoY Return	-7.5%
YoY TSXV	98.3%

*see back of report for rating and risk definitions



Investment Highlights

- On September 15, 2009, the company changed its name from Raytec Metals Corp. to Lion Energy Corp. to reflect its new focus on oil & gas projects in Central & Eastern Africa.
- On August 24, 2009, LEO announced the completion of its transaction with Encanto Potash Corp. (TSXV: EPO) to sell its 100% interest in all its potash assets. LEO's motive behind the transaction was to diversify its holdings, maintain a portion of the upside potential of the projects through equity ownership in EPO, and possibly unlock the value of its potash assets (as LEO's current market capitalization assigns no value to any of LEO's assets). It also allows the company to redirect its resources into other projects.
- In October 2009, LEO signed a non-binding letter of intent with Southern Star Energy Inc. (OTCBB: SSEY), and Gold Star Resources Corp. (TSXV: GXX) to complete a proposed business combination.
- In August 2009, LEO signed an agreement with Africa Oil Corp. (TSXV: AOI) to farm-in AOI's production sharing contracts in Somalia, and the Republic of Kenya.
- **We estimate the company currently has working capital (excluding marketable securities/investments) of $15.75 million, or $0.185 per share; which implies that LEO's current share price does not assign any value to the company's assets, and investments/marketable securities.**

Key Financial Data (FYE Oct 31) (C $)	**2008**	**Q3-2009 (9 mo)**
Cash & Marketable Securities	24,990,136	23,763,753
Working Capital	24,866,918	22,306,960
Mineral Assets	7,020,260	9,216,060
Total Assets	33,842,739	35,584,799
Net Income (Loss)	(3,731,598)	(732,589)
EPS	(0.09)	(0.01)

Lion Energy recently sold 100% interest in its potash assets in south central Saskatchewan for equity. LEO has signed an agreement with Africa Oil Corp. to farm-in AOI's production sharing contracts in the Republic of Kenya and Puntland, Somalia. In October 2009, the company announced a non-binding LOI with regards to a business combination with Southern Star Energy Inc. and Gold Star Resources Corp.

PLEASE READ THE IMPORTANT DISCLOSURES AT THE BACK OF THIS REPORT

Completes sale of potash assets for equity

On June 16, 2009, LEO announced it entered into a LOI to sell its 100% interest in all its potash assets to Encanto Potash Corp. (TSXV: EPO). Encanto is a potash company that has agreements to explore three potash prospects (covering 143,900 acres) in southeastern Saskatchewan. The companies completed the transaction on August 24, 2009.

Transaction details: LEO received 19.85 million shares of Encanto (at a deemed price of $0.25 per share), or 14.8% of EPO's total shares, for a deemed value of up to $4.96 million; which are the total expenditures (including acquisition costs) incurred by LEO on its properties to date.

LEO will also provide funding to Encanto. Based on the LOI, LEO will provide $6.5 million to Encanto, to be spent on the properties by December 29, 2009, in return for a 51% interest in the properties. Encanto will have the option to repurchase the 51% interest by issuing 26 million shares of Encanto to LEO. If Encanto exercises the option, LEO will end up with 45.85 million shares of Encanto, or 27.8% of Encanto's issued and outstanding share capital.

LEO has nominated two directors to the board of directors of Encanto, and will have the right to participate in any future financings so as to maintain its ownership in Encanto.

LEO's motive behind the transaction was to transfer assets to Encanto, whose primary focus is to explore and develop economic potash deposits, and at the same time maintain a portion of the upside potential of the projects through equity ownership in Encanto. This allows the company to diversify its portfolio by redirecting its resources into other projects (LEO recently signed a farm-in agreement with Africa Oil Corp. – see below for details). In addition, LEO believes that Encanto's strategic alliance with Endeavour Financial (TSX: EDV) could be helpful in raising capital going forward.

As LEO now has a significant equity interest in Encanto, it is important to know more about the current assets held by Encanto.

EPO's current potash prospects – As mentioned earlier, the company has agreements to explore three potash prospects (covering 143,900 acres) in southeastern Saskatchewan. The prospects are within the confines of First Nations Reserves, however, Encanto has exploration permits from the Federal Department of Indian and Northern Affairs Canada (INAC) on two first nation band's lands on which 2-D seismic exploration has been concluded, and preliminary environmental approval has been received. Encanto has memorandums of understanding with seven bands in total, and is pursuing additional permits to explore on further first nations lands.

Encanto's potash prospects have had very limited historical potash exploration. The only geologic information comes from oil and gas wells, many of which are several miles from the prospects, surrounding the prospects. According to a recently completed technical report by Behre Dolbear & Company, at least three potash-bearing beds are anticipated to be present in the vicinity of all of EPO's prospects in potentially extractable, although variable, thicknesses. As of April 30, 2009, EPO had spent $3.15 million on land rights acquisitions and 2D seismic surveys and interpretation.

Comment on valuation – The transaction basically lowered LEO's interest in their potash assets from 100% to 14.8%, in return for a 14.8% interest in EPO's current assets. In other words, LEO's assets were valued at 14.8% of the total value of EPO (EPO's assets account for the remaining 85.2% of the total value). Although we believe that LEO's assets should have commanded a higher valuation (as we believe they are in more advanced stages than EPO's assets), we believe LEO will benefit from the following:

- The transaction is **in line with LEO's strategy to diversify its holdings**, and redirect its resources into other projects;
- **EPO is probably a better candidate for advancing LEO's potash assets** considering that a) EPO's primary focus is to explore and develop potash deposits, and b) EPO's strategic alliance with Endeavour Financial could be beneficial in raising capital going forward; and
- We believe this transaction might allow LEO to **unlock the value of its potash assets**, as currently, LEO's market capitalization does not assign any value to any of its assets (LEO's current market capitalization is $15.76 million, while its working capital alone (excluding marketable securities/investments), we estimate, accounts for $15.75 million).

Signs farm-in with Africa Oil

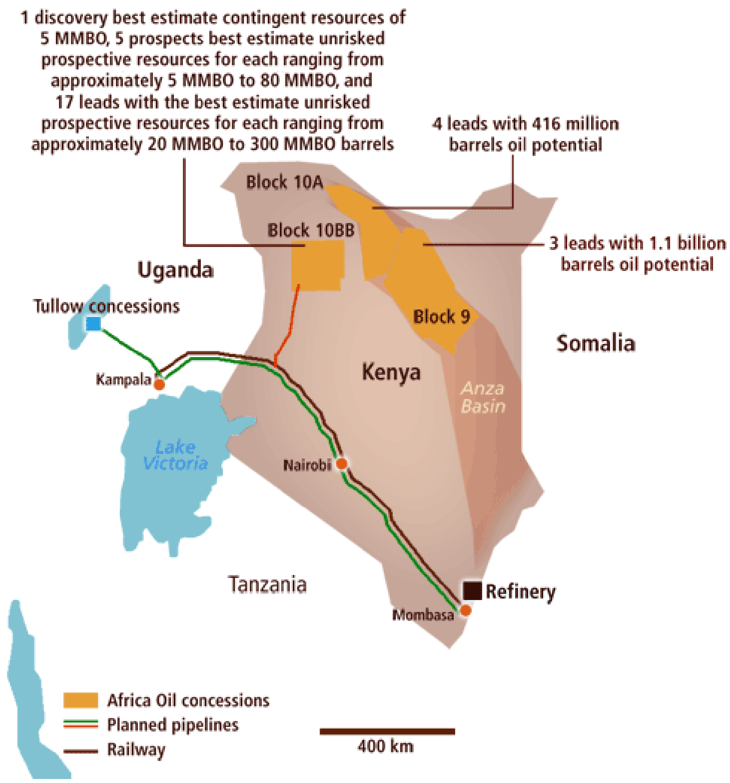
Prior to the announcement regarding the sale of its potash assets, LEO, in May 2009, announced the signing of a LOI with Africa Oil Corp. (TSXV: AOI; market capitalization - $74 million), to farm-in AOI's production sharing contracts in the Republic of Kenya and Puntland, Somalia. The farm-in agreement was subsequently finalized in August 2009.

Africa Oil is an oil and gas company with assets in Kenya, Somalia and Ethiopia. Africa Oil is a member of the Lundin Group of Companies, which is a well known name in the resource industry, and has been directly involved in the discovery and development of several major oil fields. The Lundin Group operates in over 30 different countries worldwide in the oil and gas and mining sectors.

Kenya - AOI holds a highly prospective land package including over 10 million acres in the Anza Basin, Kenya. The Anza Basin is an extension of the major Sudan oil trend and a continuation of the Muglad Basin which is estimated to hold over 6 billion barrels of proven reserves, and currently produces over 0.45 million barrels of oil per day.

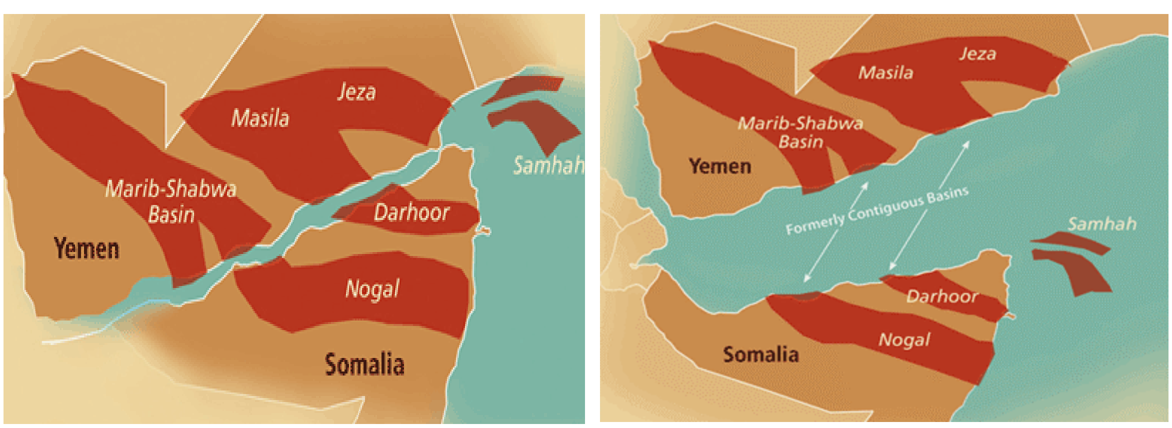
AOI will transfer a 10% interest in the Block 9 Production Sharing Agreement, a 25% license interest in the Block 10A Production Sharing Contract, and a 20% interest in the Block 10BB Production Sharing Contract. The Block 10BB PSC was recently acquired by AOI pursuant to its acquisition of Turkana Energy Inc.

Block 10BB, which is located immediately west of Blocks 10A and 9, encompasses approximately 13,000 km^2 in the Rift Valley of northwestern Kenya. The block is within the tertiary rift trend of East Africa, which has recently had major oil discoveries by Heritage Oil Corp. (TSX: HOC) and Tullow Oil (LSE: TLW), both active in the Lake Albert region of Uganda. According to one of AOI's press releases, an independent report prepared for Turkana Energy (by Gaffney, Cline & Associates, September 2008), estimated the potential unrisked undiscovered prospective light and medium oil resource on Block 10BB to be over 1.7 billion barrels of oil.



Source: AOI

Puntland, Somalia – AOI will transfer a 15% license interest to LEO in the Nogal and Dharoor Petroleum Production Sharing Agreements (PSA) in Puntland, Somalia. The Nogal and Dharoor blocks, which cover an area of more than 20 million acres (81,000 sq. km), are considered to have a petroleum system geologically similar to, and formerly contiguous with, those in the prolific oil producing Republic of Yemen. Note the rift in the cretaceous basins beginning 16 – 18 million ago in the following images.



Source: AOI

AOI entered into the PSAs with Range Resources (LSE: RRL), and the Government of Puntland, in 2007, to acquire an 80% interest in these licenses. AOI has fulfilled its funding requirements ($22.75 million) related to the Dharoor Valley Block, but is still required to spend another $19.4 million on the Nogal Valley block to acquire its 80% interest.

AOI completed a seismic program on the Dharoor Block in 2008, to become the first operator to record seismic data in Somalia for over 20 years. In the Nogal Block, AOI acquired all of the more than 4,000 km of 2D data recorded in the late 1980's. According to AOI, it has identified several potentially large prospects in both the blocks, and intends to select future drilling locations in late Q4 2009.

Risks pertaining to these projects include the political risk in Somalia, and dispute with ConocoPhillip; NYSE: COP (COP was previously engaged in exploration in the Nogal and Dharoor Valleys) over the title.

According to the agreement, LEO will pay a disproportionate share of costs associated with the planned work programs in 2010, in both Kenya and Somalia. Lion will deposit US$4 million into escrow (as security for its payment obligations) within 30 days of the execution of the agreement.

The transaction is subject to certain conditions and completion of due diligence, approvals from the TSXV Exchange, the regulatory authorities of the Republic of Kenya and Puntland, Somalia, and the Chinese National Offshore Oil Corporation - CNOOC (the majority operating partner on Block 9 in Kenya). **This agreement indicates LEO's focus on becoming a significant player in the oil and gas industry in East and Central Africa.**

Proposed business combination

In November 2009, the company, Southern Star Energy Inc. (OTCBB: SSEY), and Gold Star Resources Corp (TSXV: GXX) announced they signed a non-binding LOI to complete a proposed business combination. A brief description of Southern Energy and Gold Star follow (figures in US$ were converted at C$/US$ - 1.05):

Southern Star Energy Inc. (market capitalization - $5.71 million), based in Houston, Texas, owns and operates a 40% interest in about 5,000 acres in the Haynesville Shale Play in Northwest Louisiana. Southern's acreage includes Haynesville shale (as well as Bossier shale) potential, as well as a Cotton Valley Sandstone development project. Southern has drilled seven successful wells into the Cotton Valley, and three exploratory wells in the Haynesville and Bossier Shales, which, according to Southern, encountered substantial gas-bearing sections.

Reserves and Net Asset Value (NAV) - An independent evaluation conducted by H.J. Gruy and Associates, Inc., as of May 2009, came up with a 1P reserve estimate of 2.02 bcf, and a NAV (10%) of $1.72 million. However, Southern's internal estimate, as of February 2009, was 26.06 bcfe of 2P reserves, and 49.26 bcfe of 3P reserves. The corresponding NAV (10%) estimates were $16.74 million for 2P reserves, and $20 million for 3P reserves. Note that these estimates do not account for the company's primary focus, which is the Haynesville shale potential.

Cash and Liquidity Position - At the end of August 2009, Southern had $1.68 million in cash. However, the company had a significant working capital deficit of $13.24 million (no long-tem debt). The company is currently not in compliance with certain financial covenants (with respect to $5.25 million in bank debt). In addition, several vendors have filed liens against the company related to claims for unpaid invoices of approximately $3.89 million.

Valuation - According to the proposed agreement, LEO will issue approximately 26 million shares to the shareholders of Southern, which implies a valuation of $4.81 million (based on LEO's current share price of $0.185). This valuation implies an enterprise value of $18 million, which is slightly lower than Southern's internal NAV (10%) estimate of $20 million (based on its 3P reserve estimates). Considering that the NAV estimate does not include the Haynesville shale potential, we believe the acquisition price is attractive for LEO based on management's internal estimates, but is not attractive based on the independent consultant's reserve estimates as stated above. Also, we believe, considerable risks exist because of Southern's poor liquidity position (LEO will have to pay down Southern's huge working capital deficit if the acquisition is completed).

Gold Star Resources Corp. (market capitalization - $2.55 million) is a Canadian exploration company focusing on onshore opportunities in the petroleum systems of West Africa, with a key focus on Liberia and the Ivory Coast. Gold Star is a much smaller company (relative to Southern), and its projects are in very early stages. At the end of September 2009, Gold Star had a working capital deficit of $0.48 million (no long-term debt).

Valuation - According to the agreement, LEO will issue approximately 14 million to the shareholders of GXX, which implies a valuation of $2.59 million, inline with GXX's current market capitalization.

The transaction is subject to the completion of due diligence, regulatory approvals, court approval, and approval of the shareholders of Lion, Southern, and Gold Star. If and when the transaction is completed, the combined entity will have a diverse portfolio of exploratory opportunities in Africa, and a relatively advanced stage oil and gas play in the U.S.

Call off proposed acquisition

On August 25, 2009, LEO announced its plans to acquire all the issued and outstanding shares of Lion Petroleum Corp by entering into a binding LOI with Lion Petroleum. Lion Petroleum is a privately held oil and gas exploration company, based in Vancouver, BC, with production sharing contracts on exploration blocks in Northeastern Kenya. In October 2009, LEO announced that, subsequent to the due diligence period, it has elected not to continue with the proposed acquisition.

Financials

At the end of Q3-2009 (quarter ended July 2009), the company had $23.76 million in cash + marketable securities. Working capital and the current ratio were $22.31 million and 13.5x, respectively. The table below shows a summary of the company's cash and liquidity position at the end of Q3-2009.

(C $)	2008	Q3-2009 (9 mo)
Cash & Marketable Securities	24,990,136	23,763,753
Working Capital	24,866,918	22,306,960
Current Ratio	63.95	13.51
LT Debts/ Assets	-	-
Burn Rate/Month (incl exploration costs)	(295,675)	(502,762)
Cash from financing activities	31,155,449	(34,500)

The company is currently in a strong cash position, and we do not foresee any need for any equity financing in the near-future.

Options and Warrants: We estimate the company has 6.45 million stock options (weighted average exercise price - $0.60) and 38.31 million warrants (weighted average exercise price - $1.15) outstanding. None of the options and warrants is currently 'in-the-money'.

Valuation

Our revised valuation on the company dropped from $84.35 million (or $1.14 per share), to $50.05 million (or $0.59 per share). A summary of our valuation is shown below.

Valuation Summary (C$)	
Valuation of LEO's Interest in EPO	
Spar Property (in $,mm)	$84.94
Book Value of EPO's Other Assets (in $, mm)	$4.77
Working Capital - Debt (in $, mm)	$8.14
Net FairValue (in $, mm)	$97.84
LEO's Interest (27.8%) - per share	$0.32
El Sol and Athabasca Basin Uranium Projects - per share	$0.05
Sulphur Solutions Inc. (Book Value) + Marketable Securities - per share	$0.03
Working Capital - Debt - per share	$0.19
Net Fair Value ($/share)	**$0.59**

Our valuation dropped primarily because our revised model assumes that the company will end up with 27.8% of EPO's issued and outstanding shares (as opposed to 100% interest in its potash assets in our previous report), offset by an increase in our valuation on the Spar property, from $56.12 million, to $84.94 million. Our valuation on the Spar property increased as our estimate of the average valuation of its peers increased from $2.27/tonne (recoverable K_2O resource), to $3.43/tonne.

We have not accounted for the potential value from the company's agreement with AOI, and the non-binding letter of intent with Southern Star and Gold Star Resources, due to the early stage nature of the agreements.

Conclusions & Rating

Based on our revised valuation models and review of the company's progress since our previous report, we reiterate our BUY rating, but lower our fair value estimate from $1.14 per share, to $0.59 per share.

Risks

The following risks, though not exhaustive, will cause our estimates to differ from actual results:

- Lion does not have any operating mines and has not completed a feasibility study.
- The success of further development, exploration, and expansion is a significant factor in Lion's success.
- Like other junior exploration companies, the value of the company depends heavily on commodities, namely oil and gas, potash, uranium and iron ore.

We continue to rate the shares Risk 5 (Highly Speculative).

Fundamental Research Corp. Equity Rating Scale:
Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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