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22 September 2006

Company Announcements
Australian Stock Exchange Ltd

PARTICIPATION AGREEMENT

On 8 September 2006, Lion Energy Limited ("**Company**") issued a prospectus for a pro-rata non-renounceable rights issue of 3,046,124,356 fully paid ordinary shares (each a "**Share**", together the "**New Shares**") on the basis of one (1) New Share for every one (1) Share held on the Record Date of 19 September 2006 at an issue price of \$0.0035 per New Share, to raise approximately \$10,661,435.

The issue and allotment of the New Shares pursuant to the prospectus and the underwriting are conditional on the execution by the parties of the Participation Agreement and the Joint Operating Agreement by the Closing Date of 10 October 2006. The Participation Agreement was executed on 18 September 2006.

The Participation Agreement sets out the terms and conditions by which Lion Energy Limited USA, Inc ("**Lion USA**") can farm-in to various leases in the Gulf of Mexico and is substantially in the form of the agreement reflected in the prospectus.

A requirement of the Participation Agreement is that the Company issue Ridgelake Energy Inc., subject to shareholder approval, either:

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

The volume weighted average price of the Shares over the 5 trading days preceding the date the Participation Agreement was executed was \$0.00387.

Jack Toby
Company Secretary