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11 September 2006

Company Announcements  
Australian Stock Exchange Ltd

**LETTERS TO SHAREHOLDERS**

Enclosed is a letter to be sent today to all Australian and New Zealand shareholders of Lion Energy Limited.

Also enclosed is a letter to be sent to all other shareholders of Lion Energy Limited.

Jack Toby  
Company Secretary



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8 September 2006

Australian and New Zealand Shareholders

Dear Shareholder

**INFORMATION FOR SHAREHOLDERS  
PRO-RATA NON RENOUNCEABLE RIGHTS ISSUE**

As you may be aware, the Company will shortly be offering to you an opportunity to acquire more shares in the Company pursuant to an underwritten pro-rata non-renounceable rights issue to shareholders of up to 3,046,124,356 new shares on the basis of one share for every share held by you at 5.00pm WST on 19 September 2006, at an issue price of \$0.0035 per share, to raise up to \$10,661,435 ("Rights Issue"). This offer will be made pursuant to a Prospectus and if you wish to participate in the Rights Issue, you will need to complete the Entitlement and Acceptance Form that will accompany the Prospectus.

A copy of the Prospectus has been lodged with ASX and is available on the ASX website and will be available on the Company's website.

Pursuant to the Listing Rules of the Australian Stock Exchange Limited ("Listing Rules"), the Company is required to provide to you certain information before proceeding with the Rights Issue. This letter contains all the information required by Appendix 3B of the Listing Rules.

1. Up to a maximum of 3,046,124,356 fully paid ordinary shares will be issued pursuant to the Rights Issue.
2. The shares to be issued will rank equally in all respects from the date of allotment with the existing quoted ordinary shares.
3. The issue price of the shares will be \$0.0035 (0.35 cents) each.
4. The Company will apply for quotation of the shares issued pursuant to the Rights Issue on the official list of the ASX.
5. The funds raised by the Rights Issue will be used towards meeting 40% of the costs of drilling in 5 Gulf of Mexico Federal OSC Leases to earn interests in the Leases, and to meet the costs of the Rights Issue.

6. The securities will be entered into uncertificated holdings or dispatch of certificates on 18 October 2006.
7. The total number and class of all securities quoted on ASX (including the maximum number of shares to be issued in the Rights Issue) is as follows:

<b>Number</b>	<b>Class</b>
6,092,248,712	Ordinary shares
<b>6,092,248,712</b>	<b>Total on Issue</b>

8. The Company currently has no securities that are not quoted on ASX.
9. The Company currently has no dividend policy. However, pursuant to the Constitution of the Company, the Directors may from time to time declare a dividend to be paid to the members entitled to the dividend. The dividend as declared shall be payable on all shares in proportion to the amount of capital for the time being paid up or credited as paid up in respect of such shares. No dividend may be paid except out of profits.
10. No shareholder approval for the Rights Issue is required.
11. The Rights Issue is non-renounceable.
12. The new shares in the Rights Issue will be offered on the basis of one new share for every share held by the shareholder on 5.00pm WST on 19 September 2006.
13. The offer under the Rights Issue relates to fully paid ordinary shares in the Company.
14. The "ex date" is 13 September 2006.
15. The record date to determine entitlements is 19 September 2006.
16. Holdings on different registers (or subregisters) will not be aggregated for calculating entitlements.
17. The Company will not be sending an offer under the Rights Issue to any security holders outside of Australia and New Zealand.

In compliance with Listing Rule 7.7.1 of the ASX Listing Rules, the Company has decided that it is unreasonable to make the offer to security holders outside of Australia and New Zealand having regard to each of the following:

- the number of security holders outside of Australia and New Zealand;
- the number and value of the securities to be offered to security holders outside of Australia and New Zealand; and

- the cost of complying with the legal requirements and requirements of regulatory authorities in the overseas jurisdictions.

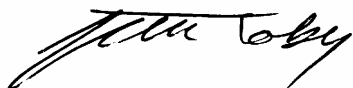
The Company will send to each of the security holders outside of Australia and New Zealand details of the offer and advise them that the Company will not be making the offer to them.

18. The closing date for receipt of acceptances is 5.00pm WST 10 October 2006.
19. The Rights Issue is underwritten by Intersuisse Limited.
20. The underwriting fees for the Rights Issue are \$446,714.
21. There is no broker to the Rights Issue.
22. Brokers will receive no handling fee for acceptances lodged by them on behalf of security holders.
23. The Prospectus for the Rights Issue and the accompanying Entitlement and Acceptance Form will be sent to you on 25 September 2006.
24. As the Company currently has no options on issue, it does not need to send a notice to option holders to notify them of their right to participate in the Rights Issue upon exercise of their options.
25. The latest date for despatch of certificates or entry of the securities into your security holdings is 18 October 2006.

The above information was provided to the ASX on 8 September 2006.

If you have any queries regarding your entitlement or participation in the upcoming Rights Issue, please do not hesitate to contact the Company's Share Registry on 9323 2000.

Yours sincerely



Jack Toby  
Company Secretary



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Non-Australian and non-New Zealand Shareholders

Dear Shareholder,

**INFORMATION FOR SHAREHOLDERS  
PRO-RATA NON RENOUNCEABLE RIGHTS ISSUE**

As you may be aware, Lion Energy Limited ("Company") is currently undertaking a non-renounceable rights issue pursuant to a prospectus dated 8 September 2006 ("Prospectus"). The Company expects that the rights issue will close on 10 October 2006.

The Prospectus is for the underwritten rights issue to existing shareholders in Australia and New Zealand of 3,046,124,356 fully paid ordinary shares in the capital of the Company on the basis of one (1) new share for every one (1) share held on the record date, at an issue price of 0.35 cents per new share, to raise approximately \$10,661,435.

The Company has determined, pursuant to Listing Rule 7.7.1(a) of the Listing Rules of Australian Stock Exchange Limited ("ASX Listing Rules"), that it would be unreasonable to make offers under the Prospectus to all countries outside of Australia and New Zealand. Accordingly, in compliance with ASX Listing Rule 7.7.1(b), the Company wishes to advise you that it will not be extending the rights issue to you.

Should you have any queries please contact the Company's Share Registry on +61-8-9323-2000.

Yours sincerely

Jack Toby  
Company Secretary