

LION ENERGY LIMITED

ABN 51 000 753 640

PROSPECTUS

For a pro-rata non-renounceable rights issue of up to 60,922,354 New Shares on the basis of one (1) New Share for every Share held on the Record Date of 29 July 2008 at an issue price of \$0.06 per New Share, to raise up to approximately \$3,655,341.

The Rights Issue closes at 5.00pm AWST on 19 August 2008.

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 or professional adviser.

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Summary of Important Dates*

Announcement of Rights Issue	15 July 2008
Lodge Prospectus with ASIC	15 July 2008
Shares quoted ex-rights	23 July 2008
Record Date to determine Entitlements	29 July 2008
Opening Date and dispatch of Prospectus	5 August 2008
Closing Date	19 August 2008
Notification to ASX of undersubscriptions	22 August 2008
Allotment of New Shares and dispatch of holding statements	27 August 2008

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

IMPORTANT NOTICE

Shareholders should read this Prospectus in its entirety and, if in doubt, should consult their professional advisers before deciding whether to accept their Entitlements. This Prospectus is dated 15 July 2008. A copy of this Prospectus was lodged with the ASIC on 15 July 2008. No responsibility for the contents of this Prospectus is taken by ASIC. No applications for New Shares will be accepted nor will New Shares be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

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 2001 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.

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.

This Prospectus will be issued as an Electronic Prospectus in relation to the Shortfall. The Prospectus will be available on the Company's website at www.lionenergy.com.au. The offer of New Shares comprising the Shortfall pursuant to this Prospectus is available to persons receiving an electronic version of this Prospectus within Australia. The Corporations Act prohibits any person from passing to another person an Application Form unless it is attached to or accompanies the complete and unaltered version of this Prospectus. Prior to the Closing Date, any person may obtain a hard copy of this Prospectus by contacting the Company by email at info@lionenergy.com.au or by telephone +61 8 9213 4300.

CORPORATE DIRECTORY

DIRECTORS

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

SECRETARY

Mr Jack Toby

REGISTERED OFFICE

Ground Floor
15 Rheola Street
WEST PERTH WA 6005
Telephone: +61 8 9213 4300
Facsimile: +61 8 9213 4311
Email: info@lionenergy.com.au
Website: www.lionenergy.com.au

AUDITORS*

Grant Thornton WA Partnership
Level 1, 10 Kings Park Road
West Perth WA 6005 AUSTRALIA
Tel: +61 (8) 9480 2000
Fax: +61 (8) 9322 7787

SOLICITORS TO THE ISSUE

Blakiston & Crabb
1202 Hay Street
WEST PERTH WA 6005

SHARE REGISTRY

Computershare Investor Services Pty Limited
Level 2, 45 St Georges Terrace
PERTH WA 6000

Telephone: (within Australia) 1300 557 010
(outside Australia) +61 3 9415 4000
Facsimile: +61 8 9323 2033

* Included for information purposes only.

BRIEF INSTRUCTIONS

For Current Shareholders

What You May Do

The number of New Shares to which you are entitled is shown on the accompanying Entitlement and Acceptance Form. You may:

- Accept your Entitlement in full or part; or
- Allow the whole of the Entitlement to lapse.

If You Wish To Take Up All or Part Of Your Entitlement

Complete the accompanying Entitlement and Acceptance Form in accordance with the instructions set out in the form. Forward your completed Entitlement and Acceptance Form, together with payment for the amount shown on the form or for such lesser amount as you wish to apply for, so as to reach the Company's share registry no later than 5.00pm AWST on 19 August 2008. Please note that payment via BPAY must be made by no later than 3.00pm AWST on 19 August 2008. If you elect to pay via BPAY, you must follow the instructions for BPAY set out in the Entitlement and Acceptance Form and you will not need to return the Entitlement and Acceptance Form.

Entitlements Not Taken Up

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 not accepted will form part of the Shortfall.

Section 1 DETAILS OF THE OFFER

1.1 The Offer

The Company is inviting Existing Shareholders to subscribe for New Shares at an issue price of \$0.06 (6 cents) each, on the basis of one (1) New Share for every Share held as at the Record Date of 5.00pm AWST on 29 July 2008.

The Rights Issue will raise up to approximately \$3,655,341 (less expenses of the Rights Issue estimated to be \$35,000).

As at the date of this Prospectus, 60,922,354 Shares are on issue.

The Company also has 31,000,000 quoted Options on issue, each Option exercisable at \$0.35 on or before 31 August 2011.

Any New Shares not taken up by Existing Shareholders will form part of the Shortfall.

1.2 Purpose of the Rights Issue

The purpose of the Rights Issue is, after meeting the expenses of the Rights Issue, to raise funds to repay a loan of \$2,100,000 provided by Mr Wu, the chairman of the Company, which loan was used by the Company to acquire, through a wholly owned subsidiary (Lion International Investment Limited), a 19.49% interest in PPU, and for working capital.

The following table illustrates the proposed application of funds raised from the Rights Issue, assuming the full amount is raised.

Description	(\$)
Repayment of Loan	\$2,100,000
Rights issue costs	\$35,000
Working Capital	\$1,520,341
Total	\$3,655,341

If the Company does not raise the full amount sought under the Rights Issue it will allocate the funds received first to the expenses of the Rights Issue, then the repayment of the loan and then finally, working capital.

If insufficient funds are raised to cover the expenses of the Rights Issue and repayment of the loan, the Company will use its existing cash reserves together with, if required, alternative funding.

1.3 No Entitlement Trading

The offer under the Rights Issue is non-renounceable and accordingly, Existing Shareholders may not dispose of or trade any part of their Entitlement.

1.4 **Opening and Closing Dates**

The Rights Issue will open for receipt of acceptances at 9:00am AWST on 5 August 2008 and will close at 5.00pm AWST on 19 August 2008 (except where payment is via BPAY in which case payment must be made by no later than 3.00pm AWST on 19 August 2008), 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.

1.5 **Brokerage and Commission**

No brokerage or stamp duty will be payable by investors.

The Company may at its discretion pay a commission of up to 5% on any applications received bearing a broker stamp of a member organisation of the ASX, provided the applications are accepted by the Directors and New Shares are subsequently allotted.

1.6 **Entitlements and Acceptance**

Acceptance of Entitlement in Full

If you wish to take up **all** of your Entitlement under the Rights Issue, please complete the Entitlement and Acceptance Form in accordance with the instructions set out on the reverse of that form. Please ensure the completed Entitlement and Acceptance Form and your payment is received by the Company's Share Registry at:

Delivered to

Lion Energy Limited
Computershare Investor Services Pty Ltd
Level 2, 45 St Georges Terrace
PERTH WA 6000

Or by post to

Lion Energy Limited
Computershare Investor Services Pty Ltd
Locked Bag 2508
PERTH WA 6001

not later than 5.00pm AWST on 19 August 2008 or such later date as the Directors advise. Cheques should be made payable to "**Lion Energy Limited – Rights Issue Account**" and crossed "Not Negotiable". Please note that payment via BPAY must be made by no later than 3.00pm AWST on 19 August 2008. If you elect to pay via BPAY, you must follow the instructions for BPAY set out in the Entitlement and Acceptance Form and you will not need to return the Entitlement and Acceptance Form.

Partial Acceptance of Entitlement

If you wish to take up **part** of your Entitlement pursuant to the Rights Issue, please complete the Entitlement and Acceptance Form in accordance with the instructions set out on the reverse of that form and insert the number of New Shares for which you wish to accept the offer (being less than your Entitlement as specified on the Entitlement and Acceptance Form). Please ensure the completed Entitlement and Acceptance Form and your payment is received by the Company's Share Registry at:

Delivered to

Lion Energy Limited
 Computershare Investor Services Pty Ltd
 Level 2, 45 St Georges Terrace
 PERTH WA 6000

Or by post to

Lion Energy Limited
 Computershare Investor Services Pty Ltd
 Locked Bag 2508
 PERTH WA 6001

not later than 5.00pm AWST on 19 August 2008 or such later date as the Directors advise. Cheques should be made payable to "**Lion Energy Limited – Rights Issue Account**" and crossed "Not Negotiable". Please note that payment via BPAY must be made by no later than 3.00pm AWST on 19 August 2008. If you elect to pay via BPAY, you must follow the instructions for BPAY set out in the Entitlement and Acceptance Form and you will not need to return the Entitlement and Acceptance Form.

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 not accepted by you will form part of the Shortfall and will be dealt with in accordance with Section 1.7.

Enquiries

If you have any queries regarding your Entitlement, please contact the Company's Share Registry by telephone on (within Australia) 1300 557 010 or (from outside Australia) +61 3 9415 4000 or your stockbroker or professional adviser.

1.7 Shortfall

The Directors reserve the right to place any New Shares which are not taken up by Existing Shareholders under the Rights Issue within 3 months after the Closing Date. Those New Shares will be issued at the same issue price as offered to Existing Shareholders under the Rights Issue.

An application to participate in any Shortfall may be made by either an Existing Shareholder or any member of the public except that the Directors may not participate in any Shortfall.

If applicants wish to participate in any Shortfall that may arise under the Rights Issue, they should complete the Shortfall Application Form attached to this Prospectus and lodge the Shortfall Application Form together with a cheque for the relevant application monies with the Company's Share Registry at:

Delivered to

Lion Energy Limited
 Computershare Investor Services Pty Ltd
 Level 2, 45 St Georges Terrace
 PERTH WA 6000

Or by post to

Lion Energy Limited
 Computershare Investor Services Pty Ltd
 Locked Bag 2508
 PERTH WA 6001

not later than 5.00pm AWST on 19 August 2008 or such later date as the Directors advise. Cheques should be made payable to "**Lion Energy Limited – Rights Issue Account**" and crossed "Not Negotiable".

Priority will be given to Existing Shareholders when dealing with Shortfall Applications and Existing Shareholders should return their Shortfall Application Forms at the time of returning their Entitlement and Acceptance Form. The Directors of the Company will not participate in any Shortfall.

The Directors do not guarantee that any Shortfall Application will be successful. In the event a Shortfall Application is not accepted (whether in whole or in part) monies in relation to the New Shares applied for and not allocated will be refunded in full without interest within 60 days of notification of the Shortfall by the Company to ASX.

The Company may at its discretion pay a commission of up to 5% on any Shortfall Application received, in particular in respect of applications bearing a broker stamp of a member organisation of the ASX, provided the Shortfall Application is accepted by the Directors and New Shares are subsequently allotted. The payment of the commission will be made 14 days after acceptance by the Company of a Shortfall Application.

1.8 Issue and Allotment of New Shares

The New Shares are expected to be issued and allotted by no later than 27 August 2008. Until issue and allotment of the New Shares under this Prospectus, the acceptance money will be held in trust in a separate bank account opened and maintained for that purpose only. Any interest earned on the acceptance money will be for the benefit of the Company and will be retained by it irrespective of whether allotment of the New Shares takes place.

1.9 ASX Listing

The Company will make application to ASX within 7 days following the date of this Prospectus for official quotation of the New Shares offered pursuant to this Prospectus.

If approval is not granted by ASX within 3 months after the date of this Prospectus, the Company will not allot or issue any New Shares and will repay all application monies as soon as practicable, without interest.

A decision by ASX to grant official quotation of the New Shares 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 now offered for subscription.

1.10 No Issue of New Shares after 13 months

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

1.11 Underwriting

The Rights Issue is not underwritten.

1.12 Overseas Investors

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

- (a) the number of Existing Shareholders registered outside of Australia and New Zealand;
- (b) the number and value of the securities to be offered to Existing Shareholders registered 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 make offers under the Prospectus to Existing Shareholders registered outside of Australia and New Zealand.

In compliance with section 615 of the Corporations Act, the Company has appointed, and ASIC has approved, Intersuisse Limited ("**Nominee**") as nominee for foreign holders of the Company's securities in those countries outside of Australia and New Zealand.

The Nominee will subscribe for and the Company will issue to the Nominee the New Shares that would otherwise have been issued to those foreign holders if the offer had been made available to them and they had accepted.

The Nominee must sell the New Shares and cause to be distributed to each of those foreign holders their proportion of the proceeds of the sale, net of expenses. Any such sale will be at such prices and otherwise in such a manner as the Nominee in its absolute discretion, determines.

1.13 Market Prices of Shares on ASX

The highest and lowest closing market sale prices of Shares on ASX during the 3 months immediately preceding the date of this Prospectus and the respective dates of those sales were \$0.20 on 6 June 2008 and \$0.09 on 17 April 2008. The latest available market sale price of Shares on ASX immediately before the date of issue of this Prospectus was \$0.125 on 11 July 2008.

1.14 Privacy Act

The Company collects information about each applicant from the Application Form for the purposes of processing the application and, if the application is successful, to administer the applicant's security holding in the Company.

By submitting an Application Form, each applicant agrees that the Company may use the information in the Application Form for the purposes set out in this privacy disclosure statement and may disclose it for those purposes to the share registry, the Company's related bodies corporate, agents, contractors and third party service providers, (including mailing houses), the ASX, ASIC and other regulatory authorities.

If an applicant becomes a security holder of the Company, the Corporations Act requires the Company to include information about the security holder (name, address and details of the securities held) in its public register. This information must remain in the register even if that person ceases to be a security holder of the Company. Information contained in the Company's registers is also used to facilitate distribution payments and corporate communications (including the Company's financial results, annual reports and other information that the Company may wish to communicate to its security holders) and compliance by the Company with legal and regulatory requirements.

If you do not provide the information required on the Application Form, the Company may not be able to accept or process your application.

Section 2 CAPITAL STRUCTURE & EFFECT OF THE RIGHTS ISSUE

2.1 Principal Effects

The principal effects of the Rights Issue are:

- (a) the Company's cash funds will increase by approximately \$3,655,341 less expenses of the Rights Issue, which are estimated to be approximately \$35,000; and
- (b) the total number of Shares on issue will be 121,844,708 before the exercise of any of the Options currently on issue.

2.2 Capital Structure and Consolidated Balance Sheet

Capital Structure of the Company

The pro-forma capital structure of the Company following the Rights Issue pursuant to this Prospectus is set out below:

Issued Capital	Number
Existing Ordinary Shares	60,922,354
New Shares now offered for subscription pursuant to this Prospectus	60,922,354
Total Shares on issue after completion of Rights Issue	121,844,708

The Company currently has 31,000,000 quoted Options on issue, each exercisable at \$0.35 on or before 31 August 2011.

Consolidated Balance Sheet

Set out as follows is an unaudited Consolidated Balance Sheet of the Company as at 31 May 2008, adjusted to reflect the settlement of the acquisition of shares in PPU which was finalised on 9 June 2008:

CONSOLIDATED BALANCE SHEET

PRO-FORMA REFLECTING PROPOSED RIGHTS ISSUE

	31 May 2008 Unaudited Management Accounts (\$)	31 May 2008 Pro-forma (\$)
CURRENT ASSETS		
Cash and cash equivalents	7,421,308	11,041,649
Trade and other receivables	975,212	975,212
Inventories	1,151,751	1,151,751
TOTAL CURRENT ASSETS	9,548,271	13,168,612
NON-CURRENT ASSETS		
Property, plant and equipment	229,238	229,238
Trade and other receivables	102,406	102,406
Capitalised exploration expenditure	1,242,661	1,242,661
Investments	2,994,414	2,994,414
TOTAL NON-CURRENT ASSETS	4,568,719	4,568,719
TOTAL ASSETS	14,116,990	17,737,331
CURRENT LIABILITIES		
Trade and other payables	3,930,952	3,930,952
Provisions	1,549	1,549
TOTAL CURRENT LIABILITIES	3,932,501	3,932,501
TOTAL LIABILITIES	3,932,501	3,932,501
NET ASSETS	10,184,489	13,804,830
EQUITY		
Issued Capital	49,686,804	53,342,145
Option premium reserve	1,550,000	1,550,000
Currency translation reserve	2,578,462	2,578,462
Accumulated Losses	(43,630,777)	(43,665,777)
TOTAL EQUITY	10,184,489	13,804,830

NOTES TO THE PRO-FORMA CONSOLIDATED BALANCE SHEET

- The above Pro Forma Balance Sheet is based on the unaudited management accounts at 31 May 2008 adjusted to reflect the settlement of the acquisition of shares in PPU which was finalised on 9 June 2008, adjusted for:
 - the issue of 60,922,354 Shares at an issue price of \$0.06 to raise approximately \$3,655,341; and
 - Rights Issue costs of \$35,000.
- Revenue for the 11 months to 31 May 2008 was \$2,656,280, comprising oil revenue of \$2,377,757, other income of \$172,547 and interest income of \$105,976.

3. The loss for the 11 months to 31 May 2008 was \$2,847,729 which includes amortisation of the investment in the Seram (Non-Bula) PSC of US\$237,572 based on the written down value of this asset of US\$1,425,432 being written off by 31 December 2012. The loss also includes foreign exchange losses of A\$1,818,786 and the impairment of capitalised exploration costs of A\$1,427,009.

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 proposed 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

A number of the Company's operations are based in countries other than Australia. As a result, the Company's revenues, cash flows, expenses, 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 the 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 drilling and production operations and cause damage to offshore installations such as platforms and pipelines.

(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

(i) 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.

(ii) 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 Papua New Guinea**

The Company's wholly owned subsidiary, Lion International Investment Limited, is a substantial shareholder in PPU, a company with extensive oil and gas interests in PNG.

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

(i) Political Risks

PNG is a country subject to a relatively high degree of political, economic, social and other uncertainties, including changes in laws or taxation policies, currency exchange restrictions, changing political conditions and international currency fluctuations. Future PNG government actions concerning the economy or the operation and regulation of nationally important facilities such as pipelines or processing facilities could have a significant effect on PPU's investment in PNG.

(ii) Law and order and civil unrest

Maintenance of civil law and order has been a problem in PNG in recent years and there have been instances of civil unrest and communal violence in PNG.

(iii) Landowner rights

Almost all land in PNG is held under customary land tenure, the nature and terms of which vary considerably throughout the country. In general, land held under customary land tenure cannot be alienated and

is often communally owned. Title to most land in PNG has not been recorded or registered and there has been little surveying. As a result, title to land is often unclear with disputes over landownership common, especially in the context of resource developments. Identifying all affected landowners and structuring compensation agreements that are both fair and acceptable to all parties is often extremely difficult.

The satisfactory resolution of local landowner concern is a factor which is essential and crucial to any oil and gas developments in PNG. The failure to adequately address landowner issues has contributed to the disruption of other petroleum projects in PNG. Any such disruptions as well as successful claims for compensation by landowners could adversely affect the Company's investment in PNG.

(e) **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.

3.3 **Speculative Nature of Investment**

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the New Shares offered under this Prospectus.

Therefore, the New Shares to be issued pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, return of capital or the market value of those New Shares.

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 securities.

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 respect of a class of shares that were continuously quoted securities 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 Report for the Company for the period ending 30 June 2007;
- (b) the Half Yearly Report for the Company for the half year ending 31 December 2007; and
- (c) the following documents used to notify ASX of information relating to the Company during the period after lodgement of the Annual Report of the Company for the period ending 30 June 2007 and before the issue of this Prospectus:

Date	Description of ASX Announcement
14/07/08	Drilling Update Neif Utara A2
14/07/08	Dawang 1 Well Spud
25/06/08	Form 603 Initial Substantial Shareholder Miningnut
06/06/08	Purchase of shares in PPU
23/05/08	Drilling Update Nief Utara
30/04/08	Quarterly Activities Report to 31-Mar-08
24/04/08	Utara A-1 Drilling
17/03/08	Seram Drilling Update 17-Mar-08
06/03/08	Seram Drilling
04/03/08	Response to ASX Query re: Appendix 4D
27/02/08	Half Year Accounts 31-Dec-07
25/02/08	ASX Appendix 4D 31-Dec-07
31/01/08	Quarterly Activities Report to 31-Dec-07
27/11/07	Meeting Results 27-Nov-07
12/11/07	Sale of Lion Energy Ltd LLC
31/10/07	Quarterly Activities Report to Sep-07
23/10/07	Notice of AGM 27-Nov-07 with proxy
18/09/07	Form 603 Hu 17-Sep-07
17/09/07	Ceasing to be a substantial holder

4.4 **Rights Attaching to New 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 ASX 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 generation 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 Interests of Directors

Directors' Holdings

At the date of this Prospectus the relevant interest of each of the Directors in the Shares of the Company are as follows:

Directors	Shares	Options
Mr Russell Ernest Brimage	54,400 ¹	4,000,000 ¹
Mr Jian Wu	16,522,688 ²	Nil
Mr Weidong Zhang	Nil	1,000,000 ³

Notes:

1. The Shares are held directly by Mr Brimage. The 4,000,000 Options are exercisable at \$0.35 each and expire on 31 August 2011. The registered holder of the Options is Pouvoir Pty Ltd, a company in which Mr Brimage is a director and shareholder.
2. 8,529,148 Shares are held directly by Mr Wu. The remaining 7,993,540 Shares are held by Mr Wu's spouse, Ms Ling Gu.
3. The 1,000,000 Options are held directly by Mr Zhang. The Options are exercisable at \$0.35 each and expire on 31 August 2011.

Remuneration of Directors

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 2008

Directors	Director's Fees/ Salaries \$	Super- annuation \$	Other non- monetary remuneration \$	Total \$
Mr Jian Wu	142,006	-	-	142,006
Mr Russell Ernest Brimage	250,248	-	-	250,248
Mr Weidong Zhang	52,238	-	-	52,238

Financial year up to 30 June 2007

Directors	Director's Fees/ Salaries \$	Super- annuation \$	Other non- monetary remuneration \$	Total \$
Mr Jian Wu	39,792	-	-	39,792
Mr Russell Ernest Brimage	250,000	-	200,000	450,000
Mr Weidong Zhang	31,900	-	50,000	81,900

The Directors have not as yet received any remuneration for the period subsequent to 30 June 2008.

(a) 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.

4.6 **Interests of Named Persons**

Except as disclosed in this Prospectus, no expert, promoter or any 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, nor any firm in which any of those persons is or was a partner nor any company in which any of those persons is or was associated with, 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;
- 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 expert, promoter or any 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, or to any firm in which any of those persons is or was a partner or to any company in which any of those persons is or was associated with, for services rendered by that person in connection with the formation or promotion of the Company or the Rights Issue.

Blakiston & Crabb have acted as solicitors to the Company in relation to this Prospectus. In respect of their work on this Prospectus, the Company will pay approximately \$15,000 for these professional services. Blakiston & Crabb have provided other professional services to the Company during the last two years amounting to approximately \$184,000.

The amounts disclosed above are exclusive of any amount of goods and services tax payable by the Company in respect of those amounts.

4.7 **Expenses of the Rights Issue**

The approximate expenses of the Rights Issue are \$35,000. These expenses are payable by the Company.

4.8 **Consents**

Computershare Investor Services Pty Limited has given and, as at the date hereof, has not withdrawn, its written consent to be named as Share Registrar in the form and context in which it is named. 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.

Each of the parties referred to in this Section 4.8:

- (a) 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 4.8; and
- (b) 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 4.8.

Blakiston & Crabb has consented to being named in this Prospectus as the solicitors to the Rights Issue and has not withdrawn such consent prior to the lodgement of this Prospectus with the ASIC.

4.9 **Electronic Prospectus**

Pursuant to Class Order 00/44 the ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an Electronic Prospectus on the basis of a paper Prospectus lodged with the ASIC and the issue of Shares in response to an electronic application form, subject to compliance with certain provisions.

The offer pursuant to an Electronic Prospectus is only available for applications for the Shortfall and to persons receiving an electronic version of this Prospectus within Australia.

If you have received this Prospectus as an Electronic Prospectus please ensure that you have received the entire Prospectus accompanied by the Shortfall Application Form. If you have not, please email the Company at info@lionenergy.com.au and the Company will send to you, for free, either a hard copy or a further electronic copy of the Prospectus or both.

The Company reserves the right not to accept a Shortfall Application Form from a person if it has reason to believe that when that person was given access to the electronic Shortfall Application Form, it was not provided together with the Electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered. In such a case, the application monies will be dealt with in accordance with section 722 of the Corporations Act.

Section 5 **DEFINED TERMS**

"**Application Form**" means the Shortfall Application Form and/or the Entitlement and Acceptance Form;

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

"**ASX**" means ASX Limited and, where the context permits, the Australian Securities Exchange operated by ASX Limited;

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

"**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;

"**Closing Date**" means 19 August 2008;

"**Company**" and "**LIO**" means Lion Energy Limited ABN 51 000 753 640;

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

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

"**Electronic Prospectus**" means an electronic version of the Prospectus;

"**Entitlement**" means the entitlement of an Existing Shareholder to apply for New Shares;

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

"**Existing Shareholders**" means those shareholders of the Company whose details appear on the Company's register of shareholders as at the Record Date;

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

"**New Shares**" means the Shares offered pursuant to the Rights Issue;

"**Option**" means an option to acquire one Share;

"**PNG**" means Papua New Guinea;

"**PPU**" means Papua Petroleum Limited ACN 121 024 459;

"**Prospectus**" means this prospectus dated 15 July 2008 and includes the Electronic Prospectus;

"**Record Date**" means 5.00 pm AWST on 29 July 2008;

"**Rights Issue**" means the issue pursuant to the Prospectus of up to 60,922,354 New Shares on the basis of one (1) New Share for every Share held on the Record Date at an issue price of \$0.06 per New Share, to raise up to approximately \$3,655,341;

"Section" means a section of this Prospectus;

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

"Shortfall" means shortfall in subscription of New Shares pursuant to this Prospectus;

"Shortfall Application" means applications for the Shortfall; and

"Shortfall Application Form" means the Shortfall Application Form accompanying this Prospectus.

Section 6 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 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: 15 July 2008



Russell Brimage
Director

SHORTFALL APPLICATION FORM

This form is only to be used by applicants wishing to apply for New Shares under the Shortfall.

LION ENERGY LIMITED

ABN 51 000 753 640

Instructions for A to J are set out on the next page

USE BLOCK LETTERS

Write your name – refer to the guide (next page) for correct forms of registrable title(s)

Tax File Number(s) or exemption category

A TITLE GIVEN NAMES SURNAME

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C

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B TITLE JOINT APPLICANT No.2 OR ACCOUNT DESIGNATION

TITLE JOINT APPLICANT No.3 OR ACCOUNT DESIGNATION

--

D ADDRESS

SUBURB/TOWN	STATE	POSTCODE

E CONTACT NAME TELEPHONE (W) TELEPHONE (H) EMAIL

--	--	--	--

F SRN/IPN HIN

--	--

G I/We Apply for New Shares and lodge Application Moneys in full @ AUD\$0.06 per New Share

H Application Money **AUD\$**

Date

Cheque Details

I DRAWER BANK BRANCH AMOUNT OF CHEQUE

Cheques should be made payable to: **“Lion Energy Limited – Rights Issue Account”**

- J** This Shortfall Application Form does not need to be signed. By lodging this Shortfall Application Form and a cheque for the Application Money the Applicant hereby:
- (1) applies for the number of New Shares in the Shortfall Application Form or such lesser number as may be allocated by the Directors;
 - (2) agrees to be bound by the terms and conditions set out in the Prospectus and the Constitution of the Company;
 - (3) authorise the Directors to complete or amend this Shortfall Application Form where necessary to correct any errors or omissions; and
 - (4) acknowledges that an application for Shortfall does not guarantee an allotment of New Shares.

SHORTFALL APPLICATION FORM

This form is to be used for parties wishing to apply for New Shares under the Shortfall.

Please complete all relevant sections of the Shortfall Application Form (“the Form”) using BLOCK LETTERS. If you have any queries on how to complete this form please telephone Jack Toby on +61 8 9213 4300.

The Shortfall Application Form relates to the one for one non-renounceable pro rata Rights Issue of up to 60,922,354 New Shares at an issue price of AUD\$0.06 each to raise up to approximately AUD\$3,655,341, pursuant to the Prospectus dated 15 July 2008. The expiry date of the Prospectus is the date which is 13 months after the date of the Prospectus. The Prospectus contains information about investing in the New Shares of the Company and it is important to read this document before applying for New Shares. A person who gives another person access to this Shortfall Application Form must at the same time and by the same means, give the other person access to the Prospectus, and any supplementary Prospectus (if applicable). While the Prospectus is current, the Company will send paper copies of the Prospectus, and any supplementary Prospectus (if applicable) and a Shortfall Application Form, on request to applicants without charge.

The Prospectus does not constitute an offer in any place where or to any person to whom it would not be lawful to make such an offer.

Please forward the completed Shortfall Application Form together with your cheque to:

Delivered to
Lion Energy Limited
Computershare Investor Services Pty Ltd
Level 2, 45 St Georges Terrace
PERTH WA 6000

Or by post to
Lion Energy Limited
Computershare Investor Services Pty Ltd
Locked Bag 2508
PERTH WA 6001

so as to reach them on or before the last date instructed by the Company.

- A** Write your FULL NAME in Box A. This must be either your own name or the name of a company. You should refer to the bottom of this page for the correct form which can be registered. Application using the incorrect form of name may be rejected. If your Form is not completed correctly, or if the accompanying payment is for the wrong amount, it may still be treated as valid. Any decision as to whether to treat your Form as valid, and how to construe, amend or complete it, shall be final. You will not however, be treated as having offered to subscribe for more New Shares than is indicated by the amount of the accompanying cheque for the Application Moneys referred to in Box H.
- B** If you are applying as JOINT APPLICANTS, complete Boxes A and B. You should refer to the bottom of this page for instructions on the correct form of name. Up to three Joint Applicants may register.
- C** Enter your TAX FILE NUMBER (TFN) or exemption category beside your name. Where applicable, please enter the TFN for each Joint Applicant. Collection of TFN’s is authorised by taxation laws. Quotations of your TFN is not compulsory and will not affect your Form.
- D** Enter your POSTAL ADDRESS for all correspondence. All communications to you from Lion Energy Limited's Share Registry (shareholding statements, dividend cheques, annual/interim reports, correspondence etc) will be mailed to the person(s) and address as shown. For Joint Applications only one address can be entered.
- E** Please let us know your TELEPHONE NUMBER(S), email and contact name in case we need to contact you in relation to your Form.
- F** Lion Energy Limited participates in the ASX’s CHESS System. If you are participating in this system, you may complete this section. If you are not a participant in the CHESS System do not complete this box. It will not affect your Application.
- G** Insert the NUMBER OF NEW SHARES you wish to apply for in Box G. The Directors do not guarantee any allocation of New Shares from a Shortfall Application.
- H** Enter the amount of your application moneys here. The amount must be equal to the number of New Shares applied for (see box G) multiplied by AUD\$0.06 per New Share.
- I** Complete cheque details as required. Cheques must be drawn on an Australian bank in Australian currency and made payable to “**Lion Energy Limited – Rights Issue Account**” and crossed “Not Negotiable”. Do not send cash. **A separate cheque should accompany each Shortfall Application Form lodged.**
- J** The Shortfall Application Form does not need to be signed.

CORRECT FORMS OR REGISTRABLE TITLE

Note that ONLY legal entities are allowed to hold securities. Applications must be in the name(s) of a natural person(s), companies or other legal entities acceptable to Lion Energy Limited. At least one full given name and the surname is required for each natural person. Applications cannot be made by persons under 18 years of age. Examples of the correct form of registrable title are set out below.

Type of Investor	Correct Form of Registrable Title	Incorrect Form of Registrable Title
Trusts	Mr John David Smith	John Smith Family Trust
Deceased Estates	Mr Michael Peter Smith	John Smith (Deceased)
Partnerships	Mr John David Smith and Mr Michael Peter Smith	John Smith & Son
Clubs/Unincorporated Bodies	Mr John David Smith	Smith Investment Club
Superannuation Funds	John Smith Pty Ltd	John Smith Superannuation Fund