

11 September 2006

Company Announcements  
Australian Stock Exchange Ltd

## **NEW PROJECT AND UNDERWRITTEN NON-RENOUNCEABLE RIGHTS ISSUE**

The directors of the Company ("Directors") wish to announce that the Company's wholly-owned US subsidiary, Lion Energy Limited USA ("Lion USA") has entered into a Letter of Intent with Ridgelake Energy, Inc. ("Ridgelake") of Louisiana in order to earn up to a 30% interest in the following Gulf of Mexico Federal offshore leases held by Ridgelake:

- South Marsh Island Block 152 ("SM 152");
- South Marsh Island Block 138 ("SM 138");
- Vermilion Block 317 ("VM 317");
- Viosca Knoll Block 79; and
- High Island Block 307 (together, "Leases").

To earn its interest in the Leases, Lion USA must reimburse Ridgelake up to 40% of certain past costs, meet up to 40% of the costs of drilling to casing election point and in the case of SM 152 and SM 138, meet certain additional costs.

This represents an entry opportunity for the Company into an exploration and production area much sought after by prominent energy companies worldwide.

The Leases are subject to a 16 $\frac{2}{3}$ % Federal royalty and between a 3 $\frac{1}{3}$ % to 4% royalty in favour of certain third parties who generated the properties.

The potential interest of Lion USA in VM 317 may be reduced by up to 10% (to 20%) if a third party exercises its right to participate in this Lease. The potential interest of Lion USA in all the Leases is subject to dilution if Ridgelake exercises its right to convey an interest in a Lease to an offset lease owner or third party service provider.

Lion USA has not yet entered into the Participation Agreement and the Joint Operating Agreement (which is to appoint Ridgelake as the operator) with Ridgelake regarding the Leases which are necessary before:

- Lion USA has an enforceable right to earn an interest in the Leases; and

- drilling on any of the Leases can commence and Lion USA can earn its interest in the Leases.

Further information regarding the amounts that Lion USA must spend to earn its up to 30% interest in the Leases, how the Directors intend to fund such payments, the identity of other holders of interests in the Leases and a description of the Leases is set out in the prospectus lodged by the Company with the Australian Securities and Investments Commission ("ASIC") on 8 September 2006.

## **Underwritten Non-Renounceable Rights Issue**

The Directors wish to announce that the Company is to make a non-renounceable pro rata offer of fully paid ordinary shares to existing shareholders. The issue will be fully underwritten by Intersuisse Limited.

The non-renounceable pro rata offer will be made on the basis of one fully paid ordinary share in the capital of the Company ("Share") for every one Share held by shareholders on the record date of 19 September 2006 at an issue price of \$0.0035 (0.35 cents) per Share.

The offer will result in the issue of 3,046,124,356 new Shares and will raise approximately \$10,661,435 before costs. The Company will use the funds raised towards earning up to a 30% interest in the Leases.

The Directors note that the allotment and issue of Shares under the prospectus and the underwriting are conditional on the execution by Lion USA and Ridgelake of the Participation Agreement and the Joint Operating Agreement by the prospectus closing date of 10 October 2006. The Directors may extend the closing date in accordance with the terms of the prospectus.

The Company lodged the prospectus for the rights issue on 8 September 2006 with ASIC.

An Appendix 3B is attached.

## **Proposed Consolidation**

The rights issue will expand the Company's issued share capital to 6,092,248,712 Shares. After the rights issue, the Company proposes to seek shareholder approval to consolidate its share capital on a 1 for 100 basis to 60,922,487 Shares in order to reduce the number of Shares on issue.

## **Proposed Issue of Options**

Pursuant to the Letter of Intent and as part consideration for the opportunity to earn an interest in the Leases, the Company shall issue Ridgelake, subject to shareholder approval and the execution of the Participation Agreement and the Joint Operating Agreement:

- 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 is a number which will be calculated prior to the proposed 100 to 1 consolidation.

Each option will entitle Ridgelake to acquire one Share. The Directors do not intend to apply for the options to be quoted on the Australian Stock Exchange Limited.

The Directors expect to send out a notice of meeting and explanatory memorandum to shareholders regarding the proposed consolidation and proposed issue of options, and other matters, soon.

### **Seram (Non Bula) Block Production Sharing Contract**

The Company is currently reviewing its 2.5% participation interest in the Seram (Non Bula) Block Production Sharing Contract in order to determine whether its continued holding of its 2.5% interest provides maximum value to the Company.

Russell Brimage  
Chairman

# Appendix 3B

## New issue announcement, application for quotation of additional securities and agreement

*Information or documents not available now must be given to ASX as soon as available. Information and documents given to ASX become ASX's property and may be made public.*

Introduced 1/7/96. Origin: Appendix 5. Amended 1/7/98, 1/9/99, 1/7/2000, 30/9/2001, 11/3/2002, 1/1/2003, 24/10/2005.

Name of entity

Lion Energy Limited

ABN

51 000 753 640

We (the entity) give ASX the following information.

### Part 1 - All issues

*You must complete the relevant sections (attach sheets if there is not enough space).*

- |   |                                                                                                                                                                                                                                              |                            |
|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| 1 | +Class of +securities issued or to be issued                                                                                                                                                                                                 | Ordinary Fully Paid Shares |
| 2 | Number of +securities issued or to be issued (if known) or maximum number which may be issued                                                                                                                                                | 3,046,124,356              |
| 3 | Principal terms of the +securities (eg, if options, exercise price and expiry date; if partly paid +securities, the amount outstanding and due dates for payment; if +convertible securities, the conversion price and dates for conversion) | Ordinary Fully Paid Shares |

+ See chapter 19 for defined terms.

**Appendix 3B**  
**New issue announcement**

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<p>4 Do the <sup>+</sup>securities rank equally in all respects from the date of allotment with an existing <sup>+</sup>class of quoted <sup>+</sup>securities?</p> <p>If the additional securities do not rank equally, please state:</p> <ul style="list-style-type: none"> <li>• the date from which they do</li> <li>• the extent to which they participate for the next dividend, (in the case of a trust, distribution) or interest payment</li> <li>• the extent to which they do not rank equally, other than in relation to the next dividend, distribution or interest payment</li> </ul>	<p>Yes</p>				
<p>5 Issue price or consideration</p>	<p>\$0.0035 per share</p>				
<p>6 Purpose of the issue          (If issued as consideration for the acquisition of assets, clearly identify those assets)</p>	<p>The funds will be used towards earning an interest in 5 Gulf of Mexico Federal OSC Leases.</p>				
<p>7 Dates of entering <sup>+</sup>securities into uncertificated holdings or despatch of certificates</p>	<p>18 October 2006</p>				
<p>8 Number and <sup>+</sup>class of all <sup>+</sup>securities quoted on ASX (including the securities in clause 2 if applicable)</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;">Number</th> <th style="width: 50%;"><sup>+</sup>Class</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">6,092,248,712</td> <td style="text-align: center;">Ordinary Fully Paid Shares</td> </tr> </tbody> </table>	Number	<sup>+</sup> Class	6,092,248,712	Ordinary Fully Paid Shares
Number	<sup>+</sup> Class				
6,092,248,712	Ordinary Fully Paid Shares				

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<sup>+</sup> See chapter 19 for defined terms.

	Number	+Class
9 Number and +class of all +securities not quoted on ASX ( <i>including</i> the securities in clause 2 if applicable)		
10 Dividend policy (in the case of a trust, distribution policy) on the increased capital (interests)	N/A	

## Part 2 - Bonus issue or pro rata issue

11 Is security holder approval required?	No
12 Is the issue renounceable or non-renounceable?	Non-renounceable
13 Ratio in which the +securities will be offered	1:1
14 +Class of +securities to which the offer relates	Ordinary Fully Paid Shares
15 +Record date to determine entitlements	19 September 2006
16 Will holdings on different registers (or subregisters) be aggregated for calculating entitlements?	No
17 Policy for deciding entitlements in relation to fractions	N/A
18 Names of countries in which the entity has +security holders who will not be sent new issue documents  <small>Note: Security holders must be told how their entitlements are to be dealt with. Cross reference: rule 7.7.</small>	United States of America, Singapore, United Kingdom, Canada, Indonesia, Hong Kong, Belgium, Bosnia & Herzegovina, Cyprus, Germany, Greece, India, Ireland, Japan, Malaysia, Sweden, Thailand, Yugoslavia Socialist Federal Republic
19 Closing date for receipt of acceptances or renunciations	10 October 2006

+ See chapter 19 for defined terms.

**Appendix 3B**  
**New issue announcement**

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20	Names of any underwriters	Intersuisse Limited
21	Amount of any underwriting fee or commission	\$446,714 (out of which Intersuisse Limited to pay sub-underwriters)
22	Names of any brokers to the issue	N/A
23	Fee or commission payable to the broker to the issue	N/A
24	Amount of any handling fee payable to brokers who lodge acceptances or renunciations on behalf of +security holders	N/A
25	If the issue is contingent on +security holders' approval, the date of the meeting	N/A
26	Date entitlement and acceptance form and prospectus or Product Disclosure Statement will be sent to persons entitled	25 September 2006
27	If the entity has issued options, and the terms entitle option holders to participate on exercise, the date on which notices will be sent to option holders	N/A
28	Date rights trading will begin (if applicable)	N/A
29	Date rights trading will end (if applicable)	N/A
30	How do +security holders sell their entitlements <i>in full</i> through a broker?	N/A
31	How do +security holders sell <i>part</i> of their entitlements through a broker and accept for the balance?	N/A
32	How do +security holders dispose of their entitlements (except by sale through a broker)?	N/A

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+ See chapter 19 for defined terms.

33 +Despatch date

18 October 2006

### Part 3 - Quotation of securities

*You need only complete this section if you are applying for quotation of securities*

34 Type of securities  
(tick one)

(a)  Securities described in Part 1

(b)  All other securities

Example: restricted securities at the end of the escrowed period, partly paid securities that become fully paid, employee incentive share securities when restriction ends, securities issued on expiry or conversion of convertible securities

### Entities that have ticked box 34(a)

#### Additional securities forming a new class of securities

*Tick to indicate you are providing the information or documents*

35  If the +securities are +equity securities, the names of the 20 largest holders of the additional +securities, and the number and percentage of additional +securities held by those holders

36  If the +securities are +equity securities, a distribution schedule of the additional +securities setting out the number of holders in the categories  
1 - 1,000  
1,001 - 5,000  
5,001 - 10,000  
10,001 - 100,000  
100,001 and over

37  A copy of any trust deed for the additional +securities

**Entities that have ticked box 34(b)**

38 Number of securities for which  
 +quotation is sought 

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39 Class of +securities for which  
 quotation is sought 

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40 Do the +securities rank equally in all  
 respects from the date of allotment  
 with an existing +class of quoted  
 +securities?

If the additional securities do not  
 rank equally, please state:

- the date from which they do
- the extent to which they  
 participate for the next dividend,  
 (in the case of a trust,  
 distribution) or interest payment
- the extent to which they do not  
 rank equally, other than in  
 relation to the next dividend,  
 distribution or interest payment

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41 Reason for request for quotation  
 now

Example: In the case of restricted securities, end of  
 restriction period

(if issued upon conversion of  
 another security, clearly identify that  
 other security)

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	Number	+Class
42	Number and +class of all +securities quoted on ASX ( <i>including</i> the securities in clause 38)	

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+ See chapter 19 for defined terms.

