



HIGHLIGHTS FOR QUARTER

- o Production for the quarter of 18,414 barrels of 23 API crude oil from the Bula Oilfield (100% Lion), at an average of 202 bopd.
- o Sale proceeds of \$US1,906,211 received in June 2005 from March 2005 lifting
- o Oseil production continues through the quarter.
- o Oseil development drilling continues during the quarter.

OPERATIONS

1. Seram Joint Venture Area

Lion* 2.5%, Kufpec 97.5% (Operator)

* Lion interest held through wholly owned subsidiary – Lion Petroleum (Seram) Ltd

Production from the Oseil oilfield continued throughout the quarter from the Oseil 1, 2, 3 and 4 vertical wells.

The Seram Joint Venture parties have approved an aggressive Work Program and Budget for 2005 with the objectives of:

- Lifting oil production to ~ 17,000 barrels of crude oil per day by mid 2005.
- Increasing Block reserves by drilling at least two satellite structures to the Oseil oilfield identified by the Oseil 3D seismic survey.
- High-grading existing exploration leads and prospects to drillable status by recording a 300km 2D seismic survey plus a 46 line-km 3D swath seismic survey.

On 5th April 2005 Oseil 7 was spudded and was successfully drilled and temporarily suspended at the top reservoir level on 19th April 2005.

On 20th April 2005 Oseil 8 was spudded and drilled to 6,641 feet MD before the drillstick became stuck and was only partially recovered during fishing operations, Oseil 8 was suspended and will be sidetracked at a later date.

During the drilling of the under pressure Manusela reservoir formation, the under balanced drilling method is applied to ensure returns during drilling operations. The high flow rate from the wells during this under balanced drilling is diverted to the Oseil Production Facility.

While maintenance work at the Oseil Production Facility is undertaken, a temporary production facility has been installed to receive production from completed wells Oseil 1, 2, 3 and 4; this facility has been modified to enable it to handle increased

flows during underbalanced drilling operations.

On 8th May 2005 Oseil 6 was re-entered and has now completed drilling horizontally through the main reservoir.

Plans are in place to re-enter and complete Oseil 7 plus sidetrack and complete Oseil 5 and 8 and bring all four wells on production before resuming the remainder of the Phase II development drilling programme.

Once this completion process begins it is anticipated the wells can be brought into production in quick succession enabling production to escalate to approximately 17,000 BOPD.

Total expenditure on exploration and development for the quarter is \$513,240.

2. Bula Field

Lion 100% (held through wholly owned subsidiary Kalrez Petroleum (Seram) Ltd).

Production for the quarter was 18,414 barrels at an average of 202 barrels of oil per day.

Net proceeds from the March 2005 lifting of 57,040 barrels received in June 2005, after Indonesian Government Entitlement and freight costs was US\$1,906,211. Oil in stock at 30th June 2005 was 23,539 barrels.

Total expenditure on exploration and development for the quarter is \$44,119.

On 17 November 2004 Lion Energy announced that it had contracted to sell two subsidiary companies that hold Lion's interests in the Bula field, a drilling rig and other heavy equipment used in Indonesia to PT Ilham Treda Industri. Further to this announcement on 1st March 2005 Lion advised the purchaser was unable to finalise payment. The company then announced on 11th May 2005 that it had contracted to sell the field to Southern Petroleum Pte Ltd. Subsequent to this announcement the company received correspondence from PT Ilham Treda Industri indicating that \$US5,000,000 would be sent to the Lion bank account as payment for the Bula assets. As yet these funds have not been received however, the company has received other expressions of interest which indicate an alternative purchaser to the two above may be willing to pay more for the assets. At a General Meeting on 28th June 2005 the shareholders gave approval for the company to explore these possibilities by approving the sale of the assets on terms no less favourable than those under the agreement with Southern Petroleum Pte Ltd.

3. Sole Risk Drilling

Lion continues to seek farminees to drill two shallow prospects, Dawang and Solan, in the Seram (Non-Bula) PSC.

4. Coal Investment

On 8th February 2005 Lion announced it had entered into an arrangement with an Indonesian company to fund the working capital requirements of an Indonesian coal mining project which has a contract to supply and deliver steaming coal to the National Power Corporation, the Philippine government owned Power Company.

On 21st April 2005 Lion announced it had agreed to double the initial funding provided. The Indonesian company has agreed to provide further security to Lion for the additional money advanced.

In addition, Lion has begun Joint Venture negotiations in relation to a coal project in East Kalimantan. Field appraisal of the coal prospect has been completed and was found to be a good quality "brown fields" exploration play with potential for the delineation of in excess of 5mt of mineable steaming coal.

Lion has also completed a field appraisal of a coal concession in Irian Jaya owned by a Japanese controlled Indonesian company. The area has been appraised as a good quality "blue sky" exploration play with potential for the delineation of in excess of 5mt of mineable steaming coal and Lion are proceeding with formal Joint Venture negotiations.

5. Corporate

On 29th April 2005 Michael Hourigan resigned his position as a director of the company. His replacement is Julian Waterman.

Mr. Waterman has extensive experience in management and facilities establishment and broad experience in the manufacturing and plastics industries. Throughout his comprehensive career Mr. Waterman has been responsible for recruitment and training, production management, accounting and administration and sales and marketing. He is Managing Director of Foamfast, a company he established in 2003, specialising in the manufacture of polystyrene products and a range of construction materials and systems. Foamfast is now a major supplier to the building industry in South Australia and Victoria. Mr. Waterman is also a director of Australian Pod Brokers, a distributor of building products.

APPENDIX 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

LION ENERGY LTD

ABN

51 000 753 640

Quarter ended ("current quarter")

30 JUNE 2005

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A	Year to date (...12... months) \$A
1.1	Receipts from product sales and related debtors	2,960,802	6,439,688
1.2	Payments for (a) exploration and evaluation		
	(b) development		
	(c) production	(693,782)	(3,970,198)
	(d) administration	(781,640)	(2,052,026)
1.3	Dividends received		
1.4	Interest and other items of a similar nature received	631	13,522
1.5	Interest and other costs of finance paid	(2,418)	(47,120)
1.6	Income taxes paid		
1.7	Other (provide details if material)		
	Net Operating Cash Flows	1,483,593	383,866
Cash flows related to investing activities			
1.8	Payment for purchases of: (a) prospects		
	(b) equity investments	(391,185)	(1,254,070)
	(c) other fixed assets	29,379	(176,038)
1.9	Proceeds from sale of: (a) prospects		
	(b) equity investments		
	(c) other fixed assets		
1.10	Loans to other entities	(1,031,500)	(3,017,336)
1.11	Loans repaid by other entities	-	120,303
1.12	Other -- investment in shares	(100,000)	(398,777)
	Net investing cash flows	(1,493,306)	(4,725,918)
1.13	Total operating and investing cash flows (carried forward)	(9,713)	(4,342,052)

1.13	Total operating and investing cash flows (brought forward)	(9,713)	(4,342,052)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	3,982,947
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings	-	(1,354,388)
1.18	Dividends paid		
1.19	Other (provide details if material)		
	Net financing cash flows	-	2,628,859
	Net increase (decrease) in cash held	(9,713)	1,713,193
1.20	Cash at beginning of quarter/year to date	459,955	2,163,435
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	450,242	450,242

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter SA
1.23	Aggregate amount of payments to the parties included in item 1.2	
1.24	Aggregate amount of loans to the parties included in item 1.10	

1.25 Explanation necessary for an understanding of the transactions

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A	Amount used \$A
3.1 Loan facilities		
3.2 Credit standby arrangements		

Estimated cash outflows for next quarter

	\$A
4.1 Exploration and evaluation	
4.2 Development	
Total	

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A	Previous quarter \$A
5.1 Cash on hand and at bank	450,242	459,955
5.2 Deposits at call		
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	450,242	459,955

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

Issued and quoted securities at end of current quarter


Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities (description)				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 *Ordinary securities	2,262,705,792	2,262,705,792		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 †Convertible debt securities (description)				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options (description and conversion factor)			<i>Exercise price</i>	<i>Expiry date</i>
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures (totals only)				
7.12 Unsecured notes (totals only)				

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:



Date: 29th July 2005

(Director/~~Company secretary~~)

Print name: G A Mercorella

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.