

9 December 2005

Company Announcements
Australian Stock Exchange Ltd

COMPANY UPDATE

In July 2005, a majority change in directors and new management was installed into Lion Energy Limited, following investigation of significant irregularities in the application of the Company's cash reserves.

The Company's working capital had been committed to "loans" by previous management. The loans are very poorly documented and in some instances difficult to trace to the actual receiver of the funds. The Company has sought legal advice in relation to recovery of these funds and on this advice is pursuing recovery.

The Directors, in consultation with the Company's auditors, have had no alternative at this time other than to write off the loan amounts and this write off is carried in the 2004-2005 Annual Accounts tabled in the 2005 Annual Report. The amount of the write off is AUD \$2,971,510.

In addition to committing the Company's working capital to these loans, the Company was in default in its joint venture in the Seram (Non Bula) Block Production Sharing Agreement, to the extent that the Company's rights to these interests was in jeopardy. Management is addressing this situation with the operator.

Subsequent events have ensured the Company is now financially secure. These events include:

1. The new management arranged a \$1,400,000 loan facility in the form of a convertible note, to provide much needed working capital for the Company. Without the injection of funds, your Company may have encountered significant financial duress.
2. The sale of the Bula Block oilfield and the service entity PT Prima Jasa Energi (PJE). Of the sale price of US\$4,850,000, an amount of US\$2,601,000 being 57.8% of the total sale price has been received by the Company. Of the remainder (being the amount payable for PJE), US\$189,900 is held in trust (as deposit) by our solicitors, US\$1,709,100 is payable on the finalisation of the PJE sale and US\$350,000 is payable 7 months from the date of execution of the Share Sale & Purchase Agreement (due date being 27th April 2006). The

finalisation of the PJE sale is pending finalisation of outstanding tax issues. This is expected to complete before 31st December 2005.

3. A lifting of 41,920 barrels of crude oil was completed at Bula on October 2nd 2005, and proceeds payable to the Company (after freight and Indonesian Government entitlement) are US\$1,657,726.46.
4. Stock in inventory that is the property of the Company at completion of the sale of Kalrez Petroleum (Seram) Ltd was 22,927 barrels. This oil is scheduled to be lifted during December 2005 and should net the Company approximately US\$900,000 after freight and government entitlement.
5. Oil production at the Oseil oilfield has reached 4,000 barrels per day (BOPD) and we anticipate this to increase to approximately 5,000 BOPD by year end or latest end January 2006. The drilling rig will then likely be released. The Seram JV will then concentrate on production and cost minimisation, with some seismic activity on the exploration front.

With projected positive cash flow from the Oseil oil field in the Seram (Non Bula) Block, the Company intends to then pursue the Sole Risk exploration opportunities (Dawang & Solin prospects) during 2006. Negotiation of the Sole Risk rights are currently underway with the operator.

Yours sincerely

Russell E Brimage
CHAIRMAN