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30th January 2007

Australian Stock Exchange Limited
Companies Announcement Platform
20 Bridge Street
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GULF OF MEXICO DRILLING UPDATE WELL OCS-G 27089 #1

On 8th January 2007, Lion Energy Limited announced that well OCS-G 27089 #1 in offshore lease South Marsh Island Block 138 ("SMI 138") in the Gulf of Mexico Outer Continental Shelf waters spudded at 05:30 hours CST on 6th January 2007.

As at 14:30 hours CST the 29th January 2007:

- ***The well is at 2,939 metres (9,644 feet) total depth.***
- ***Maximum connection gas of 3,800 units recorded at this depth necessitated raising mud weight to 16.4 PPG at which the pressure is approaching the LOT pressure at the intermediate casing string.***
- ***Electric open hole logs have been run to TD to evaluate the formation.***
- ***Currently back in the hole with the drilling assembly, circulating and conditioning mud and checking on hole stability prior to making a decision whether to set the 7-5/8 inch liner higher (at current depth) or drill ahead with 8-1/2 inch hole. The well plan was to set the 7-5/8 inch liner at 3,047 metres (10,000) feet.***
- ***The last casing string run, 9 5/8 inch has been set and cemented at 2,486.7 metres (8,159 feet).***

Forward Program

Either (subject to confirmation of hole stability):

- Continue drilling 8-½ inch hole to 3,047 metres (10,000 feet) and then set 7-5/8 inch casing liner, prior to drilling 6-1/2 inch hole to planned TD of 3,627 metres (11,900 feet).***
- Or set 7-5/8 inch casing liner at current depth and then drill 6-1/2 inch hole to planned TD of 3,627 metres (11,900 feet).***

Primary targets in this well are not anticipated above 3,048 metres TVD (10,000 feet).

The well is being drilled using the Pride Georgia jackup rig in water depth of 69 metres (225 feet).

Lion Energy Limited is earning a 30% working interest in block SMI 138 by participating in this well.

This well is targeting multiple Pleistocene age Lentic sands that range in depth from 2,980 metres to 3,600 metres (9800 feet to 11,800 feet), although the primary targets in this well are not anticipated above 3,048 metres TVD (10,000 feet).

The well is targeting an oil resource estimated at between 6 million and 10.1 million barrels of oil or if the reservoir contains gas, between 22.5 and 33.6 BCFG (Note 1).

In adjoining Block 139, two successful wells were drilled in 2005 and came into production in May of 2006, confirming 3D seismic hydrocarbon indicators. From publicly accessible data published by the US Dept. of the Interior, Minerals Management Services, well B2 has cumulative production to 30th September 2006 of 102,299 BO for a daily average of 705 BOPD from the shallower sand and cumulative production of 45,062 BO for an average daily rate of 326 BOPD from the deeper sand, for the period from May to 30th September 2007. For the same period, the B1 well produced 64,274 BO for a daily average of 443 BOPD.

Jack Toby
Company Secretary

Note 1 As estimated by Apex Geophysical Services, Inc., an international oil and gas consulting company based in New Orleans, in the state of Louisiana, USA.

BCFG Billion cubic feet of natural gas

CST United States Central Standard Time

MWD/LWD Measurement while drilling / Logging while drilling.

LOT Leak Off Test

PPG Pounds per gallon

TD Total Depth

TVD True Vertical Depth