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Company announcements  
ASX Limited

### **DRILLING OF SOUTH MARSH ISLAND 138 – GULF OF MEXICO**

In the Company's ASX release of September 11<sup>th</sup>, 2006, Lion Energy Limited advised that its wholly-owned US subsidiary, Lion Energy Limited LLC had entered into a Letter of Intent with Ridgelake Energy, Inc. (the Operator) 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").

Wholly owned subsidiary Lion Energy Limited LLC (which company executed the Participation Agreement and Joint Operating Agreement with the Operator – refer ASX release 6<sup>th</sup> October 2006) has received from the Operator, an Authority for Expenditure (AFE) for the drilling of the first exploration well by the joint venture on this prospective block.

Lion Energy Limited LLC has the right to earn a 30% Working Interest in Block 138 by:

- (i) Paying 40% of all sunk costs that the Operator has expended in acquiring, maintaining and exploring the block.
- (ii) Paying 40% of the first exploration well to be drilled to casing point and if the well is successful, then paying a further cash payment of 30% of the first well cost.

The Operator plans to immediately contract a rig for the drilling of the first well. Mobilization of the rig to site is expected to commence within the next 10 days.

The first 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). The well planned total depth is 3,627 metres (11,900 feet).

The well is expected to take approximately 35 days to drill

In July and August, 2005, two wells were drilled in the adjoining Block 139, confirming 3D seismic hydrocarbon indicators. Well OCS-G-21106 B2 ST discovered hydrocarbons at approximately 9,500' TVD and nearly 100' deeper they found additional resources followed by mechanical problems causing them to discontinue drilling. Daily production of oil or gas has been released from the Office of Minerals Management for the month of May 2006. Average daily production rates for the B2 ST in were 589 MCFG plus 565 Barrels of Oil per day. The B1 well produced an average 567 MCFG plus 559 Barrels of Oil per day during the same period.

The initial well is designed to be a straight hole testing the Lentic 4 (2600ms) and (2800ms) sands.

The well is targeting an oil resource estimated at between 6,000,000 and 10,080,000 barrels of oil or if the reservoir contains gas, between 22.5 and 33.6 BCFG (Note 1).

As in all aspects of oil and gas evaluation, there are uncertainties inherent in the interpretation of seismic data; however the mapping of currently productive seismic amplitudes in adjoining block SMI 139 downsizes significantly the exploration risk in drilling this seismic amplitude.

This well represents Lion's first activity outside Indonesia, since it acquired its Indonesian assets in 1999.

The Company has spent the past 18 months processing an asset sale in Indonesia, a corporate restructure and the raising of working capital. In its restructured format and with working capital to move forward, the drilling of block South Marsh Island 138 signifies the start of an exciting period in Lion's planned future growth.

The Gulf of Mexico offers Lion the opportunity to grow a portfolio of acreage in a mature low risk exploration environment, with adequate infrastructure to enable any discovery to be commercialized at minimal cost and in a short period of time.

Russell Brimage  
CHIEF EXECUTIVE OFFICER

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

BCFG        Billion cubic feet of natural gas

The information, opinions or projections contained in this press release are those of Lion Energy Limited and do not necessarily reflect the opinion of the joint venture partners.