

## **LION ENERGY LIMITED (“LION”) QUARTERLY ACTIVITIES REPORT**

### Quarter ended 31<sup>st</sup> March 2011

#### **1. HIGHLIGHTS FOR THE QUARTER**

- During the Quarter crude oil production was 193,870 barrels (compared to 200,185 for the previous quarter) at a daily average of 2,154 BOPD, down from 2,176 BOPD the previous quarter.
- Revenue of US\$804,154 received during the quarter from the crude oil lifting of 420,116 barrels completed on 30 December 2010.

#### **2. SERAM (NON-BULA) PSC**

LION ENERGY LIMITED, through its wholly owned subsidiary Lion International Investment Limited, holds a 2.5% shareholding in the Seram (Non Bula) Block Renewal Production Sharing Contract. The major shareholder and Operator of the Joint Venture is CITIC Seram Energy Limited (51%). Other partners include KUFPEC (Indonesia) Limited (30%) and Gulf Petroleum Investment (16.5%).

The block contains the Oseil oilfield which has since initial field start-up in January 2003, produced cumulative crude oil production of 9,584,501 barrels as at 31 March 2011 and 4.927 BCF of natural gas, most of which is utilized to generate electricity on site for the operations.

#### **2.1. PRODUCTION**

Production for the current financial year to 31 March 2010 is presented in the following TABLE.

<b>Month</b>	<b>Crude Oil (BOPM)</b>	<b>Crude Oil (BOPD)</b>
Jul 10	62,341	2,011
Aug 10	62,465	2,015
Sep 10	60,453	2,015
Oct 10	64,759	2,089
Nov 10	63,169	2,106
Dec 10	72,257	2,331
Jan 11	68,855	2,221
Feb11	60,550	2,162
Mar11	64,465	2,080

## **2.2. OPERATIONS**

### **2.2.1 OSEIL-2 SIDETRACK-2 (O2-ST2)**

O2-ST2 involved the re-entry of the existing Oseil-2 well and the setting of a whipstock at 4,262 feet, to allow a window to be cut in the existing casing from 4,237 – 4,252 feet, from which an 8-1/2 inch directional hole was drilled to 7,130 feet. 7 inch casing was then set at 6,816 feet, after which a 6-1/8 inch hole was drilled to Total Depth of 7,436 feet. A 5 inch liner was then run across 6,816 – 7,130 feet and the well completed prior to rig release on 30 March 2011.

Initial test results on ESP indicate a stabilized flow rate of approx. 600 BOPD with minimal water production. Whilst the result is encouraging, the well performance will be monitored and tested on various choke sizes to determine optimal production rate and to establish whether the well will flow naturally..

### **2.2.2 OSEIL SELATAN-1**

OSEIL SELATAN -1 exploration well programmed to a Total Depth of 7,366 feet MD spudded on 29 November 2010.

13-3/8" Casing was run and cemented at 1,815 ft MD, with 9-5/8 inch casing run and cemented at 5,090 ft.

A 7 inch liner was then set at 4,799 feet MD to 7,282 feet MD.

6-1/8 inch open hole was drilled to 7,480 feet Total Depth.

The well was then completed and initial testing indicated a rapidly rising water cut and declining oil production. Following a pressure buildup, the well completion was pulled and a packer set with the intention of isolating water influx. The well was then re-completed with an ESP completion and testing commenced on 22 January 2011.

The well is currently producing at a rate of approx. 25 BOPD at a 92% water cut.

Options are being considered to further evaluate the Oseil Selatan structure by deepening the existing well and possible side track.

### **2.2.3 OSEIL-18**

OSEIL-18 infill-development well was spudded on 4 July 2010 and drilled to a total depth (TD) of 7,232 feet MD.

At the end of the previous quarter the well was shut in awaiting installation of an electric submersible pump (ESP), which was completed on 30 September 2010. Performance of the well since then is summarized in the following table.

OSEIL-18 PRODUCTION PERFORMANCE

<u>MONTH</u>	<u>Oil (BOPM)</u>	<u>Water (BWPM)</u>
Sep 10	310	2
Oct 10	4,646	5,443
Nov 10	1,412	20,824
Dec 10	1,861	23,626
Jan 11	2,011	31,329
Feb 11	1,823	26,494
Mar 11	1,319	15,546

The results (declining oil rate and high water cut of 90%) are disappointing. It is intended to set a cement plug in the lower section of the well in an attempt to isolate the water influx. Following this, the well will be tested. If this does not result in a higher oil rate, a side track will be considered.

**2.2.4 OSEIL-12**

OSEIL-12 is an infill-development well, deviated to the SE flank of the Oseil 1/4 structure. The well is intended to produce un-drained oil reserves within the NW flank of the Oseil 1/4 structure.

The well was spudded on 22 September 2010.

The well reached Total Depth (6-1/8" hole) of 8456 ft MD and was completed with the installation of an ESP unit run on 2-7/8" tubing to 6,546 feet MD. The Rig was released on 11 November 2010.

Well performance to 31 March 2011 is presented in the following TABLE.

OSEIL-12 PRODUCTION PERFORMANCE

<u>MONTH</u>	<u>Oil (BOPM)</u>	<u>Water (BWPM)</u>
Nov 10	7,800	6,252
Dec 10	10,852	6,088
Jan 11	8,951	6,176
Feb 11	7,311	5,673
Mar 11	7,866	5,851

**3. SOLAR PROJECT UPDATE**

On 16 November 2011, Lion Energy Limited ("**LIO**" or "**Company**") announced that the Board had resolved to pursue a new investment in a solar energy plant located in Qinghai, China ("**Solar Project**") through its wholly owned subsidiary, Lion Nanning Petro-Chemical Limited ("**Lion Nanning**").

Through a conditional share purchase agreement dated 16 November 2010 ("**Share Purchase Agreement**"), Lion Nanning proposed to acquire 38,000,000 fully paid shares in the project company, Qinghai First New Energy Limited ("**FNE**") from Shanghai Lion for CNY38,000,000 (approximately AUD\$6

million based on an exchange rate of A\$1 = CNY 6.2265) ("**Proposed Transaction**").

The Proposed Transaction would have involved a significant change in the nature and scale of LIO's activities, and as a consequence LIO was in the process of preparing meeting documentation for the purposes of seeking shareholder approval for the investment in the Solar Project.

Following consultation with ASX, the Company was advised by ASX on 27 April 2011 that in ASX's opinion Listing Rule 10.7 will apply to the Proposed Transaction, and that ASX will not grant a waiver to Listing Rule 10.7. Listing Rule 10.7 provides that if an acquisition to which Listing Rule 10.1 applies is of a classified asset, the consideration must be restricted securities.

ASX is of the opinion that the shares in FNE to be acquired by Lion Nanning are "classified assets" because they cannot be valued, as the value of FNE cannot be determined by an independent expert.

Listing Rule 10.1 is triggered in respect of the Proposed Transaction because Shanghai Lion is controlled by Mr Yuda Chen (and is therefore an associate of Mr Chen), and Mr Chen is also a substantial shareholder of LIO who holds marginally above the 10% threshold for determining a substantial shareholder under the Listing Rules (with a relevant interest in 10.58% of the shares in LIO). Mr Chen is not a director of LIO and has never been a director LIO, and he plays no part in, nor has any influence over, the decision making process of LIO.

The effect of ASX's determination is that the Company will be unable to proceed with the Proposed Transaction as it would require the Company to issue restricted securities to Shanghai Lion instead of cash consideration. The terms of the Share Purchase Agreement which were previously agreed with Shanghai Lion do not allow for consideration to be provided in the form of restricted securities.

Consequently, the Company regrets that it will no longer be able to pursue the proposed investment in the Solar Project. The Company will continue to seek alternative opportunities for the Company which are in the best interests of its shareholders.

**Enquiries:**

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**Nomenclature:**

BCF	Billion cubic feet
BOPD	Barrels of oil per day
BOPM	Barrels of oil per month
BWPM	Barrels of water per month
MBO	Barrels of oil x 1000
MD	Measured Depth
MMCFD	Cubic feet of gas x 1,000,000
TD	Total Depth

**Competent Person's Statement:**

Information in this report that relates to Hydrocarbon Reserves and or Resources is based on information compiled by Mr Russell Brimage, Director of Lion Energy Limited who has consented to the inclusion of that information in the form and context in which it appears.

Mr Brimage has over 30 years experience in the application of engineering to the petroleum industry in oil and gas exploration and production, both in Australia and internationally, as either an employee or consultant to oil companies operating in the upstream petroleum industry. Mr Brimage reviews the Company's operations with the help of various professional consultants, appropriately qualified and experienced in their respective fields within the upstream petroleum industry. He is also an Associate Member of the Society of Petroleum Engineers.