LION ENERGY LIMITED

45 VENTNOR AVE
WEST PERTH
WESTERN AUSTRALIA 6005
TELEPHONE: +618 9429 8874
FACSIMILE: +618 9389 4462
ABN 51 000 753 640

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Australian Stock Exchange Limited
Company Announcements Platform
20 Bridge Street
SYDNEY NSW 2000

LION ENERGY LIMITED ("LION")

QUARTERLY ACTIVITIES REPORT
Quarter ended 30th September 2006

1. HIGHLIGHTS FOR THE QUARTER

- The Company entered into a commitment to participate in exploration activity in five (5) blocks in the low risk mature Gulf of Mexico Federal Offshore waters, signifying a major change in direction for Lion.
- During the quarter the Company issued a Prospectus for a Non-Renounceable fully underwritten pro rata rights issue to existing shareholders.
- During the quarter crude oil production from the Seram (Non-Bula) Block PSC was 533,447 barrels of crude oil (compared to 446,270 barrels of crude oil for the previous quarter) at a daily average of 6,887 BOPD during July 2006, 5,253 BOPD during August 2006 and 5,237 BOPD during September 2006.
- A Naptha lifting of 61,558 barrels was completed on October 22nd 2006 from the Seram (Non Bula) Block PSC.
- An HSFO (High Sulphur Fuel Oil) lifting of approximately 350,000 is anticipated during November 2006 from the Seram (Non Bula) Block PSC.

2. GULF OF MEXICO

2.1. OVERVIEW

Lion Energy Limited has been able to secure the opportunity to earn interests in five leases in the Gulf of Mexico offshore Federal waters. The association with

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Lion's joint venture partner and Operator of the leases is considered by management to represent the establishment of a long term working relationship in which Lion is able to enter a mature and low risk exploration region in partnership with an experienced explorer and producer in the region.

The 30% interest being earned in each lease represents a significant holding that will deliver substantial returns in the event of discovery.

Lion's entry into the Gulf of Mexico conforms to the company's strategy of:

- ✓ Low risk exploration.
- ✓ Competent and region experienced Operator.
- ✓ Regional infrastructure for early exploitation in the event of discovery.

2.2. ACQUISITION OF INTEREST

On September 11th 2006, the Company announced that its wholly-owned US subsidiary, Lion Energy Limited USA ("Lion USA") had entered into a Letter of Intent with Ridgelake Energy, Inc. ("Ridgelake") 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").

To earn its interest in the Leases, Lion USA must reimburse Ridgelake up to 40% of certain past costs, meet up to 40% of the costs of drilling to casing election point and in the case of SM 152 and SM 138, meet certain additional costs.

The Leases are subject to a 16⅔% Federal royalty and between a 3⅓% to 4% royalty in favour of certain third parties who generated the properties.

Subsequently, on September 18th 2006, Lion USA executed a Participation Agreement with Ridgelake. The Participation Agreement provides the full detailed terms and conditions of the obligations of the parties (as signatories) to the Letter of Intent.

On October 6th 2006, Lion executed separate Joint Operating Agreements for each of the Leases with Ridgelake (and the other joint venture parties in each of the Leases). The Joint Operating Agreement provides the terms and conditions on which operations in each Lease are conducted by the Operator.

2.3. ACTIVITY UPDATE

Plans for drilling of South Marsh Island Block 138 OCS-G 27089 located in the Gulf of Mexico off the Louisiana coast in 225 feet of water, are at an advanced stage. The Operator is preparing the final Authority for Expenditure, to be circulated and approved by joint venture partners. When joint venture approval is received, the Operator will proceed with negotiations to contract a drilling rig.

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The joint venture is optimistic of drilling the first well on South Marsh 138 in December 2006.

The drilling objectives are multiple Pleistocene age Lentic sands that range in depth from 9,800 feet to 11,800 feet. The prospective area is covered by licensed 3D seismic.

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 feet TVD and nearly 100 feet 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 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 first well to be drilled in South Marsh Island Block 138 will target reserves estimated by an independent consultant with considerable interpretation experience in the region, at between a low of 6 million barrels of oil and 7.04 BCF of gas and a high of 10.080 million barrels of oil and 10.52 BCF of gas.

In summary, the South Marsh Island 138 prospects have multiple objectives with amplitude anomalies. Targets range from sands considered low risk (due to direct correlation of seismic amplitudes from producing wells in adjacent block South Marsh Island 139), with upside potential from the deeper targets with anticipation of sizeable resources. A combination of good quality 3D seismic data and nearby discovery wells lower the exploration risk for block 138 leaving credible reservoirs to drill.

3. SERAM (NON-BULA) PSC

LION ENERGY LIMITED, through its wholly owned subsidiary Lion Petroleum Seram Limited, holds a 2.5% shareholding in the Seram (Non Bula) Block Production Sharing Contract. The major shareholder and Operator of the Joint Venture is KUFPEC (Indonesia) Limited with 97.5%.

The block contains the Oseil oilfield which has produced since initial field start-up in January 2003, cumulative crude oil production of 4,620,095 barrels of crude oil to midnight 30th September 2006.

3.1. WELL SERVICING

On October 5th 2006, Oseil-11 producing well was shut in due to failure of the electrical submersible pump. At the date of this release, a well service rig was on the well carrying out operations to replace the failed down hole motor. Assuming the well servicing operation runs to schedule, it is anticipated Oseil-11 should be back on line during the week commencing October 30th 2006.

Oseil-11 is the highest producing well in the Oseil field, so the downtime will impact on production during the month of October 2006.

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3.2. DRILLING ACTIVITY

The Phase II Stage 1 Development Drilling program was completed on June 12th 2006 with the completion of Oseil-11 development well. The drilling rig was released on that day.

No drilling activity was conducted during the quarter and no further drilling is planned for 2006.

3.3. 2007 WORK PROGRAM & BUDGET

The Operator, KUFPEC (Indonesia) Limited, is preparing the 2007 Work Program and Budget. This will be reviewed by joint venture partners and voted on during November 2006, ready for implementation effective January 2007.

Once approved by the Joint Venture, the program will be submitted to the Indonesian Government regulatory body BP MIGAS for approval.

4. CORPORATE

4.1. NON-RENOUNCEABLE RIGHTS ISSUE

On September 11th 2006, the Directors announced that the Company was to make a non-renounceable pro rata offer of fully paid ordinary shares to existing shareholders. The issue was fully underwritten by Intersuisse Limited.

The non-renounceable pro rata offer was made on the basis of one fully paid ordinary share in the capital of the Company ("Share") for every one Share held by shareholders on the record date of 19 September 2006 at an issue price of $0.0035 (0.35 cents) per Share.

The offer has resulted in the issue of 3,046,124,356 new Shares and raised approximately $10,661,435 before costs. The Company will apply the funds towards earning up to a 30% interest in the Gulf of Mexico Leases.

The Company lodged the prospectus for the rights issue on 8 September 2006 with ASIC.

4.2. PROPOSED CONSOLIDATION

The rights issue has expanded the Company's issued share capital to 6,092,248,712 Ordinary Shares. After the rights issue, the Company proposes to seek shareholder approval to consolidate its share capital on a 1 for 100 basis to 60,922,487 Shares in order to reduce the number of Shares on issue.

4.3. PROPOSED ISSUE OF OPTIONS

Pursuant to the Letter of Intent and as part consideration for the opportunity to earn an interest in the Leases, the Company will issue Ridgelake, subject to shareholder approval, 1,000,000 post-consolidation options at no cost and exercisable no later than 31 December 2008 at an exercise price of 100 times the volume weighted average price of the Shares over the 5 trading days preceding the date the Participation Agreement is executed by Lion USA. The volume weighted average price is a number which will be calculated prior to the proposed 100 to 1 consolidation.

Each option will entitle Ridgelake to acquire one Share. The Directors do not intend to apply for the options to be quoted on the Australian Stock Exchange Limited.

The Directors have sent out a notice of meeting and explanatory memorandum to shareholders regarding the proposed consolidation and proposed issue of options, and other matters.

5. SUBSEQUENT EVENTS

5.1. SERAM (NON BULA) BLOCK PSC

On July 13th 2006, CITIC Resources Holdings Ltd (CITIC), a company trading on the Hong Kong Exchange (Code 1205) disclosed the acquisition of a 51% participating interest in the Seram (Non Bula) Block Production Sharing Agreement for a consideration of US$97.4 million, subject to adjustment.

On July 22nd 2006, Gulf Petroleum Investment (GPI) announced that on July 20th 2006 GPI executed an agreement with KUFPEC to acquire 16.5% of that company's interest (of 97.5%) in the Seram (Non Bula) Block Production Sharing Contract in Eastern Indonesia, for a consideration of US$44.5 million.

The assignment of the interests to CITIC and GPI are subject to BP MIGAS and Indonesian Government approvals, which have yet to be finalised as of the date of this release.

Sincerely

Russell E Brimage
CHIEF EXECUTIVE OFFICER
LION ENERGY LTD

BOPD barrels of oil per day