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## LION ENERGY LIMITED (“LION”) QUARTERLY ACTIVITIES REPORT Quarter ended 30<sup>th</sup> June 2008

### HIGHLIGHTS FOR THE QUARTER

- After lengthy investigation and deliberation, Lion International Investments Limited (“LI”) a wholly owned subsidiary of Lion Energy Limited (“LIO”), entered into a share purchase agreement to acquire 20,775,000 fully paid ordinary shares (“Shares”) in Papua Petroleum Limited (“PPU”) from Gas Link Global Limited (“GLG”), a subsidiary of ASX listed company, Liquefied Natural Gas Limited. This represents 19.49% of PPU’s issued capital.
- Seram (Non Bula) Block Production Sharing Agreement
  - During the quarter crude oil production was 353,605 barrels of crude oil (compared to 356,059 for the previous quarter) at a daily average of 3,886 BOPD, down from 3,913 BOPD the previous quarter.
  - Tanker arrived in Bula on June 30<sup>th</sup> 2008 to lift High Sulphur Fuel Oil (HSFO). The lifting of 367,018 barrels was completed on July 1<sup>st</sup> 2008.
  - Inventory at June 30<sup>th</sup> 2008 comprised:
    - HSFO 241,254 barrels  
(part way through loading tanker)
    - Naptha 52,161 barrels
    - Crude Oil 34,775 barrels
  - Drilling commenced on development well Nief Utara A-1 on February 28<sup>th</sup> 2008, with rig release on May 9<sup>th</sup> 2008 after the well flowed oil at the rate of approximately 640 BOPD.
  - Delineation well Neif Utara A-2 spudded on May 19<sup>th</sup> 2008.
  - A workover on Oseil-7 well was completed on April 23<sup>rd</sup> 2008, followed by a workover on Oseil-6, with the well put back on production on May 7<sup>th</sup> 2008.

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

(2.5% contractor interest held through wholly owned subsidiary Lion Petroleum Seram Limited)

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 CITIC Seram Energy Limited (51%), KUFPEC (Indonesia) Limited with 30% and Gulf Petroleum Investment (16.5%). CITIC is the Operator for the Joint Venture.

The block contains the Oseil oilfield which has since initial field start-up in January 2003, produced cumulative crude oil production of 7,243,303 barrels as at June 30<sup>th</sup> 2008.

### 1.1. **PRODUCTION**

During the quarter crude oil production from the Seram (Non-Bula) Block PSC was 353,605 barrels of crude oil at a daily average of 3,886 BOPD over the quarter.

YEAR 2008				
MONTH	CRUDE OIL (BOPM)	CRUDE OIL (BOPD)	HSFO (BOPM)	NAPHTHA (BOPM)
APR 08	114,300	3,810	81,075	5,671
MAY 08	121,675	3,925	90,849	5,610
JUN 08	117,630	3,921	87,557	5,911

### 1.2. **WELL SERVICING**

On April 23<sup>rd</sup> 2008 a workover was completed on Oseil-7. The workover rig then moved to Oseil-6 where a workover was completed on May 6<sup>th</sup> and the well returned to production on May 7<sup>th</sup> 2008.

### 1.3. **OPERATIONS**

#### *Drilling Neif Utara A-1*

On March 6<sup>th</sup> 2008, the Company advised that exploration well Neif Utara A-1 spudded on February 28<sup>th</sup> at 10:00 AM in the Seram (Non Bula) Block Production Sharing Contract on the island of Seram in eastern Indonesia.

Neif Utara A-1 drilled to a total depth of 7,315 feet RKB MD and was then completed as a future oil producer.

Flow testing results:

- In the 16 hours prior to shutin for buildup, the well flowed on Electric Submersible Pump (ESP) on a 20/64 inch choke at a stabilized rate of approximately 640 BOPD.
- Crude oil gravity measured at 0.952, corrected to 15 deg F.

- The gas oil ratio (GOR) was measured over the period at a stabilized rate of 0.23 Mscf/BBL.
- Water cut during the period was less than 1%.
- The well was shut-in at 17:00 May 8<sup>th</sup> 2008. Flowing wellhead pressure (WHP) at shut-in was 538 psig.

The drilling rig was released from Nief Utara A-1 on May 9<sup>th</sup> 2008.

The Operator has submitted an application to the Indonesian Government agency (BP Migas) for putting the well on production and is awaiting approval.

### ***Drilling Nief Utara A-2***

The drilling rig was skidded from Nief Utara A-1 to Nief Utara A-2. Nief Utara A-2 is being drilled from the same surface location as Nief Utara A-1, as a deviated well and will drill to a final bottom-hole location some 1000 metres SE of the Nief Utara A-1 well bottom-hole location.

Delineation well Neif Utara A-2 spudded on May 19<sup>th</sup> 2008.

It is intended that Nief Utara A-2 will drill to penetrate the water contact, to assist in reserves evaluation of the Nief Utara A structure.

The primary target of Nief Utara A-2 is the Manusela Carbonate, with the secondary target the lower part of the Lower Nief carbonate in which an indication of oil show was observed from drill-cuttings in the Nief Utara A-1 well.

### ***Overview Nief Utara A***

The Neif Utara A prospect is an elongate thrust and reverse-fault controlled four way dip closed anticline, situated at the southeast end of the Oseil high trend, along the Oseil – East Neif anticlinorium.

The primary target is the Manusela Carbonate, interpreted to be similar in reservoir characteristics to the nearby Oseil oilfield, which is currently producing at approximately 3,800 BOPD, with cumulative production to 30<sup>th</sup> June 2008 of 7,243,303 barrels of crude oil.

For the Nief Utara A prospect, deterministic IOIP was initially estimated at 34 MMSTBO, and reserves at 10.2 MMSTBO using a 30% recovery factor.

Based on the results from Nief Utara A-1, IOIP has been upgraded to 42 MMSTBO for the Neif Utara A prospect, with reserves at 12.5 MMSTBO using a 30% recovery factor.

### ***Subsequent Event Nief Utara A-2***

On July 14<sup>th</sup> 2008, the Company released an update on the progress of Nief Utara A-2, advising:

- 13-3/8 inch casing was cemented at 1,224 metres (4,016 feet).
- Routine drilling operations continued to a depth of 1,844 metres (6,050 feet).
- 9-5/8 inch casing was cemented at 1,840.6 metres (6,039 feet).

- Drilling continued to 2,125 metres (6,975 feet) MD / 1,912.5 metres (6,275 feet) TVD.

Electric logs have now been run and a 7 inch liner set at 2,125 metres (6,973 feet) RKB MD.

Current operations are perforating the 7 inch liner.

### ***Subsequent Event - Drilling Dawang-1***

On July 14<sup>th</sup> 2008, the Company announced the spudding of exploration well Dawang-1 at 17:00 hours eastern Indonesian time on July 13<sup>th</sup> 2008, in the Seram (Non Bula) Block Production Sharing Contract on the island of Seram in eastern Indonesia.

The Dawang-1 well is located approximately 25 kilometres southeast of the Bula Oilfields.

The Dawang prospect is a seismically defined closure on a faulted structural nose within the Fufa Formation. It features clearly defined seismic amplitude anomalies seen on consecutive lines, believed to be direct indicators of trapped hydrocarbons as seen on seismic lines over the producing Bula Oilfields.

The well is shallow, with a proposed Total Depth of 2,133 feet sub sea. Drilling is expected to take 14 days, with additional time required for completion in the event of discovery.

The Bula Oilfields in the Bula Basin are the only commercial producing fields from the Plio-Pleistocene Fufa Formation in eastern Seram. Dawang-1 was selected to test seismic and geological trends that have a similar appearance to the Bula Oilfield, which was discovered in 1897 and from which the main producing field Bula Lemun has produced in excess of 16 million barrels of oil.

The resource is estimated to contain 37.3 million barrels of oil in place, with a recoverable resource estimated at 9.3 million barrels of oil, assuming a 30% recovery factor.

13-3/8 inch casing has been set and cemented at 230.1 metres (755 feet) and the current operation at July 25<sup>th</sup> 2008 was conducting a Leak of Test at the 13-3/8 inch shoe, prior to drilling ahead in 12 inch hole.

## **2. NEW GUINEA**

### ***Share Purchase Agreement with Papua Petroleum Limited***

On June 6<sup>th</sup> 2008, the Company announced that Lion International Investments Limited ("LII"), a wholly owned subsidiary of Lion Energy Limited ("LIO"), has entered into a share purchase agreement to acquire 20,775,000 fully paid ordinary shares ("Shares") in Papua Petroleum Limited ("PPU") from Gas Link Global Limited ("GLG"), a subsidiary of ASX listed company, Liquefied Natural Gas Limited. This represents 19.49% of PPU's issued capital.

PPU has extensive oil and gas interests in Papua New Guinea.

The acquisition of the Shares was subject to the following principal terms and conditions:

- Confirmation that at the time of transfer of ownership of the Shares to LII, PPU has only 106,608,020 ordinary shares on issue, with no other equity securities, options or convertible securities on issue.
- Confirmation that at the time of transfer of ownership of the Shares to LII, the Shares were unencumbered.
- Confirmation that LII will have a representative director in the PPU Board once the share purchase is completed.

A deposit of A\$300,000 was paid to GLG. This deposit was only to be refunded by GLG to LII if LII had substantially complied with their obligations under the share purchase agreement and GLG failed to complete the transaction on the date specified.

The Company also advised that LII already had the funds to complete this acquisition for A\$3 million. However, LII preferred to retain its cash in its current configuration and it had been offered the opportunity by a significant shareholder and director to borrow AUD\$2,100,000 from him on an interest free basis in order to assist in the funding of the purchase. This loan is repayable on the earlier of 30 days after a notice of demand or could be applied to satisfy any liability to subscribe funds to Lion Energy Limited to take up shares in Lion Energy Limited. Given this opportunity, LII has entered into a loan agreement with the director for these funds. The remaining cash held by LIO and its subsidiaries includes approximately 43.3 million Renminbi held in HSBC bank in China with the remaining cash funds held in Australian dollars and US dollars in Australia and Hong Kong.

### ***Background on PAPUA PETROLEUM LIMITED (PPU)***

PPU has executed four Petroleum Prospecting Licenses (“PPL’s”), numbered 285, 286, 287 & 288 with the Independent State of Papua New Guinea, covering a combined area of approximately 38,000 square kilometres (“Licenses”).

PPU’s participating interest in PPL’s 285, 286, 287 & 288 is 100%.

To date only 8 wells have been drilled in PPL’s extensive under-explored acreage portfolio.

The Licenses are located in the foreland area, where exploration costs are considerably less than in the rugged fold belt region.

There are some 30 prospects and leads identified within the four PPL’s.

### ***Prospectus Announcement***

On July 15th 2008, the Company issued a Prospectus for a pro-rata non-renounceable rights issue of up to 60,922,354 New Shares on the basis of one (1) New Share for every Share held on the Record Date of 29 July 2008 at an issue price of \$0.06 per New Share, to raise up to approximately \$3,655,341 prior to expenses.

The purpose of the Rights Issue is, after meeting the expenses of the Rights Issue, to raise funds to repay a loan of \$2,100,000 provided to LII by a

Company Director, which loan was used by the Company to acquire, through its wholly owned subsidiary (Lion International Investment Limited), a 19.49% interest in PPU, and for working capital.

Please refer to the ASX Release of the Prospectus by the Company on July 15<sup>th</sup> 2008.

***Subsequent Event to the Share Purchase Agreement with Papua Petroleum Limited***

On July 25<sup>th</sup> 2008, the Company announced that on 5 June 2008, Lion Energy Limited ("LIO") announced that Lion International Investments Limited ("LII"), a wholly owned subsidiary of LIO, had entered into a share purchase agreement to acquire 20,775,000 fully paid ordinary shares ("Shares") in Papua Petroleum Limited ("PPU").

The transaction was settled on 9 June 2008.

LIO also announced that LII also had the potential to acquire a 10% or 50% interest in the PPU's Licenses in certain circumstances involving a capital raising by PPU.

The potential to acquire an interest in the PPU Licenses arose pursuant to a Share Subscription Agreement dated 20 March 2007 ("SSA") between PPL and Gas Link Global Limited ("GLG"), as amended by letter of variation dated 26 May 2008 from GLG to PPU. Pursuant to a Deed of Assignment and Assumption dated 5 June 2008 between PPU, GLG and LII, GLG assigned its remaining rights, interests and obligations under the SSA to LII.

PPU has now advised LII that it has complied with certain of the capital raising conditions of the SSA. As a consequence, LII no longer has the potential to acquire a 10% or 50% interest in PPU's Licenses.

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***Nomenclature:***

BOPD	Barrels of oil per day
BOPM	Barrels per month
IOIP	Initial oil in place
MD	Measured depth
MMSTBO	Million standard barrels of crude oil
Mscf/BBL	Thousand cubic feet of gas per barrel of crude oil
RKB	Rotary Kelly Bushing (datum for depth measurement)
TVD	True Vertical Depth