

28 January 2011

LION ENERGY LIMITED (“LION”) QUARTERLY ACTIVITIES REPORT

Quarter ended 31st December 2010

HIGHLIGHTS FOR THE QUARTER

- **Seram (Non Bula) Block Renewal Production Sharing Agreement:**
 - During the Quarter crude oil production was 200,185 barrels (compared to 185,259 for the previous quarter) at a daily average of 2,176 BOPD, up from 2,014 BOPD the previous quarter.
 - A lifting of 420,116 barrels was completed on December 30th 2010 at a price of US\$76.55 per barrel.
 - Exploration well Oseil Selatan-1 spudded on November 29th 2010.

1. SERAM (NON-BULA) PSC

(2.5% contractor interest held through wholly owned subsidiary Lion International Investment Limited)

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 9,390,631 barrels as at 31st December 2010 and 4.799 BCF of natural gas, most of which is utilized to generate electricity on site for the operations..

1.1. PRODUCTION

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

	CRUDE OIL (BOPM)	CRUDE OIL (BOPD)
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

The increase in production for December 2010 is due mainly to the contribution from new development well Oseil-12, which came on-stream mid November 2010..

1.2. OPERATIONS

1.2.1 OSEIL SELATAN-1

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

13-3/8 inch 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 hung at 4,799 feet MD, extending to 7,282 feet MD.

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

Testing of the Manusela Formation is currently underway, prior to decisions on further drilling to deepen the well.

Well cost is expected to be US\$8.8 million.

1.2.2 OSEIL-18

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

Testing of the well resulted in initial high gas rates of 4 MMCFD. Subsequent efforts were made to install tailpipe to limit gas production, with the last rate approximately 600 BOPD, with 1 MMCFD of natural gas.

At the end of the previous quarter the well was shut in awaiting installation of an electric submersible pump (ESP), which was completed on October 8th 2010. Performance of the well since then is summarized in the following Table.

<u>MONTH</u>	<u>Oil (BOPM)</u>	<u>Water (BWPM)</u>
Oct 10	4,646	5,443
Nov 10	1,412	20,824
Dec 10	1,861	23,626

OSEIL-18 is an infill-development well, deviated in the SE flank of the Oseil-1/4 structure. The well is intended to produce un-drained oil reserves not drained by the nearest existing well Oseil-9, within the SE sector of the Oseil-1/4 structure.

1.2.3 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 September 22nd 2010.

The well reached Total Depth (6-1/8" hole) of 8,456 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 November 11th 2010. Production since then is summarized in the following TABLE.

<u>MONTH</u>	<u>Oil (BOPM)</u>	<u>Water (BWPM)</u>
Nov 10	7,800	6,252
Dec 10	10,852	6,068

1.2.4 ULTRA SHORT RADIUS DRILLING (USRD) PROGRAMS

USRD was utilized on two wells, NIEF UTARA A-3 and EAST NIEF-1 in an attempt to recover hydrocarbons from shows seen during drilling operations.

NIEF UTARA A-3

Exploration well NIEF UTARA A-3 was drilled in 2008 and subsequently shut-in due to high water cut.

Based on geological information which indicated additional hydrocarbon potential at a particular interval, the well was sidetracked using USRD in March 2010 to access objective intervals. The results of the sidetrack indicated signs of oil accumulation. Based on these indications an acid frac, utilizing PerfClean technology was carried out and completed 22 May 2010.

On August 17th 2010, the well was placed on production, following approval from BP MIGAS. Production for August was 462 BO and for the full month of September 653 BO.

Production for the Quarter to December 31st 2010 is summarized below.

<u>MONTH</u>	<u>Oil (BOPM)</u>	<u>Water (BWPM)</u>
Oct 10	1,711	18,072
Nov 10	1,565	17,506
Dec 10	1,379	18,248

2. PAPUA NEW GUINEA

On 8 December 2009, the Company announced Lion International Investment Ltd (LII), a wholly owned subsidiary of Lion Energy Ltd, was one of the vendors which had on 7 December 2009 entered into an agreement with Talisman Niugini Ltd (Purchaser) to sell its 19.199% holding in Papua Petroleum Ltd (PPL) which comprised 20,775,000 ordinary shares in the issued capital in PPL (Share Sale Agreement).

LII originally acquired its interest in PPL on 9 June 2008 for A\$3,000,000.

On 8 January 2010, the Company announced LII had received AU\$4,415,800 in cash. An additional A\$383,983 was held in escrow as LII's proportionate share of the Holdback Amounts.

The sale of LII's interest in PPL included provision for two holdback amounts from the total sale proceeds:

- AU\$2,000,000 in total was required to be placed into a trust account pending the occurrence of certain events (Holdback Amounts). LII

received AU\$4,415,800 at completion with AU\$383,983 held in escrow as LII's proportionate share of the Holdback Amounts.

- The Holdback amounts comprise two amounts of AU\$1,000,000 each. The first Holdback Amount was to cover any discrepancies in the completion accounts to be prepared by the Purchaser within 90 days of completion.

On 29 March 2010, LII received AU\$143,335 as its share of the first holdback amount. The amount expected was AU\$191,991 was adjusted by AU\$48,656. Full explanation for the adjustments has been presented to and accepted by LII.

The final holdback amount of AUD\$191,991 was received in December 2010, which finalised the successful sale process.

Enquiries:

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Nomenclature:

BCF	Billion cubic feet
BOPD	Barrels of oil per day
BOPM	Barrels 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.