

25 January 2012

LION ENERGY LIMITED (“LION”) QUARTERLY ACTIVITIES REPORT

Quarter ended 31 December 2011

1. HIGHLIGHTS FOR THE QUARTER

- During the Quarter crude oil production from the Seram (Non Bula) PSC was 218,002 barrels (compared to 232,851 for the previous Quarter) at a daily average of 2,370 BOPD, marginally down from 2,531 BOPD the previous quarter.
- A crude oil lifting of 188,818 barrels was completed on 30 December 2011 and is expected to net LION approximately US\$460,000.
- OSEIL-16 infill development well was completed during the quarter and tied into production.
- Subsequent event: LOFIN-1 exploration well spuds.

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 and surrounding structures which has since initial field start-up in December 2002, produced cumulative crude oil production of 10,269,057 barrels as at 31 December 2011 accompanied by 5.358 BCF of natural gas, most of which is utilized to generate electricity on site for the operations.

2.1. PRODUCTION

Production in barrels of crude oil per month (BOPM) and barrels of crude oil per day (BOPD) for the current financial year to 31 December 2011 is presented in the adjacent TABLE. Oil available for lifting at 31 December 2011 was only 7,599 barrels following the crude oil lifting of 188,818 barrels completed on 30 December 2011.

SERAM BLOCK PRODUCTION		
	CRUDE OIL	
MONTH	(BOPM)	(BOPD)
Jul-11	77,869	2,512
Aug-11	78,692	2,538
Sep-11	76,290	2,543
Oct-11	74,090	2,390
Nov-11	71,400	2,380
Dec-11	72,513	2,339

2.2. OPERATIONS

2.2.1 LOFIN-1 EXPLORATION WELL

The LOFIN-1 exploration well on Seram Island in Eastern Indonesia was spudded at on 17 January 2012. The well, in the Seram (Non Bula) Block Renewal Production Sharing Contract, is expected to take approximately 120 days to drill and test.

The LOFIN-1 prospect is a thrust fold four-way dip closure anticline, located approximately 56 km to the west of the Oseil producing oil field, which has produced in excess of 10 million barrels of oil since production commenced in late 2002. A gas kick from a shallow water well and oil seepage provide evidence that there is a mature source rock underneath the Lofin area.

The primary objective in the LOFIN-1 well is the likely fractured Jurassic carbonate of the Manusela Formation, essentially the same producing reservoir rocks in the Oseil oil field.

Deterministic STOOIP has been estimated assuming closure down to the 12,467 feet sub-sea closing contour. This corresponds to 1,800 feet of vertical closure, and STOOIP of 412 MMBO of which 82 MMBO is estimated as recoverable using a 20% recovery factor.

2.2.2 OSEIL-16 INFILL DEVELOPMENT WELL

The OSEIL-16 infill development well is located 400 metres (1312 ft) west of the successful Oseil-2ST2 horizontal well drilled from the existing Oseil-2 well.

The Manusela fractured carbonate is the primary target, and is intended to recover un-drained oil reserve on the western flank of the faulted 4-way dip closure of the Oseil-2 up thrownfault block, with an estimated recoverable reserve of 515 MBO. The well will be drilled deviated to TD at -5596' SSTVD in the Manusela carbonate.

The well spudded on 14 August 2011 and after encountering significant lost circulation problems, the well was finally completed and the rig released on 13 December 2011, with the last flow test result of 274 BFPD at 14.2% water cut.

Subsequently the Electric Submersible Pump failed on 17 December 2011 and a workover rig was scheduled. The workover was completed and the rig released on 10 January 2012. The well is now on test and after cleanup production of between 300 – 400 BOPD is anticipated.

2.2.3 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 – 7,113 feet and the well completed prior to rig release on 30 March 2011.

The well continues to deliver sustained production since startup in March 2011 as evidenced by production data presented in the TABLE below.

O2-ST2	CRUDE OIL		WATER
	(BOPM)	(BOPD)	(BWPM)
Apr-11	15,578	519	220
May-11	15,284	493	383
Jun-11	15,000	500	255
Jul-11	15,847	511	106
Aug-11	15,600	503	101
Sep-11	14,955	499	167
Oct-11	13,302	429	50
Nov-11	14,285	476	124
Dec-11	14,315	462	84

2.3. CORPORATE

2.3.1 Company Restructure

On 25 November 2011, the Company announced plans to buy-back 61,734,292 shares (Buy-Back Offer) from six shareholders (the Participating Shareholders) as part of a plan to restructure and recapitalize LION.

The Board of directors, other than current Chairman Mr Wu who is one of the Participating Shareholders invited to participate in the share buy-back and therefore has an interest in the offer, considers that the vision for the Company that the Participating Shareholders have is inconsistent with the Company's profile as an Australian-incorporated, ASX-listed oil and gas company, thus preventing the Company from being able to aggressively pursue opportunities consistent with that profile.

Therefore, the Board, other than Mr Wu, is seeking to restructure and recapitalize the Company, to focus on its core business of oil and gas exploration, development and production and investment in the resources industry.

The Buy-Back Offer is conditional on the Company obtaining Shareholder approval for the selective buy-back in accordance with the requirements of the Corporations Act 2001 (Cth), completion of a capital raising of AUD\$1,000,000 and the Board determining that completion of the selective buy-back will not materially prejudice the interests of the Company's creditors.

Accordingly, the Company undertook a placement of 14,174,063 Shares at an issue price of AUD\$0.02 per Share to sophisticated and professional investors who are

clients of Pendulum Capital Pty Limited (Pendulum Capital) and are not related parties of the Company, to raise AUD\$283,481 (Initial Placement).

On 1 December 2011, the Company announced it had executed a selective buy back agreement with the Participating Shareholders on terms set out in the Company's announcement dated 25 November 2011.

In the same announcement of 1 December 2011, the Company advised it had completed the Initial Placement of 14,174,063 shares at an issue price of \$0.02 as part of the condition of the Buy-Back Offer that it complete a capital raising of AUD\$1,000,000.

On 8 December 2011, the Company released a prospectus for a pro-rata non-renounceable rights issue to eligible shareholders of approximately 54,333,909 new shares and 1 free attaching option per new share on the basis of 1 new share for every 2 shares held on the record date, at an issue price of \$0.02 per new share, for the purpose of raising approximately \$1,086,678 before expenses (the Rights Issue), as part of the Buy-Back Offer condition that it complete a capital raising of AUD\$1,000,000.

On 9 December 2011, the Company released a copy of a letter to be mailed to shareholders on 12 December 2011, outlining the entitlements of shareholders to the Rights Issue.

SUBSEQUENT EVENTS

- On 10 January 2012, the Company issued notice of a special general meeting of members of the Company to be held on 17 February 2012, to consider and approve several matters that relate to the restructure and recapitalization of the Company, including a selective buy-back of the Company's Shares.
- On 16 January 2012, the Company issued a Shortfall Notice advising a shortfall of 48,402,293 shares from the Rights Issue. The Rights Issue was fully underwritten.
- On 19 January 2012, the Company announced it had allotted and issued 5,931,616 New Shares, being fully paid ordinary shares, for 2 cents each and 5,931,616 free Attaching Options pursuant to the Rights Issue.

2.3.2 Annual General Meeting

The Company Annual General Meeting was held on 22 November 2011 with both resolutions passed unanimously with strong proxy support by shareholders.

2.3.3 Tulloch Lodge Settlement

On 6 July 2011, LION announced that it had been served with a proceeding commenced by Tulloch Lodge Limited (In Liquidation) ("Tulloch") demanding payment of an amount of \$1,082,388.35 plus interest alleged to be due under a loan agreement entered into in January 2003.

After taking legal advice, the company filed its defence against the claim.

However, the inherent risks in a protracted litigation carried a potential of significant cost to the Company for the claim plus interest plus costs in the event of an adverse outcome. Consequently, the directors of Lion Energy Limited agreed with Tulloch to settle this action by payment to Tulloch of \$737,500. These funds have been paid and the settlement obligations of both parties completed.

LION is now pursuing recovery of the settled sum of \$737,500 paid to Tulloch Lodge from office holders responsible for the conduct of the Company during the time the misappropriation of funds occurred.

2.3.4 Future Direction

In pursuit of the objectives of the restructure and to grow the Company as an oil and gas explorer and producer, the executive of the company is reviewing opportunities as they are presented.

Opportunities globally have been presented to the Company and informal discussions and meetings have been and continue to be had with industry as part of the review process and with corporate advisors on structure and funding options.

Whilst no formal commitments have been entered into, the Company is assembling a portfolio of opportunities that it will continue to evaluate with more detailed due diligence.

Enquiries:

Contact Jack Toby (Company Secretary)

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Nomenclature:

BCF	Billion cubic feet
BOPD	Barrels of oil per day
BOPM	Barrels of oil per month
BLPD	Barrels of liquid per day
BWPM	Barrels of water per month
MBO	Barrels of oil x 1000
MD	Measured Depth
MMSCFD	Cubic feet of gas x 1,000,000 at 15 deg C
SSTVD	True Vertical Depth relative to sea level datum
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.