

29 January 2010

LION ENERGY LIMITED (“LION”) QUARTERLY ACTIVITIES REPORT Quarter ended 31st December 2009

HIGHLIGHTS FOR THE QUARTER

- Seram (Non Bula) Block Renewal Production Sharing Agreement:
 - Trial sale of crude oil as approved by the Indonesian regulatory body for the Joint Venture to sell one load of crude oil completed during the Quarter. On 24 December 2009, the lifting of 249,887 barrels of crude oil was completed. By not having to process the crude oil to High Sulphur Fuel Oil (HSFO) and Naphtha, operating costs are reduced significantly, more than offsetting the price differential between HSFO and crude oil.
 - During the quarter crude oil production was 200,483 barrels (compared to 207,884 for the previous quarter) at a daily average of 2,179 BOPD, down from 2,260 BOPD the previous quarter.
 - Inventory available for lifting at December 31st 2009 was 24,049 barrels.
 - Lifting of 59,186 barrels of Naphtha completed 9 October 2009.
- The Company’s wholly owned subsidiary Lion International Investment Ltd (LII) has divested of its approx. 19.2% interest in Papua Petroleum Limited (“PPL”) to Talisman Niugini Ltd for a consideration of A\$4,799,783. The interest was acquired by LII on 9 Jun 2008 for a consideration of A\$3,000,000.

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%), 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 December 2002, produced cumulative crude oil production of 8,620,686 barrels

as at 31 December 2009 and 4.315 BCF of natural gas, most of which is utilized to generate electricity on site for the operations..

1.1. PRODUCTION

During the quarter crude oil production from the Seram (Non-Bula) Block PSC was 200,483 barrels of crude oil at a daily average of 2,179 BOPD over the quarter.

YEAR 2009				
MONTH	CRUDE OIL (BOPM)	CRUDE OIL (BOPD)	HSFO (BOPM)	NAPHTHA (BOPM)
Jan 09	87,110	2,810	93,300	6,808
Feb 09	76,188	2,721	64,425	4,335
Mar 09	80,352	2,592	63,152	4,494
Apr 09	72,765	2,426	72,547	4,486
May 09	72,467	2,338	74,807	4,427
Jun 09	74,393	2,480	54,450	4,064
Jul 09	68,324	2,204	74,838	4,427
Aug 09	71,610	2,310	56,953	3,765
Sep 09	67,950	2,265	0	0
Oct 09	67,363	2,173	0	0
Nov 09	64,920	2,164	0	0
Dec 09	68,200	2,200	0	0

No HSFO or Naphtha was produced during the Quarter, as the decision to permit the Joint Venture a trial sale of crude oil meant that the processing facilities were used only for H2S stripper.

Naphtha lifting of 59,186 barrels was completed on 9 October 2009. The remaining Naphtha in stock was then combined with crude oil and formed part of the 24 December 2009 crude oil lifting.

1.2. TRIAL SALE OF CRUDE OIL

In the past, the Seram (Non Bula) Block Joint Venture has been compelled to sell a refined product of its crude oil outside Indonesia because no Indonesian refineries can process the Bula crude oil due to its high sulphur content.

In an attempt by the Operator to reduce costs of the operation, CITIC on behalf of the Joint Venture, applied to the Indonesian regulatory authority (BP MIGAS) to sell crude oil directly overseas. The Indonesian regulatory authority approved a trial sale which completed on 24 December 2009 with the lifting of 249,887 barrels.

This has the potential to significantly reduce forward operating costs for the Joint Venture in the event that further sales are permitted following the trial.

2. PAPUA NEW GUINEA

At the commencement of the Quarter, Lion Energy Limited through wholly owned subsidiary Lion International Investment Limited, held a 19.199% interest in Papua Petroleum Limited (“PPL”)

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 comprises 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.

The total consideration payable by the Purchaser for the acquisition of all the issued capital of PPL was A\$25,000,000. LII's percentage entitlement of the total consideration payable by the Purchaser is A\$4,799,783.

The terms of the transaction:

- At completion, A\$23,000,000 was to be paid to the vendors in accordance with their percentage entitlement at completion (Completion Payment).
- The remaining A\$2,000,000 shall be into a trust account pending the occurrence of certain events (Holdback Amounts).
- LII was to receive A\$4,415,800 at completion with A\$383,983 held in escrow as LII's proportionate share of the Holdback Amounts.

The Holdback Amounts relate to coverage of any discrepancies in accounts as at completion and any breaches of the warranties given by the vendors following completion.

The Share Sale Agreement was conditional upon the vendors providing audited consolidated financial statements of PPL to the Purchaser. Completion was set to occur within 5 business days of the satisfaction of this condition (unless otherwise agreed). The condition had to be satisfied by 15 January 2010.

The Share Sale Agreement set out a number of termination events entitling the Purchaser to terminate the Share Sale Agreement prior to completion. These termination events were not considered unusual for a transaction of this nature.

The Share Sale Agreement also contained warranties that are usual for a transaction of this nature and LII's liability for any breach of warranty by LII is limited to approximately AU\$2,000,000.

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

Enquiries:

Contact Jack Toby (Company Secretary)
Telephone: (08) 9213 4300
Email: info@lionenergy.com.au

Nomenclature:

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

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.