

## **LION ENERGY LIMITED (“LION”) QUARTERLY ACTIVITIES REPORT Quarter ended 31<sup>st</sup> December 2008**

### **HIGHLIGHTS FOR THE QUARTER**

- Seram (Non Bula) Block Production Sharing Agreement:
  - During the quarter crude oil production was 329,768 barrels of crude oil (compared to 367,018 for the previous quarter) at a daily average of 3,584 BOPD, down from 3,950 BOPD the previous quarter.
  - Inventory available for lifting at December 31<sup>st</sup> 2008:
    - HSFO 143,137 barrels
    - Naptha 23,856 barrels

### **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 7,749,043 barrels as at December 31<sup>st</sup> 2008.

#### **1.1. PRODUCTION**

During the quarter crude oil production from the Seram (Non-Bula) Block PSC was 329,768 barrels of crude oil at a daily average of 3,584 BOPD over the quarter.

YEAR 2008				
MONTH	CRUDE OIL (BOPM)	CRUDE OIL (BOPD)	HSFO (BOPM)	NAPTHA (BOPM)
OCT 08	121,830	3,930	85,822	5,494
NOV 08	116,922	3,897	93,874	7,660
DEC 08	91,016	2,936	67,862	4,033

## 1.2. OPERATIONS

### *Nief Utara A-1*

Nief Utara A-1 spudded on February 28<sup>th</sup> 2008 and was drilled to a total depth of 2,229.5 metres (7,315 feet) RKB MD and completed as a future oil producer.

The drilling rig was released from Nief Utara A-1 on May 9<sup>th</sup> 2008, and production commenced on August 17<sup>th</sup> 2008.

An initial conservative production rate of between 100 and 150 barrels per day was incrementally increased to between 400 – 450 BOPD. Water cut has been closely monitored and adjustments made as required. At December 31<sup>st</sup> 2008 production was approximately 260 BFD on a 13/64 inch choke, with a 22% water cut.

### *Nief Utara A-2*

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

The rig was released on August 9<sup>th</sup> 2008 after the well reached total depth of 2,126.9 meters (6,975 feet) MD or 1,825.7 meters (5,990 ft) TVD SS.

The well was subsequently tested with the final rate 372 BOPD with a 12% water cut. The unstable rate during testing suggests the well may not have cleaned up.

A workover of this well was commenced on December 28<sup>th</sup> 2008, the objective being to seal off water zones. This work continues into January 2009.

### *Nief Utara A-3*

Delineation well Nief Utara A-3 spudded on August 20<sup>th</sup> 2008.

9-5/8 inch casing was set at 2,168.2 metres (7,114 feet) RKB MD

The well was drilled to 2,388.3 metres (7,836 feet) RKB MD.

After completing open hole logging operations, an ESP completion was then run and the well tested on a 48/64 choke. Total recovery was 2,076 barrels of fluid at a production rate of approximately 1,000 BFPD. Water cut was 100%

Two unsuccessful attempts were made to set cement plugs across the interval 2,240 metres to 2,286 metres (7,350 feet to 7,500 feet).

The ESP completion was then re-run and the drilling rig was released from location November 29<sup>th</sup> 2008.

Following an injectivity test conducted in January 2009, a proposed acid job was cancelled as an injection rate could not be achieved due to tight formation.

The well has been temporarily suspended for further evaluation.

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

The Nief 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 Nief 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 3,900 BOPD, with cumulative production to 30<sup>th</sup> September 2008 of 7,605,813 barrels of crude oil.

For the Nief Utara A prospect, deterministic IOIP was 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 Nief Utara A prospect, with reserves at 12.5 MMSTBO using a 30% recovery factor.

### ***East Nief-1 (re-entry)***

The 750 HP rig ABS #2 began moving from Dawang-1 to East Nief-1 on August 6<sup>th</sup> 2008.

East Nief-1 was drilled in 1988 to a TD of 2,011.6 metres (6,600 feet) RKB and temporarily suspended after six (6) DST's were conducted, several of which recovered oil.

In 1988 the Manusela carbonate was not well understood. Subsequent wells at Oseil and Nief Utara A have provided the joint venture the opportunity to observe the formation during drilling (to continually modify drilling techniques) and during production (with over 7 million barrels produced from Oseil since the field was placed on production).

The acquisition of the 3D seismic over the Oseil field has also enabled the joint venture to re-interpret the East Nief closure.

Preliminary estimates of oil in place are 413 MMBBLS and applying a 23% recovery factor recoverable reserves are estimated at 95 MMBBLS.

The purpose of the re-entry at East Nief-1 was to produce oil under test, using a downhole Electric Submersible Pump (ESP), from the Manusela Carbonate formation.

During the re-entry the 7 inch packer at 1,726 metres (5,663 feet) RKB was milled and pushed down to bottom at 1,777.8 metres (5,833 feet) RKB (PBTD). The following intervals were re-perforated: 1,679.7 – 1,696.4 metres (5,511 - 5,566 feet) RKB and 1,631.2 – 1,664.1 metres (5,352 - 5,460 feet) RKB.

An ESP was set at 1,608 metres (5,276 feet) RKB and the rig was released on September 12<sup>th</sup> 2008 at which time testing commenced.

In mid October 2008, well testing was in progress. The well was flowing fluid at approximately 220 BFD with an 83% water cut. The gas rate was approximately 0.004 MMscfD.

A further workover, including acidizing, was carried out in late October, into November 2008. The ESP was re-run and the rig released on Nov. 14, 2008.

Well testing continued.

The well testing program was completed, the well shut in and rig down finalised on Dec. 9, 2008.

Results to date are not encouraging and the well has been temporarily suspended, whilst evaluation of the results from the re-entry workovers are assessed.

### ***Dawang-1***

Exploration well Dawang-1 spudded on July 13<sup>th</sup> 2008.

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 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 rig was released from Dawang-1 on August 8<sup>th</sup> 2008 after the well reached TD of 655.3 meters MD (2,150 feet ) or 644.9 meters (2,116 feet) MD SS.

Electric logs indicated a gas zone across the interval 433.7 – 439.5 meters (1,423 – 1,442 feet) MD SS in the Matafoten A10 sand.

Preliminary reserve estimates (base case) of the gas reserve indicate potential gas in place of 3.62 BCF, with a recoverable reserve of 1.81 BCF based upon a 50% recovery factor.

The well was temporarily suspended pending testing when a suitable rig becomes available. This work is anticipated in the following quarter.

The deeper seismic anomaly at the Base Fufa level could not be tested in this well. The joint venture has approved a follow-up well in the 2009 Work Program, Dawang-2, to test the Matafoten in the downthrown fault block to the west of Dawang-1 and this well will also test the Base Fufa objective.

The potential gas reserve discovered in this well is relatively small and in an area where no commercial market for the gas currently exists. Flow testing is required to fully evaluate this discovery.

Plans to test the well are underway, with the Authority for Expenditure (AFE) being submitted to the Indonesian regulatory authority BP Migas for approval.

### ***Oseil-13 Development Well***

Oseil-13 Development well spudded on January 5<sup>th</sup> 2009.

The Oseil CD fault block is a part of Oseil field. There are 5 identified fault blocks comprising the Oseil field - Oseil-1/4, Oseil-2, Oseil-CD, Oseil-Tenggara and Oseil-Tenggara Selatan.

The Oseil CD fault block is an elongate thrust-faulted, southeasterly extension to the Oseil-2 fault block. It measures approximately 2.5 km in length with an overall area of 300 acres.

The Oseil-13 development well is being directionally drilled from the Oseil-2 well pad. The oil in place for the Oseil CD fault block has been calculated at 6 MMBO for Proved + Possible. Assuming 30% Recovery factor, the estimated recoverable reserve is 2.0 MMBO. The well will be drilled to TD at -5900 ft Subsea in the Manusela carbonate.

At January 27<sup>th</sup> 2009, the operations were drilling 12-1/4 inch directional hole at a depth of approximately 1,220 metres (4,000 feet) MD.

## **2. PAPUA NEW GUINEA**

### ***Lion Energy Limited through wholly owned subsidiary Lion International Investments Limited, holds a 19.49% interest in Papua Petroleum Limited (“PPL”)***

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

On June 18<sup>th</sup> 2008, Farmout Agreements were completed between PPL, and Sasol Petroleum Papua New Guinea Limited (“SPPNG”), an indirect, wholly owned subsidiary of Sasol Petroleum International.

Under the Farmout Agreements SPPNG agreed to spend US\$11.8 million to earn 51% undivided participating interest in each of PPL’s Papua New Guinean Petroleum Prospecting Licences 285, 286, 287 and 288.

At December 31<sup>st</sup> 2008 approximately 125 kilometres of 2D seismic had been acquired of the 368 kilometre program forming part of SPPNG farmin commitment. Data quality is good and the field work is progressing well.

Whilst there have been some delays in the south due to weather and the swampy ground conditions, production is expected to improve as the program moves to the north and west. It is anticipated the full program will be acquired.

The aerogravity/aeromagnetics aircraft is on site and calibration testing is complete. Production has commenced in the very west of the program area in

order that the fixed wing aircraft does not encroach on airspace of the helicopters working on the seismic.

It is anticipated that SPPNG's farmin commitment will be completed towards the end of the 1<sup>st</sup> calendar quarter 2009.

### **3. CORPORATE**

On December 9th 2008, Lion Energy Limited advised (via ASX release) that it has received notice of a claim made by the solicitors for Tulloch Lodge Limited (In Liquidation) demanding payment of an amount of \$1,481,244.00 plus interest of \$398,855.99 alleged to be due under a loan agreement entered into in January 2003.

The Company's solicitors have reviewed the matter and responded formally to the solicitors for Tulloch Lodge Limited.

The Company remains confident that the claim is without foundation.

### **4. FINANCIAL RESULTS**

Revenue for Lion Energy Limited and its subsidiaries ("Group") for the 5 months to 30 November 2008 was A\$1,511,420 comprising oil revenue of A\$1,392,641, other income of A\$104,233 and interest income of A\$14,546. The year to date profit for the same period was A\$8,914,483. The profit includes amortization of the investment in the Seram (Non-Bula) PSC of US\$176,563 based on the opening written down value of this asset at 01-Jul-08 plus subsequent expenditure of US\$1,906,875 in total being written off by 31-Dec-2012. The profit also includes unrealized foreign exchange gains of A\$9,388,205. At 30 November 2008, the Group had cash denominated in various currencies which equated to A\$9,385,260.

#### ***Enquiries:***

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#### ***Nomenclature:***

BCF	Billion cubic feet
BFD	Barrels of fluid per day
BOPD	Barrels of oil per day
BOPM	Barrels per month
DST	Drill stem test
ESP	Electric submersible pump
IOIP	Initial oil in place
MD	Measured depth
MMBBLs	Million barrels
MMSTBO	Million standard barrels of crude oil
MMscfD	Million standard cubic feet of gas per day
PBTD	Plug back total depth (of the well)

RKB	Rotary Kelly Bushing (datum for depth measurement)
SS	Sub Sea Level
TD	Total Depth
TVD	True Vertical Depth