



15 RHEOLA ST, WEST PERTH
WESTERN AUSTRALIA 6005
PO BOX 512, WEST PERTH
WESTERN AUSTRALIA 6872
TELEPHONE: +618 9213 4300
FACSIMILE: +618 9213 4311

ABN 51 000 753 640

30th January 2007

Company Announcements
ASX Limited

LION ENERGY LIMITED (“LION”)

QUARTERLY ACTIVITIES REPORT Quarter ended 31st December 2006

1. HIGHLIGHTS FOR THE QUARTER

- Drilling commenced on the company’s highly prospective South Marsh Island Block 138 in the Gulf of Mexico with the spudding of well OCS-G 27089 #1 at 05:30 hours CST on 6th January 2007.
- During the quarter crude oil production from the Seram (Non-Bula) Block PSC was 416,075 barrels of crude oil (compared to 533,447 and 446,270 barrels of crude oil for the previous quarters) at a daily average of 4,523 BOPD over the quarter, with production in October 2006, 4,547 BOPD, 4,520 BOPD during November 2006 and 4,500 BOPD during December 2006.
- On November 2nd 2006, a load out of 361,101 net barrels of HSFO (High Sulphur Fuel Oil) was completed, following a Naptha lifting of 61,558 barrels which was completed on October 22nd 2006 from the Seram (Non Bula) Block PSC. A further lifting of approx. 350,000 barrels of HSFO is likely in February 2007.
- On November 1st and 2nd 2006, the Seram (Non Bula) Block PSC conducted its annual Technical and Operational Committee Meetings to consider the 2007 Work Program & Budget as proposed by the Joint Venture Operator.
- Cumulative production of crude oil from the Seram (Non Bula) Block PSC passed 5,000,000 barrels during December 2006.

2. GULF OF MEXICO

2.1. ACQUISITION OF INTEREST

In the previous quarter Lion Energy Limited announced that it had been able to secure the opportunity to earn interests in five leases in the Gulf of Mexico offshore Federal waters.

On September 11th 2006, the Company announced that its wholly-owned US subsidiary, Lion Energy Limited USA ("Lion USA") had entered into a Letter of Intent with Ridgelake Energy, Inc. ("Ridgelake") of Louisiana in order to earn up to a 30% interest in the following Gulf of Mexico Federal offshore leases held by Ridgelake:

- South Marsh Island Block 152 ("SM 152");
- South Marsh Island Block 138 ("SM 138");
- Vermilion Block 317 ("VM 317");
- Viosca Knoll Block 79; and
- High Island Block 307 (together, "Leases").

To earn its interest in the Leases, Lion USA must reimburse Ridgelake up to 40% of certain past costs, meet up to 40% of the costs of drilling to casing election point and in the case of SM 152 and SM 138, meet certain additional costs.

The Leases are subject to a 16 $\frac{2}{3}$ % Federal royalty and between a 3 $\frac{1}{3}$ % to 4% royalty in favour of certain third parties who generated the properties.

Subsequently, on September 18th 2006, Lion USA executed a Participation Agreement with Ridgelake. The Participation Agreement provides the full detailed terms and conditions of the obligations of the parties (as signatories) to the Letter of Intent.

On October 6th 2006, Lion executed separate Joint Operating Agreements for each of the Leases with Ridgelake (and the other joint venture parties in each of the Leases). The Joint Operating Agreement provides the terms and conditions on which operations in each Lease are conducted by the Operator.

2.2. ACTIVITY UPDATE

On 8th January 2007, Lion Energy Limited announced that well OCS-G 27089 #1 in offshore lease South Marsh Island Block 138 ("SMI 138") in the Gulf of Mexico Outer Continental Shelf waters spudded at 05:30 hours CST on 6th January 2007.

As at 14:30 hours CST the 29th January 2007:

- ***The well is at 2,939 metres (9,644 feet) total depth.***
- ***Maximum connection gas of 3,800 units recorded at this depth necessitated raising mud weight to 16.4 PPG at which the pressure is approaching the LOT pressure at the intermediate casing string.***

- *Electric open hole logs have been run to TD to evaluate the formation.*
- *Currently back in the hole with the drilling assembly, circulating and conditioning mud and checking on hole stability prior to making a decision whether to set the 7-5/8 inch liner higher (at current depth) or drill ahead with 8-1/2 inch hole. The well plan was to set the 7-5/8 inch liner at 3,047 metres (10,000) feet.*
- *The last casing string run, 9 5/8 inch has been set and cemented at 2,486.7 metres (8,159 feet).*

The well is being drilled using the Pride Georgia jackup rig in water depth of 69 metres (225 feet).

Lion Energy Limited is earning a 30% working interest in block SMI 138 by participating in this well.

This well is targeting multiple Pleistocene age Lentic sands that range in depth from 2,980 metres to 3,600 metres (9800 feet to 11,800 feet) although the primary targets are anticipated to be below 3,048 metres (10,000 feet).

The well is targeting an oil resource estimated at between 6 million and 10.1 million barrels of oil or if the reservoir contains gas, between 22.5 and 33.6 BCFG (Note 1).

In adjoining Block 139, two successful wells were drilled in 2005 and came into production in May of 2006, confirming 3D seismic hydrocarbon indicators. From publicly accessible data published by the US Dept. of the Interior, Minerals Management Services, well B2 has cumulative production to 30th September 2006 of 102,299 BO for a daily average of 705 BOPD from the shallower sand and cumulative production of 45,062 BO for an average daily rate of 326 BOPD from the deeper sand, for the period from May to 30th September 2007. For the same period, the B1 well produced 64,274 BO for a daily average of 443 BOPD.

3. 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 (“LPSL”), 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%). Other shareholders are KUFPEC (Indonesia) Limited with 30% and Gulf Petroleum Investment (16.5%). The operator of the joint venture changed from KUFPEC to CITIC during the quarter.

The block contains the Oseil oilfield which has produced since initial field start-up in January 2003, cumulative crude oil production of 5,036,171 barrels of crude oil to midnight 31st December 2006.

3.1. WELL SERVICING

On October 5th 2006, Oseil-11 producing well was shut in due to failure of the electrical submersible pump. The well has subsequently been worked over successfully and is available for production.

When placed back on production, it was observed that Oseil-11 was influencing Oseil-10 production. Oseil-11 was subsequently shut-in.

3.2. 2007 WORK PROGRAM & BUDGET

The Operator, KUFPEC (Indonesia) Limited, presented the Work Program & Budget for the 2007 calendar year to the joint venture partners on November 1st 2007. At the Operations Committee Meeting on November 2nd, the joint venture parties agreed to the Work Program & Budget for the 2007 as tabled by the Operator.

The program for 2007 has now been submitted to the Indonesian Government regulatory body BP MIGAS for approval.

3.3. PUT OPTION OVER LION'S 2.5% PARTICIPATING INTEREST IN SERAM ISLAND NON-BULA BLOCK, INDONESIA

On 13th July 2006, CITIC Resources Holdings Ltd (CITIC), a company trading on the Hong Kong Exchange (Code 1205) disclosed the acquisition of a 51% participating interest in the SNBB for a consideration of US\$97.4 million, subject to adjustment, through subsidiary CITIC SERAM ENERGY LIMITED, a company incorporated in the British Virgin Islands, ("CITIC Seram"), from Kufpec (Indonesia) Limited ("KUFPEC").

CITIC Seram has granted to LPSL a Put Option, pursuant to which LPSL has the right (but not the obligation) to sell to, and require CITIC Seram to acquire, the LPSL Participating Interest from LPSL for a consideration of US\$4,774,510, subject to adjustment.

Lion Energy Limited management has pursued the Put Option with CITIC because of the uncertainty associated with the future direction of exploration and development of the SNBB under the majority participating interest and operatorship of CITIC Seram. The Put Option allows LPSL time to consider CITIC Seram's plans for the SNBB.

The expiry date of the Put Option is three (3) months from the Operating Committee Meeting date of 2nd November 2006.

4. CORPORATE

4.1. APPOINTMENT OF NEW DIRECTOR

On October 3rd 2006, the Company announced:

- The appointment of Mr Jian Wu as an additional director and Chairman.

- Mr Jian Wu replaces Mr Russell Brimage as Chairman, who will remain a director of the Company. Mr Brimage was also appointed Group Chief Executive Officer of the Company.

4.2. NON-RENOUNCEABLE RIGHTS ISSUE

On September 11th 2006, the Directors announced that the Company was to make a non-renounceable pro rata offer of fully paid ordinary shares to existing shareholders. The issue was fully underwritten by Intersuisse Limited.

The non-renounceable pro rata offer was made on the basis of one fully paid ordinary share in the capital of the Company ("Share") for every one Share held by shareholders on the record date of 19 September 2006 at an issue price of \$0.0035 (0.35 cents) per Share.

The offer has resulted in the issue of 3,046,124,356 new Shares and raised approximately \$10,661,435 before costs for the purpose of funding the Company's 30% interest in the Gulf of Mexico Leases.

The Company lodged the prospectus for the rights issue on 8 September 2006 with ASIC.

Pursuant to this offer, Lion Energy Ltd issued 3,046,124,356 fully paid ordinary shares on 20 October 2006.

Subsequent to the issue of these shares, Lion Energy Limited had 6,092,248,712 fully paid ordinary shares on issue.

4.3. PROPOSED CONSOLIDATION

At an Extraordinary Meeting of Shareholders on November 20th 2006, shareholders voted to approve the consolidation of its share capital on a 1 for 100 basis to 60,922,354 Shares (after rounding) in order to reduce the number of Shares on issue.

4.4. CHANGE IN BOARD STRUCTURE AND REGISTERED OFFICE

On 20 November 2006, subsequent to the Company's Annual General Meeting, the directors made the following changes to the Board structure:

- Mr Weidong Zhang and Mr Zhong Wang were appointed directors of the Company.
- Mr Zhong Wang was appointed an executive director and the Chief Financial Officer for the Company. Mr Weidong Zhang is a non-executive director.
- Mr Martin Bennett resigned as a director of the Company.
- The registered office and principal place of business of the Company has been changed to:

Ground Floor, 15 Rheola Street
West Perth WA 6005

4.5. PROSPECTUS FOR THE ISSUE OF OPTIONS

On December 1st 2006, the Company lodged a Prospectus with the ASIC relating to:

- The issue of up to 20,000,000 Options at an issue price of \$0.05 each with an exercise price of \$0.35 each expiring on 31st August 2011 to raise up to \$1 million;
- The issue of 1,000,000 Options to Ridgelake Energy, Inc. (or its nominee) at no cost with an exercise price of \$0.35 each expiring on 31st August 2011;
- The issue of 4,000,000 Options to Paul Garner and the issue of 4,000,000 Options to Russell Brimage (or to their respective nominees), such 8,000,000 options to be issued at no cost, with an exercise price of \$0.35 each expiring on 31st August 2011.

The options to Paul Garner, Russell Brimage and Ridgelake Energy Inc were issued to their nominees on 6 December 2006. The remaining 20,000,000 options were issued on 16 January 2007 and the offer pursuant to the prospectus was closed.

Sincerely

Russell E Brimage
CHIEF EXECUTIVE OFFICER
LION ENERGY LTD

BOPD barrels of oil per day