

23 October 2008

LION ENERGY LIMITED (“LION”) QUARTERLY ACTIVITIES REPORT Quarter ended 30th September 2008

HIGHLIGHTS FOR THE QUARTER

- Completion of a Farmout Agreement between Papua Petroleum Limited (in which LION’s wholly owned subsidiary, Lion International Investments Limited holds 19.49% of the issued capital), and Sasol Petroleum Papua New Guinea Limited, an indirect, wholly owned subsidiary of Sasol Petroleum International.
- **Seram (Non Bula) Block Production Sharing Agreement:**
 - During the quarter crude oil production was 367,018 barrels of crude oil (compared to 353,605 for the previous quarter) at a daily average of 3,950 BOPD, up from 3,886 BOPD the previous quarter.
 - Inventory available for lifting at September 30th 2008:
 - HSFO 262,065 barrels
 - Naptha 51,321 barrels
 - Nief Utara A-1 production startup approved by the Indonesian regulatory agency, with production commencing on August 17th 2008.
 - Delineation well Nief Utara A-2 was completed during the quarter and awaits Indonesian regulatory approval for production startup.
 - Delineation well Nief Utara A-3 spudded August 20th 2008.
 - A workover on Oseil Tenggara-1 was performed during the quarter and the well returned to production August 17th 2008.
- Pro-rata non-renounceable rights issue of up to 60,922,354 New Shares announced on July 15th 2008 and completed during the quarter.

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 7,605,813 barrels as at September 30th 2008.

1.1. PRODUCTION

During the quarter crude oil production from the Seram (Non-Bula) Block PSC was 363,440 barrels of crude oil at a daily average of 3,950 BOPD over the quarter.

YEAR 2008				
MONTH	CRUDE OIL (BOPM)	CRUDE OIL (BOPD)	HSFO (BOPM)	NAPHTHA (BOPM)
JUL 08	121,210	3,910	98,273	6,540
AUG 08	122,140	3,940	70,467	4,063
SEP 08	120,090	4,003	109,725	7,091

1.2. WELL SERVICING

On September 24th 2008 Oseil Tenggara-1 well was returned to production following a work-over to change out the failed ESP unit.

1.3. OPERATIONS

Nief Utara A-1

Nief Utara A-1 spudded on February 28th 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 9th 2008.

The Operator submitted an application to the Indonesian regulatory agency and following approval on July 31st 2008, production commenced on August 17th 2008.

An initial conservative production rate of between 100 and 150 barrels per day was incrementally increased to between 400 – 450 BOPD. Water cut was been closely monitored and in mid September 2008, a water rate increase was noted. The rate of production was cut back and the water cut has subsequently stabilized at approx. 16% at a rate of approximately 270 BFD.

Nief Utara A-2

Delineation well Nief Utara A-2 spudded on May 19th 2008.

The rig was released on August 9th 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.

As a result of the well penetrating the oil/water contact, reserve estimates where able to be confidently revised. This also necessitated the casing of the Manusela Carbonate (left open hole in Nief Utara A-1) with a 7 inch liner. This required subsequent perforating over the production interval.

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.

Application has been made to the Indonesian regulatory agency to place the well on production and at the time of this release that approval had not yet been received.

Nief Utara A-3

Delineation well Nief Utara A-3 spudded on August 20th 2008 and is a deviated well targeting a bottom hole location some 1,301.4 meters (4,270 feet) from the drilling location in an approximate WSW direction.

The primary target is the Manusela Carbonate and the secondary objective is the Lower Nief formation, which whilst shows have been recorded in Nief Utara A-1 and Nief Utara A-2 remains untested.

At October 18th, the well had reached 2,200.8 metres (7,221 feet) RKB MD, at which point electric logs were being run.

The last casing set was 13-3/8 inch at 1,373.1 metres (4,505 feet).

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 30th 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 6th 2009.

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 is 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 (PBSD). 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 12th 2008.

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.

Testing will continue and a acid stimulation is being planned.

Dawang-1

Exploration well Dawang-1 spudded on July 13th 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 8th 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.

2. PAPUA NEW GUINEA

Share Purchase Agreement with Papua Petroleum Limited

On June 6th 2008, the Company announced that Lion International Investments Limited ("LI"), a wholly owned subsidiary of Lion Energy Limited ("LIO"), had entered into a share purchase agreement to acquire 20,775,000 fully paid ordinary shares ("Shares") in Papua Petroleum Limited ("PPU") from Gas Link Global Limited ("GLG"), a subsidiary of ASX listed company, Liquefied Natural Gas Limited. This represents 19.49% of PPU's issued capital.

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

The transaction was settled on June 9th 2008.

Prospectus Announcement

On July 15th 2008, the Company issued a Prospectus for a pro-rata non-renounceable rights issue of up to 60,922,354 New Shares on the basis of one (1) New Share for every Share held on the Record Date of July 29th 2008 at an issue price of \$0.06 per New Share, to raise up to approximately \$3,655,341 prior to expenses.

The purpose of the Rights Issue was, after meeting the expenses of the Rights Issue, to raise funds to repay a loan of \$2,100,000 provided to Lion Energy Limited by a Company Director, which loan was used by the Company to acquire, through its wholly owned subsidiary (Lion International Investment Limited), a 19.49% interest in PPU, and for working capital.

Prospectus Outcome

On August 19th 2008, Lion Energy Limited ("Lion") closed its offer to shareholders pursuant to its Prospectus dated 15 July 2008.

Lion received acceptances for 33,571,400 shares which equates to subscriptions of \$2,014,284, leaving under-subscriptions of 27,350,954 shares.

Lion Energy Limited allotted and issued 33,571,400 fully paid ordinary shares on August 27th 2008 for \$0.06 each.

Subsequent to the issue of these securities, Lion Energy Limited had 94,493,754 ordinary shares and 31,000,000 options expiring on August 31st 2011, on issue.

Farmout Completed

On August 5th 2008, the Company announced that Farmout Agreements were completed between Papua Petroleum Limited (“PPL”), (in which LION’s wholly owned subsidiary, Lion International Investments Limited holds 19.49% of the issued capital), and Sasol Petroleum Papua New Guinea Limited (“SPPNG”), an indirect, wholly owned subsidiary of Sasol Petroleum International.

Under the Farmout Agreements SPPNG has 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.

This represents a substantial milestone in the exploration of these permits. Papua New Guinea represents one of the few global under-explored areas accessible in which significant discoveries are possible. SPPNG’s initial exploratory work should confirm existing leads and prospects and culminate in an exciting and potentially very rewarding outcome for LION and its joint venture partners.

3. CORPORATE

On September 9th 2008 the Company released its 2008 Annual Report and on September 26th 2008, a notice was issued announcing the Annual General Meeting of the Company will be held on November 11th 2008.

4. FINANCIAL RESULTS

Revenue for Lion Energy Limited and its subsidiaries (“Group”) for the 3 months to 30 September 2008 was A\$1,240,792 comprising oil revenue of A\$1,184,866, other income of A\$42,847 and interest income of A\$13,079. The year to date profit for the same period was A\$4,355,893. The profit includes amortization of the investment in the Seram (Non-Bula) PSC of US\$98,681 based on the opening written down value of this asset at 01-Jul-08 and subsequent expenditure of US\$1,776,265 being written off by 31-Dec-2012. The profit also includes foreign exchange gains of A\$4,185,354 . At 30 September 2008, the Group had cash denominated in various currencies which equated to A\$8,639,280.

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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
Mscf/BBL	Thousand cubic feet of gas per barrel 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