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Australian Stock Exchange Limited  
Company Announcements Platform  
20 Bridge Street  
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Via electronic lodgement

## **DRILLING UPDATE WELL OCS-G 27089 #1, GULF OF MEXICO**

On 8<sup>th</sup> 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 6<sup>th</sup> January 2007.

***At 15:00 hours CST on 17<sup>th</sup> January 2007, the well was at 2,286 metres (7,500 feet) and drilling ahead with 12 ¼ inch drill bit and MWD/LWD. Well total depth is prognosed at 3,627 metres (11,900 feet) TVD.***

***20 inch casing was previously set at 365.7 metres (1,200 feet) and the last casing string set was 13 3/8 inch set at 1,374 metres (4,508 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).

The well is targeting an oil resource estimated at between 6.7 million and 10.1 million barrels of oil or if the reservoir contains gas, between 22.5 and 33.6 BCFG (Note 1).

In July and August, 2005, two wells were drilled in the adjoining Block 139, confirming 3D seismic hydrocarbon indicators. Well OCS-G-21106 B2 ST discovered hydrocarbons at approximately 9,500' TVD and nearly 100' deeper they found additional resources followed by mechanical problems causing them to discontinue drilling.

Daily production of oil or gas has been released from the Office of Minerals Management for the month of May 2006. Average daily production rates for the B2 ST were 589 MCFG plus 565 barrels of oil per day. The B1 well produced an average 567 MCFG plus 559 barrels of oil per day during the same period.

Jack Toby  
Company Secretary

Note 1        As estimated by Apex Geophysical Services, Inc., an international oil and gas consulting company based in New Orleans, in the state of Louisiana, USA.

BCFG        Billion cubic feet of natural gas

CST         United States Central Standard Time

MWD/LWD   Measurement while drilling / Logging while drilling.