
20 February 2006

Company Announcements
Australian Stock Exchange Ltd

REF: COMPANY UPDATE

Lion Energy Limited (ASX: LIO) has been suspended from trading since August 3rd 2005, whilst the company addressed various issues, including:

1. Changes at management and board of director level.
2. Non disclosure of:
 - a. The company's true financial position, including unsecured loans.
 - b. Default position in the Seram (Non Bula) Production Sharing Contract joint venture.

In respect to these issues, the company advises:

1. All directors at the time of suspension have been replaced and the board of directors now comprises:

Russell E Brimage Chairman & Chief Executive Officer
(re-elected at the company's AGM 21st December 2005)

Paul Garner Executive Director
(re-elected at the company's AGM 21st December 2005)

Martin Bennett Non Executive Director
(appointed immediately following the company's AGM 21st December 2005, to fill the vacancy created when Mr Julian Waterman was not re-elected by shareholders).

I take this opportunity to thank the many shareholders who supported myself and Mr Garner at the AGM. We undertake to continue the resurrection of the company from the difficulties it confronted when we initially accepted nomination to the board of directors.

Further, we welcome Mr Martin Bennett, whose professional skills have and will continue to be of significant importance and value in the company's resurrection process and the recovery of company funds extended to entities classified by prior management as non-related, in the form of "loans".

2. In respect to the non-disclosure issues:

- a) The financial position was presented in the 2005 Annual Report of the company, in which a provision was made for the loss on write off loans of \$2,971,510.
- b) The default position of the company in the Seram (Non Bula) Block PSC was addressed by management, culminating in a letter issued by the Operator (and received by Lion, confirming Lion's interest would be classified as "in good standing" following payment of outstanding cash calls). Based on this correspondence US\$1,316,997 was paid to the Operator and received by them on January 9th 2006. Lion's interest in the Seram (Non Bula) Block PSC is now in good standing.

In the interim period since Lion shares were suspended from official quotation, the Bula Block PSC and the service entity PT Prima Jasa Energi were sold to Global Select Limited, a wholly owned subsidiary of Hong Kong listed company South Sea Petroleum Holdings Limited for a consideration of US\$4,850,000.

SUSPENSION OF LION ENERGY LIMITED ON THE ASX.

The following issues are the more important items on the agenda that have and are being addressed before the lifting of the ASX suspension of the securities of the Company:

1. Up to date financials to satisfy the ASX that Lion was able to meet ongoing obligations, given the 4th Quarter Report to June 30th 2005, released to the ASX on July 29th 2005, indicated cash reserves of only \$450,242. The sale of Bula has meant a significant accounting adjustment in the accounts to December 31st 2005 and these are currently being finalized prior to release. I can however assure shareholders the company's financial position is sound as a result of fund raising efforts (required to initially enable the company to continue business), then subsequent cash inflow from an oil lifting from Bula and the sale of the Bula Block PSC.
2. The company is dealing with the consequences to the change to International Financial Reporting Standards, which are applied for the first time for the six months to December 31st 2005.
3. Full disclosure, particularly with respect to the default position in the Seram (Non Bula) Block PSC. The settlement of all out standing cash calls and the confirmation of the company's interest in the joint venture being in "good standing" by the Operator will we believe satisfy the regulatory authority in respect to the disclosure issue.

In summary, despite a very difficult period in its history, Lion Energy Limited is emerging with cash reserves sufficient to enable it to pursue new ventures whilst meeting its ongoing obligations in the Seram (Non Bula) Block PSC.

I am optimistic that Lion can move forward in 2006 to capitalize on the buoyant energy sector. The company is considering new opportunities and hope to present further details in the first half of year 2006.

OPERATIONAL UPDATE

Seram (Non Bula) Block PSC

Lion Petroleum (Seram) Limited, a wholly owned subsidiary of Lion Energy Limited, is a 2.5% shareholder in the Seram (Non Bula) Block Production Sharing Contract. The major shareholder and Operator of the Joint Venture is KUFPEC (Indonesia) Limited with 97.5%.

The block contains the Oseil Oilfield.

At January 31st 2006, Oseil was producing approximately 3,200 barrels of oil per day (BOPD) from 8 wells. Oseil #5 is awaiting workover after the downhole pump failed during January 2006. This well normally produces approximately 1,200 BOPD. Oseil #2 is currently being worked over and is anticipated to contribute in excess of 500 BOPD.

Following completion of the above workovers production from the Oseil oil field is anticipated to be approximately 4,900 BOPD.

Oseil #10 is currently suspended and will be completed following the Oseil #5 workover. Depending on the outcome of this well, a decision will be made on further development drilling.

A lifting of approximately 350,000 barrels of HSFO (High Sulphur Fuel Oil) is scheduled for March 2006.

To December 31st 2005, the Oseil oil field has produced a total of 3,304,342 barrels of crude oil. Production in calendar year 2005 was 1,040,041 barrels of crude oil.

Sole Risk Shallow Drilling Project

Lion Energy Limited identified oil prospects Dawang & Solan (together the Sole Risk Shallow Drilling Project) in the Seram (Non Bula) Block PSC in 2000 and proposed to the joint venture that these prospects be drilled in 2001.

The prospects are shallow (less than 650 metre sub sea depth) oil targets.

After all other parties in the joint venture elected not to participate in the drilling of these wells, Lion's wholly owned subsidiary Kalrez Petroleum (Seram) Limited elected to exercise its sole risk right to drill the wells at its cost.

For various reasons, Kalrez have not completed the drilling of these wells, despite joint venture and government approval to do so.

In January 2006 Kufpec informed Lion Energy Limited that the sole risk right granted Kalrez had extinguished in accordance with the joint venture agreement terms and that a new application will need to be lodged with the joint venture if Lion (or its subsidiary) intends to proceed with this project.

Lion intends to submit to the joint venture that these prospects be drilled and the other joint venture party will then either elect to participate or decline. In the event the party declines, Lion (through its subsidiary), will initiate sole risk rights in accordance with the joint venture agreement terms.

At the conclusion of this process, the joint venture will then submit to the Indonesian government to approve the drilling of the prospects as part of the 2006 work programme.

Whilst Lion remains committed to drilling Dawang and Solan prospects, joint venture and government approvals are required and the earliest possible timing for the drilling would be in the second half of calendar year 2006.

Coal Investment

In the 2005 Annual Report, an update on this project was provided.

At January 31st 2006, the National Power Corporation (NPC) in the Philippines is still withholding revenue payment to Lion's Indonesian partner and will not release the funds until a new security bond is lodged with NPC.

Lion is proceeding with completing revised documentation (agreements) with its Indonesian partner that will include a repayment schedule.

Lion will continue to pursue repayment of the loans, including interest.

Yours sincerely

Russell E Brimage
CHAIRMAN