

ASX RELEASE

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QUARTERLY ACTIVITIES REPORT FOR THE QUARTER ENDED 31 DECEMBER 2008

The Directors of Marion Energy Limited ("Marion") (ASX: MAE) present their report for the December 2008 Quarter.

The Board considers this Quarter to be the most significant in the four year history of the Company as it started to achieve a number of operational and financial targets that will position it for strong growth in terms of its future development. The stated production target of 20 million cubic feet of gas per although not yet achieved, remains the production level that the Board and Management believe is both realistic and achievable in the near term. The Company has now clearly established that it has a large gas Resource in Place in Utah, USA with two major development projects associated with that Resource.

Significant goals achieved:

- A steadily increasing daily production rate which reached 5 million cubic feet ("mmcf") of gas per day during the quarter, and which will substantially increase over time with the elimination of a number of technical constraints (refer below)
- Revenue for the quarter increased by approx. 50% over the previous quarter, despite receiving relatively low gas prices for gas sales during the summer months and also experiencing considerable production down time due to the well treatments for hydrates (refer below)
- All necessary production infrastructure installation for current and near term future production was completed (refer below to Operations Overview)
- Bank Credit Facility increased by US\$10.5 million to US\$36 million (refer below to Finance)
- Over and above the producing reserves, a very large resource base on the Company's leases was independently assessed by petroleum consulting

engineers with the recoverable Resource in Place estimated to be between 2.4 and 4.3 trillion cubic feet (“Tcf”) of gas (refer below to Resource in Place established)

- New Reserve Report preparation commenced (refer below to Reserve Report)
- Oman 10-29 well successfully drilled, placed on production and currently being production tested (refer below to well report)

The Board considers that the combination of the substantial resource now established, a growing production base, the completion and installation of production infrastructure to support production well in excess of current levels and the financial flexibility afforded by the new bank line puts the Company in a very strong position to provide substantial returns for shareholders.

PRODUCTION GROWTH ACHIEVED DURING QUARTER

During the Quarter, the Company’s production reached 5 million cubic feet of gas per day as infrastructure was commissioned. Further additions and adjustments to the infrastructure were subsequently completed at Clear Creek which will accommodate increased levels of production as, weather permitting, uninterrupted run time is achieved.

As production milestones are reached, the Company will further report to the market. The Company maintains its view that its targeted gross production rate in excess of 20 million cubic feet of gas per day will be achieved from current and completed wells.

REVENUE FOR THE QUARTER

Revenue for this quarter increased by approximately 50% over the previous quarter. This was despite considerable production down time due to the ongoing treatment of hydrates in the wells at Clear Creek and also being in the lower demand, lower gas price summer period.

It should also be noted that industry practice in the USA is for revenue from gas sales to be received approximately 45 to 60 days after the production is actually delivered into the production grid. Therefore most of the November and all of the December production revenues are excluded from this quarterly report as they had not been received during the reporting period. Production during the November and December period was increasing significantly and the financial impact of this will be reflected in the March 2009 Quarterly Report.

OPERATIONAL OVERVIEW

As was stated in the last quarterly report, the previous twelve to eighteen months were very challenging operationally due to difficult geographical terrain, severe weather conditions and the greater extent and complexity of the projects than was originally expected, all combining to put the Company well behind its expected targets. However, as is clear from the conclusions of the independently evaluated Resource Potential Report, the Company has now also established that it has two very large projects in Utah which have the potential to generate substantial returns over the next ten to fifteen years: large projects such as these are not developed without considerable effort and associated trials.

Approximately three years ago the Company set out to develop its Utah projects. The major focus during this time has been on the Clear Creek project. It is timely to detail in this report the operations that have been undertaken at Clear Creek, including the challenges that have had to be overcome to bring the Company to its current position.

Review of operations – Clear Creek

Background

Clear Creek is a 17,092 acre federal unit located in Central Utah, 19 kilometers west of Utah's largest producing natural gas field (Drunkards Wash) which was discovered and initially developed in the 1950's and 1960's. It provided most of the natural gas for the city of Salt Lake City. The wells were prolific, making an average of 8 Bcf each, with initial production rates from individual wells averaging around 4 to 5 million cubic feet per day, with a few exceptions - at the top end of the range 10 million cubic feet per day and 1 million cubic feet per day at the low end.

The field was not further developed at the time due to the low natural gas price and geographic and technological constraints. The Clear Creek unit is located in a topographically challenging (mountainous) area. As the unit was developed prior to the onset of directional drilling, wells were drilled from locations dictated by topography and ease of surface access. Today, commonly employed directional drilling technology has been adopted by Marion to further develop the field.

Reserves

Based on the reservoir characteristics, the areal extent defined by the original wells, the performance and data of the old wells, and data (such as pressure and log information) from the new wells, in June 2007 Cobb & Associates assessed reserves in the field as 236 Bcf of 2P (proven and probable) with 125 Bcf of 1P (proven only) reserves. It should be noted that with the exception of the Ridge Runner 11-17 well (which tested over 7 million cubic feet per day – see below), the assumption regarding initial production in the Cobb report for all present and future wells is

below 1.5 million cubic feet per day, which is close to the low end of historical results.

Even though the outline, geology, fault system and the way the natural gas is trapped in the unit is well established, based on the definition of proven reserves the independent engineer can only assign PDP reserves (proven developed producing) to the 160 acres around each currently producing well and PUD reserves (proven undeveloped) only to a limited number of acres surrounding a PDP location. This means that there is upside to further generate proven reserves as new wells are drilled.

Clear Creek Field - Well Development

Marion has drilled a total of nine wells and remediated two of the old well bores. The pressure measured in the producing reservoir in the newly drilled well bores is “virgin,” that is very close to the initial reservoir pressure measures in the wells drilled in the 1950’s and 1960’s. This is an indication that the reservoir has not been drained by the original wells and significant recoverable reserves are still in place, as indicated by the engineering report. Based on reservoir characteristics with one well draining 160 acres, it would take at least one hundred wells to fully drain the field.

The wells drilled by Marion and any further development wells to be drilled, are within the geographic confines of the structural trap defined by the original 17 wells drilled during the 1950’s and 1960’s. While the pipeline and gathering lines were being permitted, compressors were being set and further wells were being drilled, Marion put two of its earliest drilled wells on extended production tests. The Ridge Runner 13-17 was pumped down (see an explanation below) and tested at 1.7 million cubic feet per day for 10 days on a 24 hour basis. The Ridge Runner 11-17 was pumped down and produced at 7 million cubic feet per day for two months during daylight hours only, due to the danger of night time flaring of such a large gas flow.

Pressure tests on the original wells that were remediated have shown that these wells have re-pressured and are still capable of producing significant amounts of natural gas. A note of caution is needed with this, as remediation cannot be applied to all of the original wells. In the 1950’s and 1960’s, these wells were fracture stimulated with nitroglycerine. Apparently this method was effective, but in many cases did irreparable damage to the well casing.

Infrastructure Installation

Marion has built an impressive new gathering and compression infrastructure. When the Company drilled the first wells at Clear Creek, it was of the opinion that pipeline connections and new gathering lines could be put in place with little delay. The original gathering lines in the field were abandoned and rendered inoperable when the production was shut down, mainly due to low gas pricing, in the early 1970’s. However, a combination of the regulatory hurdles that had to be cleared by

Marion and Questar (the major pipeline operator for the area), had to install its own facilities to take Marion's gas. This meant that making the physical connection of the Company's gas to Questar's main trunk line system took close to 18 months from inception to resolution, resulting in significant delays. In the meantime, Marion continued to drill more development wells.

Compression

There is a major trunk line crossing the middle of the Clear creek unit which has historically taken and will continue in the future to take the gas to market. This line gathers gas from many producers in the area and is considered a "high pressure" line, carrying from 450-600 lbs of pressure. In order for Marion to put its gas into the line, the gas has to be compressed to overcome the line pressure. A certain amount of duplicate compression is also required to make allowance for down time and maintenance. The installation of the equipment was not totally in Marion's control since most of it was being installed by the shipper of the gas, Questar Corporation. This also resulted in further significant delays.

The winter of 2007/08 was one of the worst in over 25 years (snowfall and temperatures). During the winter, Marion's operations had to make do with temporary compressors which were open to the weather and as a result shut down on a regular basis, interrupting and delaying significantly our operational progress. When the main compressor shuts down, the wells shut down automatically for safety reasons.

Rather than be totally dependent on Questar for compression, during the summer of 2008 Marion rented and installed its own main compressor, and housed the compressors in winterized huts. This was finalized by the middle of December of 2008. A second compressor was also set to provide redundancy/backup. Up to the time of these installations being completed, the wells produced into temporary compressors with uninterrupted run time often no longer than approximately 48 hours. The compressors now installed give the Company greater confidence in achieving uninterrupted run time in the future.

Hydrates

A wellhead temperature issue was identified during the summer of 2008 by field operators with investigations leading in August/September to the confirmation of a hydrate issue and to remedial action being successfully undertaken in September/October.

Hydrates are caused by the super-cooling of naturally occurring reservoir water to a level that results in freezing, due to the sudden pressure drop at the well bore during high volume production surges. This forms a partial down-hole blockage resulting in inconsistent flow rates and in some cases a total cessation of production. This is not an unknown occurrence in Rocky Mountain gas wells and is mostly associated with high volume wells. Records relating to the historical Clear Creek wells drilled in the

1950's and 1960's were reviewed and although incomplete, indicated occasional occurrence of hydrates in the early stages of production. Once dealt with, those wells produced at high rates. Stabilized production rates in the pre Marion wells at Clear Creek were in a range of 1 million to 5 million cubic feet per day, with most wells producing at the upper end of this range.

The solutions for dealing with the occurrence of hydrates are well established in the petroleum industry and involve adding chemicals such as glycol and methanol to the wells to prevent hydrate formation. At the end of the process, the hydrates should be cleared and by keeping the chemicals in the well bores and controlling the rates of production, future hydrating will then be prevented. As a result the wells should then increase their flow rates and establish stabilized production at forecast levels. It is important that in this situation, operations be undertaken in a controlled manner as attempting to rush them will quite likely recreate the initial problem.

The operational adjustments made by Marion involve a very gradual pumping down of the fluid levels of the wells to a point at which gas can freely enter the well in a controlled manner to prevent a severe pressure drop with resulting temperature drop, flowing into the gathering system and to allow expected gas rates to be achieved. Results to date have been successful with no evidence of any further hydrate re-formation.

Production Development

A natural gas well does not just come on production immediately after being drilled and completed. In most situations, wells need to clean up first, flowing back fluids and materials from drilling and fracture stimulation. This can take from a few days to weeks or in some cases months and in the case of a coal reservoir maybe more than a year.

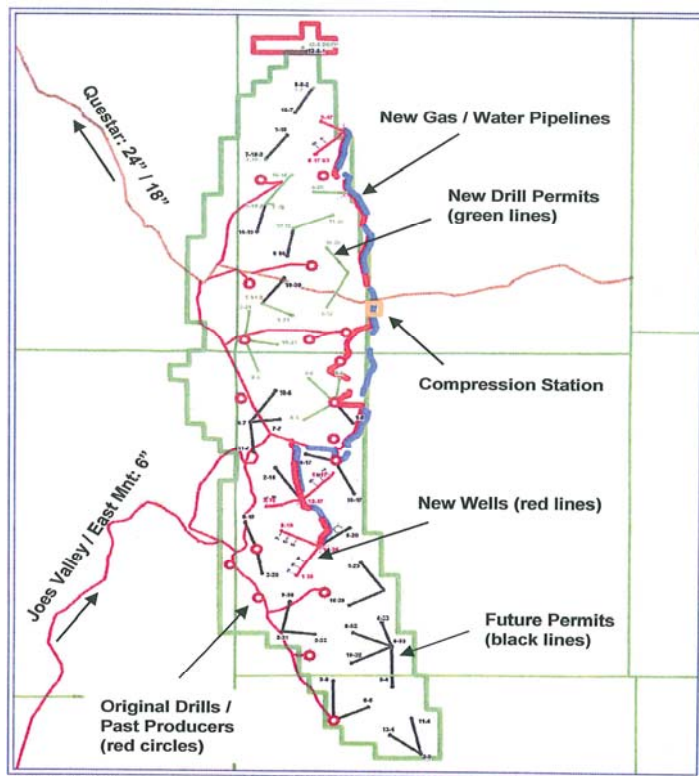
In addition, the Clear Creek wells produce water as well as natural gas. The water is clean and occurs naturally in the formation. Many natural gas wells produce water, which is a logistical issue to be dealt with. However, the fluid level in each individual well bore needs to be pumped down to the point where the pressure generated down hole by the fluid does not restrict the natural gas from flowing into the well bore and being produced. This requires in some instances up to several months of uninterrupted operations, something Marion has only been able to achieve since the middle of December, 2008 (see above).

Conclusion

With the infrastructure complete, the hydrate issue identified and addressed, and compression in place, the Company has been able to make good operational progress during the second half of the quarter. Fluid levels at all wells are coming down and the wells are getting "gassier." With 10 Clear Creek wells currently coming on production pretty much at the same time, we remain confident that the 20

million cubic feet of gas production target as disclosed in previous ASX Announcements and at this year's AGM will be achieved.

Throughout this two year plus period, Marion has been able to work effectively with the various Regulatory agencies, receiving all the permits necessary for operations in Clear Creek, including building gathering lines, compression facilities and additional drilling permits where necessary. The current infrastructure is capable of easily handling daily production of our target of 20 million plus cubic feet of gas per day and the Company has well permits for future drilling. These two factors position the Company well for its future operations.



DRILLING OF OMAN 10-29 WELL, CLEAR CREEK, UTAH

The Oman 10-29 well at Clear Creek was successfully drilled during the September and December, 2008 Quarters. This well is a directionally drilled well which was drilled to an approximate depth of 5700 feet and tested the Ferron sandstone reservoir as its primary target.

The well is the first to be drilled by Marion in the central part of the Clear Creek Unit which is the part of the Unit where several of the original wells were drilled. The Company believes that because the original wells were drilled on 1000 acre spacings substantial reserves are yet to be recovered from this part of the Unit.

The well encountered numerous gas shows during drilling and since drilling has been completed, the well has been fracture stimulated and completed and placed on

production. It is currently undergoing extended production testing to establish a stabilised rate of production.

Importantly, this well will help to quantify the extent of reserves yet to be recovered from this part of the Unit and also will better define the level of proved (1P) reserves in the Unit.

HELPER

With the focus for the Quarter on Clear Creek operations, minimal new work was undertaken on the Helper project with the main objective being to manage the continued dewatering of the wells, resulting in production increasing slowly over time.

OPERATIONS AT OKLAHOMA (MAE working interests 100% and 66.67% respectively)

As for the previous quarter, the focus of the Company's activities during the quarter was on the Utah projects. As a result, the Oklahoma project was largely operated on the basis of maintaining previously established production with little new work undertaken. This project continues to produce at a rate of approximately five hundred thousand cubic feet of gas per day.

The Company indicated in a previous ASX Announcement that it was considering the disposal of this property. As part of the Strategic Review being undertaken in conjunction with Goldman Sachs, the Company's financial advisers, it has now been decided to no longer proceed with this objective for the time being.

RESOURCE-in-GROUND

During the Quarter the Company commissioned a Resource Potential study by the independent consulting engineering firm of Ryder Scott Company, L.P. Ryder Scott has concluded its analysis of the resource potential of certain non producing reservoirs under Marion's Utah leases. This study's results indicate 32.5 trillion cubic feet ("Tcf") of potential resource gas in place in the Emery Coals and the Mancos Shale at Marion's Clear Creek and Helper projects.

A second resource study of the potential in the non producing Blackhawk Coals under Marion's leases in the Helper area has been conducted by the independent engineering firm of William H. Cobb and Associates ("Cobb"). Results from this study indicate a potential resource in place of 1.0 Tcf of gas with an expected recovery of 603 Bcf of gas, a recovery factor of 60%.

Based on these two reports, the estimated potential recoverable resource from currently non-producing reservoirs on the leases owned by the Company is between 2.4 and 4.3 trillion (Tcf) of natural gas. This estimate is a substantial increase of the

previous estimate of 1.4 Tcf potential resource in place and a potential recoverable natural gas resource of 0.96 Tcf at Clear Creek from the Emery and Ferron coals.

Details of the assessed resource are set out as follows:

Ryder Scott Company, L.P.

The preliminary potential resource estimates as determined by Ryder Scott Company, L.P.:

Emery Coals at Clear Creek: 814 Bcf of gas in place

Emory Coals at Clear Creek: recoverable resource 407-651 Bcf of gas

Mancos Shale at Clear Creek: 5.5 Tcf of gas in place

Mancos Shale at Helper: 26.2 Tcf of gas in place

Mancos shale a Clear Creek and Helper: recoverable resource 1.55-3.11 Tcf of gas

Cobb & Associates

The report prepared by Cobb & Associates estimates the resource potential as follows:

Blackhawk Coal in place: 1.0 Tcf of gas

Blackhawk Coal recoverable resource: 603 Bcf of gas

These resource estimates are in addition to the 2P Ferron sandstone reserves at Clear Creek and other reserves at Helper.

Potential resources are not certifiable reserves and have more risk associated with their size and commerciality than reserves.

RESERVES

The Company currently has 319 Bcf of proved and probable ("2P") gas reserves as certified by Cobb and Associates in June 2007.

A new assessment of the Company's reserves by Cobb and Associates has been commissioned: this will calculate reserves in the 1P, 2P, 3P and Resource-in-Ground categories. This report will cover both the Clear Creek and Helper projects for both conventional and non conventional gas. This report will also assist in the Goldman Sachs ongoing review of Marion strategic options.

FINANCE

Late in the quarter, the Company commenced the process of renegotiating its existing banking facilities and as a first step has recently secured an increase in its borrowing base for its Senior Secured Credit Facility of US\$ 10.5 million to US\$36.0 million. The facility is secured by the Company's assets, including its Utah and Oklahoma projects.

As part of the renegotiation of the existing facilities, a second bank, Fortis Bank Netherlands (FBN) (owned by the Dutch Government) will provide half of the increased facility. Of the US\$36.0 million new term loan, US\$18 million will be provided by FBN and US\$18 million by the Company's original USA lender, Fortis Capital Corp, currently owned by Fortis Bank NV (Belgium).

Summary of key terms

- Increase in limit from US\$ 25.5 million to US\$ 36 million
- Maturity date, interest margins and facility unchanged
- US\$ 360,000 up front fee
- Issue of 7 million unlisted options, strike price 30 cents, expiry date 18 September, 2012

GOLDMAN SACHS STRATEGIC REVIEW

The Strategic Review being undertaken by the Company in conjunction with Goldman Sachs is nearly complete. This process was delayed until the Potential Resource report was completed which established a very large asset base for the Company. The outcome of the review process is expected to be released to the ASX in the near future.

CORPORATE

AGM RESULTS

The Company's AGM held on November 12, 2008 passed all resolutions with Messrs Harvey, Edgar, Carter and Martin being reappointed to the Board. All prior share issues made by placement in the previous twelve months were also approved thereby refreshing the Company's 15% Placement capability.

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