

29 January 2010

ASX Release

ACTIVITIES REPORT FOR THE QUARTER ENDED 31 DECEMBER 2009

The Directors of Marion Energy Limited ("Marion") (ASX: MAE) present their Activities Report for the December 2009 Quarter.

OVERVIEW

- Multi-well rehabilitation program commenced to bring back onto production the Company's Clear Creek and Helper wells.
- Forward work program for next 6 months established with focus on eight Clear Creek wells. Management expects each well will achieve production rates in a range of 1 to 4 million cubic feet of gas per day.
- Early success indicated with gas production and sale into the distribution system commenced from the Oman 2-20 well in December 2009 at a time of stronger gas prices. Work also commenced on Ridge Runner 13-17 well in January 2010.
- Oversubscribed \$6.9m Placement completed with pro rata Rights Issue now planned for March 2010 Quarter.
- Appointment of Mr Jay Stratton to the position of Chief Operating Officer (COO) to strengthen operational control and activities.

OPERATIONS REPORT

As the Company's wells were largely shut in for most of the quarter, production and revenue generated were at a low level. The Company commenced an operations program in late September 2009 with some initial work being undertaken early in the December quarter on the Ridge Runner (RR) 11-17 and RR 2-19 wells, with the aim being to progressively bring back onto production the Clear Creek and Helper wells progressively during 2010.

Following the appointment of Mr Jay Stratton to the position of Chief Operating Officer in November 2009 and under his direction, operating management undertook an extensive review of the Company's field operations and as a result a comprehensive well rehabilitation program was commenced during the quarter. As a result of this review work on the RR 11-17 and RR 2-19 wells was suspended with a more comprehensive rework

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program to commence on these two wells in the March 2010 Quarter. The work program was refocussed on two other wells as detailed below.

The well rehabilitation program will be initially focussed for the next 6 to 9 months on 8 Clear Creek wells. Management is of the view that these wells **each** have the potential to produce in a range of from 1 to 4 million cubic feet of gas per day.

This well rehabilitation program has already started to demonstrate success as outlined below in the information dealing with specific wells as follows:

Oman 2-20 Well (100% Company owned)

The well is the first to be fully brought back onto production in the well rehabilitation program currently being designed by operational management..

The well was placed on production in mid-December 2009 following a workover operation and since that time has flowed uninterrupted with good quality, clean gas. The well is currently flowing at a rate of approximately 280 mcf/day and production is expected to increase as the pressure across the producing interval is drawn down.

Production from this well is being sold into the distribution system.

Ridge Runner 13-17 (100% Company Owned)

Gas production operations have now commenced at a second Clear Creek well, the 100% owned RR 13-17 well located at Clear Creek, Utah, USA with first gas sales from this well targeted for mid February 2010.

RR 13-17 is located approx. 8 km from Marion's producing Oman 2-20 well and benefits from excellent access to infrastructure and also being tied into existing pipeline and gas distribution networks.

The RR 13-17 well was drilled prior to Marion acquiring the Clear Creek project. The well was completed and underwent limited production testing in 2007 but was then shut in to allow the construction of the Clear Creek gathering and distribution system.

Management is firmly of the view that this well has the potential to produce in the range of 1 to 4 million cubic feet per day, given the well flowed at approximately 2 million cubic feet per day previously during the limited test period.

RR 11-17 and RR 2-19 wells: Work Program currently commencing (100% Company Owned)

Operations management are currently implementing a rehabilitation program that is focussed on bringing a further two wells into production by April 2010, namely the RR 11-17 and RR 2-19. Both the RR 11-17 and RR 2-19 wells were previously production tested by Marion achieving flow rates of over 5 million and 2 million cubic feet per day respectively.

Management believes that with the successful implementation of the multi well rehabilitation program all four of these Clear Creek wells will be back onto production by late April 2010 with the wells expected to increase production rates to targeted maximum productivity within a further two months. Management is

targeting a production level from **each** of these four wells to be in the 1-4 million cubic feet of gas per day with the expectation the combined rate will be in excess of 8 million cubic feet of gas per day. It is management's aim to further extend this program to bring in the balance of the other Clear Creek and Helper wells over 2010 and 2011.

CORPORATE

Share Issue

During the Quarter the Company completed a Share Placement involving the issue of 45,985,997 fully paid shares at an issue price of 15 cents and an associated issue of 49,205,017 free ASX Listed Options with an exercise price of 25 cents and an expiry date of 7 December, 2011. 3,219,020 of these options were issued to the Company's financial advisers by way of corporate advisory and facilitation fees.

The placement was the first step of a recapitalisation strategy aimed at raising approximately \$35.5 million in total. The total capital raised will include an underwritten pro rata Rights Issue to all existing shareholders.

The Rights Issue has been rescheduled from the timing information provided in an ASX Announcement dated 21 October 2009 where it was indicated the Rights Issue would most likely occur in the December 2009 Quarter. The issue is now planned to be launched in the first quarter of 2010.

Bank Credit Facility

Management is currently in negotiations with the Company's bankers regarding the longer term extension of the maturity date of the credit facility.

Appointment of Chief Operating Officer.

Mr Jay Stratton, Jr. was appointed to the new US based position of Chief Operating Officer.

Mr Stratton is a highly experienced Petroleum Engineer with over 20 years of domestic and international experience holding senior positions with Anadarko Petroleum Corporation, Occidental Petroleum International, ARCO Alaska Inc and Golden Energy.

In these positions he has had major roles designing and managing world class development operations, both in the USA and internationally covering all aspects of oil and gas field development for operations of up to 300,000 barrels of oil production per day.

Mr Stratton will be responsible for, and will have an active hands-on involvement in:

- Overseeing current development operations for the Company's existing wells at the Clear Creek, Helper and Oklahoma projects
- Completion of development plans to further bring on stream the Company's significant asset base which currently stands at independently assessed 1P, 2P and 3P reserves of 243 billion cubic feet ("Bcf") of gas and recoverable resource of between 2.4 and 4.3 trillion cubic feet of gas ("Tcf")

Expiry of Options

5,000,000 Unlisted 45 cent Non Executive Staff Incentive Options expired due to non exercise by the expiry date of 31 December 2009.

OUTLOOK FOR NEXT QUARTER

The focus for the next quarter will be on the following:

- Continued focus on operational plan of well rehabilitation to consolidate production and revenue generation with four wells being targeted to be brought back onto initial production
- Strengthen Balance Sheet through combination of equity capital raising and negotiation of restructuring of debt

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