

Quarterly Report

1 October to 31 December 2013



LION
energy

Restructure approved; new unconventional focus

Highlights

- Shareholders overwhelmingly approved transactions to transform Lion with a new focus on Indonesian unconventional oil and gas.
- Steady production from the Seram Project, at 5,348 barrels net to Lion. Accrued revenue from a late 2013 lifting of US\$618,121.
- Participated in two development wells on the Oseil oil field in Seram and commenced the South Block A seismic program.
- Post quarter's end completed acquisition of Indonesian oil and gas interests, an A\$9.5m raising, and installed new management.

Lion's legacy assets turned in a steady quarter, but the highlight was the overwhelming approval by shareholders of a series of transactions that will transform Lion with a new focus on Indonesian unconventional oil and gas, leveraging synergies with conventional assets.

During the quarter, crude oil production from the Seram Project was 226,659 bbl (compared to 229,903 bbl in the previous quarter) at a daily average of 2,464 bopd, marginally down from 2,499 bopd in the previous quarter.

On 30 December 2013, a crude oil lifting of 268,547 bbl was completed, with the company's entitlement after the Indonesian Government share being 6,714 bbl. Gross proceeds of US\$618,121 are expected to be received early-Feb 2014.

Development drilling in Seram brought the completion of the Oseil-15 well and spudding of Oseil-26. Well planning and site preparation advanced for the appraisal of the 2012 Lofin-1 discovery, which is scheduled for mid-2014 following the current development drilling program.

The South Block A seismic program progressed with good quality data being received and recording a 26% completion at the end of the quarter. The aim of the program is to firm up a target for drilling in 2014.

Post-quarter's end brought the completion of the above-mentioned transactions with re-listing of Lion's shares on 22 January 2014 following ASX approval. The company is well funded with its share placement raising A\$7.5 million from new strategic investors Risco Energy Investments Pte Ltd (Risco) and Tower Energy Ltd (Tower) and A\$2 million from a public offering. A new leadership team is in place with extensive experience and proven track records of creating value in Indonesia.

Lion's new CEO, Mr Kim Morrison said: "The foundations are now set for the revitalised Lion to work its new portfolio. Our goals include exploration, appraisal and development drilling and the conversion of our joint study applications into PSCs."

Lion at a glance

- Transforming from a small Indonesian conventional oil and gas player to an Indonesian unconventional oil and gas pioneer.
- Leveraging synergies in conventional assets and access to both infrastructure and markets.
- New executive team and strategic investors with impressive track records for value creation in Indonesia.
- Well-funded to execute the 2014 business plan.

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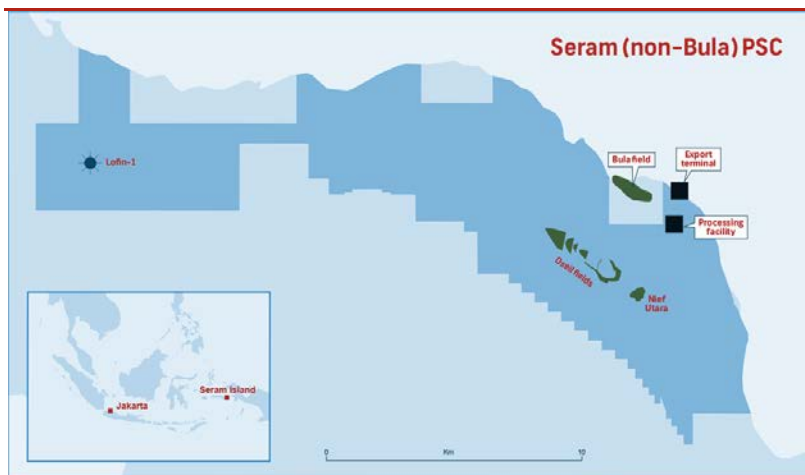
Operations update (Q2-FY14)

Seram (Non-Bula) PSC

Lion, via its wholly owned subsidiary, Lion International Investment Ltd, holds a 2.5% participating interest in the Seram (Non-Bula) Block Renewal Production Sharing Contract, located onshore at Seram Island in eastern Indonesia. The major equity holder and operator of the Joint Venture is CITIC Seram Energy Ltd (51%). Other partners are KUFPEC (Indonesia) Ltd (30%) and Gulf Petroleum Investment (16.5%).

The block contains the Oseil oilfield and surrounding structures that have produced cumulative crude oil production of 12,069,623 bbl since initial field start-up in January 2003 through to 31 December 2013.

Seram (Non-Bula) PSC – Location Map



Expenditures

Seram (Non Bula) PSC	Exploration	Development	Production
	A\$'000	A\$'000	A\$'000
Expenditure net to Lion (2Q-FY14)	4	226	280

Production

During this quarter the daily production rate from the Oseil and surrounding oilfields averaged 2,464 bopd (Lion's net interest is 58.1 bopd). On 30 December 2013, a crude oil lifting of 268,547 bbl was completed of which the company's share after the Indonesian Government entitlement was 6,714 bbl. Proceeds net to Lion of US\$618,121 are expected to be received in early February 2014.

Production of crude oil per month for the 2013 calendar year are presented in Table 1 below. The inventory of crude oil available for lifting at 31 December 2013 was zero barrels (following lifting completed 30 December 2013).

MONTH	CRUDE OIL			
	Gross		Net to Lion	
	(bbl)	(bopd)	(bbl)	(bopd)
Jan-13	71,613	2,310	1,690	54.5
Feb-13	65,325	2,333	1,541	55.0
Mar-13	71,898	2,319	1,696	54.7
Apr-13	74,760	2,492	1,764	58.8
May-13	79,670	2,570	1,880	60.6
Jun-13	74,778	2,493	1,764	58.8
Jul-13	77,192	2,490	1,821	58.7
Aug-13	75,671	2,441	1,785	57.6
Sep-13	77,040	2,568	1,818	60.6
Oct-13	78,213	2,523	1,845	59.5
Nov-13	73,860	2,462	1,743	58.1
Dec-13	74,586	2,406	1,760	56.8

Table 1 – Seram (Non Bula) Block PSC Production 2013

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Lofin discovery

An exploration well, Lofin-1, was spudded within the Seram (Non-Bula) PSC on 17 January 2012 to test the hydrocarbon potential of the Manusela Formation. In May 2012, the well was side-tracked at 3,416.3m/ 11,209ft Measured Depth (MD) and drilled to a total depth of 4,427m/14,525ft MD and was interpreted still to be in hydrocarbons representing a current minimum interpreted gross hydrocarbon column of 160m.

- The well flowed gas and oil/condensate (after acidising) at a rate of 15.7 mmscfd and 171 bpd of 36.1 API oil/condensate, with a flowing wellhead pressure 4,750 psi on 24/64 inch choke.
- Downhole shut-in pressure data acquired during testing operations indicated potential for a significant hydrocarbon column below the total depth of the Lofin well.

The partners have committed to drill an appraisal well to test this potential in calendar year 2014 and preparations are under way. As at 31 December 2013, the Lofin-2 well site preparation was 17.13% complete and the access road was 94.66% complete, as estimated by the Operator.

Development drilling

Oseil-15

The Oseil 15 development well is located some 237m north-west of the Oseil-16 well in the Oseil-2 producing area of the producing Oseil oilfield. The well is intended to recover undrained oil reserve in the Manusela fractured carbonate on the western flank of the faulted four-way dip closure of the Oseil-2 up up-thrown fault block.

The well was spudded on 1 May 2013 and reached a measured depth (MD) of 2,363m/7,732ft. Difficulties were encountered and significant losses required numerous cement squeezes. The rig was released at 24:00 on 14 October 2013.

The well results are currently being evaluated to assess further remedial action, given that the production results have been less than anticipated.

Oseil-26

Oseil-26 well is an infill development well located 284m north-west of the Oseil-15 deviated well in the Oseil-2 producing well. The Oseil-26 proposed development well will be drilled with producing Manusela fractured carbonate as the main objective.

The well is intended to recover an undrained oil reserve in the Manusela fractured carbonate on the western flank of the faulted four-way dip closure of the Oseil-2 up-thrown fault block.

The Oseil-26 well is proposed to be drilled directionally from the Oseil-15 well pad to the total depth (TD) of 2,333m MD/1,698m sstvd (7,655ft MD/5,573ft sstvd) in the upper part of the Manusela Fm, where the top Manusela carbonate reservoir is interpreted to be encountered at 2141m MD/ 1660m sstvd (7,024ft MD /5,448ft sstvd). As the primary target, the Manusela carbonate is interpreted to have similar reservoir characteristics to the Oseil-16 and Oseil-2 ST2 wells.

The Oseil-26 infill development well will be the sixteenth Oseil Phase II Development Program well and will be the seventh well drilled in the Oseil-2 area. In the selection of the target location of Oseil-15, the interference between existing producing wells has been considered. There have been five wells draining the oil from Oseil-2 fault block. Those wells are Oseil-2 ST horizontal (TD 1,746m/5,728ft sstvd), currently shut-in due to high water-cut (99%), Oseil-10 horizontal (TD 1,662m/5,452ft sstvd), Oseil-2 ST2 horizontal (TD 1,651m/5,417ft sstvd), Oseil-11 horizontal (TD 1659m /5442ft sstvd) and Oseil-16 (TD 1,664/5,458ft sstvd).

The criteria for selection of the Oseil-26 location is based on the remaining un-drained area in the west area of the structure, and the fracture intensity area and away from large fractures or faulting, to minimise the potential for early water breakthrough.

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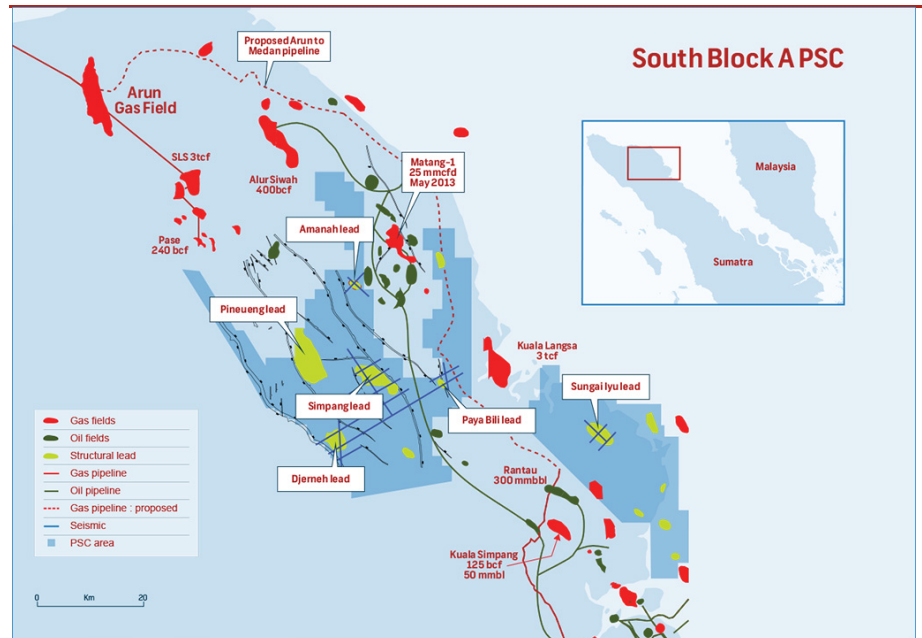
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South Block A PSC

Prior to transaction completion, Lion's interest in South Block A PSC was via its 30.08% shareholding in KRX Energy Pte Ltd (KRX). Subsequent to the end of the quarter Lion moved to full ownership of KRX which includes its 35% participating interest in the PSC. (Note: Lion's share of PSC costs will be included in Quarterly Report for period ending March 2014). Other participants are PSC operator RENCO Elang Energy Pte Ltd (51% interest), and PT Prosys Oil & Gas International (14% interest).

The underexplored block is centrally located in the prolific North Sumatra Basin and contains large structures with attractive gas and oil plays. A new 170km 2D seismic survey is currently being acquired over the Simpang Deep lead, the Djernah lead, the Amanah lead, the Sungai Iyu lead and the Paya Bili leads. These leads have a combined P50 prospective resource¹ of 429bcf gas and 47mmbbl oil and condensate; Lion's equity share is 150bcf and 16.4mmbbl. A well is planned for 2014 to be located based on results of the seismic survey.

South Block A PSC – Location Map



Relinquishment approved

On 17 December 2013, formal approval was received for a 10% (201.5km²) relinquishment covering areas to the south-east and also north-west of Area 1. The size of Area 1 will be reduced to 1,256.5km² and the total block area to 1,894.5km². The proposal does not affect Area 2 which covers area of 637km².

The Indonesian Government also formally approved the extension of the Contract Year Three through to 5 May 2014.

Seismic survey

Significant progress was made with the 170km 2D seismic survey. Initial field processed data was received from five lines with good data quality shown.

The operator reports at end December 2013 the surveying of the seismic program is 93.65% complete, the drilling part is 41.37% complete and the recording program is 25.90% complete.

During the quarter about 348,140 man hours were recorded with no lost time injuries (LTI's) reported (total since start of survey 562,775 man hours with no LTIs) and vehicle kilometres driven during the quarter were about 136,673km (the total since the start of the survey is 287,760km).

¹Prospective resources are those quantities of petroleum estimated, as at a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery (geological chance of success, or GCOS) and a chance of development (economic, regulatory, market and facility, corporate commitment or political risks). The chance of commerciality is the product of these two risk components. There is no certainty that any portion of the prospective resources will be discovered and, if discovered, there is no certainty that it will be developed or, if it is developed, there is no certainty as to either the timing of such development or whether it will be commercially viable to produce any portion of the resources.

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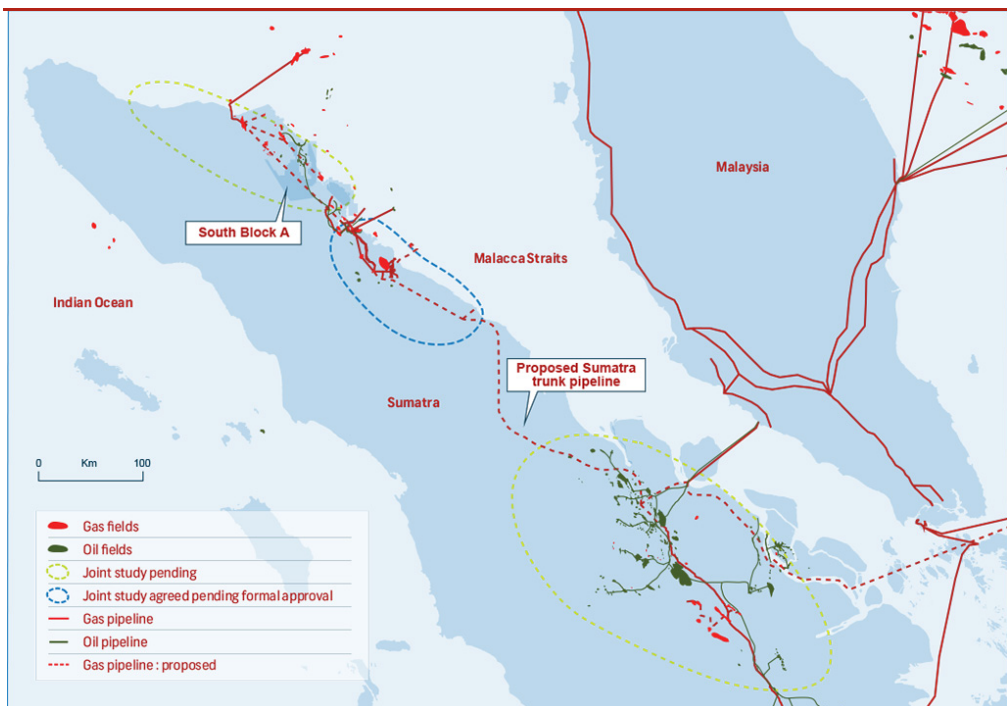


Unconventional Joint Study Applications

Lion has submitted Joint Study Applications for potential oil and gas unconventional areas in onshore Indonesia covering a total area of circa 17,334km². Lion's initial technical assessment has identified potential for multi-tcf scale gas and multi-hundred million barrels of oil in the areas of the applications. Lion is assembling a Jakarta-based team to manage the Joint Study operations.

There was ongoing engagement with the Indonesian regulators during the quarter, including updates on the Lion restructuring.

Map of Area of Unconventional Applications



Additional details on each of the Lion projects can be found on the company's new website (www.lionenergy.com.au) and in the Prospectus announced to the ASX on 6 November 2013.

List of Tenements

Tenement or licence area	Lion's Beneficial Interest	Change During Quarter	Comments
Indonesia			
Seram (Non Bula) Production Sharing Contract	2.5%	Nil	Interest held though Lion wholly owned subsidiary Lion International Investment Limited
South Block A Production Sharing Contract	35.0%	Refer comments	KRX Energy Pte Ltd ("KRX") holds a 35% equity interest in South Block A PSC through its wholly owned subsidiary KRX Energy (SBA) Pte Ltd. As part of the Lion Energy transactions on 12 December 2013 shareholders approved a resolution for Lion to acquire all the shares in KRX moving from a 30.08% interest in KRX to 100% ownership. This transaction was formally completed in January 2014.

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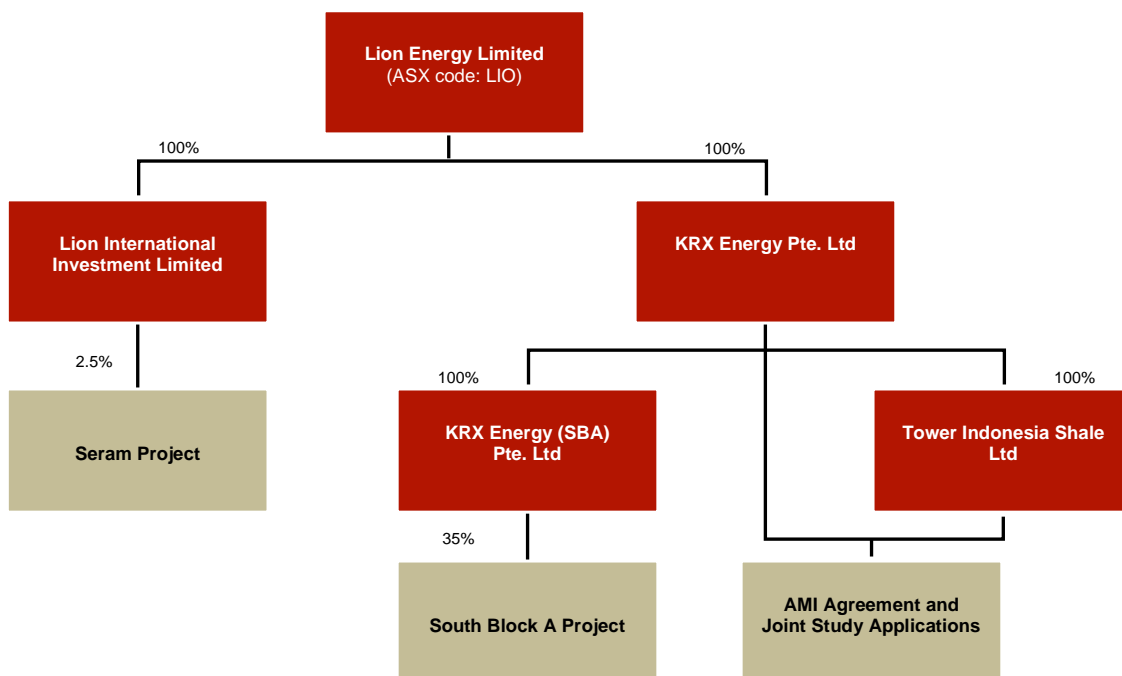


Corporate update Q2-FY14

Completion of transactions

During the quarter Lion received shareholder approval for a series of transactions outlined in a prospectus announced to the ASX on 6 November 2013. These transactions, which were completed post quarter end, reposition the company as an early mover in the Indonesian unconventional oil and gas industry, augmented by two Indonesian conventional production sharing contracts (PSCs). Also subsequent to quarter end, shares for the public offer were issued on 16 January 2014 and approval was obtained from ASX for the re-compliance and the shares were successfully re-listed on 22 January 2014.

Lion corporate structure following transaction



(Note: does not include some dormant US subsidiaries)

Background to the transaction

- In June 2012, Lion announced it had executed an agreement with Singapore company, KRX Energy Pte Ltd. This signalled Lion's advance into the South-East Asian unconventional oil and gas opportunities as an early mover, focusing initially on Indonesia. Subsequently, Lion continued to fund KRX and prior to shareholder approval of the transaction on 12 December 2013, Lion held a 30.08% interest in KRX.
- On 2 July 2012 Lion announced that KRX had executed an Area of Mutual Interest Agreement (AMI Agreement) with two prominent Indonesian groups to jointly evaluate the onshore areas of Java, Kalimantan and Sumatra for the purposes of forming a consortium to ultimately acquire prospective unconventional acreage.
- In mid-2013 the Unconventional AMI Agreement participants, namely Risco, Tower and Lion/KRX, agreed to consolidate respective interests into ASX-listed Lion Energy Ltd. With Lion's successful presence in Indonesia extending back to 1999, coupled with existing Seram production, the revamped company would be a potent force aimed at building a dominant position in Indonesia's emerging unconventional oil and gas business.

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Details of the transaction

During 2013 Lion entered into various agreements subject to certain conditions including shareholder approval. Due to the size of these transactions, the ASX required Lion to re-comply with Chapters 1 and 2 of the ASX Listing Rules. The transactions included:

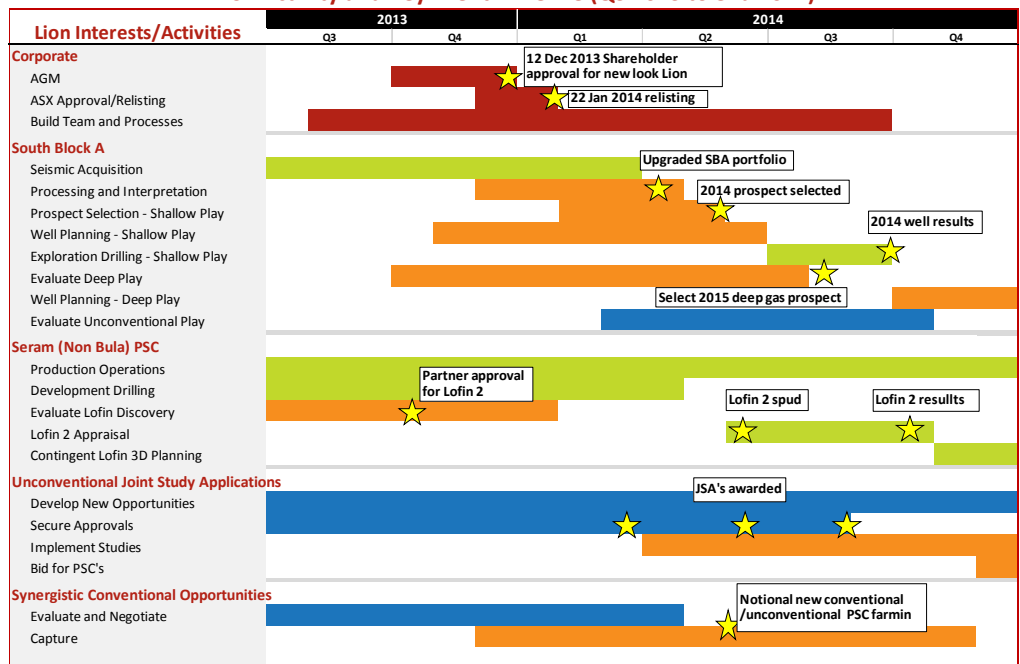
- securing an A\$1,500,000 convertible loan facility in favour of the company from Risco (or its nominees). The convertible loan was converted into fully paid ordinary shares in the capital of Lion at a deemed issue price of A\$0.20 per share and one unlisted option, exercisable at A\$0.26 on or before the date that is 18 months after the date of issue (Class A unlisted option) for every 2.4 shares issued upon conversion. Pursuant to a nomination deed between Lion, Risco and Tower, Risco (via a wholly-owned subsidiary) received 5,625,000 shares and 2,343,750 Class A unlisted options upon conversion and Tower received the remaining 1,875,000 shares and 781,250 Class A unlisted options;
- consolidating its share capital on a 8:1 basis (consolidation) with re-listing price of 20c;
- raising A\$6,000,000 by a placement of 30,000,000 shares (on a post-consolidation basis) to Risco (via a wholly-owned subsidiary);
- raising a further A\$1,500,000 by a placement of 7,500,000 shares (on a post-consolidation basis) to Tower;
- raising a further A\$2,000,000 by an offer to issue 10,000,000 shares (on a post-consolidation basis) to investors (of which A\$816,125 was taken up by Risco); and
- acquiring all of Risco's and Tower's rights under the AMI Agreement which includes rights to progress various unconventional oil and gas joint study applications onshore Indonesia in consideration for the issue of 4,987,514 shares (on a post-consolidation basis) to Risco (via a wholly-owned subsidiary) and 4,275,012 shares (on a post-consolidation basis) to Tower.
- moving from its initial commitment to KRX in June 2012, to acquisition of all of the outstanding shares in KRX

Use of funds

The A\$9.5 million raised will help to fund an active 2014 exploration schedule including:

- completion of the South Block A seismic;
- drilling of the South Block A exploration well;
- drilling in Seram PSC with the large upside Lofin 2 appraisal well and additional development wells;
- conducting up to four Unconventional Joint Studies; and,
- conducting new business activities in Indonesia.

Lion Activity and Key Event Timeline (Q3 2013 to end 2014)



Legend

Code	Activity type
Red	Lion Corporate
Green	Held Assets General Exploration
Yellow	Held Asset Field Activities (Drilling/Seismic)
Blue	Lion New Business Activities



Forecast Key Event /News flow

As of January 30 2014

(Note, there is no guarantee that activities shown will occur. In addition, the timing of anticipated activities is indicative only. They are dependant on factors such as Government of Indonesia and Joint Venture approval, rig availability and unforeseen delays)

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New skills and new leadership team

The transactions essentially comprise the merger of four companies with complementary interests and strengths. Lion's existing Indonesian presence including oil production from the Seram PSC;

- Risco Energy Investments' financial, technical and transactional expertise;
- Tower Energy's relationships and experience in Indonesians unconventional business via coalbed methane (CBM); and
- KRX Energy's technical skills and existing South Block A PSC exploration asset.

Lion's senior management team of directors and advisors now includes a combination of experience selected from Risco, Tower and KRX executives: Russell Brimage, Kim Morrison, Chris Newton, Tom Soulsby, Roger Whyte, and Sammy Hamzah.

The team members have impressive track records in creating value in Indonesia's oil and gas business. Additional background information is provided on Lion's website (www.lionenergy.com.au).

New strategic partners

Risco is a private energy investment company registered in Singapore whose founders and management have a strong track record in Southeast Asia energy investments, particularly Indonesia. This experience covers management, operational, financial and technical roles in both the listed and unlisted environments. Established in June 2010, Risco has an experienced and competent management team housing more than 150 years of collective practice, with skill sets spanning technical, commercial, transactional and financial markets in an oil and gas context.

In 2013, the team achieved significant value creation and subsequent monetisation of its first Southeast Asian oil and gas conventional and unconventional portfolio. In addition to its proven track record, Risco's management team has strong ties to Asia Pacific capital markets to support its activities in the region. Risco is the largest capital contributor, committing A\$7.94 million to the Lion recapitalisation transactions.

Tower is an investment holding company founded in 2012 by Mr Sammy Hamzah to pursue early entry into unconventional exploration (non-CBM) opportunities in Indonesia. Mr Hamzah is one of the pioneers of the Indonesian unconventional oil and gas industry and has more than 20 years of general management experience. He was the former Senior Vice President of Unocal Indonesia Company (now Chevron Indonesia Company) in Indonesia, and is the founding shareholder and Chief Executive Officer of Ephindo Energy Private Ltd, Indonesia's leading first-mover CBM company. Tower is providing A\$1.87 million to Lion as part of the Lion recapitalisation transactions.

Competent Persons Statement: Qualified Petroleum Reserves and Resources Evaluator

Pursuant to the requirements of the ASX Listing Rules Chapter 5 the technical information and resource reporting provided in this quarterly report are based on and fairly represent information and supporting documentation that has been prepared and/or compiled by Mr Kim Morrison, Chief Executive Officer of Lion Energy Ltd. Mr Morrison holds a BSc (Hons) in Geology and Geophysics from the University of Sydney and has more than 28 years of experience in exploration of, appraisal and development of oil and gas resources including evaluating petroleum reserves and resources. Mr Morrison has reviewed the results, procedures and data contained in this quarterly report. Mr Morrison consents to the inclusion of this announcement of the matters based on the information and context in which it appears. Mr Morrison is a member of AAPG.

ENDS

Glossary

bcf: billion cubic feet
bopd: barrels oil per day
CBM: coalbed methane
LTI: lost time injury

mdbl: thousand barrels
MD: measured depth
mmbbl: million barrels
mmscfd: million standard cubic feet of gas per day

psi: pounds per square inch
sstvd: subsea true vertical depth
tcf: trillion cubic feet
TD: total depth