

# Quarterly Report

1 October to 31 December 2014



**LION**  
energy

## Delivering on linked conventional-unconventional strategy

### Highlights

- Agreement with holders of Bohorok conventional PSC clears path for unconventional Joint Study
- Lofin-2 appraisal well at 3612m, approaching primary objective
- Advanced preparations for Amanah Timur-1 exploration well in South Block A PSC
- Seram production continues to exceed forecast averaging 2939 bopd; Phase 3 development under consideration

Lion announced a major advance in its linked conventional-unconventional strategy during the quarter, joining forces with the holders of the Bohorok conventional PSC (Bukit Energy Ltd and New Zealand Oil & Gas), to jointly secure an unconventional Joint Study in the prolific North Sumatra Basin. As part of the transaction, Lion has an option to acquire a 15% interest in the conventional Bohorok PSC; in return for giving the conventional PSC partners a 45% interest Lion's unconventional joint study application over a partially overlapping area.

Gross crude oil production from the Seram (Non Bula) PSC (Seram Project) during the quarter, was 268,383 barrels at 2939 bopd (73 bopd net to Lion's 2.5% interest). A lifting of 305,521 barrels of crude oil was completed on 30 December 2014. Based on positive 2014 development results, the Operator has proposed a Phase 3 development of the Oseil field, to significantly grow production and this is currently going through the required approval process. An independent reserves report as at 31 December 2014 was received post quarter end.

Also in the Seram Project, the Lofin-2 well spudded on 31 October 2014 and is being drilled to appraise the 2012 Lofin-1 discovery which flowed gas and some oil/condensate from the Manusela Formation. The well, operated by CITIC Seram Energy Ltd, has a planned total depth of 5425m. Lofin-2 is progressing relatively smoothly although the primary objective is now forecast to be penetrated in late-February/early-March 2015.

Planning for the Amanah Timur-1 well on the Paya Bili prospect in South Block A PSC advanced during the quarter. The well is designed to test stacked objectives including low-risk targets that produced oil prior to 1930, as well as higher-impact deeper unpenetrated targets. Interpretation of recently acquired seismic has also matured several high materiality gas/condensate prospects.

Commenting on the quarter Lion's CEO, Kim Morrison noted "Lion is well placed to prudently take advantage of opportunities we see emerging in the current oil price environment. We continue to maintain a strict control over expenditure, while at the same time progressing opportunities within our existing portfolio and new business activities. We are very pleased to deliver tangible progress with our Bohorok unconventional project, along with exploration and appraisal activities in South Block A and Seram PSC's."

### 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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### Directors & Officers

<b>Russell Brimage</b>	Executive Chairman
<b>Kim Morrison</b>	Chief Executive Officer
<b>Stuart Smith</b>	Executive Director
<b>Tom Soulsby</b>	Non-Executive Director
<b>Chris Newton</b>	Non-Executive Director
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## Operations update (2Q-FY15)

### South Block A PSC

Lion has a 35% interest in the South Block A PSC with other participants being RENCO Elang Energy Pte Ltd (51% interest and operator), a company majority controlled by Peak Oil and Gas Ltd (PKO), and PT Prosys Oil & Gas International (14%).

The underexplored block is centrally located in the prolific North Sumatra Basin and contains large structures with attractive gas and oil plays. The acquisition of a 183km 2D-seismic survey was completed on 2 April 2014. This targeted the Simpang, Djerneh, Amanah, Sungai Iyu and Paya Bili prospects and leads. These features have a combined P50 prospective resource<sup>1</sup> of 429bcf gas and 47mmbbl oil and condensate; Lion's equity share is 150bcf and 16.4mmbbl. The prospective resources are currently being re-assessed to incorporate the new seismic. The prospective resource for the Djerneh Prospect, in particular, is likely to increase.

Planning for the Amanah Timur well to test the well-defined Paya Bili Prospect continued during the quarter. The well which is planned for drilling in April 2015 has a planned total depth of approximately 700m. It will test shallow oil bearing sands in the Paya Bili Field which produced approximately 200,000bbl in two phases from 1903-05 and 1927-30. In addition, Amanah Timur-1 will test deeper sandstone sections in a crestal location on the Paya Bili feature.

Several larger gas/condensate targets are currently being matured for the subsequent drilling campaign, with the Djerneh Prospect emerging as the high-graded candidate.

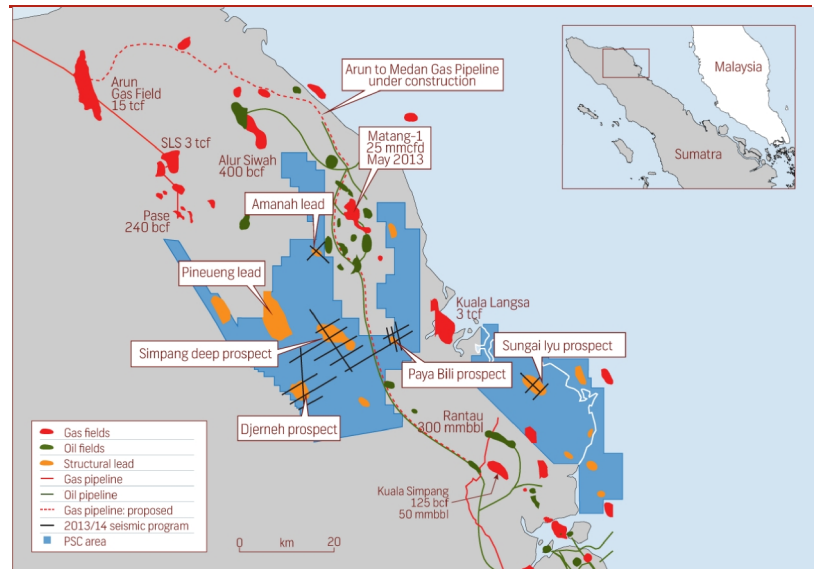
### Exploration Drilling

Planning for the Amanah Timur exploration well continued during the quarter. This included regulatory approvals and tendering for well services. Contracts for the drilling program are expected to be awarded in the current quarter.

### Expenditures

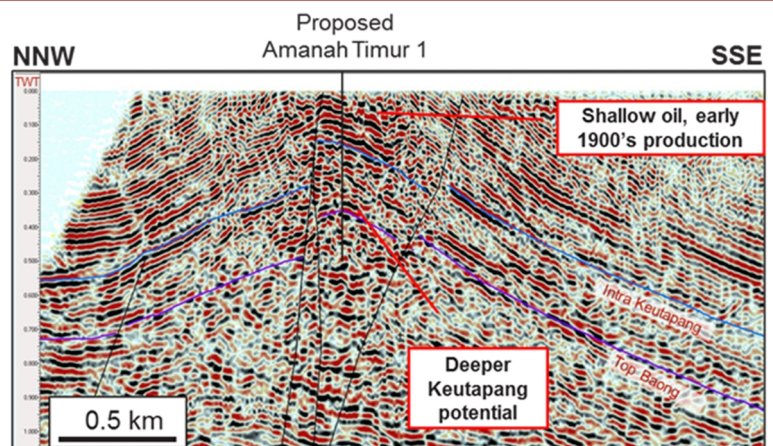
Lion's share of cash calls paid for the quarter was US\$177,000.

South Block A PSC – location map



<sup>1</sup>**Prospective resources:** the estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

Paya Bili Prospect (to be tested by Amanah Timur 1) – Seismic section



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## 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) PSC, located onshore 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 yielded cumulative crude oil production of 13,094,601 barrels since production started in January 2003 through to 31 December 2014.

### Production and revenue

During the quarter the daily production rate from the Oseil and surrounding oilfields averaged 2939 bopd (Lion's net working interest being 73 bopd, before FTP). This remains well ahead of Lion's budget forecast of 2500 bopd average production for the calendar year.

The steady uptrend in production has been maintained through the calendar year.

A lifting of 305,521 barrels of crude oil was completed on 30 December 2014. The selling price was US\$53.43/bbl. Lion's share of the lifting revenue of US\$408,118 (before FTP) is expected to be received in the first week in February 2015. The next crude oil lifting is expected in the first two weeks of May 2015, with receipt of funds net to Lion approximately 35 days thereafter.

### Expenditures

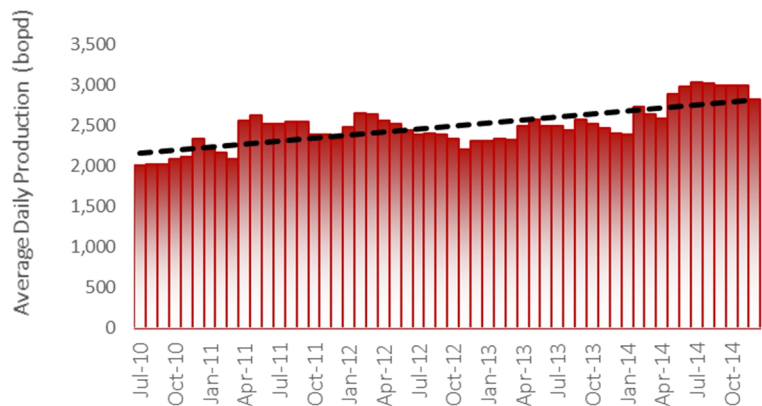
Seram (Non Bula) PSC	Exploration	Development	Production
	US\$	US\$	US\$
Expenditure net to Lion (2Q-FY15) <sup>1</sup>	217,858	(44)	182,089

Note 1 – The expenditures herein are Seram PSC results and may differ from Lion's financial reporting due to timing differences

Seram (Non Bula) Block PSC location Map



Seram (Non Bula) Block Daily Production per Calendar Month (bopd)



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## Reserve report

An updated reserves report commissioned by the operator of the Seram Project by US company, DeGoyler & McNaughton (D&M), was received post quarter-end. The report is effective 31 December 2014, and is based on 2014 gross production of 1036mbbl (2838 bopd).

The report shows an increase in Proven Developed reserves (2014: 2409mbbl compared to 2013: 2376mbbl) reflecting a 1069mbbl positive revision, representing a 103% reserves replacement ratio. The increase is primarily based on success outcomes in Oseil-21 and Oseil-26 development wells in the Oseil 2 area of the Oseil field. Importantly, Lion uses Proven Developed reserves as the basis for its depreciation and amortisation calculations.

Total Proven (1P) reserves for the Oseil area (ie. both developed and undeveloped) decreased by approximately 7% (after accounting for 2014 production). The D&M report also reduced 2P and 3P estimates over 31 December 2013 estimates as shown in the table below. These reserve reductions relate to changes in assumptions regarding development drilling and movement of volumes previously classified as Reserves by D&M to "Contingent Resource" category in respect of satellite accumulations (Neif Utara, Oseil Selatan, East Neif field areas).

Reserves	D&M Reserves (Gross)			D&M Reserves (Net to Lion)		
	1P (mbbl)	2P <sup>2</sup> (mbbl)	3P <sup>2</sup> (mbbl)	1P (mbbl)	2P <sup>2</sup> (mbbl)	3P <sup>2</sup> (mbbl)
EOY 2013	6103	9362	14,898	152.575	234.05	372.45
Production	(1036)	(1036)	(1036)	(25.9)	(25.9)	(25.9)
Revision	(321)	(2779)	(4221)	(8.0)	(69.475)	(105.525)
EOY 2014	4746	6907	9641	118.65	172.675	241.025
Contingent Resources	D&M Contingent Oil Resources <sup>4</sup> (Gross)			D&M Contingent Oil Resources <sup>4</sup> (Net to Lion)		
	1C (mbbl)	2C (mbbl)	3C (mbbl)	1C (mbbl)	2C (mbbl)	3C (mbbl)
EOY 2013	723	1657	37,211	36.15	82.85	1860.55
Revision	719	1449	1935	35.95	72.45	96.75
EOY 2014	1442	3106	39,146	72.1	155.3	1957.3

1. Hydrocarbon reserves and resource estimates are expressions of judgment based on knowledge, experience and industry practice. Estimates that were valid when originally calculated may alter significantly when new information or techniques become available. Additionally, by their very nature reserve and resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. As further information becomes available through additional drilling and analysis, the estimates are likely to change. This may result in alterations to development and production plans which may, in turn, adversely affect the company's operations.
2. Incremental probable (2P) and possible (3P) reserves may not be produced before the expiry of the PSC in 2019, and success of the planned joint venture application to extend the PSC beyond this date may be required in order for these reserves to be produced.
3. Reserves have been estimated using the deterministic method.
4. Contingent resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingent resources have an associated chance of development (economic, regulatory, market and facility, corporate commitment or political risks). These estimates have not been risked for the chance of development. There is no certainty that any portion of the contingent resources will be developed and, if 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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## Lofin-2 Appraisal well

The Lofin-2 appraisal well spudded on 31 October 2014. The well is being drilled to appraise the 2012 Lofin-1 discovery which flowed gas and some oil/condensate from the Manusela formation. The well is operated by CITIC Seram Energy Ltd (51%) with other co-venturers being: Kufpec (Indonesia) Ltd (30%) and Gulf Petroleum Investment Company (16.5%).

Lofin-2 has a planned total depth (TD) of 17,800ft/5425m MD with the primary objective Manusela formation projected at 14,795ft/4509m TVD. The primary objective is forecast to be penetrated in late February/early March 2015. The well TD may be revised shallower if results indicate the well is no longer in a hydrocarbon column.

The projected TD will make Lofin-2 one of the deepest well penetrations undertaken in Indonesia and the joint venture has worked hard to ensure the best of engineering standards and practices will be utilised. A US specialist company was engaged to review relevant data and produced a comprehensive report with recommendations on all facets of the Lofin-2 well including: data acquisition; geological & geophysical analysis; the drilling program; well completion; testing program; risk analysis and contingency plans. Consultants from this company will be utilized during critical periods of the well to provide drilling and testing advice.

The estimated well cost is approximately US\$33 million, inclusive of provision for completion, stimulation and flow testing.

## Current Status of Lofin-2

The current status of the Lofin-2 well is summarized below.

- The well spudded 31 October 2014.
- 13 3/8 inch casing was run and cemented at 2291m MD.
- Drilling ahead in 12 1/4 inch hole at 3612m with 9 5/8 inch casing point planned at approximately 3657m.

Whilst the well is progressing relatively smoothly, slower drilling than predicted of the 12 1/4 inch hole section has resulted in the well being currently approximately 28 days behind the initial prognosis.

## Plan of Further Development

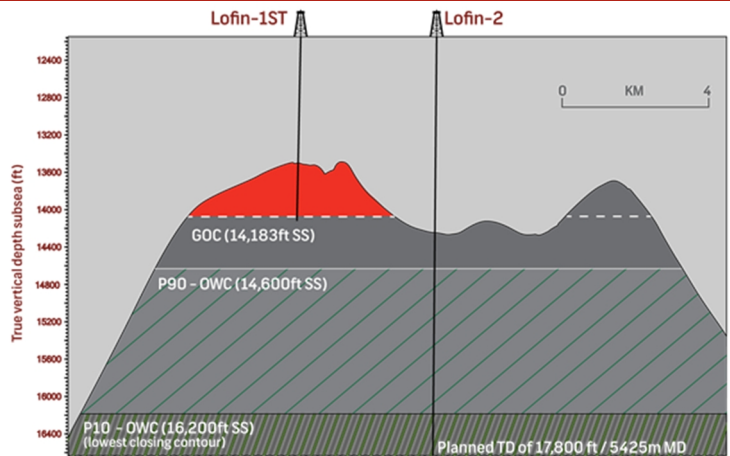
The Seram Joint Venture has a proposed plan of further development (or Phase 3 Development) for the Oseil field, with the area of interest being around the Oseil-2 well field. Investment in the Oseil Field Phase 1 Development was commenced in January 2000 and Phase 2 in March 2004. The area of Phase 1 and Phase 2 Development covered the Oseil-1/4 and Oseil-2 areas and provided for the drilling of 18 wells, which have been drilled.

The Phase 3 development plan is proposed to include the drilling of up to 10 additional horizontal wells, three of which have already been drilled under a negotiated arrangement with the regulatory body prior to approval of Phase 3.

The Phase 3 Plan of Development is currently under consideration by the Indonesian regulatory body SKK Migas, and subject to approval, will commence immediately a suitable rig is mobilised to site. The rig tender process is at an advanced stage in anticipation of the approval of Phase 3 by the regulatory body.

Production during Phase 3, plus production from existing wells, is expected to increase to approximately 4,500 bopd based on forecasts prepared by the operator. Economic evaluation was carried out on a 5.5mmbbl incremental reserves case as a result of Phase 3.

Lofin Structure – Schematic Cross-section



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## Transaction involving Bohorok conventional PSC holders

During the quarter, Lion announced it will join forces with conventional PSC holders Bukit Energy Ltd and New Zealand Oil & Gas Ltd to jointly explore an area within the prolific North Sumatra Basin. As part of the transaction Lion has an option to acquire a 15% interest in the conventional Bohorok PSC; and the conventional PSC partners have the opportunity to acquire a 45% interest in Lion's unconventional joint study application over a partially overlapping area.

Lion holds rights to an unconventional joint study application, dated 7 May 2012, that covers ~5000 km<sup>2</sup> in the area of the Bohorok PSC. The area is located just to the south of the first unconventional PSC in Indonesia awarded to Pertamina in 2013 (Sumbagut MNK PSC) and our analysis indicates it contains key geological and logistical elements essential for prospective unconventional acreage.

The Bohorok PSC was signed on 20 July 2012. It is surrounded by oil and gas fields and located close to Medan, Indonesia's 3<sup>rd</sup> largest city. The block is operated by Indonesian focused private company Bukit Energy Bohorok Pte. Ltd. with New Zealand Oil & Gas Ltd as co-venturer. The existing PSC holders have recently completed a 206 km 2-D seismic survey over the block and interpretation of the data is ongoing. The current plan is to drill a well-defined gas condensate prospect in 4Q-2015.

The transaction creates alignment between parties in the conventional PSC and unconventional rights which has been encouraged by the Indonesian regulator and will significantly improve efficiency of exploration for both the conventional and unconventional potential of the area. With the transaction finalised, the way is now clear for the award of the unconventional Joint Study.

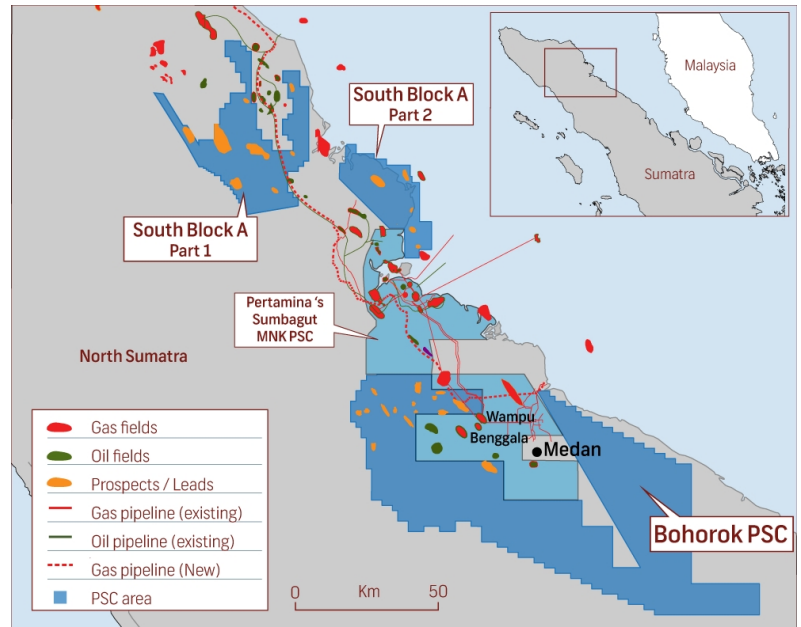
### Interests

Interest holders in the Bohorok unconventional joint study application and the Bohorok conventional PSC (in the event that Lion exercises its option) are as follows:

	Unconventional Joint Study Application		Bohorok PSC should Lion exercise its option	
	Current	Post farmin	Current	Post farmin
	%	%	%	%
Lion Energy	100.0	55.00	-	15.00
Bukit Energy	-	20.25	45.0	38.25
New Zealand Oil & Gas	-	20.25	45.0	38.25
Surya Buana Lestarijaya	-	4.50*	10.0	8.50*

Notes: Interest holders refer to the ultimate holding company. The direct interests would be held via special purpose vehicles, as required by the PSC.  
\*SBL interest subject to separate transaction involving Bukit and NZOG

Bohorok PSC and South Block A PSC– location map



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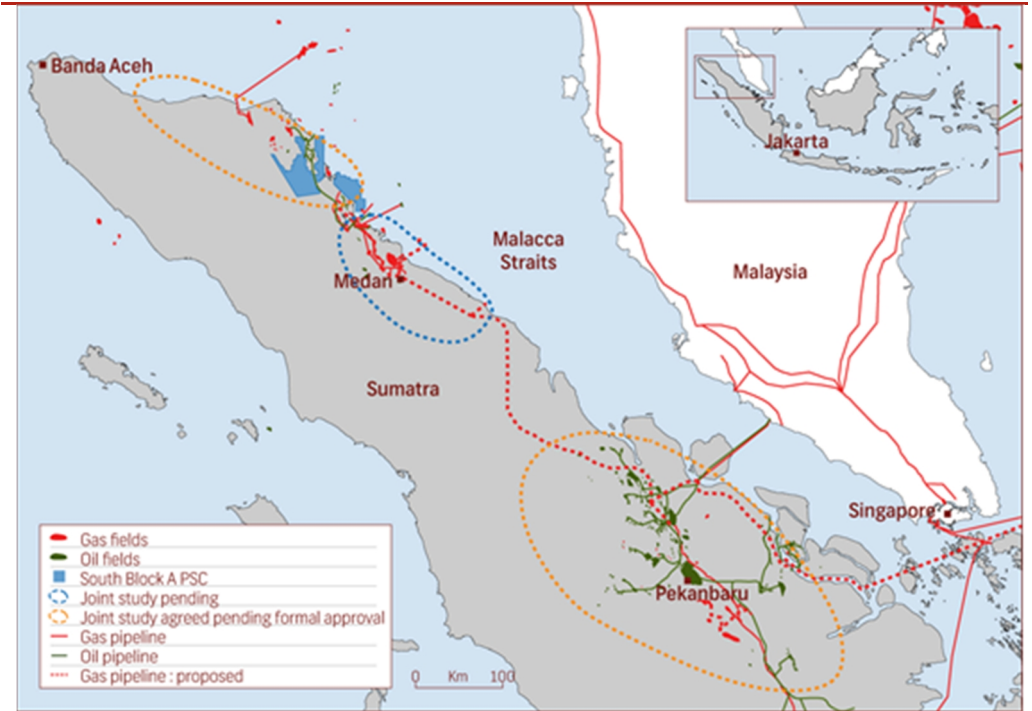
## Unconventional Joint Study Applications

Lion has submitted Joint Study Applications for potential oil and gas unconventional areas in onshore Indonesia covering a total area of about 17,334km<sup>2</sup>. 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.

Good progress was made during the quarter with ongoing engagement with the Indonesian regulators and other operators in the area. The deal outlined above for the Bohorok PSC conventional participants paves the way for the award of the unconventional application in this area.

Lion also signed a Memorandum of Understanding with a conventional right holder in the area of one of our two Central Sumatran unconventional applications which is expected to assist the award of the Joint Study over this area.

Map of area of Unconventional Applications



Additional details on each of Lion's unconventional projects can be found on the company's website ([www.lionenergy.com.au](http://www.lionenergy.com.au)) and in the prospectus lodged with the ASX on 6 November 2013.

## List of tenements

Tenement or licence area	Lion's beneficial interest	Change during the quarter	Comments
Indonesia			
Seram (Non-Bula) Production Sharing Contract	2.5%	No change	Interest held through Lion wholly owned subsidiary Lion International Investment Ltd.
South Block A Production Sharing Contract	35.0%	No change	Interest held through Lion wholly owned subsidiary KRX Energy Pte Ltd (KRX).

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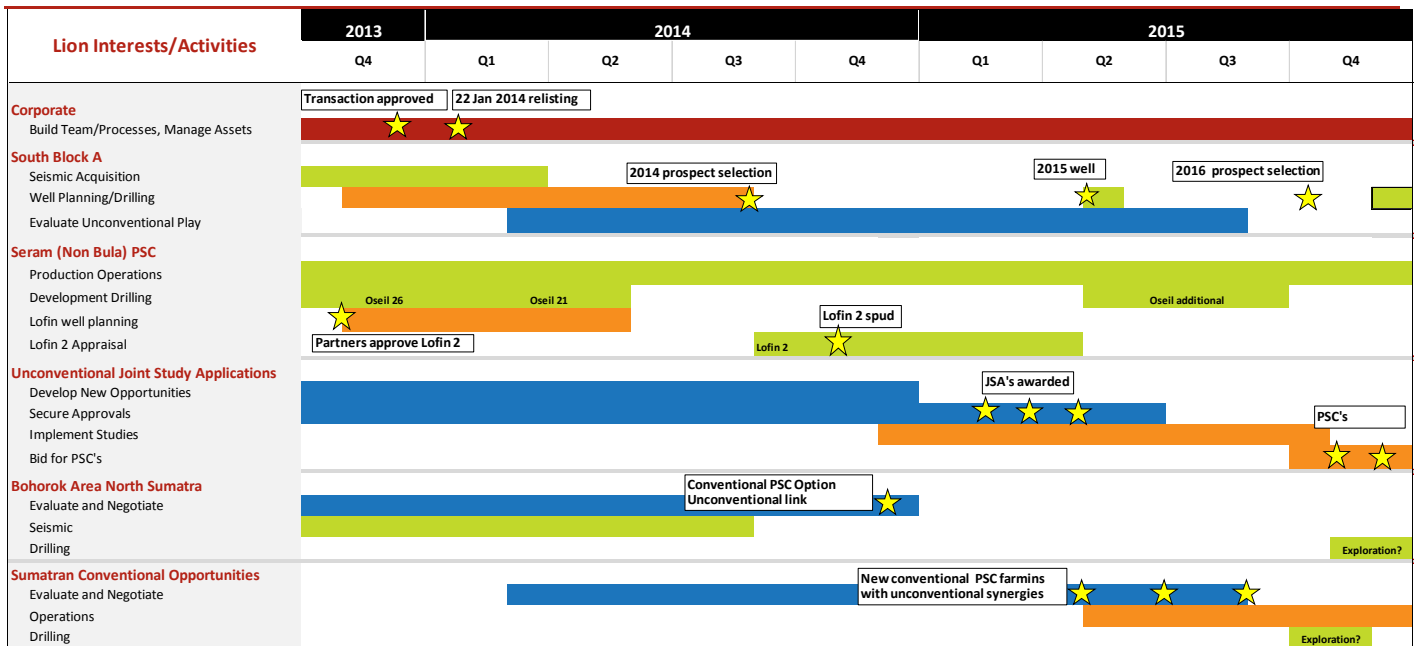
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## Activity schedule

Lion has an active 2015 exploration schedule as depicted in the following chart:

Activity and key event timeline (4Q-2013 to end-2015)



## Competent Persons Statement: Qualified Petroleum Reserves and Resources Evaluator

Pursuant to the requirements of the ASX Listing Rules Chapter 5, the technical information, reserve and resource reporting provided in this document 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 B.Sc. (Hons) in Geology and Geophysics from the University of Sydney and has more than 28 years of experience in exploration, appraisal and development of oil and gas resources –including evaluating petroleum reserves and resources. Mr Morrison is a member of the American Association of Petroleum Geologists (AAPG). Mr Morrison consents to the release of this announcement and to the inclusion of the matters based on the information in the form and context in which it appears.

### Glossary

bbl: barrels	mmscfd: million standard cubic feet of gas per day	psi: pounds per square inch feet
bcf: billion cubic feet	mmbbl: million barrels	tcf: trillion cubic
bopd: barrels oil per day	MD: measured depth	ss TVD: sub-sea true vertical depth
BOP: blow out preventer	PSC: Production Sharing Contract	TD: total depth
FTP: first tranche petroleum		

END