

# Quarterly Report

1 January to 31 March 2015



## Key milestones achieved in positive start to 2015

### Highlights

- **Award of two unconventional joint studies within the prolific North and Central Sumatra Basins**
- **Lofin-2 appraisal well encounters significant hydrocarbon shows, testing planned**
- **Seram production averaged 2856 bopd and is set to grow with further development drilling underway**
- **Extension of time for South Block A drilling commitment in progress to allow high impact gas condensate prospect to be evaluated**

Lion made a major step forward with its conventional/unconventional linked strategy during the quarter, with the award of two unconventional joint studies. The studies are located in the world-class hydrocarbon provinces of the North Sumatra and Central Sumatra Basins and cover a total area of 7165km<sup>2</sup>. The studies are expected to take around eight months and will confer upon Lion and its partners a priority right to production sharing contracts.

The Lofin-2 appraisal well in the Seram PSC (Lion 2.5% interest) showed positive indications of a significant gas/liquids accumulation. Post quarter end, the well reached a depth of 5471m MD (5348m ssTVD) and wireline logs, pressures and samples obtained have resulted in a decision to drill deeper to fully penetrate the potential hydrocarbon column. It is planned for the well to be flow tested after the revised TD has been reached.

Gross crude oil production from the Seram Project for the quarter, was 257,032 barrels at 2856 bopd (71 bopd net to Lion's 2.5% interest). Revenue of US\$408,118 was received from a lifting of 305,521 barrels of crude oil made in December 2014. A new phase of development drilling commenced with the spud of Oseil-27. At quarter end the well was drilling ahead at 933m MD (654m ssTVD).

In South Block A PSC (Lion 35% interest) approval from the Government is in progress to extend the primary 6-year term of the PSC, which would move the date for drilling the commitment well to end 2016. The joint venture is currently evaluating potential drilling targets delineated by the 2014 seismic survey, including the world-class Djerneh gas/condensate prospect and the lower-risk Amanah Timur oil prospect.

Lion's CEO, Kim Morrison noted "Lion achieved a number of key milestones during the quarter and is well positioned to build on this success throughout the remainder of 2015. The award of the unconventional joint studies is an important step in building an impressive unconventional acreage position in Sumatra. We are also particularly encouraged by the results of the Lofin-2 well, which support a potentially significant hydrocarbon column and we look forward to the planned testing program."

### Lion at a glance

- ASX listed oil and gas E&P company focused on Indonesia, with two conventional PSC's.
- An early mover in Indonesia's fledgling unconventional oil & gas industry.
- 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 our business plan.

### Contact

#### Lion Energy Limited

ABN 51 000 753 640

ASX Code: LIO

Ground Floor, 15 Rheola Street  
West Perth  
WA 6005, Australia

Post Box 512

West Perth Business Centre  
WA 6872, Australia

Tel +61 8 9211 1500 | Fax +61 8 9211 1501

info@lionenergy.com.au

[www.lionenergy.com.au](http://www.lionenergy.com.au)

### Directors & Officers

<b>Russell Brimage</b>	Executive Chairman
<b>Kim Morrison</b>	Chief Executive Officer
<b>Stuart B. Smith</b>	Executive Director
<b>Tom Soulsby</b>	Non-Executive Director
<b>Chris Newton</b>	Non-Executive Director
<b>Zane Lewis</b>	Company Secretary

### For more information contact

#### Kim Morrison

+61 404 490 964

kmorrison@lionenergy.com.au

#### Stuart Smith

+65 9820 3889

ssmith@lionenergy.com.au

#### Zane Lewis

+61 400 007 900

zlewis@lionenergy.com.au

# Quarterly Report

1 January to 31 March 2015



## Operations update (3Q-FY15)

### South Block A PSC

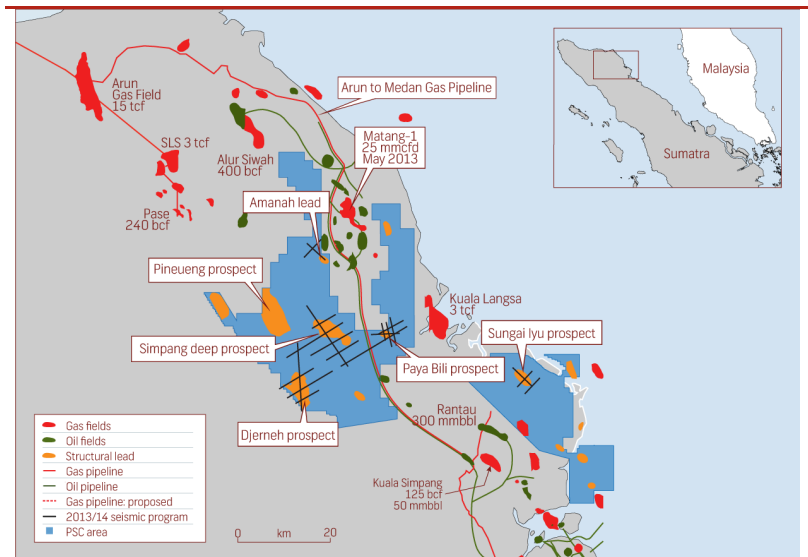
Lion has a 35% interest in the South Block A PSC with other participants being RENCO Elang Energy Pte Ltd (51% interest and operator), a company majority controlled by Peak Oil and Gas Ltd (PKO), and PT Prosys Oil & Gas International (14%).

The underexplored block is centrally located in the prolific North Sumatra Basin and contains large structures with attractive gas and oil plays. The region has a strong demand and high priced gas market and a new open access pipeline connected to Medan extends through the Lion acreage.

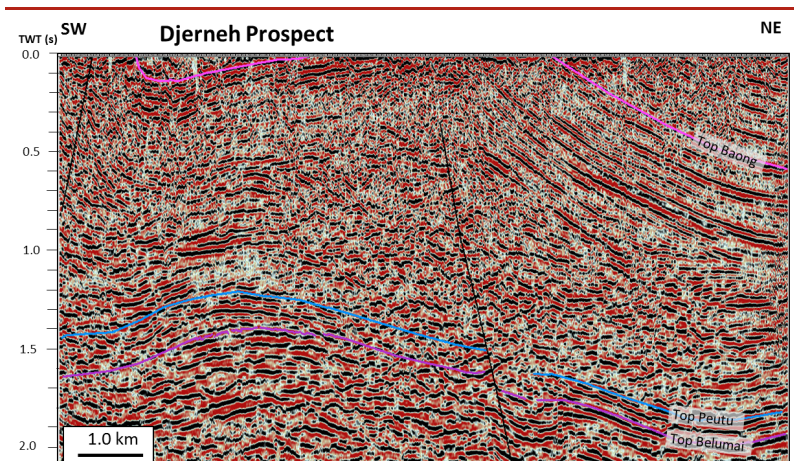
The acquisition of a 183km 2D-seismic survey was completed on 2 April 2014. This targeted some of the high ranked prospects in the block. The Paya Bili (shallow oil), and deeper Djerneh (gas-condensate) prospects, in particular, were shown to be highly attractive drilling targets.

A recently completed evaluation by Lion has resulted in a significant upgrade to the prospective resources for the Djerneh Prospect in the west of the block. The Peutu limestone and Belumai sandstone, which are major reservoirs in the basin, are the primary objectives.

South Block A PSC – location map



Djerneh Prospect – Seismic section



Djerneh Prospect	Prospective resources <sup>1</sup>		
	P90	P50	P10
Gas (bcf)	64	223	760
Condensate (mmbbl)	1.5	6.3	17.6
Combined (mmboe)	12.1	42.5	144.3

Volumes for Peutu and Belumai objectives

Additional potential is recognised for the overlying Middle Miocene sandstones of the Baong Formation although this has not yet been estimated.

<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.

### Exploration Drilling

The joint venture is currently assessing the merits of drilling shallow, low risk oil prospect (Amanah Timur-1 on the Paya Bili Prospect) versus the higher impact of drilling the Djerneh prospect.

# Quarterly Report

1 January to 31 March 2015



## Extension of term

During the quarter meetings were held with the Indonesian regulator that resulted in provisional agreement for an extension of the primary 6-year term of the PSC. This would extend the deadline for the joint venture to drill the commitment well from May 2015 to December 2016 and enable the joint venture to review exploration well options which will include the attractive Djerneh gas/condensate prospect. The extension is currently awaiting formal Indonesian Government approval.

## Expenditures

There were no cash calls payable during the quarter.

## Seram (Non-Bula) Block PSC

Lion, via its wholly owned subsidiary, Lion International Investment Ltd, holds a 2.5% participating interest in the Seram (Non-Bula) Block 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 13,349,119 barrels since production started in January 2003 through to 31 March 2015.

## Production and revenue

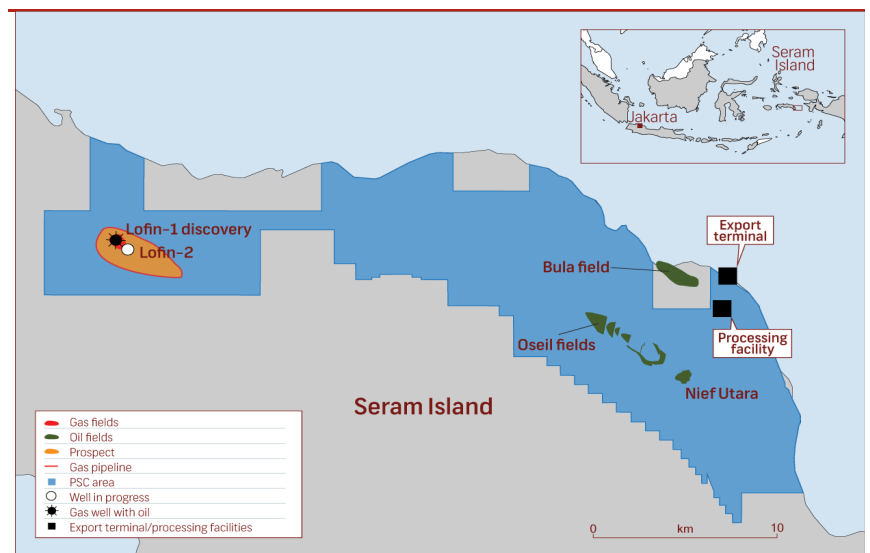
During the quarter the daily production rate from the Oseil and surrounding oilfields averaged 2856 bopd (Lion's net working interest being 71 bopd, before FTP).

Lion has revised its projections for the 2015 calendar year to 2900 bopd average, above the forecast of 2500 bopd average used in the 2014 calendar year.

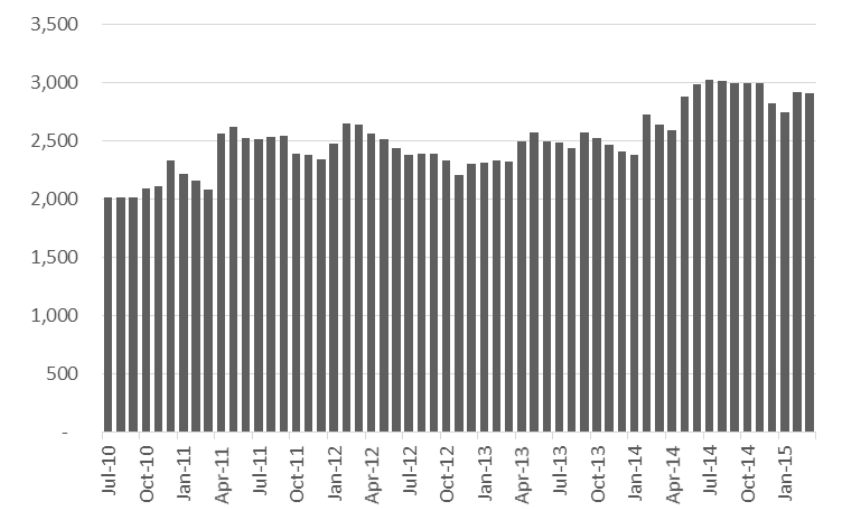
The steady uptrend in production has been maintained into 2015 and a positive result from the current development well drilling at Oseil-27 should ensure this trend continues.

Crude oil available for lifting at 31 March 2015 was 244,688 barrels. A lifting of approximately 350,000 barrels is scheduled for mid-May 2015, with receipt of funds net to Lion approximately 35 days thereafter.

Seram (Non Bula) Block PSC - Location Map



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



# Quarterly Report

1 January to 31 March 2015



## Expenditures

Seram (Non Bula) PSC	Exploration	Development	Production
	US\$	US\$	US\$
Expenditure net to Lion (3Q-FY15) <sup>1</sup>	364,442	11,588	130,849
Note 1 – The expenditures herein are Seram PSC results and may differ from Lion’s financial reporting due to timing differences			

## 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 (16.5%).

Lofin-2 had a planned total depth (TD) of 5425m MD (5321m ssTVD) with the primary objective Manusela formation projected at 4488m MD (4384m ssTVD). The primary objective was intersected at 4615m MD (4508m ssTVD), some 125m deeper than expected. As at mid April the well was at a depth is 5471m MD (5348m ssTVD), slightly below the initial planned total depth of 5425m MD, as the well continues to encounter hydrocarbon shows.

Wireline logging of the current open-hole section has provided strong evidence that the hydrocarbon column continues deeper and therefore plans are to drill to a revised Total Depth of 5852m MD/5729m ssTVD at which point further evaluation using wireline electric logging and flow testing will be undertaken.

The revised 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 are being 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 have been utilized during critical periods of the well to provide drilling advice.

Due to the additional deepening program, the estimated well cost has been revised from approximately US\$33 million to approximately US\$38 million (Lion share US\$0.95 million), inclusive of provision for completion, stimulation and flow testing.

## Current Status of Lofin-2

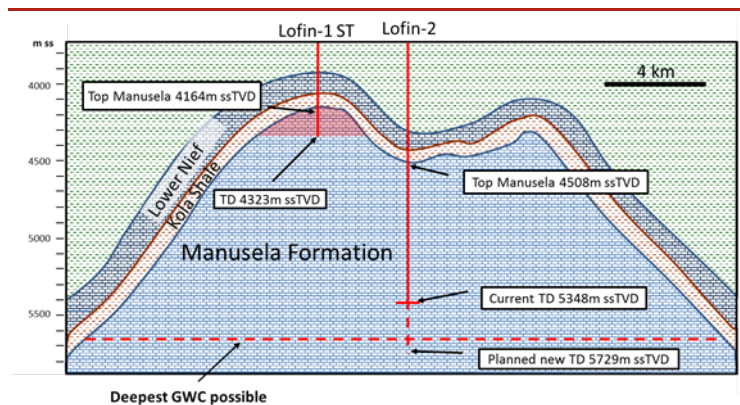
The current status of the Lofin-2 well is summarized below.

- The well spudded 31 October 2014.
- 13 3/8 inch casing was run and cemented at 2291m MD.
- 9 5/8 inch casing was run and cemented at 3661m MD.
- 7 inch liner casing was run and cemented at 4619m MD.
- Current depth 5471m MD in 6 inch hole.
- Wireline electric logs have been run across the open hole section from 4619m MD to current depth of 5471m MD.
- Wireline formation testing using a Modular Formation Dynamics Tester has been run at several intervals in the open hole Manusela Formation section to secure accurate pressure data and formation samples.

## Insurance Claim on Lofin-1

The Lofin-1 well spudded on 17 January 2012. A well incident during the drilling of the well was categorized as Well Control and Redrill, the expense of which was classified as claimable under the joint venture’s insurance policy. On 29 January 2015 the Loss

Lofin Structure – Schematic Cross-section



# Quarterly Report

1 January to 31 March 2015

---



Adjustor confirmed acceptance to a claim value. Lion's share of that insurance payout was US\$181,236, which the company has subsequently received in full.

## Plan of Further Development (POFD)

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.

The Oseil-27 development well is the fourth well in the POFD and was spudded on 27 February 2015.

## Current Status Oseil-27 Development well

- 30 inch surface casing was set at 88.7m MD.
- 20 inch casing was set and cemented at 364m MD.
- 13 3/8 inch casing was run and cemented at 1605m MD.
- 9 5/8 inch casing was run and cemented at 1872m MD.
- Current depth 1873m MD.

The primary objective Manusela Formation is expected to be at 1962m TVD (1556m ssTVD), with the well planned TD being 2346m MD.

The initial production rate anticipated from this new development well is 500 bopd, based on the performance achieved from the two prior development wells in the same area, Oseil-21 and Oseil-26.

# Quarterly Report

1 January to 31 March 2015



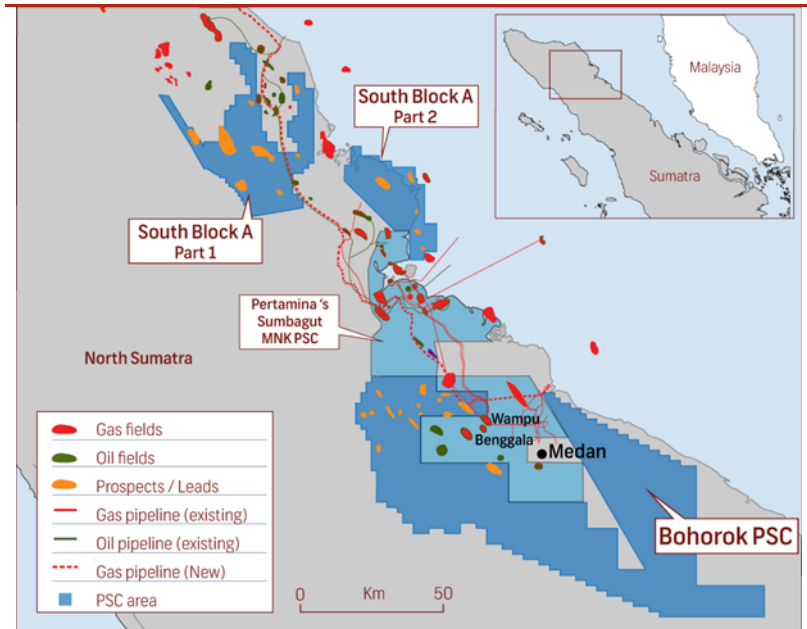
## North Sumatra Unconventional Joint Study

The unconventional Joint Study covering 4684km<sup>2</sup> was awarded on 20 February 2015. The Lion joint study area is located to the south of South Block A PSC in which Lion holds a 35% interest and is in close proximity to the first unconventional PSC in Indonesia awarded to Pertamina in 2013 (Sumbagut MNK PSC).

Lion will hold a 55% interest in the joint study with the partly overlapping conventional PSC holders (Bukit, New Zealand Oil and Gas and SBL) having 45% interest. The cooperation with conventional holders will allow the joint venture to capture significant synergies between conventional and unconventional exploration

The North Sumatra Basin is one of the major onshore basins in the SE Asian region with over 25 tcf of gas and over 1.3 billion barrels of oil and condensate discovered. Lion's evaluation recognises that key elements are in place essential for prospective unconventional (shale gas/oil and tight gas/oil) acreage:

Bohorok PSC and South Block A PSC– location map



- **Suitable geology.** The key unconventional targets have properties analogous to successful unconventional plays in North America, including good quality marine oil and gas source rocks;
- **Access to infrastructure and markets.** There is significant gas demand in the area with extensive pipeline infrastructure and Indonesia's third largest city, Medan, in close proximity. Medco, the operator of the Block A PSC to the north of the joint study area, recently announced the signing of a gas sales agreement at a price of US\$9.45/mmbtu which highlights the strength of the region's gas demand.
- **Attractive operational environment.** The area has a long history of oil and gas exploration and production and has accessible terrain.

Preliminary evaluations by Lion indicate significant gas and liquids potential in a number of attractive unconventional plays in the joint study area. The joint study, to be undertaken with an assigned University, is designed to quantify the unconventional prospective resources which have potential to be in the multi-tcf gas, multi-hundred million barrel oil/condensate range.

- At the completion of the joint study, subject to approval of the regulator, an area of up to 3000 km<sup>2</sup>, comprising the most prospective parts of the joint study area, will be selected to form the subsequent PSC area. Each party shall have the option to jointly participate in the direct award bid round for the unconventional PSC that will be offered by the Government of Indonesia.
- Lion will operate the joint study phase. Bukit will be the initial operator of the unconventional PSC, if awarded, until the completion of the 3-year firm work commitment, at which time the parties shall meet to review the operatorship. If Lion still holds 51% of the PSC at that time it will have the right to become operator, subject to Government approval.
- As part of the agreement Lion had an option to enter the Conventional PSC for a 15% interest by paying back costs and a promoted share of the cost of the seismic survey. Due to industry conditions Lion has elected not to exercise this option although will evaluate possible participation in the Bohorok PSC closer to the drill date of the planned conventional exploration well.

# Quarterly Report

1 January to 31 March 2015



*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*

Interest holders in the Bohorok unconventional joint study application are as follows:

Unconventional Joint Study	Interest
	%
Lion Energy	55.00
Bukit Energy	20.25
New Zealand Oil & Gas	20.25
Surya Buana Lestarijaya	4.50

## Central Sumatra Unconventional Joint Study Area

An unconventional Joint Study, covering 2481km<sup>2</sup>, located in the east of the Central Sumatra Basin covering part of the Bengkalis Graben was awarded on 20 February 2015.

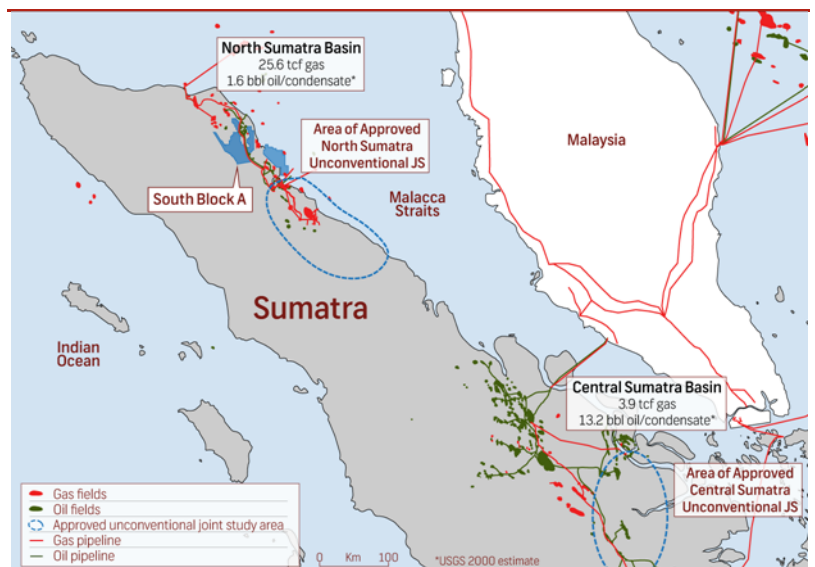
Lion has a 75% interest in this joint study. The conventional rights holders in the area of the joint study have an option to maintain a 25% interest in the resultant PSC, if awarded, by paying 25% of the joint study costs at completion of the study. Lion in return will evaluate the conventional potential of the area with the opportunity to review an interest if technically warranted. This cooperation between conventional and unconventional rights holders is a key to Lion's strategy to capture significant synergies in exploration and appraisal of the region.

The Central Sumatra Basin is a world class petroleum province with over 13 billion barrels of oil discovered. The Bengkalis Graben, located in the east of the basin, is one of a number of prolific depo-centres within the province. It hosts major discoveries which provides encouragement for the unconventional potential (shale gas/oil and tight gas/oil). Evaluation by Lion indicates the prospective source rocks in the area are at a suitable maturity and depositional setting to be highly attractive unconventional targets.

Preliminary evaluation indicates significant gas and liquids potential in a number of attractive unconventional plays within the joint study area. The joint study program is designed to quantify the unconventional prospective resources in the application area which have the potential to be in the tcf gas, multi-hundred million barrel oil range. Potential in-place unconventional reserves for the Central Sumatra Basin are estimated at 69 billion barrels oil and condensate and 42 tcf of gas (EIA, 2013).

At the completion of the joint study, subject to approval of the regulator, an area of up to 3000 km<sup>2</sup> comprising the most prospective parts of the joint study area will be selected to form the subsequent PSC area. Each party shall have the option to jointly participate in the direct award bid round for the unconventional PSC that will be offered by the Government of Indonesia. Lion will operate the joint study phase and any subsequent unconventional PSC if awarded.

North and Central Sumatra – Joint Study Areas Location Map



# Quarterly Report

1 January to 31 March 2015



## Central Sumatra unconventional joint study interest holders

Unconventional Joint Study	Interest
	%
Lion Energy	75.00
Conventional PSC rights holder	25.00

## Unconventional Joint Study Applications

In addition to the two approved joint studies, Lion has submitted two additional Joint Study Applications for potential oil and gas unconventional areas in onshore Indonesia covering a total area of about 10,000km<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 rights holders in the area.

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
<b>Indonesia</b>			
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).

## Corporate

### Accounting Policy

In its Interim Financial Report to 31 December 2014, Lion announced a change in functional and presentation currency to US dollars. This is the first Quarterly to adopt this change in policy and all future financial reporting will be in US dollars.

The reason for the change as explained in the Interim Financial Report is that the US dollar is the currency that mainly influences the revenues and costs of both the parent entity and each of its subsidiaries.

### Legal

In its Quarterly Report to 31 December 2011, released on 25 January 2012, the Company advised it had initiated legal proceedings against former directors of the Company, in an attempt to recover a settlement paid by Lion in the Tulloch Lodge claim. A settlement has been agreed between Lion and the former directors, individually. The terms of the agreed settlements are confidential between the parties.



# Quarterly Report

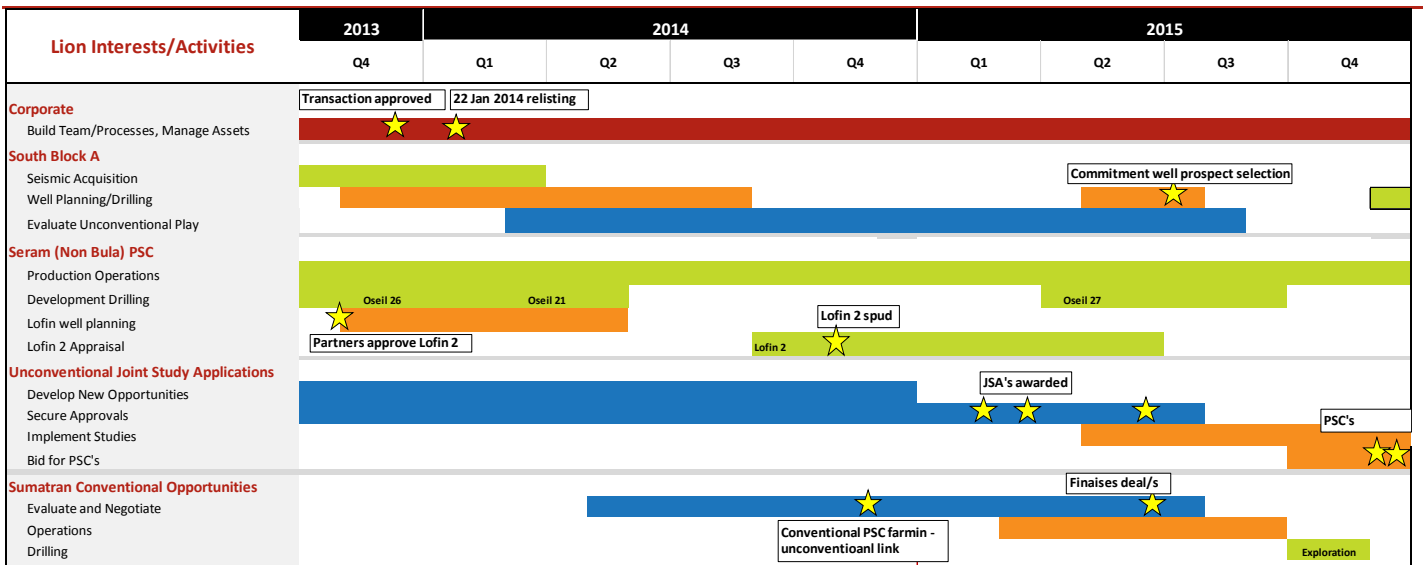
1 January to 31 March 2015



## 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