

Chairman's Letter

Charting progress since January 2014

Dear Fellow Shareholder,

I am writing this important letter to you in my capacity as Chairman of the company, as well as a fellow shareholder. Since January 2014, Lion Energy has undergone a complete transformation into a company unique amongst its peers. Neither the market nor, I suspect, many shareholders, fully appreciate Lion's evolution and the compelling attributes that make it such an exciting opportunity for us as shareholders to participate in wealth creation.

I urge you to read on for a few minutes as I lay out what I believe are the most attractive key elements of Lion and chart the company's actual progress to current times.

Progress since 2014

Lion's transformation over the last 16 months is a result of new funding, new supportive shareholders, new management, existing asset enhancement and new opportunities. Operationally to date, we have made significant progress - specifically:

- **Better than expected oil production:** Exceeded our forecasts and expectations for oil production in our existing Seram block.
- **Hit key milestones:** Achieved all our target milestones.
- **Granted two awards:** We have added two new assets, via the award of unconventional joint studies, with two further applications currently being advanced.
- **Enhanced value of existing assets:** Successful appraisal drilling in Seram has further increased the size of the Lofin discovery. Additionally, South Block A's prospectivity has been significantly upgraded due to our successful seismic acquisition and interpretation.

Lion's key attributes:

- **Proven and motivated management:** Lion's board, executives, advisors and major shareholders are already proven creators of shareholder value in the petroleum industry with motivation to do so again by having significant "skin in the game". They all have extensive Indonesian experience.
- **Strategy multiplier:** Lion's objectives seek short term conventional revenue generation, whilst concurrently exploiting associated unconventional upside.
- **We are where oil and gas is:** We operate in Sumatra, Indonesia – which has 3 of Asia Pacific's top 10 onshore conventional hydrocarbon basins. No Australian onshore basin rank in the top 10.
- **Attractive gas prices:** Lion's primary focus is on gas production. Indonesia's domestic natural gas shortfall and growing demand translate to amongst the world's highest gas prices offsetting the current low oil price market negativity.
- **Established oil and gas environment:** Indonesia is a low sovereign risk country with a production sharing system that has, and continues, to attract more global companies than any other SE Asian nation to explore and produce oil and gas - including BP, Exxon, Total and Australian companies Santos and AWE.

Let me now expand in more detail on these points I have just highlighted.

Opportunities from capability in both conventional and unconventional

Lion's skill set and strategy in Indonesia encompasses targeting both conventional and unconventional oil and gas – as opposed to the more typical approach by peers of either one or the other. Our rationale is that this naturally occurring combination significantly increases our commercially viable opportunities, while also providing cost efficiency and operational synergies.

Specifically, conventional oil and gas is the foundation of the company's strategy, with unconventional opportunities offering substantial upside. Significant progress has been made in both since January 2014:

Conventional progress: production gains and value enhancement

- Seram has outperformed oil production forecasts, delivering over US\$2m revenue net to Lion in 2014.
- Seram's Lofin-2 drilling has encountered a significant hydrocarbon reservoir. This is currently being evaluated and results from this exciting exploration discovery are expected in the coming weeks.
- South Block A's prospects have been significantly enhanced by successful 2D seismic interpretation. The company is currently evaluating the most commercially attractive option for short term revenue generation from a combined gross prospective resource of 429bcf gas and 47 million barrels oil.

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

Unconventional progress: new awards in oil and gas rich areas

- In North Sumatra, Lion has been awarded a joint study covering 4,684km² and is the operator with 55%. 45% is held by the partners of a partly overlapping conventional PSC.
- In Central Sumatra, Lion has been awarded a Joint Study covering 2,478km² and is the operator with 75%. The conventional rights holder of a partly overlapping area, has a 25% interest.
- Three further award applications are in process, with potential for Lion to secure an acreage position near 2 million net acres in the most prospective unconventional plays in Indonesia. Early assessments point to multi-tcf gas / multi-100's million barrel oil upside.

These new awards are a major delivery milestone for Lion, on a cost effective path to unconventional Production Sharing Contracts. Importantly, by partnering with the operators of overlapping conventional areas we have aligned objectives and operational synergies in both conventional and unconventional.

Our Sumatra focus area is "where the oil and gas is": the North Sumatra Basin is one of the major basins in the SE Asian region with over 25 tcf of gas and over 1.3 billion barrels of oil and condensate discovered. The Central Sumatra Basin is world class, with over 13 billion barrels of oil discovered.

We have witnessed what unconventional oil and gas has delivered in the US and our potential holding portfolio rivals the largest holdings by successful US companies (in terms of area), including: Chesapeake Energy, Continental Resources and Marathon Oil Corporation.

Indonesia: an increasingly attractive landscape

Key to our growth strategy is the significant potential that Indonesia offers:

- **Big and growing:** The world's fourth largest population with one of the most vibrant economies in SE Asia, boasting GDP growth of approximately 5-6%.
- **Rapidly increasing need for oil and gas:** Energy demand is growing at 5% per year (raising already attractive domestic natural gas prices), yet domestic oil and gas production is declining.
- **Amongst the world's best natural gas prices:** in January 2015, Medco Energi signed a gas sales agreement for Block A, Aceh (adjacent to Lion's South Block A). The agreed gas price is US\$9.45mmbtu – more than triple American gas prices.

Enhanced skills and capital - new shareholders and management

Execution of Lion's strategy of short term conventional revenue generation, whilst concurrently exploiting associated unconventional upside requires skills and capital. In June 2013, the commitment of Risco Energy and Tower Energy provided the necessary funding for Lion Energy and following a restructuring in January 2014, the company emerged recapitalised and with a restructured board and new executives.

The foundation of any successful oil and gas company is its people - capital alone is insufficient to drive the company's growth. Lion's executive and board provide that foundation with a unique mix of complimentary talent that will deliver successful outcomes for your company.

New significant shareholders add value

Risco Energy has an outstanding performance record in SE Asian oil and gas, driven by a highly professional and skilled management with clearly demonstrable commercial excellence. Within two years, Risco grew its initial asset portfolio to production of 7,000 barrels of oil equivalent per day (+925%) and Ebitda of US\$90m (+592%) before achieving significant wealth creation for shareholders in a corporate transaction.

Risco's track record of success and its active investment of 54.7% in Lion should provide a high level of confidence for Lion shareholders. I urge you to visit Risco's website (www.riscoenergy.com), to review the talent and capability assembled in this organisation.

Tremendous skill set from new management . . .

The company's strategy is being directed by new management and four board members that collectively, provide us with over a century of demonstrably successful value generation in oil and gas.

Kim Morrison is the newly appointed CEO and a director. He has a wealth of technical and managerial experience over 30 years with both small and large companies, including Woodside, Shell and Marathon.

Stuart Smith is the new Finance Director, with over 20 years' experience of the energy industry. Formerly head of Merrill Lynch's Asian oil and gas research and holding senior commercial and finance roles with several private Asian-based oil and gas companies, Stuart is also a qualified Chartered Accountant.

Lion directly benefits from Risco's skill set via its two most senior executives now appointed as non-executive directors of the company; Tom Soulsby (Risco CEO) and Chris Newton (Risco Dir BD & Ops).

. . . and Advisory panel

The company recognises the value of augmenting expertise essential to our new strategy from outside and cost effectively. Management thus formed an advisory team able to provide regular, ongoing advice.

Crucial in-country expertise, and strong connections within the petroleum industry and government, comes via Sammy Hamzah, the principal of Tower Energy (Lion's 2nd largest shareholder at 6.6%). Formerly Unocal's Senior Vice President, Sammy is currently Vice Chairman of both the Indonesian Petroleum Association and the Indonesian Chamber of Commerce and Industry's Oil & Gas Committee.

Technical capability from Roger Whyte, who is a geophysicist and proven oil finder with over 30 years of experience (including positions with Shell and Union Texas), and considerable Indonesian experience.

Significant international unconventional expertise comes from both Dr Andrew Cullen and Dr Harold Williams. Andrew is a petroleum geoscientist currently working on major US unconventional projects, having been directly involved in ventures adding more than 500 million barrels of proven reserves. Harold is a petroleum geochemist, currently working on North American shale gas studies and formerly in a senior technical position with Caltex in Indonesia.

Significant drilling capability comes from Mr Mike Ellis - A drilling engineer with broad Indonesian experience and proven flexibility in managing both deep and shallow wells cost effectively and safely.

Incentivised alignment with shareholders

Share participation has allowed us to acquire this exceptional talent at very modest cost, while concurrently incentivising their full alignment to shareholder wealth creation.

Lion's transformation to date has delivered clear positive results. Your company is creating an impressive portfolio of assets that will realise significant shareholder wealth creation under the capable direction of an outstanding board, management and advisory panel.

I firmly believe we will see this continue and would like to thank you, as shareholders, for your support.

Yours sincerely



Russell Brimage,
EXECUTIVE CHAIRMAN