

Quarterly Report

1 January to 31 March 2014



LION
energy

Revitalised Lion advances business plan

Highlights

- **Completion of transformation involving acquisition of Indonesian oil and gas interests; a A\$9.5m raising; and new management**
- **Seram production outperforms and 2013 production partially offset by positive revisions to proven reserves**
- **Seismic survey in South Block A successfully completed on budget**

The restructure of Lion was formally completed in January 2014 with the company now squarely focused on achieving its business plan. The legacy Seram assets performed well during the quarter with increased production and good progress on development drilling and the exciting Lofin-2 appraisal plans. Good progress was achieved on the South Block A seismic survey and the company continued to advance its unconventional oil and gas applications and pursue linked conventional opportunities.

Lion shares were re-listed on 22 January 2014 following ASX approval of the restructuring. The company is now well-funded, raising A\$7.5 million from new strategic investors and A\$2 million via a public offering. A new leadership team is in place, housing extensive experience and proven track records of creating value in Indonesia.

During the quarter, gross crude oil production from the Seram Project was 2577bopd, up from 2464bopd in the previous quarter. Lion's share of oil sales revenues of US\$618,121 was received from a lifting in late December. An independent reserve report for the Oseil fields as at December 2013 included positive revisions in proven reserves which partially offset production for 2013, representing a reserves replacement ratio of 53%.

Development drilling in Seram was ongoing with the completion of the Oseil-26 well in January, which at end of the quarter was producing at approximately 560 bopd (against 300 bopd forecast). The Oseil-21 development well is progressing well and due to come on stream in May, and after a short period of rig refurbishment, the Lofin-2 appraisal well of the exciting 2012 Lofin discovery is due to spud in July/August.

The South Block A seismic program progressed well with encouraging preliminary results, and the joint venture approving acquisition of three additional lines over the shallow Paya Bili oil lead. Recording of the 183km survey was completed post-quarter's end on 2 April 2014. The survey is anticipated to be completed on budget with data processing ongoing; the focus is to firm up a target for drilling in 2014.

Lion's CEO, Mr Kim Morrison, said: "With the transaction complete we are now rolling up our sleeves to deliver on Lion's business plan. The South Block A seismic has been completed on budget with a commendable safety record, and there is strong Seram production in addition to advances in unconventional new business opportunities."

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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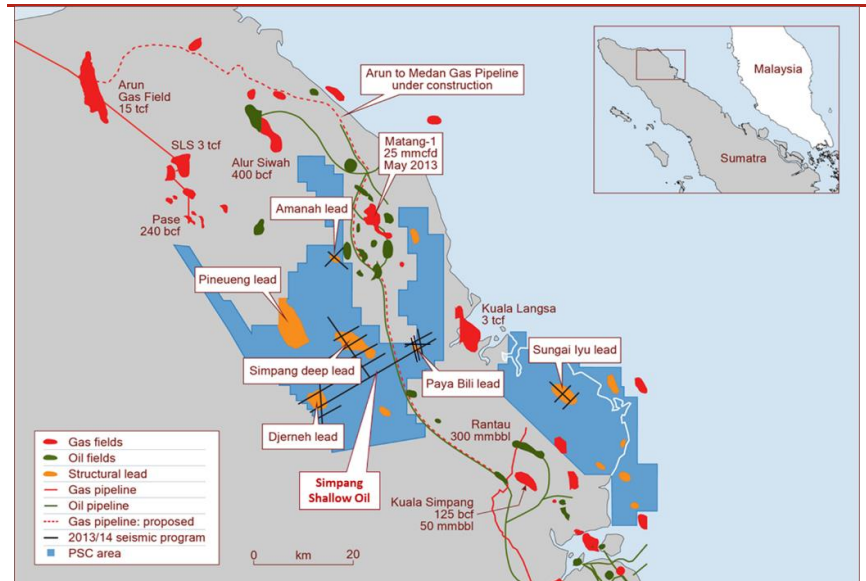
Operations update (3Q-FY14)

South Block A PSC

In January, Lion moved to full ownership of KRX which includes its 35% participating interest in the South Block A PSC. Other participants are PSC operator RENCO Elang Energy Pte Ltd (51% interest) a company majority controlled by Peak Oil and Gas Ltd (PKO), 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. After quarter's end, on 2 April 2014, acquisition of a 183km 2D seismic survey was completed. This targeted the Simpang, Djerneh, Amanah, Sungai Iyu lead and the Paya Bili leads. Interpretation of the new seismic survey will enable an attractive shallow oil target, with near-term commercialisation potential, to be selected for the planned 2014 drilling program. A deeper gas/condensate target will be selected for a planned 2015 drilling campaign.

South Block A PSC – location map



Seismic survey

Significant progress was made with the 183km 2D seismic survey. With some encouraging initial results, the joint venture approved the recording of three additional lines over the Paya Bili lead. Initial field processed data was received and good progress was made with the final processing routine in the Jakarta-based processing centre.

The surveying and drilling were completed by quarter's end and seismic recording was completed just after quarter's end, on 2 April 2014. Ongoing demobilisation and remediation activities are progressing on target.

During the quarter and through to 5 April 2014, about 511,580 man hours were recorded with one lost-time injury (LTI) reported (the total since the start of survey is 1,074,355 man-hours, with one LTI). The LTI related to a burnt hand from a generator refuelling accident with the worker involved returning to work within 10 days. Approximately 158,117 vehicle kilometres were driven during the period through to 5 April 2014 (the total since the start of the survey is 445,877km).

Pipeline construction through South Block A

In further developments of interest, a 400mmscfd gas pipeline is being constructed through South Block A (see map above) that will transport gas from the Aceh region to Medan. The pipeline is reported to be an open-access pipeline with approximately 200mmscfd spare capacity. This provides a potential commercialisation option for any gas discovered by the South Block A joint venture.

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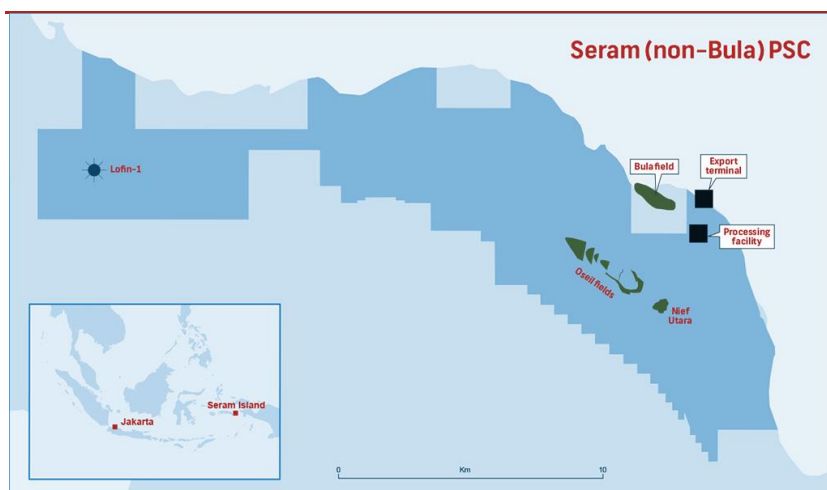
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Seram (Non-Bula) PSC

Lion, via its wholly owned subsidiary, Lion International Investment Ltd, holds a 2.5% participating interest in the Seram (Non-Bula) 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 12,288,354 bbl since the initial field start-up in January 2003 through to 31 March 2014.

Seram (Non-Bula) PSC – Location Map



Production and revenue

During the quarter the daily production rate from the Oseil and surrounding oilfields averaged 2577 bopd (Lion's net interest is 64 bopd), slightly ahead of the projection in the prospectus of 2500 bopd for the calendar year. Production of crude oil for the fiscal year to date is presented in the table below.

The company received sales proceeds of US\$618,121 from the total lifting of 268,547 bbl (6714 bbl net to Lion) made at the end of the prior quarter (completed 30 December 2013). The selling price was US\$92.07/bbl. The inventory of crude oil available for lifting at 31 March 2014 was 202,805 bbl. The next crude oil lifting of approximately 340,000 bbl is scheduled for 21 May 2014, with receipt of funds net to Lion approximately 35 days thereafter.

Seram (Non Bula) Block PSC Production				
Month	Gross (100%)		Net to Lion (2.5%)	
	(bbl)	(bopd)	(bbl)	(bopd)
July 2013	77,192	2490	1930	62
August 2013	75,671	2441	1892	61
September 2013	77,040	2568	1926	64
October 2013	78,213	2523	1955	63
November 2013	73,860	2462	1847	62
December 2013	74,586	2406	1865	60
January 2014	73,830	2382	1846	60
February 2014	76,412	2729	1910	68
March 2014	81,716	2636	2043	66

Expenditures

Seram (Non Bula) PSC	Exploration	Development	Production	G&A
	US\$'000	US\$'000	US\$'000	US\$'000
Expenditure net to Lion (3Q, FY14) ¹	(5)	256	116	46

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

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Reserve report

An updated Reserves Report commissioned by the Seram operator from US company, DeGoyler & McNaughton, was received during the quarter. The report, effective from 1 January 2014, is based on 2013 gross production of 894k barrels (2450 bopd). A positive revision to proven reserves partially offset production for the year (> 53% RRR in 1P in 2013) driven by appraisal drilling success in the Oseil area. This is a pleasing result for a relatively mature field. We note that this report does not take into account the results of Oseil-26 which was completed in the current calendar year, nor Oseil-21 which is currently drilling. The proven reserve additions were offset by probable reserve reductions at Oseil Selatan and the East Neif field area.

	D&M Reserves Evaluation (Gross)			D&M Reserves Evaluation (Net to Lion)		
	1P (mdbl)	2P (mdbl)	3P (mdbl)	1P (mdbl)	2P (mdbl)	3P (mdbl)
EOY 2012	6,525	10,815	15,138	163	270	378
Production	(894)	(894)	(894)	(22)	(22)	(22)
Revision	472	(559)	654	12	(14)	16
EOY 2013	6103	9362	14,898	153	234	372

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 and possible reserves are unlikely to 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 is likely to be required in order for these reserves to be produced.
3. Reserves have been estimated using the deterministic method.

Lofin appraisal well

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 3419.6m MD (11,219 feet) and drilled to a total depth of 4427m MD (14,525feet) 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 15.7mmscfd and 171bopd of 36.1 API oil/condensate, with a flowing wellhead pressure of 4750psi 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 Seram JV partners have committed to drill an appraisal well to test the potentially a significant Lofin-1 discovery, made in 2012. The well will be drilled to a planned total depth (TD) of 5425m TVD (17,800 feet) with the primary objective Manusela Formation projected at 4509m TVD (14,795 feet).

The projected TD of 5425m TVD (17,800 feet) will make Lofin-2 one of the deepest well penetrations undertaken in Indonesia and will demand the best of engineering standards and practices to be utilised. The Seram PSC joint venture acknowledges the demands of this well and has committed to contract a specialist company to review and make recommendations on all facets of the Lofin-2 well, including data acquisition, geological and geophysical analysis, the drilling program, the completion and well-test program and risk analysis and contingent plans.

As at 31 March 2014, the Lofin-2 well site preparation was 64% complete and the access road remains at 94.66% complete, while all resources are dedicated to completing well-site preparation.

Projected timing for drilling of Lofin-2 is subject to timely completion of the Oseil-21 development well currently being drilled. When this is completed there will be an overall rig inspection and upgrade as part of the preparations for the Lofin-2 well. Current projections have the Lofin-2 well spudding in late July-early August 2014, with projections of 134 drilling days prior to testing and completion.

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Development drilling

During the quarter one development well, Oseil-26, was completed and another, Oseil-21, was spudded and is currently still being drilled.

Oseil-26

Oseil-26 well is an infill development well in the Oseil-2 producing area. The well was completed on 30 January 2014 as a producing well from the Manusela fractured carbonate. The Oseil-26 well economics (base case) were based on an initial production rate of 300bopd. The current production rate of around 560bopd has significantly exceeded this projection. While the well performance will need to be monitored closely for indications of either gas or water breakthrough, the well production performance to date is nevertheless encouraging.

The results of the well are summarised below:

Total depth (TD): 2151.2m MD (7058 feet)/1949.4m TVD (6396 feet)/1668.7m ssTVD (5475 feet)

Top Manusela: 1901.9m MD (6239 feet), some 119.8m (393 feet) higher than the pre-drill prognosis.

A 7-inch casing liner was set at 2045.7m MD (6712 feet) to isolate the gas cap, with 6-1/8 inch open hole to TD. An electric submersible pump (ESP) was run and set at 1677.5m MD (5504 feet).

Test results: The well was initially opened up to production on 26 January 2014 at a fluid rate targeted at between 250bopd and 300bopd, and as the well cleaned up the choke was slowly opened to increase the rate, culminating in the following results for 31 March 2014.

Status:	Oil rate:	560bopd
(31 March 2014)	Water cut:	0.3%
	Choke size:	22/64 inch
	Cumulative production:	30,240bbl of crude oil

Oseil-21

Oseil-21 well is a directional infill development well is currently being drilled 490m north-west of the successful Oseil-26 directional well in the Oseil-2 producing area. The well is intended to recover undrained oil reserves in the Manusela fractured carbonate on the western flank of the faulted four-way dip closure of the Oseil-2 up-thrown fault block, with estimated recoverable reserves of 631mmbbl oil.

The well is being drilled directionally from the Oseil-15 well pad to the TD of 2321m MD (7615 feet)/1669m TVD (5475 feet) , in the upper part of the Manusela Formation, where the top Manusela carbonate reservoir is interpreted to be encountered at 1975m MD (6479 feet)/1545m TVD (5071 feet).

The Oseil-21 infill development well will be the seventeenth Oseil Phase III Development Program. There are currently five wells draining the oil from Oseil-2 fault block. Oseil-21 is located to drain incremental reserves in the western area of the structure.

Current status (at 18 April 2014)

Spud date: 24 February 2014
Current depth: 1957m MD (6421 feet)
Current activity: Running and cementing 9-5/8 inch casing at 1953m MD (6407 feet)

Top Manusela: 1952m MD (6403 feet)/1511m TVD (4958.7 feet), some 112 feet above prognosis.

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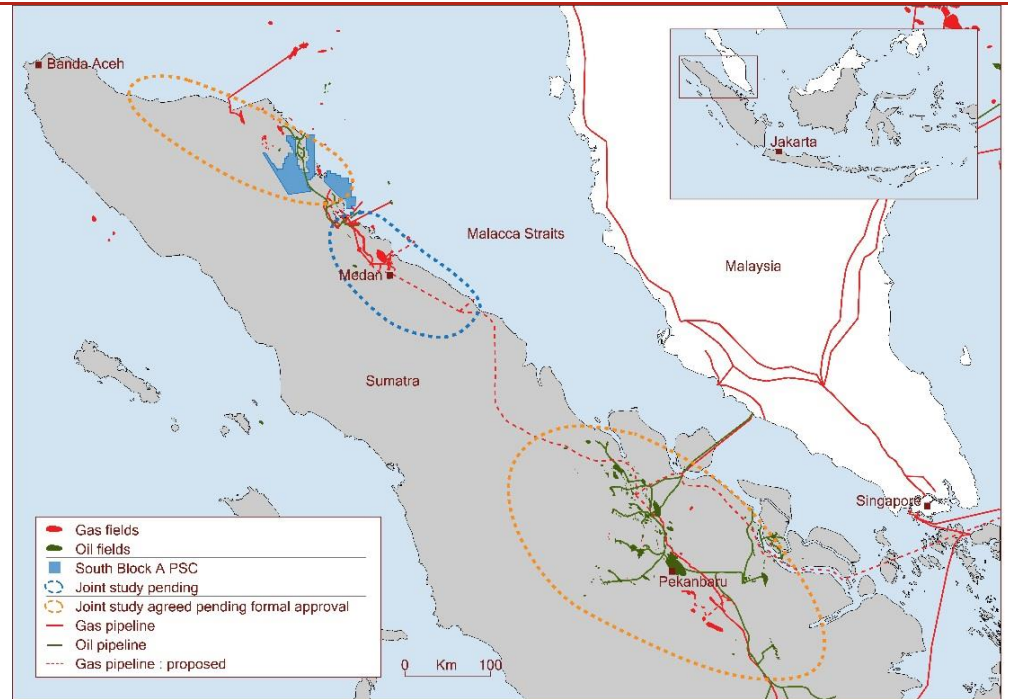


Unconventional Joint Study Applications

Lion has submitted Joint Study Applications for potential oil and gas unconventional areas in onshore Indonesia covering a total area of about 17,334km². 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.

Good progress was made during the quarter with ongoing engagement with the Indonesian regulators and other operators in the area.

Map of area of Unconventional Applications



Additional details on each of Lion's projects can be found on the company's new website (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%	Nil	Interest held through Lion wholly owned subsidiary Lion International Investment Ltd.
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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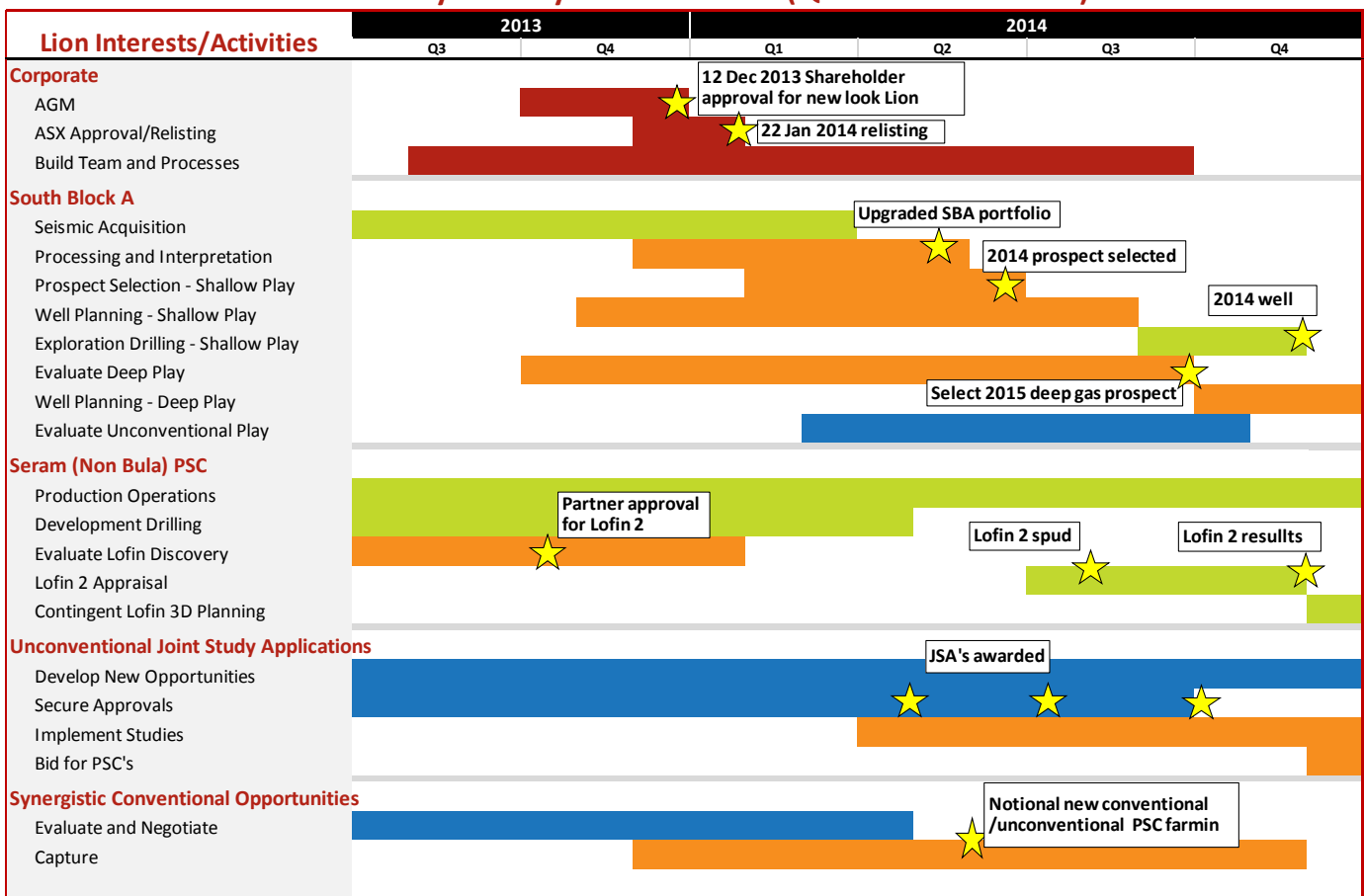


Activity schedule

Lion has a fully funded, active 2014 exploration schedule including:

- Completion of the South Block A seismic processing;
- 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
Orange	Held Assets General Exploration
Green	Held Asset Field Activities (Drilling/Seismic)
Blue	Lion New Business Activities



Forecast Key Event /News flow

(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)

As of March 31 2014

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Corporate update 3Q-FY14

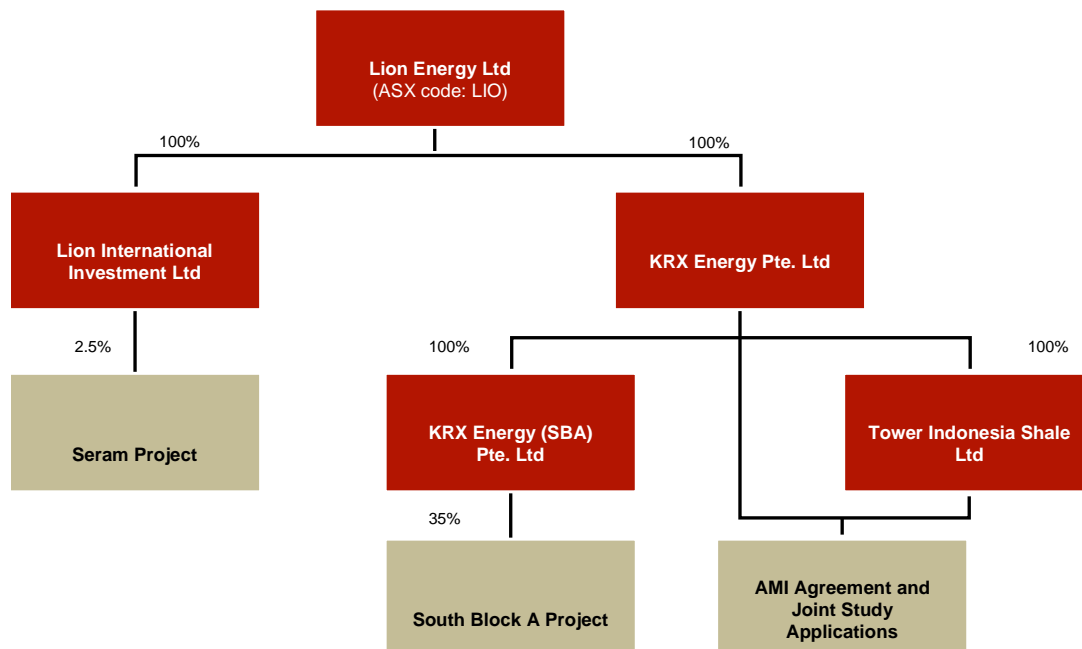
Completion of transactions

During the quarter Lion completed several related transactions which included:

- Conversion of a A\$1,500,000 convertible loan from Risco and Tower into fully paid ordinary shares in the capital of Lion at an 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;
- consolidating its share capital on an 8:1 basis (consolidation) with re-listing price of 20c;
- raising A\$6,000,000 via a placement of 30,000,000 shares (on a post-consolidation basis) to Risco;
- raising a further A\$1,500,000 via a placement of 7,500,000 shares (on a post-consolidation basis) to Tower;
- raising a further A\$2,000,000 via 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);
- acquiring all of Risco's and Tower's rights under the Area of Mutual Interest Agreement that includes rights to advance various unconventional oil and gas joint study applications in onshore Indonesia in consideration for the issue of 4,987,514 shares and 4,275,012 shares (on a post-consolidation basis), respectively; and
- acquisition of all of the outstanding shares in KRX not already owned by the company for a consideration of 11,625,046 shares.

Shares for the public offer were issued on 16 January 2014 and approval was obtained from ASX for the re-compliance listing; the shares were successfully re-listed on 22 January 2014.

Lion's corporate structure following related transactions



(Note: does not include some dormant US subsidiaries)

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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 has reviewed the results, procedures and data contained in this website. 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 the American Association of Petroleum Geologists (AAPG).

Glossary

bcf: billion cubic feet

bopd: barrels oil per day

LTI: lost-time injury

mbbl: thousand barrels

mmbbl: million barrels

MD: measured depth

mmscfd: million standard cubic feet of gas per day

psi: pounds per square inch

RRR: reserves replacement ratio

ss TVD: sub-sea true vertical depth

tcf: trillion cubic feet

TD: total depth

About Lion

Lion Energy Ltd is an ASX listed oil and gas exploration and production company focused on Indonesia, where it has been operating for some 15 years. It has two existing conventional Production Sharing Contracts (PSCs) – Seram and South Block A - and an early mover position in the fledgling Indonesian unconventional industry via four Joint Study Applications.

Lion's leadership team has extensive experience in the South-East Asian oil and gas industry, particularly Indonesia. In its recent recapitalisation, two Indonesian strategic investors, Risco Energy and Tower Energy, became substantial shareholders in the company.