

# Quarterly Report

1 July to 30 September 2016



**LION**  
energy

## Imminent spud of North Sumatra exploration well

### Highlights

- Amanah Timur-1 exploration well due to spud in November 2016
- Site preparation commenced for the shallow, low-cost well in South Block A PSC testing pre-1930 oil field and deeper undrilled reservoirs
- Seram production averaged 3,497 bopd for the quarter
- Progress on new business effort with new joint study awarded

Lion Energy Limited (“Lion” or “Company”) is pleased to report a solid quarter in which we continued to build on our business plan. Spudding of the Amanah Timur-1 well (at a vastly reduced cost) is imminent. Seram oil production continues to be cash positive generating approximately US\$40,000 per month for Lion. On the new business front, Lion was also granted an exciting joint study in Eastern Indonesia.

Production from Seram PSC continued to perform solidly during the quarter. Average daily oil production was 3,497 bopd (83 bopd net to Lion) for the quarter, down from 4,008 bopd the previous quarter. Production at quarter end was 3630 bopd. Gross crude oil production for the quarter was 321,761 barrels (7,592 bbl net to Lion). Operating costs for the quarter equate to US\$11.85/bbl, with calendar year operating cost at US\$13.85/bbl. Proceeds of US\$420,415 from a crude oil lifting of 485,495 bbl completed on 31 July 2016 (Lion share 12,137 bbl) were received during the quarter. A further lifting of approximately 500,000 bbl is scheduled for late-December 2016 which will be the third and final lifting for the year. Proceeds from this lifting are expected to be received in January 2017.

In South Block A PSC (Lion 35% working interest), significant progress was made towards drilling the shallow (planned total depth ~600m), low-risk Amanah Timur oil and gas prospect. Site preparation commenced in September and as at time of this report was approximately 80% complete. The well is anticipated to spud in mid-November 2016 and the cost of drilling is estimated at US\$1.2mil (US\$0.4mil net to Lion).

At the end of the quarter, the Company had cash of US\$1.3mil, with a significant crude oil lifting entitlement (estimated at in excess of US\$400,000 net to Lion) expected in January 2017.

Lion’s CEO, Kim Morrison, noted “Lion is poised to participate in an exciting exploration well in our South Block A PSC testing shallow reservoirs that were oil productive in pre-1930 wells, as well as deeper reservoirs not previously penetrated in the crestal location of the structure. The operator, with Lion’s assistance, has done an excellent job in driving down the well cost to around a third of the levels two years ago. In other news, the Seram PSC continues to deliver solid free cash flow, we are excited by our new conventional joint study in Eastern Indonesia and we continue to pursue attractive production opportunities while prudently managing costs.”

### Lion at a glance

- ASX listed oil and gas E&P company focused on Indonesia; two conventional PSC’s.
- Net production of around 90bopd from the Seram PSC which also contains the Lofin gas/condensate field.
- An early mover in Indonesia’s fledgling unconventional oil & gas industry.
- Leveraging synergies in conventional assets and access to both infrastructure and markets.
- Executive team and strategic investors with impressive track records for value creation in Indonesia.

### Contact

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### 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       |

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## Operations update (3Q-CY16)

### Seram (Non-Bula) Block PSC

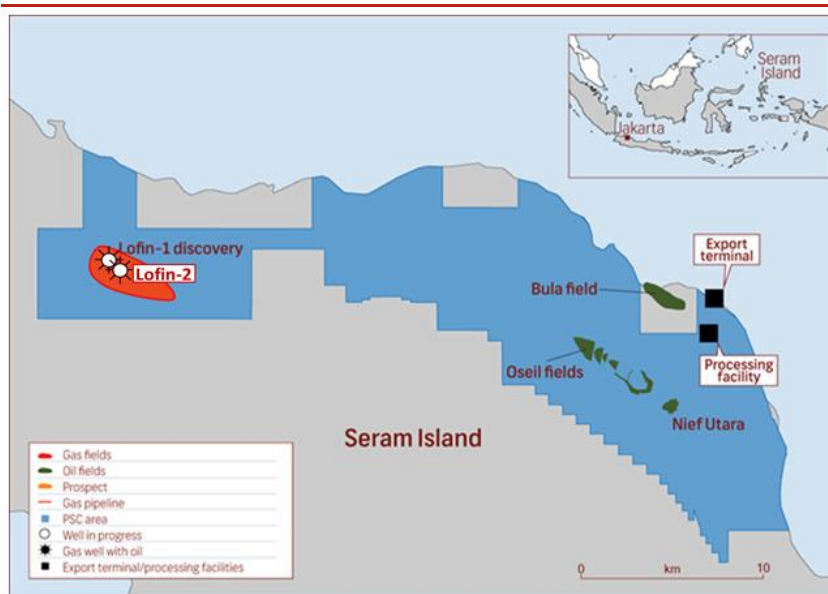
Lion, via its wholly owned subsidiary Lion International Investment Ltd, holds a 2.5% participating interest in the Seram (Non-Bula) Block PSC, located onshore Seram Island in eastern Indonesia. The major equity holder and operator of the joint venture is CITIC Seram Energy Ltd (51%). Other partners 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 15,383,137 barrels since production started in January 2003 through to 30 September 2016.

As previously reported by Lion, in 2015 the Lofin-2 appraisal well confirmed a highly material gas discovery in the PSC and work is ongoing on development options for this resource.

The PSC expires end October 2019 and the joint venture is currently in discussions on strategy for securing a renewal of the PSC over the area.

Seram (Non Bula) Block PSC - location map



### Production and revenue

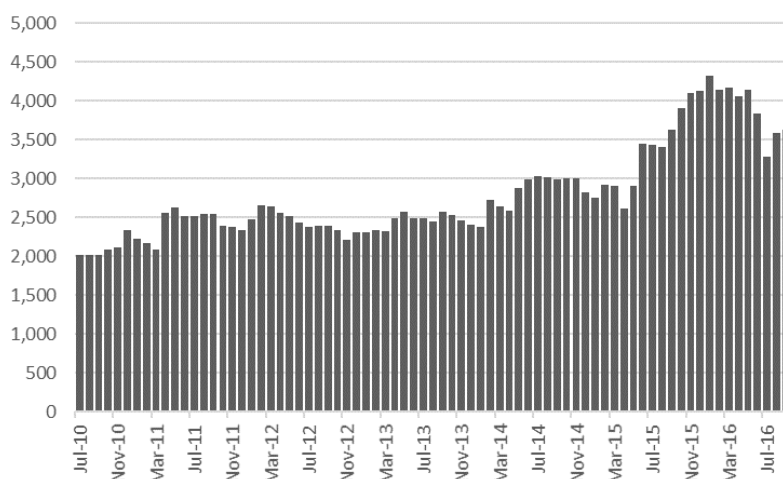
During the quarter, gross crude oil production from Oseil and surrounding oilfields was 321,761 barrels (7,592 bbl net to Lion). Daily production averaged 3,497 bopd (Lion's net working interest being 83 bopd, post government entitlement).

With the cessation of development drilling, field crude oil production peaked at just over 4,000 bopd. Natural decline will gradually reduce this rate with time.

During the quarter, workovers were performed on Oseil-26 and Oseil-11. Both workovers involved replacement of downhole electric submersible pumps.

Crude oil available for lifting at 30 September 2016 was 222,509 bbl following completion of the crude oil lifting on 31 July 2016 of 485,495 bbl.

Seram (Non Bula) Block - daily production per calendar month (bopd)



### Expenditures

| Seram (Non Bula) PSC                           | Exploration | Development | Production |
|--|-------------|-------------|------------|
|  | US\$        | US\$        | US\$       |
| Expenditure net to Lion (3Q-CY16) <sup>1</sup> | (46)        | 56,138      | 95,288     |

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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## 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) 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, high priced gas market and a new open access pipeline connected to Medan extends through the PSC acreage.

### Exploration Drilling

As previously reported, the joint venture has selected the Amanah Timur oil and gas prospect for the 2016 commitment well.

This will be a shallow, low-cost well testing a well-defined anticline which has existing shallow oil reservoirs that produced approximately 200,000 barrels of oil in a period prior to WWII. The well will test this oil productive sequence and as well as deeper reservoir within the objective late Miocene Keutapang section. Importantly, it has near-term commercialisation potential with good infrastructure in close proximity.

During the quarter the Operator finalised tender evaluation and drilling rig selection with a planned mid-November 2016 spud timing. Site preparation also commenced during the quarter. Gross anticipated well cost for the approximately 600m total depth well is approximately US\$1.2million (Lion equity share US\$0.4mil). This cost includes site preparation and running production tests.

The prospect is material for Lion with prospective resources (100%) shown in the table below and the prospect has an overall probability of success (POS<sup>2</sup>) of 46%.

| Amanah Timur Prospect                                 | Prospective resources <sup>1</sup> |     |      |
|---|------------------------------------|-----|------|
|   | P90                                | P50 | P10  |
| Oil (mmbbl)   | 1.7                                | 3.9 | 8.8  |
| Gas(bcf)  | 2.0                                | 4.5 | 10   |
| Combined (mmboe)                                      | 2.0                                | 4.8 | 10.7 |
| Volumes for stacked late Miocene Keutapang objectives |                                    |     |      |

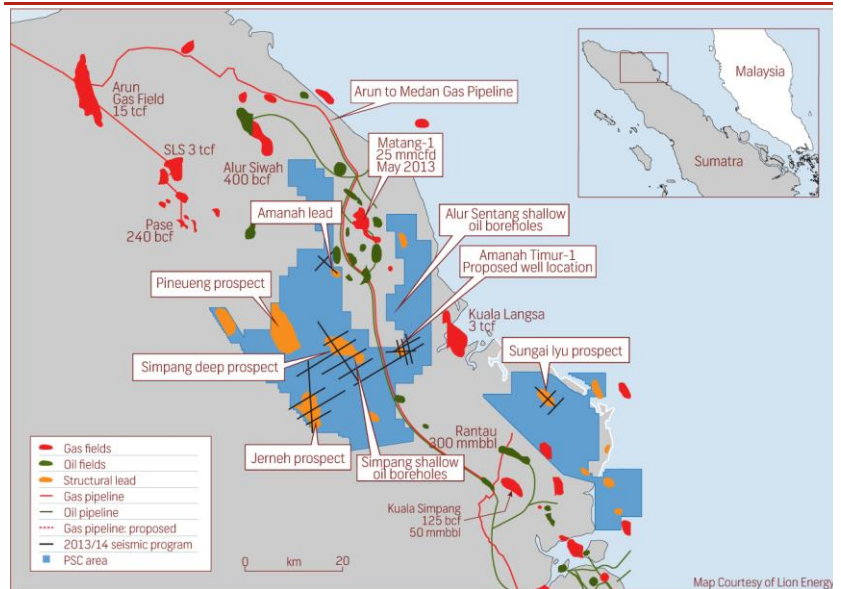
<sup>1</sup>**Prospective resources:** the estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration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

<sup>2</sup>**POS:** Probability of Success, the chance of encountering a flow hydrocarbons on production testing an exploration well on the prospect.

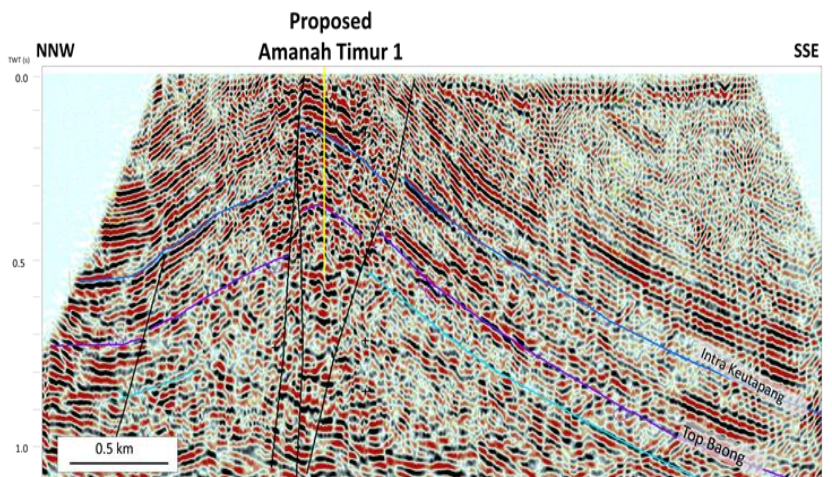
### Expenditures

Cash calls paid during the quarter totalled US\$114,840 net to Lion.

South Block A PSC – location map



Amanah Timur Prospect – seismic section



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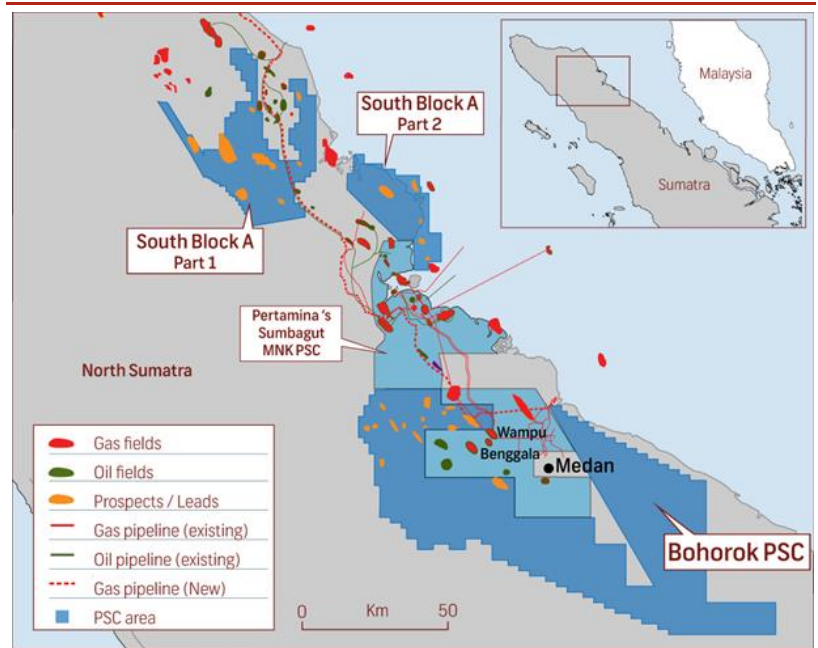
## North Sumatra “Bohorok” Unconventional Joint Study

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 the 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 holds a 55% interest and is Operator of 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 25tcf of gas and over 1.3 billion barrels of oil and condensate discovered. Lion’s evaluation recognises that key elements are in place for prospective unconventional (shale gas/oil and tight gas/oil) acreage.

Bohorok PSC and South Block A PSC– location map



The joint study, undertaken with Padjadjaran University in Bandung, was completed in February 2016, highlighted the highly material potential within the joint study area with the key prospective intervals in Lower to Middle Miocene Belumai and Lower Baong formations. The timing of the release of the resultant PSC for tender will be dependent upon MIGAS, at which time Lion and its consortium members will have a right to match the highest offer for the block (if any).

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

| Participants            | Interest |
|-------------------------|----------|
|                         | %        |
| Lion Energy (Operator)  | 55.00    |
| Bukit Energy            | 20.25    |
| New Zealand Oil & Gas   | 20.25    |
| Surya Buana Lestarijaya | 4.50     |

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## 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.

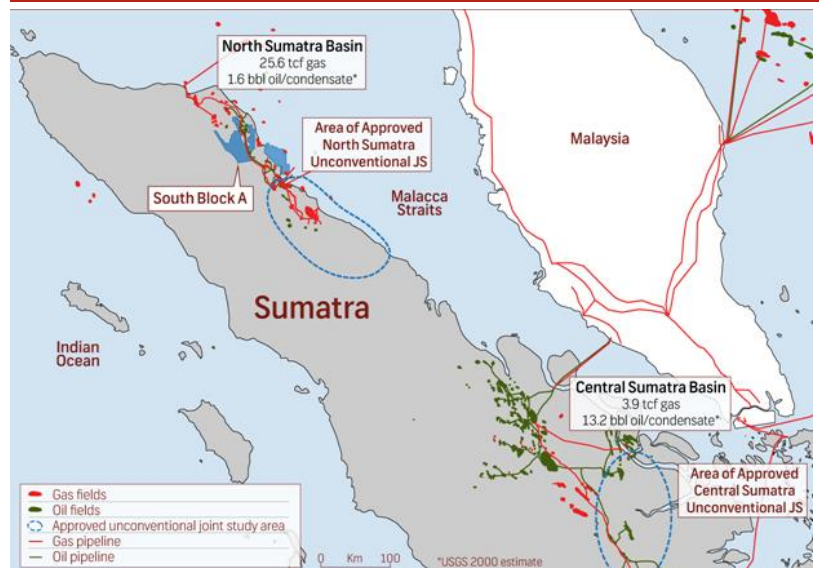
The Central Sumatra Basin is a world class petroleum province with over 13 billion barrels of oil discovered. The Bengkalis Graben, located in the east of the basin, is one of a number of prolific depocentres within the province. It hosts major discoveries; encouragement for the unconventional potential (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.

The joint study was conducted with the Institute of Technology Bandung which integrated regional geological and geophysical information was completed in February 2016. As a result of the study Lion has subsequently recommended adding additional proximate areas to the study area and this is being considered by MIGAS. The timing of the release of the resultant PSC for tender will be dependent upon MIGAS, at which time Lion and its consortium members will have a right to match the highest offer for the block (if any).

Central Sumatra unconventional joint study interest holders:

| Participants                   | Interest |
|--------------------------------|----------|
|                                | %        |
| Lion Energy                    | 75.00    |
| Conventional PSC rights holder | 25.00    |

North and Central Sumatra – Joint Study Areas location map



## Additional Joint Study and Joint Study Applications

A new Conventional Joint Study over a prospective area in Eastern Indonesia has been formally approved by the regulator MIGAS with work commencing during the quarter. Lion has a 50% interest and is cooperating in the Study with a well-respected private Australian company. The study is being conducted with an Indonesian university assigned by MIGAS and is anticipated to take approximately 8-12 months to complete.

In addition to our two completed unconventional 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.

Additional details on each of Lion's unconventional projects can be found on the company's website and in the prospectus lodged with the ASX on 6 November 2013.

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## 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).          |

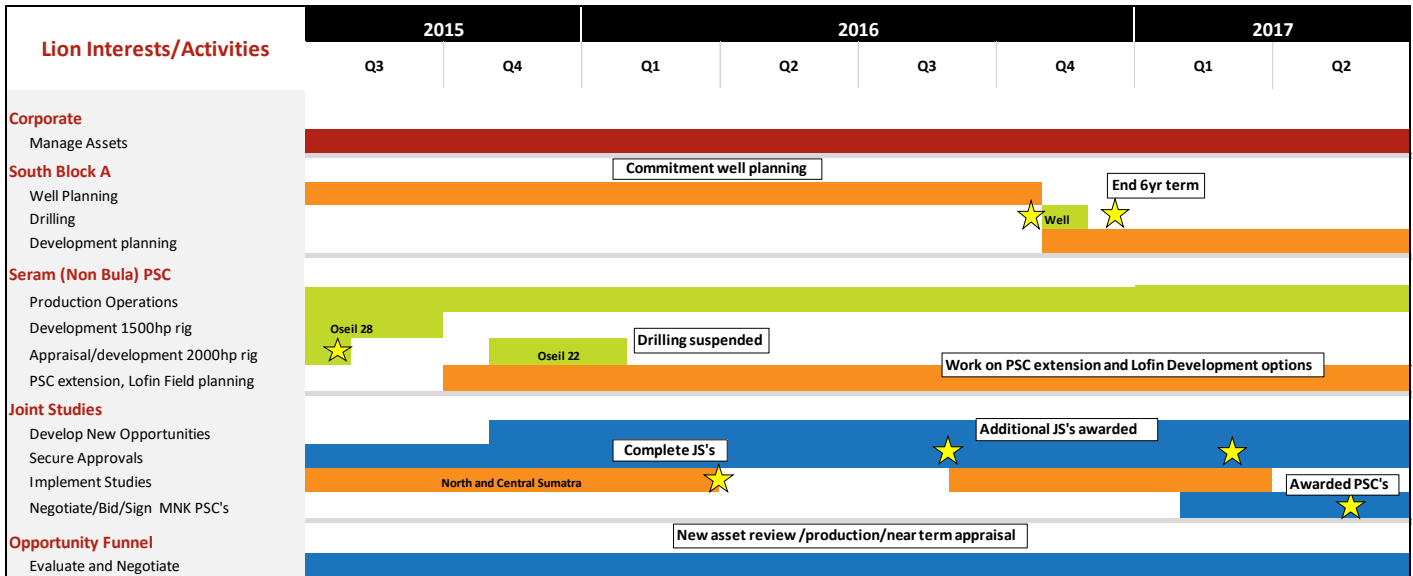
## Corporate

Lion continues to have active input into all our ventures and is maintaining a tight rein on costs. The company is also pursuing an active new business program in both Indonesia and the wider region, focusing on producing or near-term producing assets.

### Activity schedule

Our 2016-2017 exploration schedule is depicted in the following chart:

#### Lion Activity and Key Event Timeline (Q3 2015 to Q2 2017)



### Legend

| Code      | Activity type                                  |
|-----------|--|
| Red       | Lion Corporate                                 |
| Orange    | Held Assets General Exploration                |
| Green     | Held Asset Field Activities (Drilling/Seismic) |
| Blue      | Contingent Field Activities (Drilling/Seismic) |
| Dark 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)

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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 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

bcf: billion cubic feet

bopd: barrels oil per day

BOP: blow out preventer

ESP: Electric submersible pump

FTP: first tranche petroleum

LKG: lowest known gas

mmscfd: million standard cubic feet of gas per day

mmbbl: million barrels

MD: measured depth

POS: geological probability of success

PSC: Production Sharing Contract

psi: pounds per square inch

tcf: trillion cubic feet

ss TVD: sub-sea true vertical depth

TD: total depth

**END**