

# Quarterly Report

1 October to 31 December 2016



## Active quarter setting up 2017 growth plans

### Highlights

- Gross production from the Seram PSC was 1.39 million barrels (3,805bopd) for the year, up 14%
- Increased equity in South Block A PSC to 40.7%
- Amanah Timur-1 exploration well was drilled as a discovery, after quarter-end, encountering interpreted gas and oil reservoirs
- Successful capital raising of A\$650,000

Lion Energy Limited ("Lion" or "Company") is pleased to report a solid quarter in which the Company continued to build on its business plan. A record crude oil lifting was completed from our Seram oil field and an extension application for the Seram PSC post the expiry date in October 2019 was formally submitted to the Indonesian regulator. The Amanah Timur-1 well spudded on 3 January 2017 and while the well was plugged and abandoned, it was an encouraging discovery with appraisal planning already underway. On the new business front, Lion made good progress on the exciting joint study in Eastern Indonesia.

Production from the Seram PSC continued to perform solidly during the quarter. Average daily oil production was 3,512bopd (83bopd net to Lion) for the quarter, up marginally from 3,497bopd the previous quarter. Production at quarter end was 3,503bopd. Gross crude oil production for the quarter was 323,125bbl (7,624bbl net to Lion), with operating costs for the quarter of US\$15.95/bbl. Calendar year operating cost of US\$14.34/bbl was down 36% from the previous year following the concerted effort within the joint venture to reduce costs.

In the South Block A PSC, Lion increased its equity to 40.7%. Whilst the spudding of the shallow low-risk Amanah Timur oil and gas prospect (AMT-1) in the block was delayed slightly due to an earthquake in North Sumatra, post quarter end the well was drilled to total depth of 347m and encountered strong gas and good oil shows in a number of interpreted hydrocarbon zones. The well was plugged and abandoned as a discovery following unsuccessful attempts to free stuck drill pipe. Importantly, the drilling of the well completes the PSC's firm commitments and, post quarter end, the joint venture was advised by the Indonesian regulator the block has been extended for an additional four years.

At the end of the quarter, the Company had cash of US\$990k, plus Lion's share of cash in joint venture bank accounts maintained by the operator of approximately US\$290k. A successful capital raising was completed in December 2016, with A\$650,000 raised at a price of A\$0.05/ordinary share including directors subscribing for \$110,000 of shares which will be issued subject to shareholder approval. Proceeds of US\$519,345 from a crude oil lifting of 500,235bbl (Lion share 11,802bbl) completed in December 2016 are expected to be received in early February 2017.

Lion's CEO, Kim Morrison, noted "Lion achieved a solid quarter with continued good production from Seram benefiting from the higher oil price environment. Post quarter end operations were completed on the AMT-1 discovery well and the Company is now actively pursuing appraisal options. A successful capital raising of A\$650,000 positions Lion well for an active 2017 with strong focus on growth."

### 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 (4Q-2016)

### Seram (Non-Bula) Block PSC

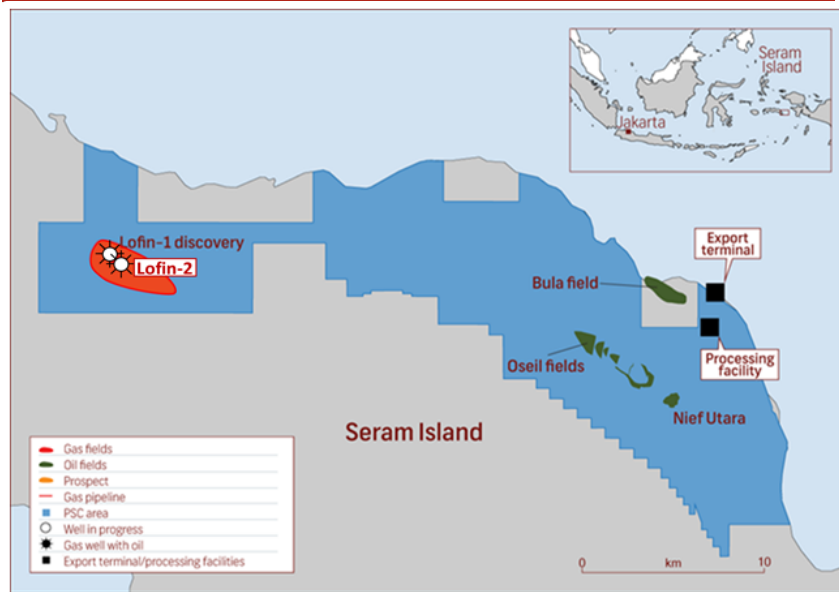
Lion, via its wholly owned subsidiary Lion International Investment Ltd, holds a 2.5% participating interest in the Seram (Non-Bula) Block PSC, located onshore Seram Island in eastern Indonesia. The major equity holder and operator of the joint venture is CITIC Seram Energy Ltd (51%). Other partners 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 15,706,760 barrels since production started in January 2003 through to 31 December 2016.

As previously reported by Lion, in 2015 the Lofin-2 appraisal well confirmed a highly material gas discovery in the PSC.

The PSC expires end October 2019 and the JV is working at all levels in an endeavour to secure an extension or 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 323,125bbl (7,624bbl net to Lion). Daily production averaged 3,512bopd (Lion's net working interest being 83bopd, post government entitlement).

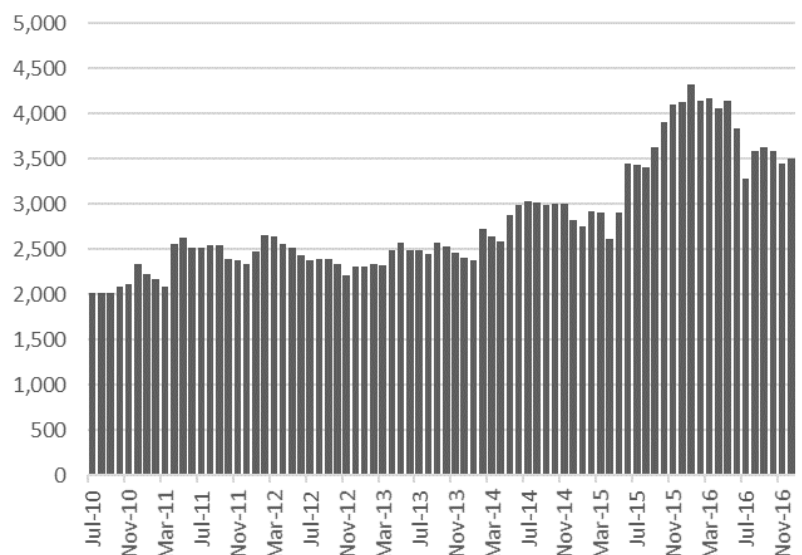
During the quarter, an Electric Submersible Pump was replaced at Oseil-21.

Production for the year was 1.39mmbbl, an increase of 14% from 1.21mmbbl in 2015.

The joint venture has been and continues to reduce costs of production resulting in a significant reduction in 2016 to US\$14.34/bbl, a 36% decrease from 2015 calendar year production costs.

Crude oil available for lifting at 31 December 2016 was 27,295bbl following completion of the crude oil lifting on 25 December 2016 of 500,235bbl.

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



Seram (Non Bula) PSC Expenditure net to Lion <sup>1</sup>	4Q15 US\$'000	4Q16 US\$'000	Chg. %	2015 US\$'000	2016 US\$'000	Chg. %
Production	148	129	-12.9%	629	499	-20.7%
Development	165	29	-82.5%	660	144	-78.1%
Exploration	-1	5	n/m	749	-13	n/m
Total expenditure	312	162	-47.9%	2,038	630	-69.1%
Unit production cost (\$/bbl)	\$ 22.51	\$ 15.95	-29.2%	\$ 22.61	\$ 14.34	-36.6%

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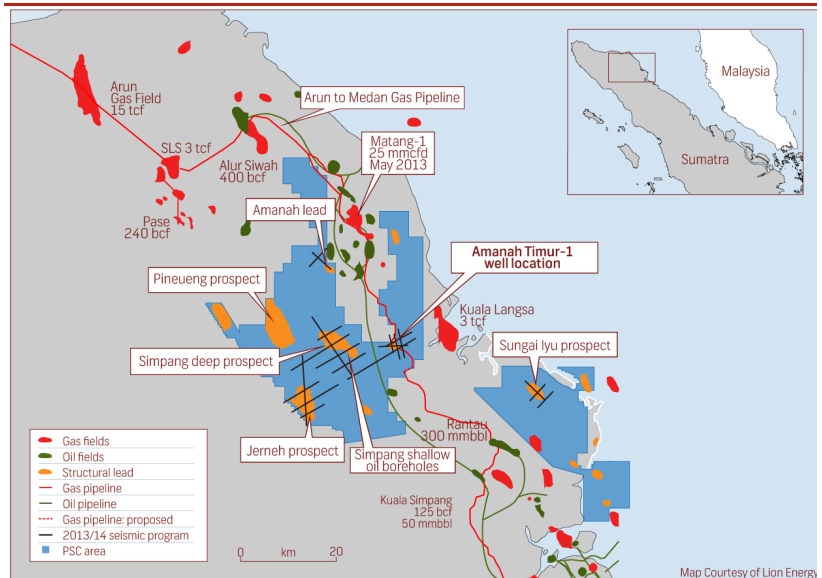
## South Block A PSC

Lion has a 40.7% interest in the South Block A PSC (SBA) with the other participant being Renco Elang Energy Pte Ltd (59.3% interest and Operator).

During the quarter Lion increased its interest in SBA from 35%. In conjunction with Operator Renco, the non defaulting parties exercised their rights to default PT Prosys Oil & Gas International (POGI) for non-payment of cash calls, with the defaulting party's interest distributed proportionately to Lion and Renco.

Post calendar year-end, the Indonesian regulator, BPMA, extended the SBA PSC exploration term for an additional four years, effective from 19 January 2017. The remaining area of the PSC of 421km<sup>2</sup> was delineated following a thorough technical review by the JV to ensure all identified prospects and leads were included in the area. The "non-firm" work program in the extension period comprises 3 wells and 50km<sup>2</sup> of 3D seismic. Progress will be reviewed by the regulator after 2 years and failure to either complete the program, or have a Plan of Development submitted, may result in expiry of the PSC with no financial penalty to participants.

South Block A PSC – location map



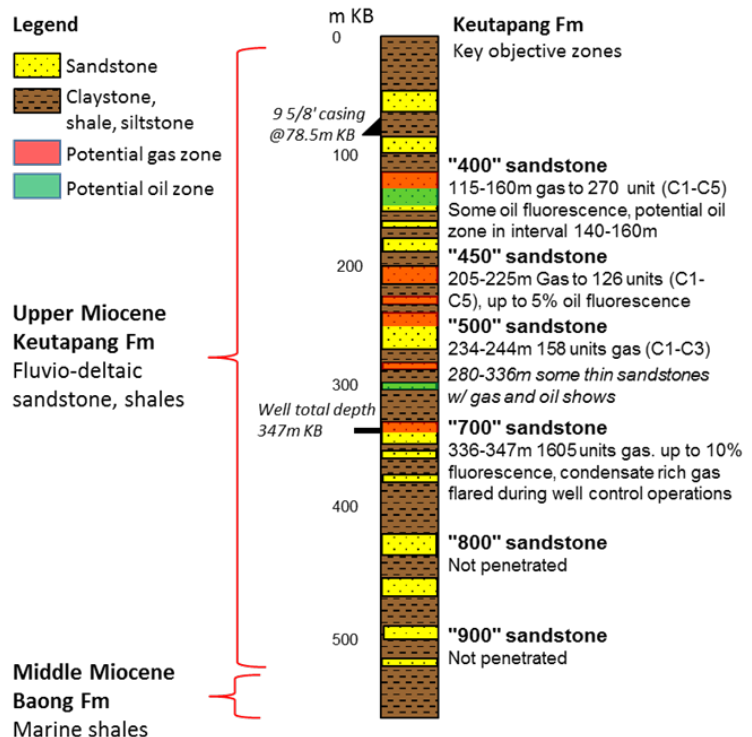
## Amanah Timur-1 summary

AMT-1 had a planned total depth of approximately 570m KB and was designed to test 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 spudded on 3 January 2017 and 9 5/8" casing was set at 78.5m KB. The well drilled an interbedded sandstone, claystone, shale and siltstone section within the Late Miocene age Keutapang Formation in 8 1/2" hole. Key objective intervals were penetrated between 26-58m high to pre-drill prognosis with strong gas and good oil shows. The total depth of 347m KB was reached on 11 January 2017.

High gas readings encountered from the "700" sandstone objective required the mud weight to be raised from 11 ppg to approximately 14 ppg with some gas flared in the process of raising the mud weight. During operations to ensure the well was stabilised, the drill string unfortunately became stuck. Efforts to free the pipe were unsuccessful and the joint venture, supported by the drilling contractor and the Indonesian regulator, decided the most prudent action was to cement the well to ensure isolation of hydrocarbon zones. Cement was pumped early on 19 January 2017, plugging and abandoning the well. Lion is currently working on appraisal plans, with the operator

Amanah Timur-1 well section



## Expenditures

Cash calls paid during the quarter totalled US\$270,221 net to Lion. This largely represents a partial prepayment of the costs of the AMT-1 exploration well.

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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 40.7% 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.

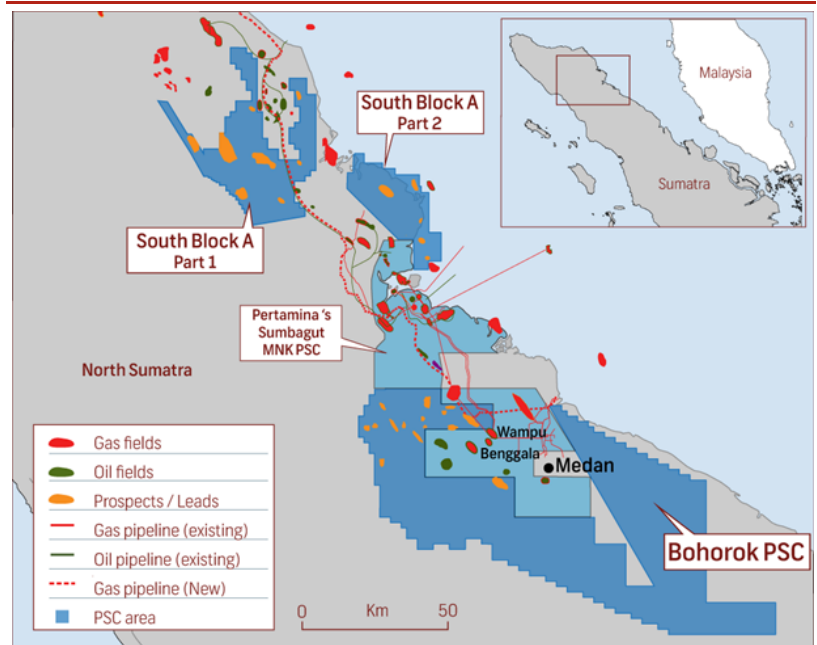
The joint study, undertaken with Padjadjaran University in Bandung and completed in February 2016, highlighted the highly material potential within the joint study area, with the key prospective intervals identified within the Lower to Middle Miocene Belumai and Lower Baong formations. The timing of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

Of considerable interest, during the quarter PERTAMINA drilled the Melucut-1 unconventional shale well in the Sumbagut PSC adjacent to Lion’s unconventional areas. This is the first shale well to be drilled in Indonesia. Logging, perforating, hydraulic fracturing and well testing is planned in the first quarter of 2017; Lion is well positioned to be able to leverage results from this well.

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

Bohorok PSC and South Block A PSC– location map



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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.

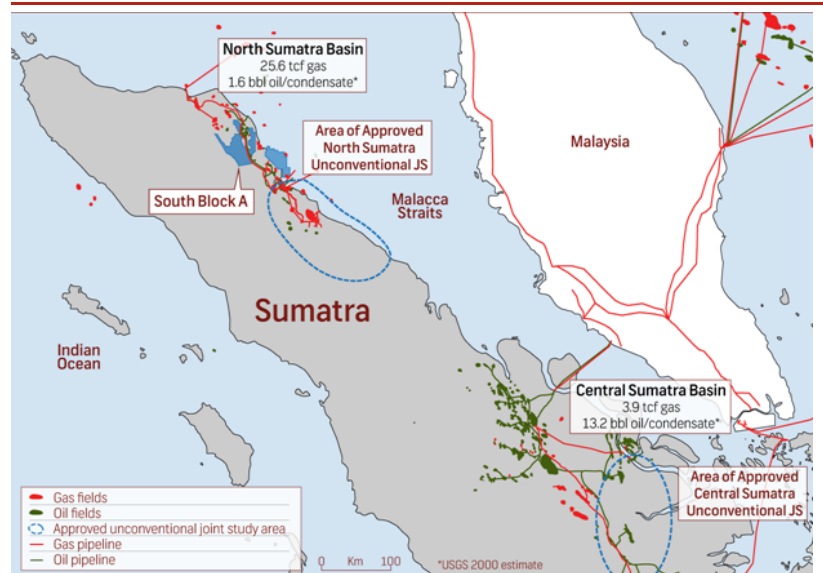
The Central Sumatra Basin is a world class petroleum province with over 13 billion barrels of oil discovered. The Bengkalis Graben, located in the east of the basin, is one of a number of prolific depocentres within the province. It hosts major discoveries; encouragement for the unconventional potential (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 and integrated regional geological and geophysical information. It 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 was formally approved by the regulator MIGAS in May 2016. 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 be completed in April/May 2017. Significant work was conducted during the quarter including a successful field trip and a seismic reprocessing project.

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	40.7%	Additional 5.7% obtained during quarter	Interest held through Lion wholly owned subsidiary KRX Energy Pte Ltd (KRX). Additional interest obtained through default/withdrawal of POGI (subject to formal Indonesian Government approval). Indonesian regulator, BPMA, extended the SBA PSC exploration term for an additional four years, effective from 19 January 2017.

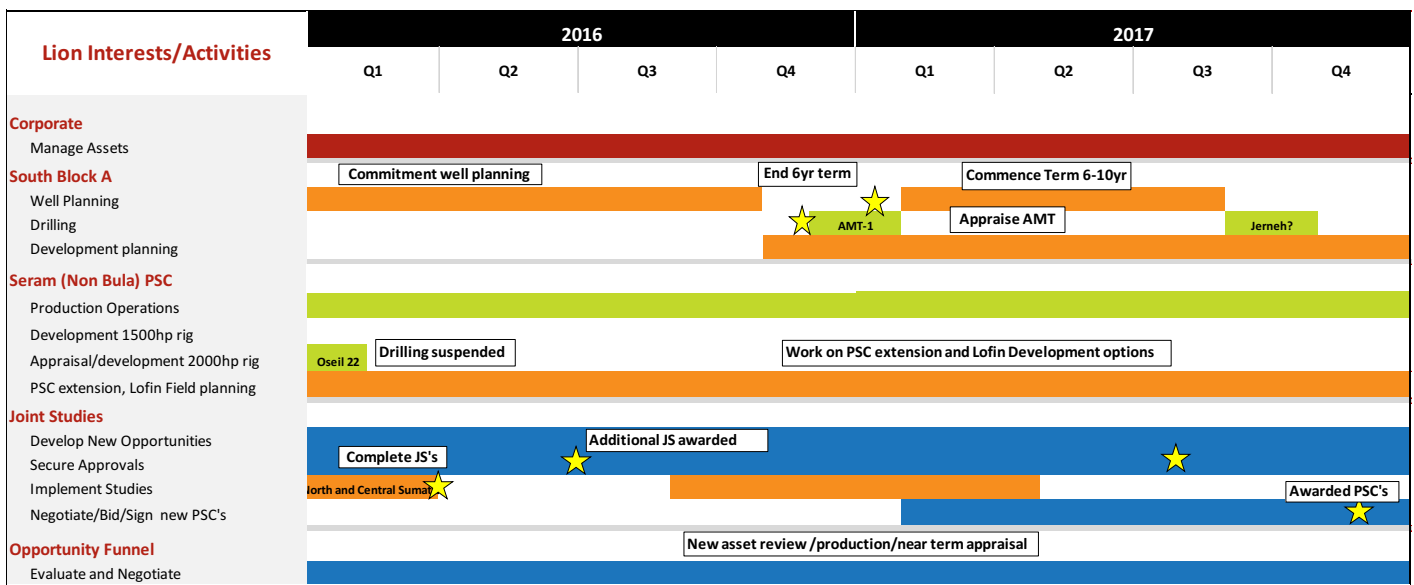
## Corporate

During the quarter Lion successfully raised A\$650,000 (before costs) from professional investors and management, placing 13,000,000 shares at A\$0.05/share, of which \$110,000 (2,200,000 shares) was subscribed for by directors and will be issued subject to shareholder approval. The placement was well supported by existing and new shareholders. Combined with the company's existing cash balance Lion is well placed to fund its growth plans for 2017. The issue was managed for the Company by Henslow Pty Ltd.

Lion continues to have active input into all our ventures and is maintaining a tight rein on costs. The company is 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:



### Legend

Code	Activity type
[Red]	Lion Corporate
[Orange]	Held Assets General Exploration
[Light Green]	Held Asset Field Activities (Drilling/Seismic)
[Dark Green]	Contingent 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)

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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

KB: Kelly bushing

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**