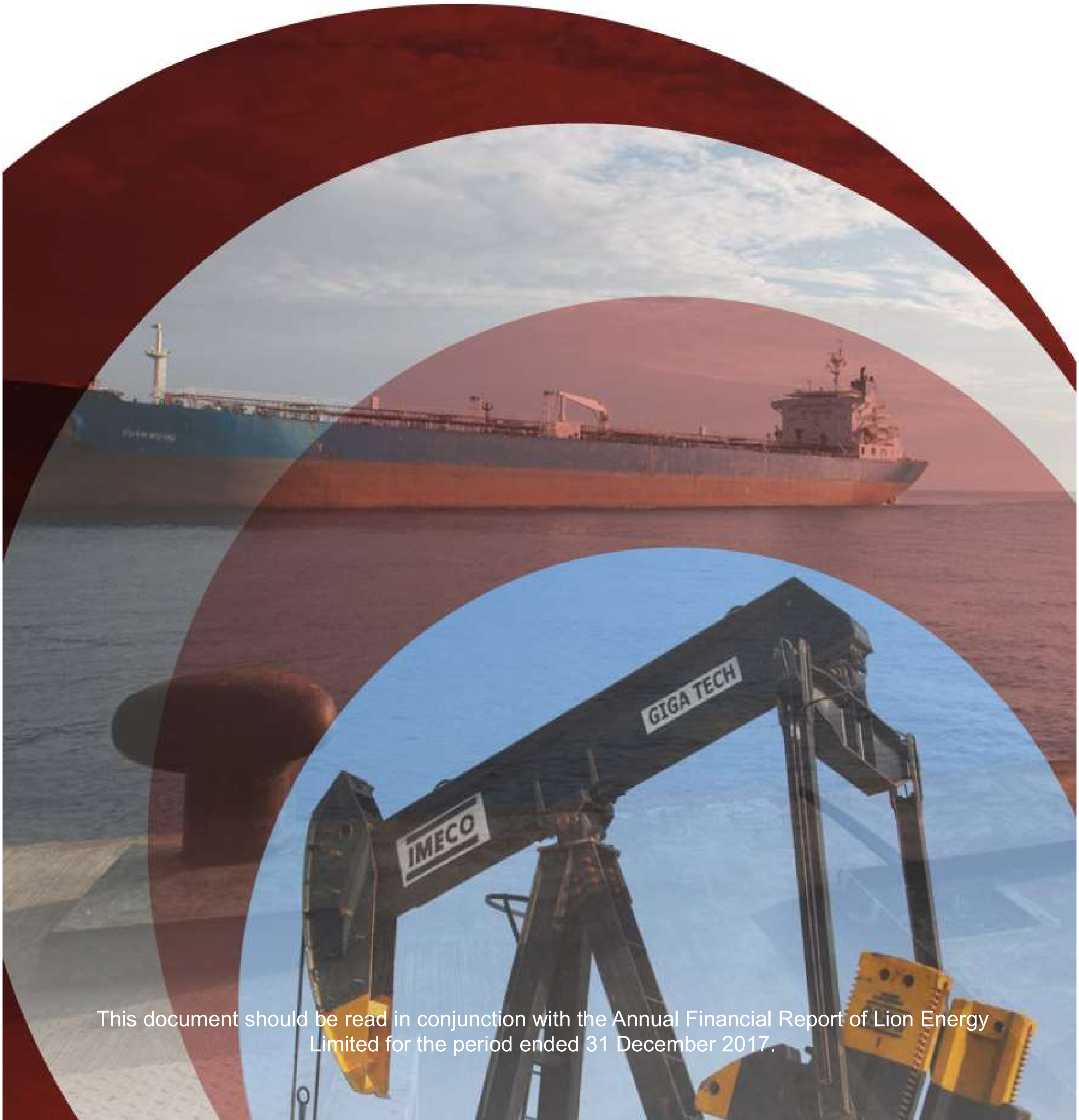
# Interim Financial Report
# Period Ended 30 June 2018

Lion Energy Limited
ABN 51 000 753 640




This document should be read in conjunction with the Annual Financial Report of Lion Energy Limited for the period ended 31 December 2017.

# LION ENERGY LIMITED
## CORPORATE DIRECTORY

| | |
|---|---|
| **DIRECTORS:** | Thomas Soulsby (Executive Chairman)<br>Damien Servant (Executive Director)<br>Russell Brimage (Non-Executive Director)<br>Christopher Newton (Non-Executive Director)<br>Zane Lewis (Non-Executive Director) |
| **JOINT COMPANY SECRETARIES:** | Zane Lewis<br>Arron Canicais |
| **ABN:** | 51 000 753 640 |
| **REGISTERED OFFICE:** | Suite 7, 295 Rokeby Road<br>Subiaco WA 6008<br>Australia<br><br>Tel: +61 (8) 9211 1500<br>Fax: +61 (8) 9211 1501 |
| **AUDITORS:** | **Ernst & Young**<br>11 Mounts Bay Road<br>Perth WA 6000<br><br>Tel: +61 (8) 9429 2222<br>Fax: +61 (8) 9429 2432 |
| **SHARE REGISTRY:** | **Computershare Investor Services Pty Ltd**<br>Level 11<br>172 St Georges Terrace<br>Perth, Western Australia 6000<br><br>GPO Box 2975<br>Melbourne VIC 3001<br><br>Tel: +61 1300 787 272<br>Fax: +61 (3) 9473 2500 |

LION energy

# DIRECTORS' REPORT

The directors of Lion Energy Limited A.C.N. 000 753 640 ("Parent Entity" or "Company") present their report including the consolidated financial report of the Company and its controlled entities ("Consolidated Entity or Group") for the period ended 30 June 2018. The Company is a listed public company limited by shares, incorporated and domiciled in Australia.

**DIRECTORS**

The names of the directors of the Company who held office during or since the end of the period are:

Thomas Soulsby
Russell Brimage
Christopher Newton
Damien Servant (appointed 13 February 2018)
Zane Lewis (appointed 13 February 2018)
William (Kim) Morrison (resigned 13 February 2018)
Stuart Smith (resigned 13 February 2018)

**OPERATING RESULTS**

The operating and comprehensive loss for the Consolidated Entity, after income tax for the 6 months to 30 June 2018 amounted to US$428,778 (2017: US$404,808).

**SIGNIFICANT CHANGES AND REVIEW OF OPERATIONS**

**Significant Changes**

There were no significant changes in the state of affairs of the Company during the financial period.

**Review of Operations**

Operational highlights for the period:

- Production from the Seram (Non-Bula) PSC averaged 1,979 bopd, which equates to 8,965 barrels net to Lion, representing a 40% decrease on the previous corresponding period due to natural decline and well management.

- One oil lifting totalling 8,998 bbl net to the Company (but before First Tranche Petroleum) generated sales revenue of US$582,213. Total revenue to the Company net of First Tranche Petroleum was US$549,508. As at 30 June 2018 the Company's share of crude oil inventory was 1,785 bbl.

- On 13 February 2018 there was a strategic review of the Company's assets and two Board members, Mr Kim Morrison and Mr Stuart Smith, have resigned from the Company. Mr Damien Servant and Mr Zane Lewis were appointed directors and Mr Thomas Soulsby was appointed as executive Chairman.

- On 4 May 2018 the Company was awarded the East Seram Gross Split PSC. This was formally executed on 18 July 2018.

- On 1 June 2018 the Company signed a 20-year extension of the Seram (Non Bula) PSC. This extension comes into effect at the end of the current PSC term being 31 October 2019.

- On 8 June 2018 the Company issued 24,242,857 shares at $0.035 to raise AU$848,500 before costs. On the same date 5,691,829 shares and 6,250,000 performance rights were issued to directors and consultants in lieu of cash payments.

- On 6 and 8 June 2018 two convertible loans were entered into to raise a total of AU$2,241,000.

- Lion continued an active new business evaluation program with several attractive production or near term opportunities under review at period end.

Further information may be found in the Company's reports for the March 2018 and June 2018 quarters, released to the ASX on 27 April 2018 and 27 July 2018, respectively.

**EVENTS SUBSEQUENT TO BALANCE DATE**

On 24 July 2018 the Company disposed of the South Block A PSC to Blue Sky Resources Ltd.

No other matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial periods.

**AUDITORS INDEPENDENCE DECLARATION**

In accordance with the Corporations Act 2001 section 307C the auditors of the Company, Ernst & Young, have provided a signed auditors independence declaration to the directors in relation to the six months ended 30 June 2018. This declaration has been attached to the independent review report to the members of the Company.

Signed in accordance with a resolution of the directors.

Thomas Soulsby
Executive Chairman

12th September 2018
Perth, Western Australia

In accordance with a resolution of the Directors of Lion Energy Limited, I state that:

In the opinion of the Directors:

(a) the financial statements and notes of the Company set out on page 4 to 14 are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the financial position as at 30 June 2018 and of its performance for the half-year ended on that date of the consolidated entity; and

  (ii) complying with Australian Accounting Standard AASB134 *Interim Financial Reporting* and the *Corporations Regulations 2001*;

(b) Subject to Note 2 of the financial report there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Thomas Soulsby
Executive Chairman

12th September 2018
Perth, Western Australia

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE PERIOD ENDED 30 JUNE 2018

| | Note | 6 months to 30 June 2018 US$ | 6 months to 30 June 2017 US$ |
|---|---|---|---|
| **SALES REVENUE** | 3 | 549,508 | 442,576 |
| Cost of sales | 3 | (402,524) | (351,311) |
| **GROSS PROFIT** | | **146,984** | **91,265** |
| Financing income | 3 | 11 | 636 |
| Administration expenses | 3 | (185,776) | (240,969) |
| Employee benefit expenses | | (305,791) | (274,024) |
| Foreign exchange gains | | 10,008 | 18,284 |
| Capitalised exploration expenditure write off expense | | (198,704) | - |
| Reversal of prior period impairment of receivables | | 104,490 | - |
| **LOSS BEFORE INCOME TAX** | | **(428,778)** | **(404,808)** |
| Income tax expense | | - | - |
| **LOSS AFTER INCOME TAX** | | **(428,778)** | **(404,808)** |
| **LOSS FOR THE PERIOD** | | **(428,778)** | **(404,808)** |
| **OTHER COMPREHENSIVE INCOME** | | | |
| *Items that may be subsequently reclassified to profit or loss* | | | |
| Exchange differences on translating foreign operations | | - | - |
| **OTHER COMPREHENSIVE INCOME AFTER INCOME TAX** | | **-** | **-** |
| **TOTAL COMPREHENSIVE LOSS FOR THE PERIOD** | | **(428,778)** | **(404,808)** |
| **BASIC LOSS PER SHARE (CENTS PER SHARE)** | | **(0.37)** | **(0.37)** |
| **DILUTED LOSS PER SHARE (CENTS PER SHARE)** | | **(0.37)** | **(0.37)** |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 30 JUNE 2018

| | Note | 30 June 2018 US$ | 31 December 2017 US$ |
|---|---|---|---|
| **ASSETS** | | | |
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 4 | 1,462,400 | 823,113 |
| Trade and other receivables | 5 | 921,782 | 416,967 |
| Inventories | | 313,998 | 327,602 |
| **TOTAL CURRENT ASSETS** | | **2,698,180** | **1,567,682** |
| **NON-CURRENT ASSETS** | | | |
| Plant and equipment | | 6,287 | 7,088 |
| Receivables | | 422,250 | - |
| Capitalised exploration and evaluation expenditure | 6 | 927,491 | 266,698 |
| Oil and gas properties | 7 | 394,937 | 548,485 |
| **TOTAL NON-CURRENT ASSETS** | | **1,750,965** | **822,271** |
| **TOTAL ASSETS** | | **4,449,145** | **2,389,953** |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 8 | 1,094,128 | 1,074,688 |
| Borrowings | 9 | 1,573,985 | - |
| **TOTAL CURRENT LIABILITIES** | | **2,668,113** | **1,074,688** |
| **TOTAL LIABILITIES** | | **2,668,113** | **1,074,688** |
| **NET ASSETS** | | **1,781,032** | **1,315,265** |
| **EQUITY** | | | |
| Issued capital | 10 | 48,870,641 | 48,077,278 |
| Reserves | | 2,936,887 | 2,835,705 |
| Accumulated losses | | (50,026,496) | (49,597,718) |
| **TOTAL EQUITY** | | **1,781,032** | **1,315,265** |

## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE PERIOD ENDED 30 JUNE 2018

| | Note | 6 months to 30 June 2018 US$ | 6 months to 30 June 2017 US$ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers | | 267,879 | 932,708 |
| Receipts from legal settlement | | - | 2,159 |
| Production expenditure | | (142,604) | (91,953) |
| Payments to suppliers & employees | | (287,534) | (481,949) |
| Interest received | | 11 | 636 |
| **NET CASH FLOWS FROM/ (USED IN) OPERATING ACTIVITIES** | | **(162,248)** | **361,601** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of property, plant & equipment | | 238 | 967 |
| Exploration and evaluation expenditure | | (859,497) | (391,967) |
| Oil and gas properties expenditure | | (50,068) | (12,561) |
| Payment of performance bond collateral, net | | (597,250) | - |
| **NET CASH USED IN INVESTING ACTIVITIES** | | **(1,506,577)** | **(403,561)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from equity issues | | 646,011 | - |
| Share issue costs | | (4,230) | - |
| Borrowings | | 1,656,323 | - |
| **NET CASH FROM FINANCING ACTIVITIES** | | **2,298,104** | **-** |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **629,279** | **(41,960)** |
| Net foreign exchange differences | | 10,008 | 18,284 |
| Cash and cash equivalents at beginning of period | | 823,113 | 1,246,866 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | 4 | **1,462,400** | **1,223,190** |

The accompanying notes form part of this financial report

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE PERIOD ENDED 30 JUNE 8

| | Issued Capital US$ | Option Premium Reserve US$ | Currency Translation Reserve US$ | Share Based Payment Reserve US$ | Convertible Note Reserve US$ | Accumulated Losses US$ | Total Equity US$ |
|---|---|---|---|---|---|---|---|
| *At 1 January 2018* | 48,077,278 | (27,070) | 2,862,775 | - | - | (49,597,718) | 1,315,265 |
| Loss for the period | - | - | - | - | - | (428,778) | (428,778) |
| Other comprehensive income | - | - | - | - | - | - | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **-** | **-** | **-** | **-** | **-** | **(428,778)** | **(428,778)** |
| Transactions with owners in their capacity as owners | | | | | | | |
| Securities issued | 797,593 | - | - | - | - | - | 797,593 |
| Share issue cost | (4,230) | - | - | - | - | - | (4,230) |
| Performance rights issued | - | - | - | 12,304 | - | - | 12,304 |
| Convertible loans – equity components | - | - | - | - | 88,878 | - | 88,878 |
| **AT 30 JUNE 2018** | **48,870,641** | **(27,070)** | **2,862,775** | **12,304** | **88,878** | **(50,026,496)** | **1,781,032** |

| | Issued Capital US$ | Option Premium Reserve US$ | Currency Translation Reserve US$ | Share Based Payment Reserve US$ | Convertible Note Reserve US$ | Accumulated Losses US$ | Total Equity US$ |
|---|---|---|---|---|---|---|---|
| *At 1 January 2017* | 47,887,762 | (27,070) | 2,862,775 | - | - | (39,462,102) | 11,261,365 |
| Loss for the period | - | - | - | - | - | (404,808) | (404,808) |
| Other comprehensive income | - | - | - | - | - | - | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **-** | **-** | **-** | **-** | **-** | **(404,808)** | **(404,808)** |
| Transactions with owners in their capacity as owners | | | | | | | |
| Securities issued | - | - | - | - | - | - | - |
| Share issue cost | - | - | - | - | - | - | - |
| **AT 30 JUNE 2017** | **47,887,762** | **(27,070)** | **2,862,775** | **-** | **-** | **(39,866,910)** | **10,856,557** |

## NOTE 1. BASIS OF PREPARATION OF THE PERIOD FINANCIAL REPORT

These general purpose interim financial statements for the interim 6 month reporting period ended 30 June 2018 have been prepared in accordance with requirements of the Corporations Act 2001 and Australian Accounting Standard AASB 134: Interim Financial Reporting.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Lion Energy Limited ("Company") and its controlled entities ("Group"). As such, it does not contain information that represents relatively insignificant changes occurring during the period within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2017, together with any public announcements made during the period.

**Statement of compliance**

The interim financial report complies with the Corporations Act 2001 and AASB 134 "Interim Financial Reporting". Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting".

**Significant Accounting Policies**

These consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 31 December 2017, except for adding an accounting policy on convertible loans and for the impact of the of all new or amended standards and interpretations. The adoption of the new or amended standards and interpretations, other than AASB 9 and AASB 15, did not result in any significant changes to the Group's accounting policies. The Group has not elected to early adopt any new accounting standards and interpretations.

*Convertible loans*

Convertible notes are separated into liability and equity components based on the terms of the contract. On issuance of the convertible note, the fair value of the liability component is determined by using a market rate for an equivalent non-convertible instrument. This amount is classified as a financial liability measured at amortised cost until it is extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in equity. The carrying amount of the conversion option is not remeasured in subsequent years.

*AASB 9: Financial Instruments*

AASB 9 was adopted on 1 January 2018 and the related amendments to other accounting standards introduced three significant areas of change from AASB 139 *Financial Instruments: Classification and Measurement:*
- a new model for classification and measurement of financial assets and liabilities;
- a new expected loss impairment model for determining impairment allowances; and
- a redesigned approach to hedge accounting

No change to the classification or measurement of financial assets and liabilities has been required. Based on historical losses, the expected loss impairment model has an immaterial impact on the Group. In addition, the Group does not have hedging transactions. The Group's changes to accounting policy for trade and other receivables is detailed below:

Trade receivable (without a significant financing component) are initially recognised at their transaction price and all other receivables are initially measured at fair value. Receivables are measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:
- it is held within a business model with the objective to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For the purposes of the assessment whether contractual cash flows are solely payments of principal and interest, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

For all other receivables measured at amortised cost, the Group recognised lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition. If on the other hand the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to expected credit losses within the next 12 months.

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). Expected credit losses are discounted at the effective interest rate of the financial asset.

The Group considers an event of default has occurred when a financial asset is more than 90 days past due or external sources indicate that the debtor is unlikely to pay its creditors, including the Group. A financial asset is credit impaired when there is evidence that the counterparty is in significant financial difficulty or a breach of contract, such as a default or past due event has occurred. The Group writes off a financial asset when there is information indicating the counterparty is in severe financial difficulty and there is no realistic prospect of recovery.

AASB 15: *Revenue from Contracts with Customers*

AASB 15 was adopted by the Group on 1 January 2018. It provides a single, principles-based five-step model to be applied to all contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Group's new revenue accounting policy is detailed below:

Revenue from the sale of the oils are recognised at a point in time when the control of the asset is transferred to the customer, which is typically upon completion of the lifting (i.e. loading of the oil onto the tanker) by the customer.

## NOTE 2. GOING CONCERN BASIS

The financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activity, realisation of assets and the settlement of liabilities in the normal course of business. The Consolidated Entity incurred a net loss before income tax of US$428,778, a net operating cash outflow of US$162,248 and spent a net investing cash outflow of US$1,506,577 for the 6 months to 30 June 2018. The Directors note that should uncommitted business activities, such as continued exploration and evaluation activities, require expenditure in excess of funds available, options with regard to funding those activities will need to be sought.

The Consolidated Entity is currently in a positive net current asset position, including cash of US$1,462,400. The Directors are confident that the Group has sufficient cash to fund its share of currently approved joint venture activities and will be able to meet existing commitments as they fall due. The Directors will also continue to carefully manage discretionary expenditure in line with the Group’s cash flow. However, if the proposed exploration program in East Seram PSC proceeds as currently envisioned and the expected settlements of the convertible loans via shares do not occur, the Group may need further funding to meet its share of the expenditure. The Directors are confident of being able to raise the required funding but note that it has not been secured at the date of this report. Should the Group not achieve the additional funding required, there is uncertainty whether the Group would continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The financial statements do not include any adjustments relating to the recoverability and classification of assets and liabilities that might be necessary should the Group not be able to continue as a going concern.

## NOTE 3. REVENUE AND EXPENSES

*The loss before income tax expense includes the following revenues and expenses where disclosure is relevant in explaining the performance of the Group:*

| | 6 months to 30 June 2018 US$ | 6 months to 30 June 2017 US$ |
|---|---|---|
| **REVENUE** | | |
| Oil sales | 549,508 | 442,576 |
| **FINANCE INCOME** | | |
| Interest income | 11 | 636 |
| **BREAKDOWN OF EXPENSES** | | |
| Cost of goods sold: | | |
| Production costs | 198,908 | 188,773 |
| Depreciation, depletion & amortisation | 203,616 | 162,538 |
| | 402,524 | 351,311 |
| Administrative expenses | | |
| Depreciation | 563 | 746 |
| Consultancy expenses | 45,400 | 57,116 |
| Legal expenses | 5,154 | 1,301 |
| Professional fees | 57,185 | 78,479 |
| Rental costs | 2,506 | 4,725 |
| Cost of share based payments | 12,304 | 38,428 |
| Interest Expense | 6,540 | - |
| Travel expenses | 18,901 | 25,810 |
| Other administrative expenses | 37,223 | 34,364 |
| | 185,776 | 240,969 |

## NOTE 4. CASH AND CASH EQUIVALENTS

| | 30 June 2018 US$ | 31 December 2017 US$ |
|---|---|---|
| Cash at bank | 1,438,157 | 793,473 |
| Share of joint venture cash | 24,243 | 29,640 |
| | 1,462,400 | 823,113 |

| | 30 June 2018 US$ | 31 December 2017 US$ |
|---|---|---|

## NOTE 5. TRADE AND OTHER RECEIVABLES (CURRENT)

| | 30 June 2018 US$ | 31 December 2017 US$ |
|---|---|---|
| Trade debtors | 594,833 | 268,368 |
| Other debtors and prepayments | 20,699 | 17,349 |
| Performance bond collateral | 306,250 | 131,250 |
| | 921,782 | 416,967 |

## NOTE 6. CAPITALISED EXPLORATION AND EVALUATION EXPENDITURE

| | 30 June 2018 US$ | 31 December 2017 US$ |
|---|---|---|
| Capitalised exploration and evaluation expenditure | 927,491 | 266,698 |
| TOTAL | 927,491 | 266,698 |
| MOVEMENTS IN THE CARRYING AMOUNT OF CAPITALISED EXPLORATION AND EVALUATION EXPENDITURE | | |
| At the beginning of the financial period | 266,698 | 8,778,733 |
| Expenditure during the period | 859,497 | 795,258 |
| Capitalised exploration expenditure written off | (198,704) | (9,307,293) |
| AT THE END OF THE FINANCIAL PERIOD | 927,491 | 266,698 |

Included in exploration and evaluation expenditure are costs associated with the East Seram PSC.

## NOTE 7. OIL AND GAS PROPERTIES

| | 30 June 2018 US$ | 31 December 2017 US$ |
|---|---|---|
| Oil and gas properties | 394,937 | 548,485 |
| TOTAL | 394,937 | 548,485 |
| MOVEMENTS IN THE CARRYING AMOUNT OF OIL AND GAS PROPERTIES | | |
| At the beginning of the financial period | 548,485 | 930,863 |
| Expenditure during the period | 50,068 | 11,985 |
| Depreciation, depletion & amortisation | (203,616) | (394,363) |
| AT THE END OF THE FINANCIAL PERIOD | 394,937 | 548,485 |

| | 30 June 2018 US$ | 31 December 2017 US$ |
|---|---|---|

## NOTE 8. TRADE AND OTHER PAYABLES (CURRENT)

| | | |
|---|---|---|
| Sundry creditors and accrued expenses | 186,232 | 374,250 |
| Share of joint venture payables | 907,896 | 700,438 |
| | 1,094,128 | 1,074,688 |

## NOTE 9. BORROWINGS

| | | |
|---|---|---|
| Convertible loans | 1,573,985 | - |
| | 1,573,985 | - |

Terms and conditions of the above financial liabilities:

- The convertible loans are comprised of two loans with principal amounts of AU$921,000 from KL Trio Pte Ltd and AU$1,320,000 from Risco Energy Unconventional Pte Ltd. These loans are due for repayment on 13 December 2018 and 19 December 2018, respectively. Subject to the approval of the Company's shareholders, the lenders may elect to convert these into fully paid ordinary shares of the Company at a conversion price of $0.035 per share. If the loans are repaid in cash, an additional 10% of the principal amounts are due.

The Company considers that the convertible notes are compound instruments and in this regard a portion of the convertible notes were recognised in equity. The fair value of the convertible loans were determined as $1,567,445 at initial recognition using a discounted cash flow methodology over the six months to maturity. Given the face value of the compound instruments was $1,656,323 (AU$2,241,000), the residual amount of $88,878 was recognised in equity forming part of the reserve.

Over the term of the loan the convertible loans will be accreted back up to its principal loan amounts through an interest expense to be recognised in the income statement using an effective interest rate. During the period, a total of $6,540 (2017: Nil) was recognised as interest expense.

## NOTE 10. ISSUED CAPITAL

ORDINARY SHARES

| | | |
|---|---|---|
| 143,373,218 (31 December 2017: 113,438,532) fully paid ordinary shares | 48,870,641 | 47,887,762 |
| | 48,870,641 | 47,887,762 |

MOVEMENTS IN ORDINARY SHARES

| | |
|---|---|
| At the beginning of the period | 47,887,762 |
| 29,934,686 shares issued on 8 June 2018 | 797,593 |
| Share issue expenses | (4,230) |
| **AT THE END OF THE FINANCIAL PERIOD** | 48,870,641 |

## NOTE 11. SEGMENT INFORMATION

AASB 8 Operating Segments requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. In the case of the Group the CODM are the board of directors and all information reported to the CODM is based on the consolidated results of the Group as one operating segment, as the Group's activities relate to oil and gas exploration, development and production in Indonesia.

Accordingly, the Group has only one reportable segment and the results are the same as the Group results.

## NOTE 12. EVENTS SUBSEQUENT TO BALANCE DATE

On 24 July 2018 the Company disposed of the South Block A PSC to Blue Sky Resources Ltd.

No other matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial periods.

## NOTE 13. FINANCIAL INSTRUMENTS

Due to their short-term nature, the carrying amounts of the Group's financial assets and liabilities at 30 June 2018 was considered to approximate their fair value.

## NOTE 14. RELATED PARTY TRANSACTIONS

There has been no change in related party transactions since the last annual reporting period, except for the issuance of the convertible loans with Risco Energy Unconventional Pte Ltd as disclosed in note 9 and the issuance of the performance rights as further discussed below:

On 8 June 2018 the Company issued 3,125,000 Class A performance Rights and 3,125,000 Class B Performance Rights. The performance Milestones for each are outlined below:

The vesting of Class A Performance Rights is subject to the average monthly volume of shares traded on the ASX from 1 July 2018 to 31 December 2018 exceeding 1.25% of the total shares on issue as at December 31, 2018.

The Vesting of Class B Performance Rights is subject to satisfactory achievement of Total Shareholder Return (TSR).

The quantum of performance rights that vest will be calculated as follows:

TSR % < 35% = Nil Performance Rights vest

TSR % >= 35% and < 200% = Pro rata of total Performance Rights issued under this agreement.

TSR % >= 200% = 100% of total Performance Rights issued under this agreement.

TSR % is defined as:

$$\left(\frac{Finish\ Date\ Price - Start\ Date\ Price}{Start\ Date\ Price}\right) x\ 100$$

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# Independent auditor's review report to the members of Lion Energy Limited

## Report on the half-year financial report

## Conclusion

We have reviewed the accompanying half-year financial report of Lion Energy Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a) Giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the half-year ended on that date; and

b) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

## Emphasis of matter - material uncertainty related to going concern

We draw attention to Note 2 in the financial report. The conditions as set forth in Note 2 indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

## Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

## Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 30 June 2018 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Darryn Hall
Partner
Perth
12 September 2018

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# Auditor's Independence Declaration to the Directors of Lion Energy Limited

As lead auditor for the review of Lion Energy Limited for the half-year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

a) No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Lion Energy Limited and the entities it controlled during the financial period.

Ernst & Young

Darryn Hall
Partner
12 September 2018