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# Lion Energy

9th March 2015

## Lion Energy advancing linked conventional and unconventional strategy

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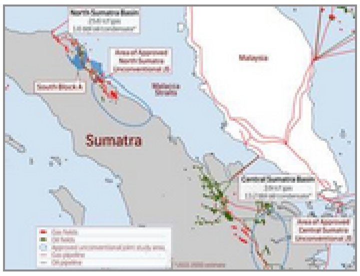


Lion Energy is focussed on becoming a player in Indonesia's unconventional oil and gas industry. The approval to carry out two separate unconventional joint studies received in February is a milestone for the company, providing a potential pathway to being awarded an unconventional PSC.

**Analysis**

**The award of the two unconventional joint studies to Lion Energy demonstrates the company's early mover advantage in the sector.**

**Commencing May 2012, Lion affiliated companies submitted four joint study applications over areas that detailed technical work indicated were prospective for unconventional plays including shale gas, shale oil, tight gas and tight oil.**

**With two of the joint studies now awarded, a further two applications, totalling approximately 9,500 square kilometres, in North and Central Sumatra, are progressing through the Indonesian system.**

**This is part of its strategy to build a highly significant acreage position - focussed on Sumatra's prolific onshore basins - that will be attractive to larger players who have a strategic intent on getting involved in Indonesia.**

**While the unconventional acreage offers world-class long-term upside, conventional oil and gas activity still has a critical role to play in the success of the company.**

**Conventional exploration will help de-risk the unconventional potential in a cost effective manner and importantly has the potential to provide near-term cashflow to fund the longer term, higher reward unconventional exploration.**

**Notably, Lion's interest in the oil producing Seram block was cash flow positive in 2014 with its large cost recovery pool ensuring that approximately 95% of the oil revenues flowed through to the joint venture.**

**Despite the modest interest, the block is important to Lion and a recently commenced development drilling phase on the main Oseil oil field is anticipated to significantly grow production.**

**Lion also has a 35% interest in the South Block A PSC in the prolific North Sumatra Basin, which has attractive conventional oil and gas prospects delineated in 2014 seismic program with plans for exploration drilling advanced.**

**The company benefits from a highly experienced management team and advisory panel which combines big**

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**company technical and commercial rigour with small company nimbleness and entrepreneurial attitude.**

**All its Board members have lived and worked in Indonesia and it has supportive Indonesian based shareholders.**

**These include key advisor and shareholder, Sammy Hamzah, the chief executive officer of Ephindo, Indonesia's leading CBM company.**

**Hamzah is also on the Indonesian Chamber of Commerce, a non-executive director of Rio Tinto Indonesia and is very well respected through government and industry circles.**

**The company also receives support from Indonesian-backed energy investment fund Risco Energy Investments, which has a 55.3% stake in the company.**

**Management of Risco that has been involved in deals worth more than $1 billion in the past 10 years and the Risco and its holding allows Lion to present itself as a majority Indonesian-backed company.**

**The company is well-funded with $5.6 million in cash and deposits as at the end of 31st December 2014.**

Lion Energy (ASX:LIO), an Indonesian unconventional oil and gas pioneer, recently announced approval to carry out two separate unconventional joint studies over highly prospective areas in the North and Central Sumatra Basins.

These awards represent a major step forward in Lion's linked conventional/unconventional strategy focussed on Sumatra with rapidly growing energy demand, existing infrastructure and high gas prices

The joint studies are anticipated to take around 6 months and are precursors to the Government offering unconventional Production Sharing Contracts, with Lion and its partners having certain priority rights.

In North Sumatra, Lion will lead a joint study covering an area of 4,684 square kilometres in the southeast of the basin.

Under an agreement announced in November 2014, Lion will operate the study with a 55% interest while the partners in the conventional Bohorok PSC, which partly overlaps the area of the unconventional Joint Study, jointly have 45% interest.

In Central Sumatra, Lion will conduct a Joint Study over an area of 2,478 square kilometres covering part of the Bengkalis Graben, a major oil province in the east of the basin. Lion is the operator of the study with 75%, and the conventional rights holder in the partly overlapping area, with a 25% interest.

The studies will be undertaken with assigned universities and will refine Lion's understanding of the key unconventional plays and prospective unconventional resources in the areas.

"The award of these two unconventional joint studies is a major milestone for Lion and show we are delivering on our promises," chief executive officer Kim Morrison said.

"Lion will operate the joint studies with the process providing a clear and cost effective pathway to being awarded unconventional PSC's.

"The studies are over areas we regard as containing some of the most prospective unconventional plays in Indonesia."

Lion continues to advance two additional joint study applications, attractive conventional interests in North Sumatra and Eastern Indonesia as well as actively pursuing new venture opportunities.

**North Sumatra Unconventional Joint Study Area**

Lion has been awarded an unconventional joint study in North Sumatra covering an area of 4,684 square kilometres that partially overlaps the conventional Bohorok PSC.

The North Sumatra Basin is one of the major onshore basins in the SE Asian region with over 25 trillion cubic feet of gas and over 1.3 billion barrels of oil and condensate discovered.

This joint study area is located to the south of 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's evaluation recognises that key elements are in place essential for prospective unconventional (shale gas/oil and tight gas/oil) acreage:

- Suitable geology. The key unconventional targets have properties analogous to successful unconventional plays in North America, including good quality marine oil and gas source rocks;
- Access to infrastructure and markets. There is significant gas demand in the area with extensive pipeline infrastructure – including a major pipeline that runs through the study area - and Indonesia's third largest city, Medan, in close proximity. Medco, the operator of the Block A PSC to the north of the joint study area, recently announcement the signing of a gas sales agreement at a price of US$9.45 per million British Thermal Units which highlights the strength of the region's gas demand; and
- Attractive operational environment. The area has a long history of oil and gas production and has accessible terrain.

Preliminary evaluations by the company indicate significant gas and liquids potential in a number of attractive unconventional plays in the joint study area.

The joint study is designed to quantify the unconventional prospective resources which have potential to be in the multi-Tcf gas, multi-hundred million barrel oil/condensate range.

The participation of conventional holders Bukit Energy, New Zealand Oil and Gas (ASX:NZO) and SBL in the unconventional rights of the area allows the joint venture to capture significant synergies between conventional and unconventional exploration.

At the completion of the joint study, subject to approval of the regulator, an area of up to 3,000 square kilometres, comprising the most prospective parts of the joint study area, will be selected to form the subsequent PSC area.

Each party shall have the option to jointly participate in the direct award bid round for the unconventional PSC that will be offered by the Government of Indonesia.

Lion will operate the joint study phase. Bukit will be the initial operator of the unconventional PSC, if awarded, until the completion of the 3-year firm work commitment, at which time the parties shall meet to review the operatorship.

If Lion still holds 51% of the PSC at that time it will have the right to become operator, subject to Government approval.

**Central Sumatra Unconventional Joint Study Area**

In Central Sumatra, Lion will conduct a Joint Study over an area of 2,478 square kilometres covering part of the Bengkalis Graben, a major oil province in the east of the basin.

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.

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It hosts major discoveries, which provides encouragement for the unconventional potential (shale gas/oil & 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.

Preliminary evaluations indicate significant gas and liquids potential in a number of attractive unconventional plays within the joint study area.

The joint study program is designed to quantify the unconventional prospective resources in the application area which have the potential to be in the Tcf gas, multi-hundred million barrel oil range.

Potential in-place unconventional reserves for the Central Sumatra Basin are estimated at 69 billion barrels oil and condensate and 42Tcf of gas.

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 right to propose 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.

Lion will operate the joint study phase and any subsequent unconventional PSC if awarded.

**Other Activity**

Lion has a 2.5% interest in the Seram (Non Bula) PSC, which includes the Oseil oilfield that produces about 2,900 barrels of oil per day (72.5bopd net to Lion).

Phase 3 Development drilling is planned to begin with the Oseil-27 well.

Current plus incremental production from the Phase 3 development, is projected to increase Seram production to approximately 4,500bopd based on operator forecasts.

In the west of the PSC, Lofin-2 is being drilled to appraise the Lofin-1 discovery made in 2012, which flowed 15.7 million standard cubic feet of gas and 171bpd oil/condensate from the Manusela Formation.

The Lofin-2 appraisal well is close to drilling into the main objective Manusela Formation limestone with results expected in the near term.

Lion also has a 35% interest in the South Block A PSC in North Sumatra. A seismic survey completed in 2014 has delineated a number of attractive oil and gas prospects with the Joint Venture currently working on plans to drill an exploration commitment well.

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