

07 August 2014

RECOMMENDATION
Speculative Buy

12 month price target	\$0.36/sh
12 month volume	5m
12 month share low	12c
12 month share high	20c

Market Risk	High
Liquidity Risk	Medium
Infrastructure Risk	Medium
Country Risk	High

IRESS & DJC Research
ISSUED CAPITAL

ASX	LIO
Share price	20c
Mkt cap ¹	\$19m
Ordinary shares on issue	95m
Options ²	4m

¹ Undiluted *Source: IRESS*
² Various dates and strike prices

DIRECTORS

Russell Brimage	Exec Chairman
Kim Morrison	Managing Director
Stuart Smith	Executive Director
Tom Soulsby	Non Exec Director
Chris Newton	Non Exec Director

Source: LIO
12 MONTH PERFORMANCE

Source: IRESS
Edwin Bulseco

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Lion Energy Ltd (LIO)

Lofin-2 Appraisal Well to Spud in September

LIO delivered a solid June quarter highlighted by the successful completion of the Oseil-21 well which is currently producing in line with pre-drill expectations of 500bopd. Drilling activity is set to commence in the near term with the Lofin-appraisal well due to spud in September 2014 which will be followed by the South Block A oil prospect late 2014/early 2015. We maintain our Speculative Buy recommendation with a slightly reduced price target (cash update and exploration risking) of \$0.36/sh (previously \$0.40/sh).

Key Points:

- Solid quarter of production and revenue.** LIO delivered a solid June quarter with gross production from the Seram Project (2.5% LIO) delivering 2,818 bopd (70bopd net to LIO). LIO's net share of oil revenue was US\$841,613 from the total lifting of 357,786 bbls oil (8,945 bbls oil net to LIO) with a realised oil price of US\$94.09/bbl. LIO finished the June Quarter with ~\$5.8m cash.
- Seram production provides solid foundation.** One development well (Oseil-21) was completed during the June Quarter which is producing at the estimated pre-drill well economics of 500bopd. **In our view, production from the Seram project provides a strong foundation for LIO's overall portfolio.**
- Lofin-2 appraisal well to spud in late September.** The key near term appraisal target which could deliver material reserves in the Seram PSC will be the Lofin-2 appraisal well (expected to spud late September) located in the West of the PSC. Lofin-2 will appraise the Lofin-1 discovery which flowed gas (15.7mmscf/d) and condensate/oil (171bopd) on test. P50 prospective resources are 5.13mmbbls/ 0.128mmbbls LIO share oil and there is significant upside beyond this in the case of a high side hydrocarbon column outcome. The gross well cost is estimated to be ~\$30m or \$0.75m LIO share.
- South Block A (SBA) oil prospect provides upside of over 10c unrisks.** The 2D seismic program was completed on 2 April 2014 in SBA delineating four leads with total P50 prospective resources of 429bcf gas and 47mmbbls liquids (150bcf gas and 16.4mmbbls liquids net to LIO). **LIO plans to spud a shallow oil target late 2014/early 2015 which could provide material upside of over 10c/sh** (assuming a volume estimate of 5mmbbls oil).
- Unconventional Joint Study Applications (JSA's) to be awarded by year end.** LIO believes three out of the four unconventional JSA's could be awarded by year end which we believe provides a material catalyst for LIO given the blue-sky upside potential. Furthermore, we believe there is potential for a cross assignment of equity for conventional and unconventional permits across these JSA's.
- Key near term catalysts.** 1) Lofin-2 appraisal well spud (September 2014), 2) Award of unconventional JSA's (3Q/4Q CY14) and 3) South Block A prospect spud (4Q CY14/1Q CY15).

Lofin-2 Appraisal Well to Spud in September

The key near term appraisal well which could deliver material reserves in the Seram PSC will be the Lofin-2 appraisal well located in the West of the PSC. Lofin-2 will appraise the Lofin-1 discovery which flowed gas (15.7mmscf/d) and condensate/oil (171bopd) on test. Lofin-1 was drilled to a total depth (TD) of 4,427 metres and encountered a gross hydrocarbon column of 160 metres. The well is interpreted to still be in hydrocarbons at TD and there is potential for the column to extend significantly beyond this depth. P50 prospective resources are 5.13mmbbls/ 0.128mmbbls LIO share oil and there is significant upside beyond this in the case of a high side hydrocarbon column outcome. The Lofin-2 appraisal well is due to spud in late September 2014 and has an estimated drilling time of around 134 days. The key risks for the well include uncertainty surrounding the oil/water contact and reservoir deliverability. The gross well cost is estimated to be ~\$30m or \$0.75m LIO share.

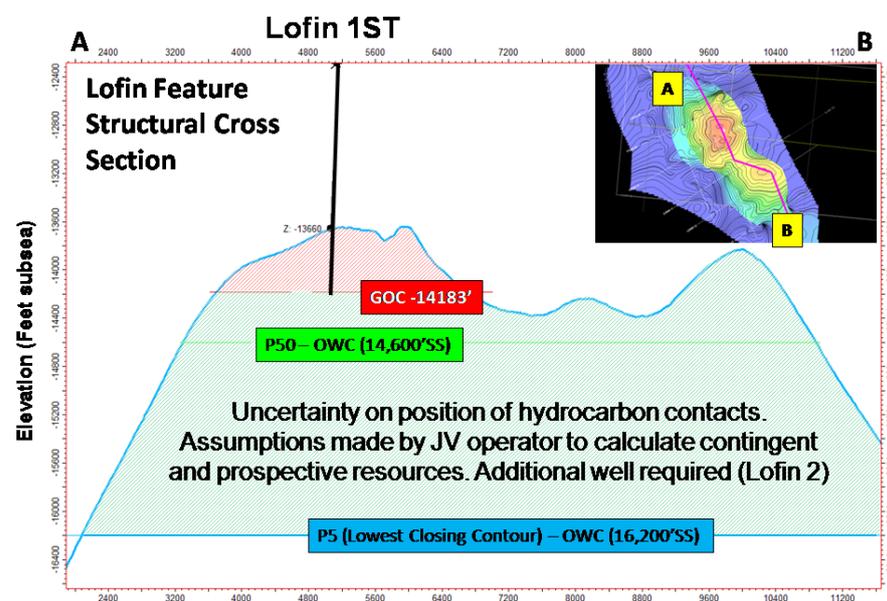


Figure 1: Lofin Discovery

Source: LIO

Disclosure

RCAN1209

This Research report, accurately expresses the personal view of the Author. All the information utilised in this report is accurate and current at the date stated on this report.

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The Author of this report made contact with **Lion Energy Ltd** for assistance with verification of facts, admittance to business sites, access to industry/company information. No inducements have been offered or accepted by the company.

The recommendation made in this report is valid for four weeks from the stated date of issue. If in the event another report has been constructed and released **Lion Energy Ltd**, the new recommendation supersedes this and therefore the recommendation in this report will become null and void.

Recommendation Definitions

SPECULATIVE BUY – 10% out-performance, but high risk

BUY – 10% out-performance

ACCUMULATE – 10% or more out-performance, buy on share price weakness

HOLD – 10% underperformance to 10% over performance

SELL – 10% or more underperformance

Period: During the forthcoming 12 months, at any time during that period and not necessarily just at the end of those 12 months.

Stocks included in this report have their expected performance measured relative to the ASX All Ordinaries index. DJ Carmichael Pty Limited's recommendation is made on the basis of absolute performance. Recommendations are adjusted accordingly as and when the index changes.

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