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LION ON THE PROWL IN INDONESIA

Taking Stock looks at the macro forces behind market movements as well as global trends that impact the resources industry.

FOLLOWING A recapitalisation, Lion Energy has hit the ground running as a rejuvenated company with an experienced and talented management team that is well known in the Asian region.

Lion retains its interest in oil production on Seram Island as well as newly acquired unconventional oil and gas exploration applications on the Indonesian island of Sumatra.

The company is funded to address high impact conventional exploration leads and prospects where prospects have already been mapped. Prospects hold potential to yield up to 80 million barrels of oil equivalent to Lion's account. Lion will also have a first mover advantage over prospective unconventional targets in Sumatra.

Strachan Corporate estimates that the value of net cash plus equity in the Seram oilfield underpins a value of 11c per share, while 42cps of risked exploration lifts total risked target value to 48cps, after deducting corporate costs.

The company is recapitalised and reskilled, emerging as a completely rejuvenated one with highly credentialled management providing strong technical and financial capabilities. New investors and management on the share register have a proven track record for creating value in Indonesian oil and gas. Their interests are well-aligned with the broader shareholder base.

The company is leveraging conventional petroleum into shale oil and gas with high-impact conventional exploration projects and a strategy of becoming a dominant player in Indonesia's emerging shale gas business, starting with four Unconventional Joint Study Applications (JSA) over prospective sedimentary basins in Sumatra. Lion's JSAs cover 17,334sq.km within the North and Central Sumatran basins. Precise locations will remain confidential until the studies are complete and applications are approved. Lion has identified significant areas within its application areas where these unconventional targets have potential to be in sweet spots in terms of suitable depth of burial and rock characteristics.

Indonesia's government recognises that domestic reserves of oil and gas to supply its ballooning requirements are fast depleting. The Indonesian government has developed policy that supports rising gas prices and improved the fiscal terms offered for frontier and unconventional targets.

Indonesian fiscal terms for conventional PSCs range from 15% to 30% contractor take after taxes for oil, and 30-40% contractor take for gas. The industry expects significant improvement of terms for unconventional PSCs with a contractor take for gas assumed to be similar to current CBM terms of 45%.

In an effort to stimulate local exploration and production of oil and gas, Indonesian authorities have allowed market forces to steadily lift the price paid to domestic producers of natural gas.

Rapidly rising domestic gas consumption is overwhelming conventional suppliers, who are unable to keep pace as the country makes plans to become a gas importer. Natural gas sales contracts are being set at up to $US8/GJ and likely to move higher as LNG imports post 2015 begin to set the tone for domestic prices.

Lion is partially funded from operating cash flow and has an estimated $7 million to apply toward early conventional exploration targets. Low-cost studies aimed at derisking its shale oil and gas project potential will continue. Farm-out support is likely once projects are understood.

Lion has significant exploration appeal. Success at the Simpang Deep prospect on South Block A in Northern Sumatra would add value estimated at $1.50/share for the company's 35% interest in targeted 285 billion cubic foot of gas plus 15MMbbl of oil.

The company's strong equity position in new projects enables it to attract farm-in funding for higher-cost drilling on unconventional targets. Its management is highly motivated to increase shareholder wealth, bringing strong business development credentials as well as a proven ability to do business in Indonesia.

Lion has increased its interest in conventional production-sharing contracts (PSC) in Sumatra and acquired a sole right to progress four unconventional joint study spplications that were already submitted last year. These applications cover 17,334sq.km of onshore, North Sumatran permits that are seen as prospective for shale, and "tight" oil and gas production.

South Block A (SBA), JV partners are in the process of acquiring 170km of 2D seismic data over the Simpang Deep, Djernah, Amanah, Sungai Lyu and Paya Bili leads, ahead of drilling a well in 2014. The company estimates that in total, these leads have potential to hold Reserves to Lion's account amounting to 150Bcf of gas plus 16.4MMbbl of oil.

Lion's Sumatran PSC is surrounded by significant oil and gas discoveries, including the 3Tcf Kuala Langsa gas field, the 300MMbbl Rantu oilfield and the 400Bcf Alur Siwah field.

Prospectivity within SBA was further enhanced in May 2013 when Premier Oil, as a participant in the nearby Matang discovery, reported a flow test of 25MMcuft per day of gas with a 15% CO_2 content and an estimated recoverable resource of between 100 and 400Bcf of gas. RS