

# Quarterly Report

1 July to 30 September 2019



## Lion Energy Limited

### Highlights – CPC farm-in delivers immediate value

Lion Energy Limited (“Lion” or “Company”) is pleased to report substantial progress during the third quarter of 2019.

- Experienced partner and Taiwan-based CPC Corporation joined our exploration efforts in the highly prospective East Seram PSC
- Post quarter end, cash of US\$1.09m received from CPC as per farmout terms
- Farmout terms imply a value of some A\$11.3m for Lion’s remaining 60% stake in East Seram at current exchange rates, vs the current market cap of A\$5.2m
- Seismic survey planning well underway and acquisition planned for 2020
- Seram (Non-Bula) Block (“SNB”) PSC production for the quarter was 3,704 bbls net to Lion. Medium term crude offtake agreement secured with Freepoint.
- Lion and GPI terminate SPA

During the quarter, Lion Energy, operator of the East Seram PSC via its wholly-owned subsidiary Balam Energy Pte Ltd, reported that Taiwanese based CPC Corporation, through its wholly-owned subsidiary, OPIC East Seram Corporation (“OESC”), will acquire a 40% participating interest in the East Seram PSC under a Farmout Agreement (“FOA”) signed on 25 September 2019. The farmout is subject to Government of Indonesia (“GOI”) approval.

Lion had previously reported that the award of the East Seram PSC forms a significant part of a revised strategy which initially focuses on the Seram Basin. The block, which surrounds the SNB PSC area, contains 18 leads with some 1.24 billion P50 (best estimate) prospective resource including the highly ranked MA-7 oil prospect (P50 217 mmmboe) and the Lofin Field extension with a prospective resource of 154BCF<sup>1</sup>.

Mr Soulsby, Lion’s Chairman, said that “we are delighted to welcome the participation of Taiwan’s CPC Corporation into the East Seram PSC and have been pleased with the overall industry’s response to our farmout process. The transaction is seen as a strong endorsement of our views on the material prospects and leads in the block.”

Meanwhile, production from SNB averaged 1,706 bopd for the quarter (~40 bopd net to Lion). Gross crude oil production for the quarter was 156,990 bbl (3,704 bbl net to Lion). A crude oil lifting was commenced on 30 September 2019 with a total loadout of 476,384 bbls completed on 2 October 2019. Proceeds are expected to be received during November 2019.

#### Lion at a glance

- ASX listed oil and gas E&P company focused on Seram Island, East Indonesia; two conventional PSC’s on gross split terms.
- Net production of around 40bopd from the Seram PSC which also contains the Lofin gas/condensate discovery.
- New focus on production opportunities in Southeast Asia, initial focus on Seram Island.
- Executive team and strategic investors with impressive track records for value creation in Indonesia.

#### Contact

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#### Directors & Officers

<b>Tom Soulsby</b>	Executive Chairman
<b>Damien Servant</b>	Executive Director
<b>Russell Brimage</b>	Non-Executive Director
<b>Chris Newton</b>	Non-Executive Director
<b>Zane Lewis</b>	Non-Executive Director & Company Secretary
<b>Arron Canicais</b>	Company Secretary

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<sup>1</sup> The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons. Lion is not aware of any new information or data that materially affects the Lofin contingent resource and that all material assumptions and technical parameters underpinning the resource continue to apply and have not materially changed.

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## Operations update

### 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 block contains the Oseil oilfield and surrounding structures that have yielded cumulative crude oil production of 17,929,488 barrels since production started in January 2003 through to 30 September 2019.

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

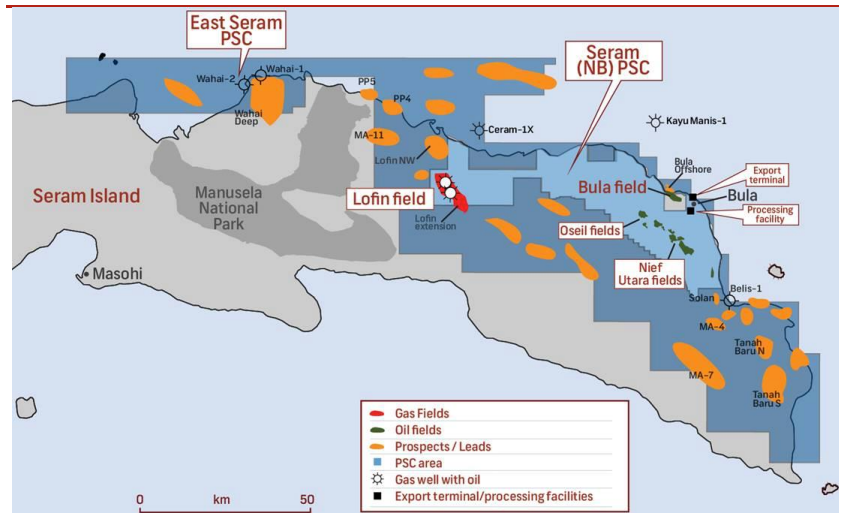
The renewal of SNB as a new gross split PSC, was executed with the official signing of the extension for a further 20 year term on 31 May 2018, between the joint venture partners and the Ministry of Minerals Resources of the Republic of Indonesia. The new contract becomes effective 1<sup>st</sup> November 2019.

This significant milestone provides the joint venture participants:

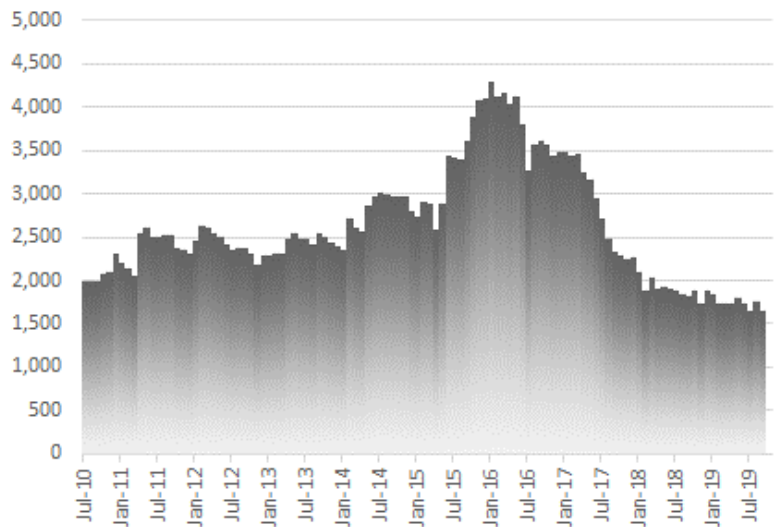
- The opportunity to proceed with the final appraisal and development of the significant Lofin gas discovery resource of in excess of 2 TCF. The JV has approved the commencement of the Lofin-2 well test and this work is expected to be carried out commencing Q1, 2020.
- The opportunity to complete the full drilling program of the Plan of Further Development ("POFD") approved by the Indonesian regulatory body SKK Migas, on 5 May 2015. Only six of the 10 wells approved in the POFD were drilled due to the uncertainty of the SNB

renewal, with the pending expiry of the block limiting the time for recovery of the drilling expenditure. The six wells drilled in the POFD have produced 3.558 million barrels of crude oil since production commenced in January 2014. Of the 25 wells drilled in the Oseil oilfield, 12 of which are located in the Oseil-2 fault block, 6 of the 12 are POFD wells and the remaining 4 approved under the POFD will also be drilled in the Oseil-2 fault block. The JV has approved the drilling of the remaining development wells and this is scheduled to commence in December 2019 with the projection that each well will add initial production of 500 bopd.

Seram (Non-Bula) Block PSC - location map



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



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## Production

During the quarter, gross crude oil production from Oseil and surrounding oilfields was 156,990 bbl (Lion's share 3,704 bbls). Daily production averaged 1,706 bopd (Lion's working interest being 40 bopd). The minimal decline from the previous quarter, which averaged 1,776 bopd, is the result of ongoing operations focus on fine tuning well performance. Three well services were carried out in the Quarter due to downhole pump failures, bringing the total number of well services since the commencement of 2019 calendar year to four. All three well services during the Quarter were completed successfully and the wells are on line.

Crude oil available for lifting following the lifting completed on 2 October 2019 was 17,643 bbls. The next crude oil lifting is scheduled for May 2020.

During the quarter, Citic Seram Energy Limited, the operator, acting on behalf of the SNB joint venture, secured a crude offtake agreement with Freepoint Commodities Singapore Pte Ltd for 100% of Oseil crude oil production. The agreement is valid until 31 December 2020, with a one-year optional extension. The offtake price is linked to fuel oil price with a fixed premium.

## Planned increase in working interest terminated

Lion previously announced on December 12, 2018 that it entered into a conditional sale and purchase agreement ("SPA") with Gulf Petroleum Investment Company KSCC ("GPI") to acquire GPI's 16.5% stake in the SNB PSC, increasing Lion's stake in SNB to 19% (the "Proposed Transaction").

By way of background, the SNB PSC is in the process of being converted from a legacy cost recovery styled PSC ("Current PSC") to the more innovative new gross split PSC format ("New PSC"). The New PSC is effective November 1, 2019.

The Proposed Transaction was subject to various conditions, including approval from the GOI. The Proposed Transaction involved the purchase by Lion of GPI's rights and obligations in both the Current PSC and the New PSC.

The GOI has indicated that whilst it can approve the transfer of GPI's interest to Lion in the Current PSC contract, it believes that existing participants in the New PSC are restricted from selling more than 50% of their participating interest in the first five years, during the New PSC firm work commitment period. The parties have therefore mutually agreed to terminate the SPA.

## East Seram PSC

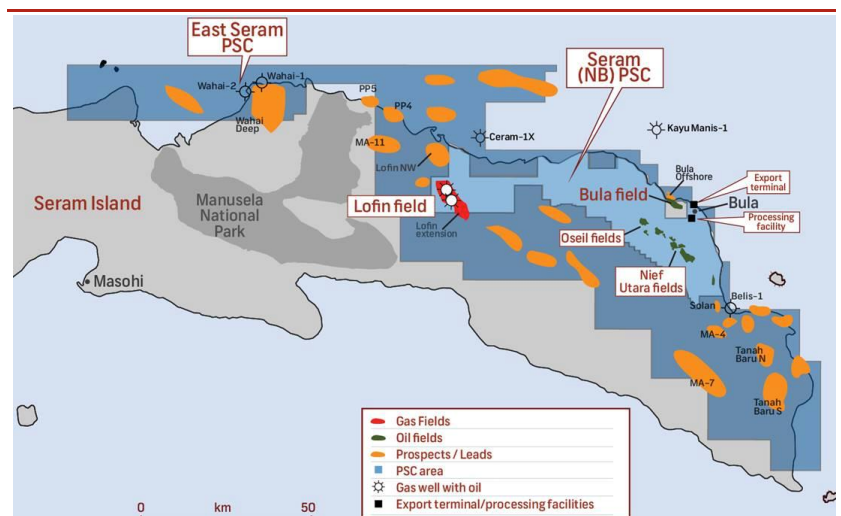
The East Seram PSC (Lion now 60%) was signed in July 2018. As noted in Lion's press release on 27 September, 2019, Lion signed a farmout agreement with OESC, a subsidiary of Taiwan's CPC Corporation,.

OESC will farm in to take a 40% working interest under a farmout agreement signed with the Company on 25 September 2019.

Under the terms of the farm-in, OESC have agreed to;

- pay 80% of back costs (till 31 August 2018) or circa US\$939,000 plus its 40% share of performance bond collateral or US\$0.150m. These funds are now received.
- fund 80% of gross seismic costs up to US\$8.5m for firm commitment. Any costs incurred above the cap of US\$8.5m will be on remaining working interest basis (Lion 60%, OESC 40%).
- From JOA signing, fund 40% of G&G (non seismic) and G&A costs which started 1 Sept 2018, then as per JOA on a working interest basis.
- Fund 20% of Lion's well costs for any follow up exploration well drilling in phase 2, but this is repayable out of production

East Seram PSC – location map



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The deal is subject to the execution of a Joint Operating Agreement (JOA) between the parties and the approval of the Indonesian Government.

Following completion of the deal, participating interests in the East Seram PSC will be;

Balam Energy Pte Ltd (Operator):	60%
OESC:	40%
Total:	100%

Lion made strong progress during the quarter on seismic planning efforts including undertaking acquisition systems analysis (offshore and onshore) including interaction with potential contractors investigating onshore and offshore costs and challenges. Lion is targeting to shoot the seismic commencing in mid-2020. Lion has identified its key seismic focus areas to cover high graded prospects and leads as well as the extensions of the Bula oil fields. Lion is confident this will result in a suite of drill ready targets and reinforce the East Seram PSC as one of the most high-potential exploration blocks in the South East Asian region. Constructive meetings were held during the quarter with the Government regulatory arm, SKK Migas, with positive response obtained to Lion's Year 1 work progress and Year 2 seismic work plans.

## Background

The 6,510 km<sup>2</sup> PSC covers much of the eastern part of Seram Island and surrounds the producing Seram (Non-Bula) PSC.

The PSC contains the southeast extension of the 2 TCF Lofin field, which was appraised by Seram (Non-Bula) PSC participants in 2015, and the offshore extension of the 20 mmbbl Bula Field of which Lion was operator from 2000-2005.

Lion's extensive knowledge and database of the area delivers the Company a competitive advantage and has proved critical in high grading and subsequently obtaining the East Seram acreage.

The East Seram PSC was awarded under Indonesia's new Gross Split PSC system which significantly reduces the bureaucratic burden on companies while providing internationally competitive fiscal terms with company profit share of at least 75% before corporate income tax. A modest commitment for the 3-year firm program consists of 500km 2D seismic (to be acquired either onshore or offshore) as well as geological and geophysical studies. No commitment wells are included in the primary 3-year term.

## Corporate

The Company continues to maintain a focus on costs, whilst pursuing an active new business program in Indonesia, initially focussed on Seram Island. We expect G&A costs to track steady year on year around US\$1m.

### Qualified petroleum reserves and resources evaluator requirements

In accordance with ASX Listing Rule 5.43 the Company confirms that references to petroleum reserves, contingent resources and prospective resources have previously been announced (7/9/2018 and 10/9/2018). The Company confirms that it is not aware of any new information or data that materially affects the information included in this announcement and that all the material assumptions and technical parameters underpinning the estimates in this announcement continue to apply and have not materially changed.

## Glossary

bbl: barrels	JV: joint venture	PSC: Production Sharing Contract
bcf: billion cubic feet	KB: Kelly bushing	psi: pounds per square inch
bopd: barrels oil per day	mmscfd: million standard cubic feet of gas per day	tcf: trillion cubic feet
BOP: blow out preventer	mmbbl: million barrels	Sq.km: square kilometres
ESP: Electric submersible pump	MD: measured depth	ss TVD: sub-sea true vertical depth
FTP: first tranche petroleum	POS: probability of success	TD: total depth

END