

# Quarterly Report

1 April to 30 June 2016



**LION**  
energy

## Seram cash flow positive, upcoming drilling and strong cost control

### Highlights

- Production averaged 4,008 bopd for the quarter
- Seram PSC cash flow positive with ~US\$40,000 a month net
- 475,000 bbl lifting (11,875 bbl net) scheduled late July 2016
- SBA PSC drilling plans advanced to test Amanah Timur prospect
- Continuing cost reduction measures reducing administration overhead by 15%

Lion Energy Limited (“Lion” or “Company”) anticipates net returns of approximately US\$40,000 per month from production entitlements at the Seram PSC. Combined with ongoing prudent cost reduction initiatives, this positions Lion well to manage cash resources with our budget including the drilling of an exciting oil prospect in SBA and allowing an active new business program.

Average daily oil production from the Seram PSC was 4,008 bopd (95 bopd net to Lion) for the quarter, down from 4,211 bopd the previous quarter. Gross crude oil production for the quarter was 364,737 barrels (8,606 bbl net to Lion). Operating costs for the quarter equate to US\$15.92 per barrel. Proceeds of US\$254,776 from a crude oil lifting of 418,842 bbl completed on 29 March 2016 (Lion share 10,471 bbl) were received during the Quarter. A further lifting of 475,000 bbl is scheduled for late July 2016 (Lion share 11,875 bbl), with proceeds expected to be received late August 2016.

In South Block A, PSC work has progressed on identifying low cost drilling options for the low risk Amanah Timur oil prospect planned to be drilled in Q4 2016. Cost of the drilling to Lion is included in the company’s cash flow forecast.

At the end of the quarter, the Company had cash of US\$1.391mil, with a significant crude oil lifting entitlement (estimated at between US\$350,000 to US\$400,000) expected in late-August 2016.

Lion’s CEO, Kim Morrison, noted “We are seeing more positive sentiment in the sector and Lion is well placed to build on our position. Importantly, the Seram PSC is delivering positive cash flow with the cessation of development drilling and no exploration activity. Together with lower administration costs following further management remuneration reductions and reduction in joint venture operating costs, the company is conserving its cash reserves. On the activity front, the planned drilling of an attractive oil prospect in our South Block A PSC and good progress on our new business activities provides upside opportunity for shareholders.”

### Lion at a glance

- ASX listed oil and gas E&P company focused on Indonesia; two conventional PSC’s.
- Net production of around 100bopd from the Seram PSC which also contains the Lofin gas/condensate field.
- An early mover in Indonesia’s fledgling unconventional oil & gas industry.
- Leveraging synergies in conventional assets and access to both infrastructure and markets.
- Executive team and strategic investors with impressive track records for value creation in Indonesia.

### Contact

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### Directors & Officers

<b>Russell Brimage</b>	Executive Chairman
<b>Kim Morrison</b>	Chief Executive Officer
<b>Stuart B. Smith</b>	Executive Director
<b>Tom Soulsby</b>	Non-Executive Director
<b>Chris Newton</b>	Non-Executive Director
<b>Zane Lewis</b>	Company Secretary

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## Operations update (2Q-CY16)

### 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 major equity holder and operator of the joint venture is CITIC Seram Energy Ltd (51%). Other partners are KUFPEC (Indonesia) Ltd (30%) and Gulf Petroleum Investment (16.5%).

The block contains the Oseil oilfield and surrounding structures that have yielded cumulative crude oil production of 15,061,376 barrels since production started in January 2003 through to 30 June 2016.

As previously reported by Lion, in 2015 the Lofin-2 appraisal well confirmed a highly material gas discovery in the PSC and work is ongoing on development options for this resource.

The PSC expires end October 2019 and the joint venture is currently in discussions on strategy for securing a renewal of the PSC over the area.

Seram (Non Bula) Block PSC - location map



### Production and revenue

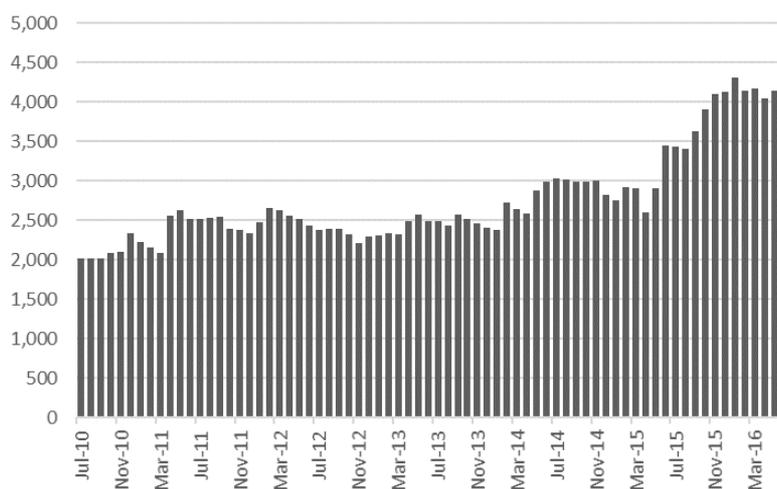
During the quarter, gross crude oil production from Oseil and surrounding oilfields was 364,737 barrels (8,606 bbl net to Lion). Daily production averaged 4,008 bopd (Lion's net working interest being 95 bopd, post government entitlement).

With the cessation of development drilling, field crude oil production peaked at just over 4,000 bopd. Natural decline will gradually reduce this rate with time.

During the quarter, a workover was completed on Oseil-28 and the service rig was mobilized late in the quarter to perform a workover on Oseil-26. Both workovers involved replacement of downhole electric submersible pumps.

Crude oil available for lifting at 30 June 2016 was 356,754 bbl following completion of the crude oil lifting on 29 March 2016 of 418,852 bbl.

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



### Expenditures

Seram (Non Bula) PSC	Exploration	Development	Production
	US\$	US\$	US\$
Expenditure net to Lion (2Q-CY16) <sup>1</sup>	(18,036)	13,699	126,490

Note 1 – The expenditures herein are Seram PSC results and may differ from Lion's financial reporting due to timing differences

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## South Block A PSC

Lion has a 35% interest in the South Block A PSC with other participants being RENCO Elang Energy Pte Ltd (51% interest and Operator) and PT Prosys Oil & Gas International (14%).

The underexplored block is centrally located in the prolific North Sumatra Basin and contains large structures with attractive gas and oil plays. The region has a strong demand, high priced gas market and a new open access pipeline connected to Medan extends through the PSC acreage.

### Exploration Drilling

The joint venture has selected the Amanah Timur oil and gas prospect for the 2016 commitment well.

This will be a shallow, low-cost well testing a well defined anticline which has existing shallow oil reservoirs that produced approximately 200,000 barrels of oil in a period prior to WWII. The well will test this sequence and is also planned to test deeper reservoir within the objective late Miocene Keutapang section. It has near-term commercialisation potential with good infrastructure in close proximity. During the quarter the Operator reviewed drilling rig options with planned Q4 2016 spud timing and we expect the gross well cost to be approximately US\$1million (Lion equity share US\$0.35mm)

Prospective resources are shown in the table below and the prospect has a probability of success (POS<sup>2</sup>) of 46%.

Amanah Timur Prospect	Prospective resources <sup>1</sup>		
	P90	P50	P10
Oil (mmbbl)	1.7	3.9	8.8
Gas(bcf)	2.0	4.5	10
Combined (mmboe)	2.0	4.8	10.7
Volumes for Stacked late Miocene Keutapang objectives			

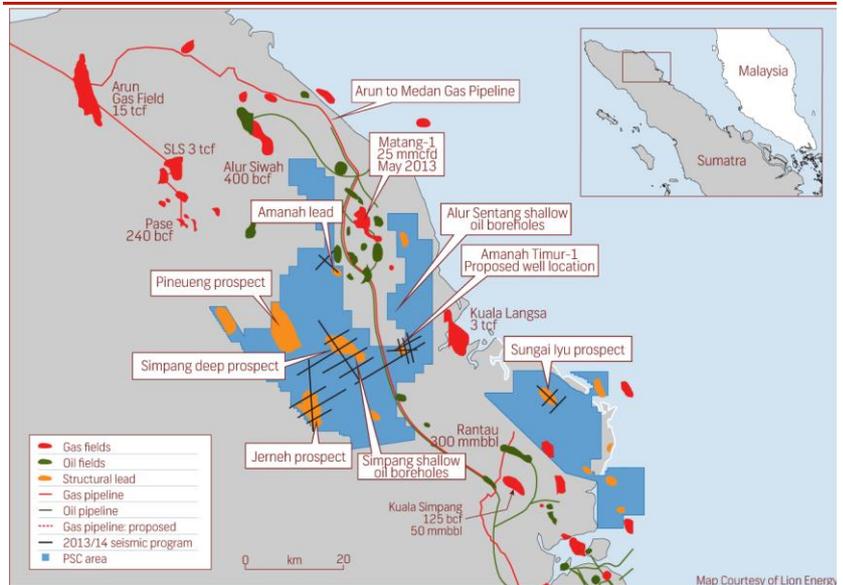
<sup>1</sup>**Prospective resources:** the estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

<sup>2</sup>**POS:** Probability of Success, the chance of encountering a flow hydrocarbons on production testing an exploration well on the prospect.

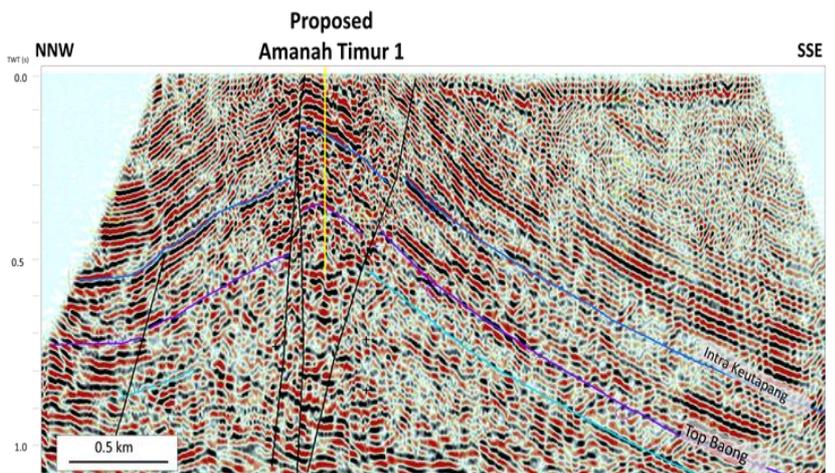
### Expenditures

Further cost reductions to operating overheads were made by the Operator during the quarter including reduction of office rental and other costs by ~50% and reduced personnel costs. Cash calls paid during the quarter totalled US\$26,191 net to Lion.

South Block A PSC – location map



Amanah Timur Prospect – seismic section



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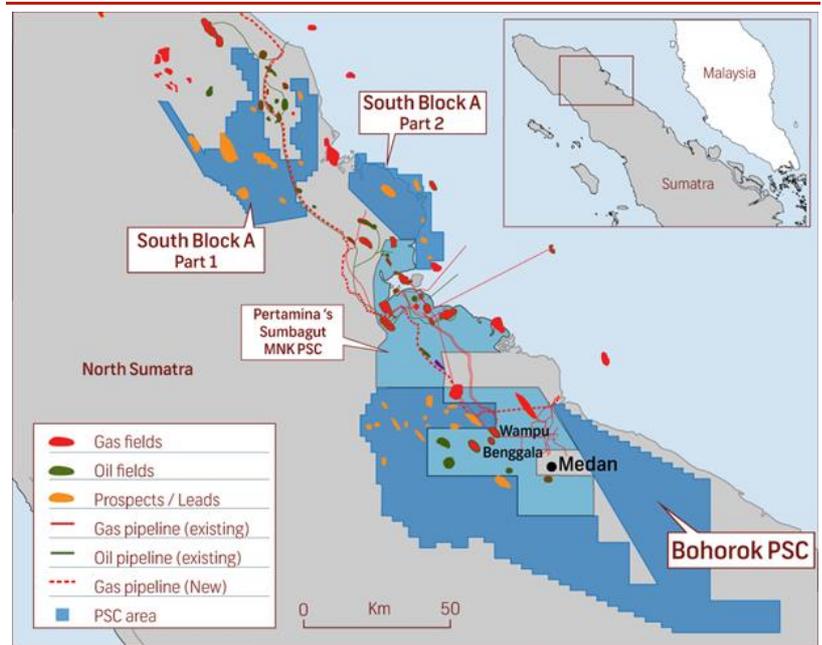
## North Sumatra “Bohorok” Unconventional Joint Study

The unconventional joint study covering 4684km<sup>2</sup> was awarded on 20 February 2015. The Lion joint study area is located to the south of the 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 holds a 55% interest and is Operator of the joint study with the partly overlapping conventional PSC holders (Bukit, New Zealand Oil and Gas and SBL) having 45% interest. The cooperation with conventional holders will allow the joint venture to capture significant synergies between conventional and unconventional exploration.

The North Sumatra Basin is one of the major onshore basins in the SE Asian region with over 25tcf of gas and over 1.3 billion barrels of oil and condensate discovered. Lion’s evaluation recognises that key elements are in place for prospective unconventional (shale gas/oil and tight gas/oil) acreage.

Bohorok PSC and South Block A PSC– location map



The joint study, undertaken with Padjadjaran University in Bandung, was completed in February 2016 and highlighted the material potential within the joint study area with the key prospective intervals in Lower to Middle Miocene Belumai and Lower Baong formations. The timing of the release of the resultant PSC for tender will be dependent upon MIGAS, at which time Lion and its consortium members will have a right to match the highest offer for the block (if any).

Interest holders in the Bohorok unconventional joint study application are as follows:

Participants	Interest
	%
Lion Energy (Operator)	55.00
Bukit Energy	20.25
New Zealand Oil & Gas	20.25
Surya Buana Lestarijaya	4.50

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## Central Sumatra Unconventional Joint Study Area

An unconventional joint study, covering 2481km<sup>2</sup>, located in the east of the Central Sumatra Basin covering part of the Bengkalis Graben was awarded on 20 February 2015.

Lion has a 75% interest in this joint study. 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 opportunity to review 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.

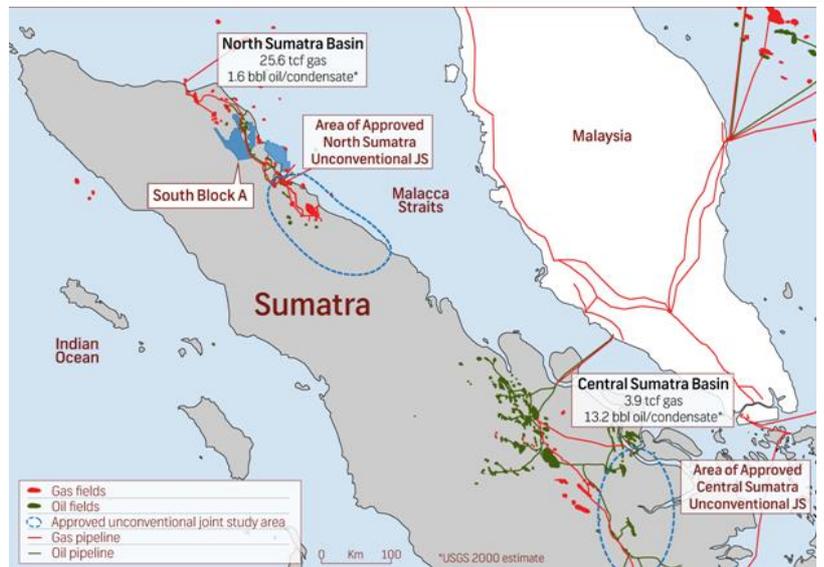
The Central Sumatra Basin is a world class petroleum province with over 13 billion barrels of oil discovered. The Bengkalis Graben, located in the east of the basin, is one of a number of prolific depocentres within the province. It hosts major discoveries; encouragement for the unconventional potential (shale gas/oil and 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.

The joint study was conducted with the Institute of Technology Bandung which integrated regional geological and geophysical information was completed in February 2016. As a result of the study Lion has subsequently recommended adding additional proximate areas to the study area and this is being considered by MIGAS. The timing of the release of the resultant PSC for tender will be dependent upon MIGAS, at which time Lion and its consortium members will have a right to match the highest offer for the block (if any).

Central Sumatra unconventional joint study interest holders:

Participants	Interest
	%
Lion Energy	75.00
Conventional PSC rights holder	25.00

North and Central Sumatra – Joint Study Areas location map



## Additional Joint Study Applications

In addition to the two approved and completed joint studies, Lion has submitted two additional Joint Study Applications for potential oil and gas unconventional areas in onshore Indonesia covering a total area of about 10,000km<sup>2</sup>. Lion's initial technical assessment has identified potential for multi-tcf scale gas and multi-hundred million barrels of oil in the areas of the applications.

Additional details on each of Lion's unconventional projects can be found on the company's website and in the prospectus lodged with the ASX on 6 November 2013.

Lion has also received positive news on pending approval of an additional conventional Joint study application during the quarter. Further details will be provided following formal approval from the Indonesian regulator.

Lion continues to evaluate other joint study opportunities for both conventional and unconventional resources elsewhere in Indonesia.

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## List of tenements

Tenement or licence area	Lion's beneficial interest	Change during the quarter	Comments
<b>Indonesia</b>			
Seram (Non-Bula) Production Sharing Contract	2.5%	No change	Interest held through Lion wholly owned subsidiary Lion International Investment Ltd.
South Block A Production Sharing Contract	35.0%	No change	Interest held through Lion wholly owned subsidiary KRX Energy Pte Ltd (KRX).

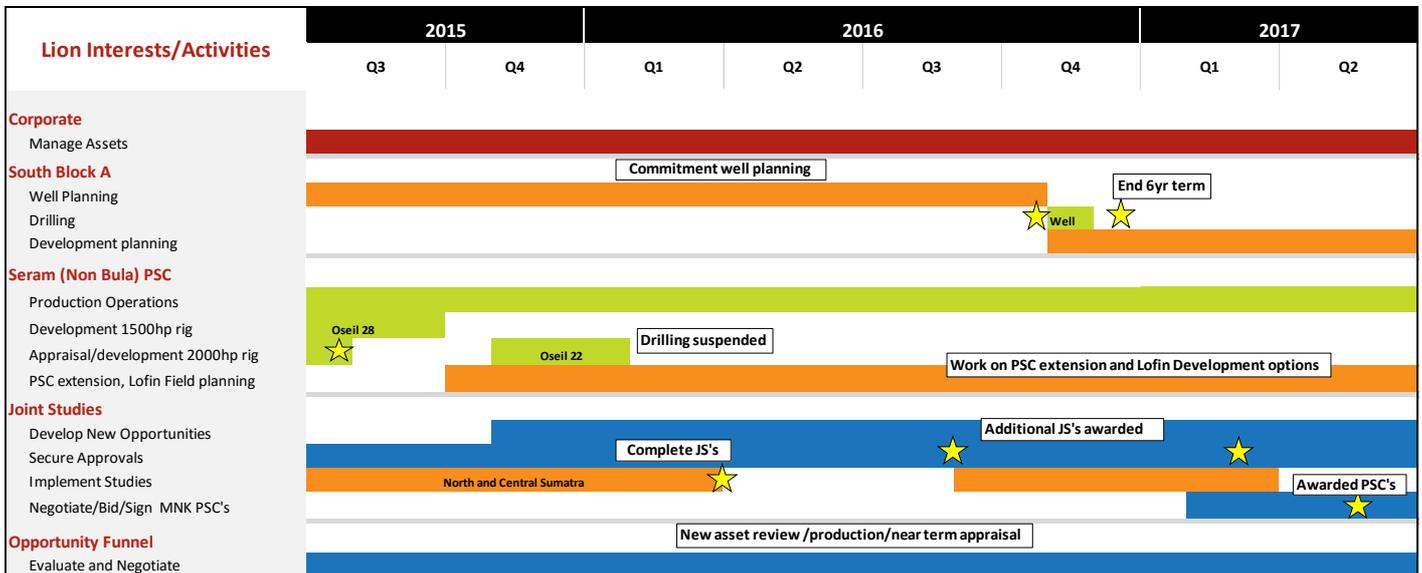
## Corporate

In recognition of the weak industry environment, the board and management of the company have elected to defer 20% of their remuneration. This is on top of a prior round of voluntary reductions taken in 2015. In addition with other cost saving measures this should result in an overall reduction in administration costs of around 15%.

## Activity schedule

Lion has an active new business evaluation program and is currently reviewing a number of interesting opportunities in Indonesia focusing on producing or near term producing assets. Our Q3 2015- Q2 2017 exploration schedule is depicted in the following chart:

### Lion Activity and Key Event Timeline (Q3 2015 to Q2 2017)



### Legend

Code	Activity type
Red	Lion Corporate
Orange	Held Assets General Exploration
Green	Held Asset Field Activities (Drilling/Seismic)
Blue	Contingent Field Activities (Drilling/Seismic)
Dark Blue	Lion New Business Activities

### ★ Forecast Key Event /News flow

(Note: There is no guarantee that activities shown will occur. In addition, the timing of anticipated activities is indicative only. They are dependant on factors such as Government of Indonesia and Joint Venture approval, rig availability and unforeseen delays)

As of June 30 2016

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## Competent Persons Statement: Qualified Petroleum Reserves and Resources Evaluator

Pursuant to the requirements of the ASX Listing Rules Chapter 5, the technical information, reserve and resource reporting provided in this document are based on and fairly represent information and supporting documentation that has been prepared and/or compiled by Mr Kim Morrison, Chief Executive Officer of Lion Energy Ltd. Mr Morrison holds a B.Sc. (Hons) in Geology and Geophysics from the University of Sydney and has more than 28 years of experience in exploration, appraisal and development of oil and gas resources – including evaluating petroleum reserves and resources. Mr Morrison is a member of the American Association of Petroleum Geologists (AAPG). Mr Morrison consents to the release of this announcement and to the inclusion of the matters based on the information in the form and context in which it appears.

## Glossary

bbl: barrels

bcf: billion cubic feet

bopd: barrels oil per day

BOP: blow out preventer

ESP: Electric submersible pump

FTP: first tranche petroleum

LKG: lowest known gas

mmscfd: million standard cubic feet of gas per day

mmbbl: million barrels

MD: measured depth

PSC: Production Sharing Contract

psi: pounds per square inch

tcf: trillion cubic feet

ss TVD: sub-sea true vertical depth

TD: total depth

**END**