



Financial Report 2016

For the Period 1 January to 31 December 2016

Lion Energy Limited
ABN 51 000 753 640



CORPORATE DIRECTORY

DIRECTORS: Russell Brimage (Chairman)
William (Kim) Morrison (Chief Executive Officer)
Stuart Smith (Executive Director)
Thomas Soulsby (Non-executive Director)
Christopher Newton (Non-executive Director)

JOINT COMPANY SECRETARIES: Zane Lewis
Arron Canicais

ABN: 51 000 753 640

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AUDITORS: **Ernst & Young**
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This financial report covers both Lion Energy Limited as an individual entity and the consolidated entity comprising Lion Energy Limited and its subsidiaries. The Group's presentation currency is United States Dollars (US\$). The functional currency of Lion Energy and all other controlled entities of Lion Energy Limited is United States Dollars (US\$). A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report. The directors' report is not part of the financial report.

DIRECTORS REPORT

The directors of Lion Energy Limited A.C.N. 000 753 640 ("Parent Entity" or "Company" or "Lion") present their report including the consolidated financial report of the Company and its controlled entities ("Consolidated Entity" or "the Group") for the year ended 31 December 2016. The Company is a listed public company limited by shares, incorporated and domiciled in Australia.

As announced on 4 June 2015 Lion Energy Limited had to change its financial year to 1 January 2015 to 31 December 2015 to be in line with its majority shareholder Risco Energy Pte Ltd as required by the Singapore Companies Act. As a result, the comparative figures in this report are for the 18 month period ended 31 December 2015.

DIRECTORS

The names of the directors of the Company in office at any time during or since the financial period and up to the date of this financial report are as follows. Directors were in office for the entire period unless otherwise stated.

Russell Brimage
William (Kim) Morrison
Stuart Smith
Thomas Soulsby
Christopher Newton

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the period were oil & gas exploration, development and production and investment in the oil & gas industry.

There were no significant changes in the nature of the principal activities during the financial period.

OPERATING RESULTS

The operating and comprehensive loss for the Consolidated Entity, after income tax amounted to \$1,069,747 for the year ended 31 December 2016 (2015: \$835,963 for the 18 month period ended 31 December 2015).

DIVIDENDS

No dividends have been paid or declared since the start of the financial period by the Company.

The directors have recommended that no dividend be paid by the Company in respect of the year ended 31 December 2016.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS AND REVIEW OF OPERATIONS

The following significant changes in the state of affairs of the Consolidated Entity occurred during the financial period:

CAPITAL RAISING

In December 2016, Lion successfully raised A\$650,000 (before costs) from professional investors and management, placing 13,000,000 shares at A\$0.05/share, of which A\$110,000 (2,200,000 shares) was subscribed for by directors and will be issued subject to shareholder approval. The placement was well supported by existing and new shareholders.

DIRECTORS REPORT

The total increase in the issued capital as at 31 December 2016 as a result of this capital raising was 10,800,000 shares amounting to \$401,254 (A\$540,000) before costs.

INCREASED INTEREST IN SOUTH BLOCK A PSC

On 23 November 2016, Lion announced that it had increased its interest in SBA from 35% to 40.7%. In conjunction with Operator Renco, the non-defaulting parties exercised their rights to default PT Prosys Oil & Gas International (POGI) for non-payment of cash calls, with the defaulting party's interest distributed proportionately to Lion and Renco.

SHARE BASED COMPENSATION

In the annual general meeting on 25 November 2014, the shareholders have approved a total of 750,000 shares, with a deemed value of A\$150,000 or A\$0.20 per share, as incentive to the director Stuart Smith to be issued over three years at 250,000 every after 1st of February. On 4 July 2016, 250,000 ordinary shares were issued to Mr Smith being the second year's incentive due. The expense was recognised as at 31 December 2016 for \$37,346 (A\$50,000).

On the same date 73,770 shares were issued to a consultant in lieu of cash settlement for its consultancy service of \$1,653 (A\$2,213.)

On 6 December 2016, Lion announced that it had issued 615,385 ordinary shares to a key consultant under a separate agreement in lieu of cash payment of its consultancy service of \$35,647 (A\$48,000).

Apart from conserving cash, Lion believes that including a share component in the compensation builds a greater level of alignment with shareholders than usually seen with advisors/consultants as a result of their equity stake in the company.

SERAM (NON-BULA) PSC (LION 2.5%)

Production again grew significantly in the Seram (Non-Bula) PSC over the past year. Production from the Oseil oilfield and surrounding structures was 1,392,809 bbl of crude oil at an average daily rate of 3805 barrels of oil per day "bopd" (95 bopd net to Lion). Represents a 14% increase from the prior calendar year.

Calendar year operating cost of US\$14.34/bbl was down 36% from the previous year following the concerted effort within the joint venture to reduce costs.

The Seram PSC partners continued to work together to secure an extension or renewal of the PSC to allow them to continue oil and gas exploration, development and production beyond the current PSC expiry date of 31 October 2019. Several meetings were held with SKK Migas, MIGAS and the Ministry of Energy & Mineral Resources during the year.

SOUTH BLOCK A PSC (LION 40.7%)

Planning, procurement and well-site preparation for the shallow low-risk Amanah Timur exploration well (AMT-1) were completed by December 2016. However, the spudding of the well was delayed slightly due to an earthquake in North Sumatra. Post year end the well was drilled to total depth of 347m and encountered strong gas and good oil shows in a number of interpreted hydrocarbon zones. The well was plugged and abandoned as a discovery following unsuccessful attempts to free stuck drill pipe. Importantly, the drilling of the well completes the Production Sharing Contract's ("PSC") firm commitments and, post quarter end, the joint venture was advised by the Indonesian regulator the block has been extended for an additional four years.

Significant work has also been undertaken on the world class Jerneh gas condensate prospect in the west of the PSC.

DIRECTORS REPORT

JOINT STUDIES

On 2 March 2015, the Company announced that it had been awarded two unconventional joint studies over highly prospective Sumatran acreage. Lion holds a 55% interest and is Operator of the North Sumatra “Bohorok” Unconventional Joint Study covering an area of 4684 square kilometres, located to the south of the South Block A PSC. The second of the joint studies awarded in early-2015 covers an area of 2481 square kilometres and is located in the east of the Central Sumatra Basin, Lion also has a 75% interest and is Operator of this study. Both studies have proceeded well with the assigned Indonesian universities, and were completed in February 2016. The timing of the release of the resultant PSC(s) for tender will be dependent upon the government regulator MIGAS, at which time Lion and its consortium members will have a right to match the highest offer for the block (if any).

A new Conventional Joint Study over a prospective area in Eastern Indonesia was formally approved by the regulator MIGAS in May 2016. Lion has a 50% interest and is cooperating in the Study with a well-respected private Australian company. The study is being conducted with an Indonesian university assigned by MIGAS and is anticipated to be completed in April/May 2017.

The Company has made good progress on its unconventional joint study application for a prospective area in North Sumatra. The regulator MIGAS is expected to award the study in early-2017.

SIGNIFICANT EVENTS SUBSEQUENT TO REPORTING DATE

On 16 January 2017, 406,250 unlisted options exercisable at \$0.26 each expired.

As announced on the 5 January 2017, the Amanah Timur-1 well was spudded. Please see “Review of Operations” for results.

No other matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in subsequent financial years.

LIKELY DEVELOPMENTS

The Company will continue to pursue its principal activity of oil and gas exploration and evaluation, particularly in respect to the projects, as outlined under the heading ‘Significant changes in the state of affairs and Review of operations’ of this Report. The Company will also continue to evaluate new business opportunities in Indonesia with a focus on adding production.

EXPLORATION RISK

Oil and Gas exploration and development are high-risk undertakings, and there is no assurance that exploration of the Tenements will result in the discovery of an economic deposit. Even if an apparently viable deposit is identified there is no guarantee that it can be economically exploited.

The future exploration activities of the Company may be affected by a range of factors including geological conditions, limitations on activities due to permitting requirements, availability of appropriate exploration equipment, exploration costs, seasonal weather patterns, unanticipated operational and technical difficulties, industrial and environmental accidents and many other factors beyond the control of the Company.

The Board of Directors manage this risk by: performing thorough technical reviews of all exploration acreage; limiting exposure to any one exploration project; ensuring work commitments are kept at management levels; and farming-down exposure where appropriate.

DIRECTORS REPORT

ENVIRONMENTAL ISSUES

The Company's operations comply with all relevant environmental laws and regulations, and have not been subject to any actions by environmental regulators.

INFORMATION ON DIRECTORS AND COMPANY SECRETARY

RUSSELL ERNEST BRIMAGE

CHAIRMAN (EXECUTIVE)

Qualifications and Experience:

Mr Brimage has in excess of 40 years' experience in the upstream oil and gas industry, in public listed Oil & Gas companies and the service industry, both onshore and offshore. In the service industry, founder and Managing Director of Oilserv Australia in 1982 – the company became a dominant service contractor providing contract field operations, testing and wire-line services, facility design and construction, drilling and work-over services. In the public company arena, demonstrated capability in capacity as CEO to secure and develop producing assets, often via industry counter-cyclical transactions, to transform companies from zero revenue to positive cash flow and profitability, with successful outcomes in Indonesia and the state and federal shallow waters of the US Gulf Coast. As CEO of an ASX listed entity, early mover in identifying shale opportunities in the US with the farm-in to approximately 60,000 acres in the Niobrara shale play in the states of Colorado and Wyoming in August 2009.

Directorships of other listed companies in the 3 years prior to the end of the Financial Period:	None
Special Responsibilities:	Executive Chairman
Interest in shares and options of the Company:	4,428,329 Ordinary Shares
Directors meetings attended:	3 of 3 held during term of directorship in financial period
Director since:	2005

WILLIAM KIM MORRISON

MANAGING DIRECTOR & CEO (EXECUTIVE)

Qualifications and Experience:

Mr Morrison has a successful 28 year career working in senior technical and managerial positions with both majors and small cap companies in locations throughout the world. He graduated from The University of Sydney in 1984 with an Honours degree in Geology and Geophysics and also holds a Diploma in Applied Finance and Investment from The Securities Institute of Australia.

Mr Morrison commenced his career as a geologist with Hartogen Energy in Sydney and in 1989 joined Marathon Oil in Perth, subsequently moving with them to Jakarta and Houston. In 2000 he returned to Asia with Fletcher Challenge in Brunei as Head of Regional Geology. In 2001, Mr Morrison took on a senior portfolio management role with Shell in Malaysia and was posted to The Hague in 2005 to lead Shell's Asia Pacific New Ventures team. In 2006 he moved to Libya with Woodside as Onshore Exploration Manager and in 2008 returned to Perth as Business Development Manager for Oilex Ltd. Mr Morrison set up an exploration advisory business in 2010 and also co-founded KRX.

DIRECTORS REPORT

Directorships of other listed companies in the 3 years prior to the end of the Financial Period:	None
Special Responsibilities:	Managing Director and Chief Executive Officer (since 10 January 2014)
Interest in shares and options of the Company:	4,083,349 Ordinary Shares
Directors meetings attended:	3 of 3 held during term of directorship in financial period
Appointed:	10 January 2014

STUART BRUCE SMITH
DIRECTOR (EXECUTIVE)

Qualifications and Experience:

Mr Smith has some 25 years of experience in the energy industry. He spent 16 years in investment banking specialising in the energy sector including involvement in equity research, IPO's, secondary capital raisings and M&A. From 2005 to 2008 Stuart was Head of Asia-Pacific Oil & Gas Research for Merrill Lynch, based in Singapore. In the last eight years he has held senior management roles with a number of privately-held Asian-based oil and gas companies, with responsibility for commercial and finance functions. These include Ephindo Energy (Indonesia's leading CBM company), Triton Petroleum and Triton Hydrocarbons.

Mr Smith is a qualified Chartered Accountant (Australia) graduating from the University of Melbourne in 1988, and his initial experience was with Deloitte. From 2009 to 2010 he was a Non-Executive Director of Warsaw listed E&P company, Kulczyk Oil Ventures Inc, where he served on the Audit and Reserves Committees.

Mr Smith was nominated to the Lion Board by Risco Energy Investments Pte Ltd pursuant to its rights under the Risco Placement Agreement dated 20 September 2013.

Directorships of other listed companies in the 3 years prior to the end of the Financial Period:	None
Special Responsibilities:	Executive Director, with overall responsibility for finance matters for the Group Executive Director KRX Energy Pte Ltd (effective 1 February 2014)
Interest in shares and options of the Company:	500,000
Directors meetings attended:	3 of 3 held during term of directorship in financial period
Appointed:	10 June 2014

THOMAS LEO SOULSBY
DIRECTOR (NON-EXECUTIVE)

Qualifications and Experience:

Mr Soulsby is the CEO of Risco Energy and has over 20 years' experience of the oil and gas and resources sector spanning investment banking, corporate business development and management/leadership roles.

A graduate of Swinburne and Monash Universities, he initially worked as an accountant, starting his career at KPMG and Western Mining. Mr Soulsby then moved to Potter Warburg (now UBS) in Melbourne as an energy and resources equity research analyst. He subsequently joined ANZ in Melbourne, before being posted to Jakarta and ultimately Singapore as director of corporate finance and merchant banking. As a Director at Indonesian-listed Energi Mega Persada (EMP) from 2003 to 2008, he was responsible for the acquisition of assets which added 525 MMboe to EMP's 2P reserves – a key growth driver for the company.

DIRECTORS REPORT

Mr Soulsby has been instrumental in securing backing for Risco prior to its incorporation in 2010, as well as growing the company and its capabilities in his role of Chief Executive Officer. Under Mr Soulsby's leadership, Risco has participated in and funded over US\$500m in successful transactions since 2010. He led the significant valuation creation, and subsequent monetisation, of Risco's first South East Asian oil and gas conventional and unconventional portfolio in 2013.

Directorships of other listed companies in the 3 years prior to the end of the Financial Period:	Tap Oil Ltd
Interest in shares and options of the Company:	Nil
Directors meetings attended:	3 of 3 held during term of directorship in financial period
Appointed:	10 January 2014

CHRISTOPHER BASIL NEWTON
DIRECTOR (NON-EXECUTIVE)

Qualifications and Experience:

Mr Newton is director of business development and operations for Risco Energy. In a career spanning 35 years in oil and gas he has covered the spectrum of exploration, development and production, developing core strengths in petroleum economics, strategic planning, business development and ultimately, top management.

A 1978 Geology graduate from Durham University, England, Mr Newton also holds a Grad Dip in Applied Finance and Investment from the Securities Institute of Australia (SIA). He has spent more than 25 years in South East Asia in various industry capacities including Managing Director of Fletcher Challenge in Brunei, a stint as Managing Director of Shell Deepwater Borneo, President of Santos – Indonesia and CEO of Jakarta-listed oil and gas company, EMP. Along with Mr Soulsby, he was a co-founder director of Risco Energy in July 2010.

Mr Newton was an active Director of the Indonesian Petroleum Association (IPA) from 2003 to 2008, including serving as President from 2004 to 2007. He remains an advisor to the IPA Board and is also the oil and gas advisor to the Jakarta based Castle Asia Group.

Directorships of other listed companies in the 3 years prior to the end of the Financial Period:	Tap Oil Ltd (Alternate Director for Thomas Soulsby)
Interest in shares and options of the Company:	Nil
Directors meetings attended:	3 of 3 held during term of directorship in financial period
Appointed:	10 January 2014

ZANE LEWIS
JOINT COMPANY SECRETARY

Qualifications and Experience:

Mr Lewis has over 20 years' experience and leadership of smallcap multinational companies. His hands-on skillset includes corporate advisory, non executive director and Company Secretary roles at several ASX Listed and unlisted companies as well as extensive international experience managing a group of Software and Tech companies in USA, Europe, Hong Kong, China and Australia.

Appointed: 28 March 2014.

DIRECTORS REPORT

ARRON CANICAIS

JOINT COMPANY SECRETARY

Qualifications and Experience:

Mr Canicais is a Chartered Accountant with 10 years' experience in audit and assurance and financial officer roles. He holds a Bachelor of Commerce degree from the University of Notre Dame Australia and is an associate member of the Institute of Chartered Accountants Australia and Governance Institute of Australia.

Mr Canicais worked at Bentleys Audit and Corporate, a West Perth audit firm, for 5 years which specialises in the audits of junior exploration entities in WA. He has had significant exposure to the reporting and financial requirements of exploration entities. He is currently the joint Company Secretary for Ardiden Limited (ASX: ADV)

Appointed: 1 July 2015.

DIRECTORS MEETINGS

During the period ended 31 December 2016, 3 meetings of directors were held. The directors and advisory board meet weekly to review the operations of the Company. Previously and to date, due to the size of the company, there have been no board committees formed.

REMUNERATION REPORT (AUDITED)

The Directors present the remuneration report for the Company and the Consolidated Entity for the year ended 31 December 2016. This remuneration report forms part of the Directors' Report and has been audited in accordance with section 300A of the *Corporations Act 2001* and details the remuneration arrangements for the key management personnel.

Key management personnel are those persons who, directly or indirectly, have authority and responsibility for planning, directing and controlling the major activities of the Company and the Consolidated Entity.

Remuneration is based on fees approved by the Board of Directors.

There is no relationship between the performance or the impact on shareholder wealth of the Company for the current financial period or the previous four financial years and either the remuneration of directors and executives or the issue of shares and options to directors. Remuneration is set at levels to reflect market conditions and encourage the continued services of directors and executives.

The names and positions of key management personnel of the Company and of the Consolidated Entity who have held office during the financial period are:

Russell Brimage	Executive Chairman
Kim Morrison	CEO and Managing Director
Stuart Smith	Executive Director
Christopher Newton	Non-Executive Director
Thomas Soulsby	Non-Executive Director

DIRECTORS REPORT

SERVICE AGREEMENTS

Remuneration and other terms of employment for the Executive Directors are formalised in a service agreement. For Non-Executive Directors these terms are set out in a Letter of Appointment. The major provisions of the agreements relating to remuneration per year are set out below.

Name	Base Salary	Consulting fees	Incentives through shares	Term of Agreement	Notice Period***
Russell Brimage	A\$36,000*	A\$64,000	N/A	No fixed term	N/A
Kim Morrison	A\$216,000*	-	-	No fixed term	3 months
Stuart Smith	US\$149,040	-	A\$50,000**	No fixed term	3 months
Christopher Newton	US\$24,000	US\$30,000	-	No fixed term	N/A
Thomas Soulsby	US\$24,000	US\$30,000	-	No fixed term	N/A

* Plus statutory superannuation contributions.

** In the annual general meeting on 25 November 2014, the shareholders have approved a total of 750,000 shares, with a deemed value of A\$150,000 or A\$0.20 per share, as incentive to the director Stuart Smith to be issued over three years at 250,000 (A\$50,000) every after 1st of February. The shares will be issued provided Mr Smith has not ceased to be employed by the Company.

*** Termination benefits: Kim Morrison is entitled to an additional 1 months' salary on top of the notice period for each year of continuous service to the company (pro-rata up to the date of leaving the entity). In the case of termination without cause Mr Morrison is entitled to receive an additional 3 months' salary on top of the entitlements mentioned above.

Stuart Smith is entitled to an additional 1 months' salary on top of the notice period for each year of continuous service to the company (pro-rata up to the date of leaving the entity).

DIRECTORS REPORT

DETAILS OF REMUNERATION

Compensation 12 months to 31 December 2016

	Short Term Benefits ² \$	Super- annuation \$	Share based payments \$	Total \$	Percentage of remuneration that is equity based
COMPENSATION OF DIRECTORS BASED ON FEES APPROVED BY THE BOARD OF DIRECTORS.					
Russell Brimage	74,191	2,537		76,728	0%
Kim Morrison	160,256	16,916		177,172	0%
Stuart Smith	149,040		37,346 ¹	186,386	20%
Thomas Soulsby	54,000			54,000	0%
Christopher Newton	64,350			64,350	0%
TOTAL COMPENSATION – FOR KEY MANAGEMENT PERSONNEL	501,837	19,453	37,346	558,636	

Compensation 18 months to 31 December 2015

	Short Term Benefits ² \$	Super- annuation \$	Share based payments \$	Total \$	Percentage of remuneration that is equity based
COMPENSATION OF DIRECTORS BASED ON FEES APPROVED BY THE BOARD OF DIRECTORS.					
Russell Brimage	116,312	3,910		120,222	0%
Kim Morrison	293,424	27,048		320,472	0%
Stuart Smith	216,817		38,925 ¹	255,742	15.22%
Thomas Soulsby	35,500			35,500	0%
Christopher Newton	57,125			57,125	0%
TOTAL COMPENSATION – FOR KEY MANAGEMENT PERSONNEL	719,178	30,959	38,925	789,061	

Notes:

1. Represents 250,000 incentive shares issued in 2015 and in 2016, as approved by the shareholders in November 2014's annual general meeting. There was no other equity compensation issued to directors or executives during the year ended 31 December 2016 (2015: \$nil).
2. Short-term benefits represent salaries and/or fees paid to directors both in their capacity as employees and/or as consultants to the Company. There were no bonuses paid in 2016 (2015: \$nil).
3. The Company also reimburses validly incurred business expenses of directors. These are not included in the table above.

SHARES AND OPTIONS HELD BY KEY MANAGEMENT PERSONNEL

	1 January 2016 or Appointment	Number of Ordinary Shares Issued as Compensation	Net Change Other	31 December 2016 or Resignation
Russell Brimage	4,428,329	-	-	4,428,329
Kim Morrison	4,083,349	-	-	4,083,349
Stuart Smith	250,000	250,000	-	500,000
Christopher Newton	-	-	-	-
Thomas Soulsby	-	-	-	-
	8,761,678	250,000	-	9,011,678

There were no options held by the directors during the year.

DIRECTORS REPORT

OTHER INFORMATION

There were no loans made to any Key Management Personnel during the period or outstanding at period end.

There were no further transactions with Key Management Personnel during the period.

During the period the Company did not engage remuneration consultants to review its remuneration policies.

At the last AGM, the shareholders voted to adopt the remuneration report for the year ended 31 December 2015. The company did not receive any specific feedback at the AGM regarding its remuneration policies.

End of Remuneration Report (Audited)

DIRECTORS REPORT

SHARE OPTIONS ISSUED AND OUTSTANDING

The following Options were issued on 10 January 2014 and expired during the previous reporting period:

Unlisted Options exercisable at \$0.26 expiring on 10 July 2015	Number
Unlisted Options issued to Tower under the Convertible Loan	781,250
Unlisted Options issued to REU under the Convertible Loan	2,343,750
Unlisted Options issued to Pouvoir Pty Ltd under the Fee Payment Agreement	229,167
Unlisted Options issued under the Loan Repayment Agreements:	
KKSH Holdings Ltd	104,167
Mr Richard Charles Grigg	208,333
Total Options exercisable at \$0.26 expiring on 10 July 2015	3,666,667

The following Options were issued on 16 January 2014 and remain outstanding as at 31 December 2016:

Unlisted Options exercisable at \$0.26 expiring on 16 January 2017	Number
Unlisted Options issued to Halcyon pursuant to corporate advisory agreement	406,250
Total Options exercisable at \$0.26 expiring on 16 January 2017	406,250

No share options were issued subsequent to the period ended 31 December 2016.

SHARE OPTIONS EXERCISED

Subsequent to the year ended 31 December 2016, 406,250 options were not exercised and therefore lapsed. No ordinary shares were issued by virtue of the exercise of options during the year.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

During the financial period, the Company paid premiums of \$16,183 (2015: \$10,352) in respect of a contract insuring all the directors and officers of the Company and the Consolidated Entity against legal costs incurred in defending proceedings for conduct other than (a) a wilful breach of duty and (b) a contravention of sections 182 or 183 of the *Corporations Act 2001*, as permitted by section 199B of the *Corporations Act 2001*.

Except as disclosed above, the Company and the Consolidated Entity have not, during or since the financial period, in respect of any person who is or has been an officer or director of the Company or a related body corporate:

- a) indemnified or made any relevant agreement for indemnifying against a liability, including costs and expenses in successfully defending legal proceedings; or
- b) paid or agreed to pay a premium in respect of a contract insuring against a liability for the costs or expenses to defend legal proceedings.

PROCEEDINGS ON BEHALF OF COMPANY

On 7 October 2011 the Company announced that, it had reached an agreement with Tulloch Lodge Limited (In Liquidation) ("Tulloch") to settle an action by Tulloch against the Company by payment to Tulloch of A\$737,500. These funds were paid and the settlement obligations of both parties completed. Lion subsequently issued instructions to its legal representatives to pursue recovery of the settled sum from office holders responsible for the conduct of the Company during the time the misappropriation of funds occurred. During the prior period this action was settled out of Court with the prior office holders for a total amount of A\$130,000 (US\$98,238).

DIRECTORS REPORT

Apart from the matter noted above, no person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the period.

INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the Corporations Act 2001 section 307C the auditors of the Company have provided a signed Auditor's Independence Declaration to the directors in relation to the period ended 31 December 2016. This declaration has been included in this document.

NON-AUDIT SERVICES

There were no non-audit services provided to the Company by the Company's auditors.

Signed in accordance with a resolution of the directors.



Russell Brimage
Director
29 March 2017
Perth, Western Australia

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Lion Energy Limited A.C.N. 000 753 640 ("Company"), I state that:

A. In the opinion of the directors:

- 1) the financial statements and notes of the Company and its controlled entities ("Consolidated Entity") are in accordance with the *Corporations Act 2001* including:
 - a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of the performance for the year ended on that date; and
 - b) complying with Australian Accounting Standards and the *Corporations Regulations 2011*;
- 2) the financial statements and notes also comply with the International Financial Reporting Standards as disclosed in Note 1; and
- 3) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

B. this declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 31 December 2016.

On behalf of the Board of Directors.



Russell Brimage
Director
29 March 2017
Perth, Western Australia

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 DECEMBER 2016**

		Consolidated Entity	
	Note	12 months to 31 December 2016	18 Months to 31 December 2015 \$
Sales revenue	4	1,167,421	2,168,104
Cost of goods sold	4	(1,126,834)	(1,755,864)
GROSS PROFIT		40,587	412,240
Other operating income	4	-	98,238
Financing income	4	2,312	12,984
Administration expenses	4	(545,742)	(1,262,205)
Employee benefit expenses		(559,644)	(824,399)
Foreign exchange losses		(7,260)	(57,801)
LOSS BEFORE INCOME TAX EXPENSE		(1,069,747)	(1,620,943)
Income tax benefit/(expense)	5	-	784,980
LOSS AFTER RELATED INCOME TAX EXPENSE		(1,069,747)	(835,963)
OTHER COMPREHENSIVE INCOME			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		-	-
Income tax relating to components of other comprehensive income		-	-
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX		-	-
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(1,069,747)	(835,963)
EARNINGS/(LOSS) PER SHARE			
BASIC LOSS PER SHARE (CENTS PER SHARE)	6	(1.10)	(0.87)
DILUTED LOSS PER SHARE (CENTS PER SHARE)	6	(1.10)	(0.87)

The above Statement of Profit of Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

		Consolidated Entity	
	Note	31 December 2016	31 December 2015 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	17	1,246,866	2,129,296
Trade and other receivables	7	706,776	674,939
Inventories	8	343,299	337,680
TOTAL CURRENT ASSETS		2,296,941	3,141,915
NON-CURRENT ASSETS			
Plant and equipment	9	10,409	17,839
Receivables	10	131,250	131,250
Capitalised exploration and evaluation expenditure	11	8,778,733	8,025,118
Oil & gas properties	12	930,863	1,338,180
TOTAL NON-CURRENT ASSETS		9,851,255	9,512,387
TOTAL ASSETS		12,148,196	12,654,302
CURRENT LIABILITIES			
Trade and other payables	13	886,831	789,596
TOTAL CURRENT LIABILITIES		886,831	789,596
TOTAL LIABILITIES		886,831	789,596
NET ASSETS		11,261,365	11,864,706
EQUITY			
Issued capital	14	47,887,762	47,421,356
Reserves	15	2,835,705	2,835,705
Accumulated losses		(39,462,102)	(38,392,355)
TOTAL EQUITY		11,261,365	11,864,706

The above Statement of Financial Position should be read in conjunction with the accompanying notes

STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 DECEMBER 2016

	Consolidated Entity	
	12 Months to 31 December 2016	18 Months to 31 December 2015
Note		\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	897,261	1,921,380
Receipts from legal settlement	34,331	61,748
Production expenditure	(594,052)	(1,090,253)
Payments to suppliers and employees	(880,133)	(2,137,792)
Interest received	2,312	12,984
NET CASH USED IN OPERATING ACTIVITIES	(540,281)	(1,231,933)
	17	
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	3,358	(1,653)
Exploration and evaluation expenditure	(698,362)	(740,275)
Expenditure on oil and gas properties	(131,084)	(1,570,357)
Refund/(placement) of performance bond collateral	105,000	(155,000)
NET CASH USED IN INVESTING ACTIVITIES	(721,088)	(2,467,285)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from equity issues	401,254	-
Capital raising expenses	(20,196)	-
Proceeds from borrowings	-	-
NET CASH FROM FINANCING ACTIVITIES	381,058	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(880,311)	(3,699,218)
Net foreign exchange differences	(2,119)	6,256
Cash and cash equivalents at beginning of period	2,129,296	5,822,258
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,246,866	2,129,296
	17	

The above Statement of Cash Flows should be read in conjunction with the accompanying notes

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2016

ATTRIBUTABLE TO MEMBERS OF THE COMPANY	Issued Capital \$	Option Premium Reserve \$	Currency Translation Reserve \$	Accumulated Losses \$	Total Equity \$
At 30 JUNE 2014	47,238,387	(27,070)	2,862,775	(37,556,392)	12,517,700
Currency translation differences	-	.	-	-	-
Loss for period	-	.	-	(835,963)	(835,963)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	-	.	-	(835,963)	(835,963)
Securities issued	186,762	.	-	-	186,762
Share based payments	(3,793)	.	-	-	(3,793)
At 31 DECEMBER 2015	47,421,356	(27,070)	2,862,775	(38,392,355)	11,864,706
Currency translation differences	-	.	-	-	-
Loss for the year	-	.	-	(1,069,747)	(1,069,747)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	-	.	-	(1,069,747)	(1,069,747)
Securities issued	486,602	.	-	-	486,602
Equity raising costs	(20,196)	.	-	-	(20,196)
At 31 DECEMBER 2016	47,887,762	(27,070)	2,862,775	(39,462,102)	11,261,365

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

NOTE 1. CORPORATE INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

Corporate Information

The consolidated financial statements of Lion Energy Limited (“Parent Entity” or “Company”) and its controlled entities (collectively as “Consolidated Entity” or “the Group”) for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors on 29 March 2017. The Parent Entity is a for-profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The Group is principally engaged in oil & gas exploration, development and production and investment in the oil & gas industry. Further information on nature of the operations and principal activities of the Group is provided in the directors’ report. Information on the Group’s structure and other related party relationships are provided in notes 22, 23, and 27.

The Group’s registered office is in Suite 7, 295 Rokeby Road, Subiaco, WA 6008 Australia.

Basis of Preparation of Accounts

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) and the Corporations Act 2001. The consolidated financial report of the Group also complies with the International Financial Reporting Standards (“IFRS”) and interpretations adopted by the International Accounting Standards Board. The company is a For-Profit entity for the purpose of preparing these financial statements.

The financial report has been prepared on an accruals basis and is based on a historical cost basis. The presentation currency used in this financial report is United States Dollars. As announced on 4 June 2015 Lion Energy Limited had to change its financial year to 1 January 2015 to 31 December 2015 to be in line with its majority shareholder Risco Energy Pte Ltd as required by the Singapore Companies Act.

This financial report is issued in accordance with a resolution of the directors of the Company on the same date as the Directors’ Declaration above.

New and Revised Standards that are effect for these Financial Statements

The AASB has issued a number of new and revised Accounting Standards and Interpretations are effective for annual periods beginning or after 1 January 2016. These new and revised standards are:

Reference	Title
AASB 2015-3	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 <i>Materiality</i>
AASB 2015-4	Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent
AASB 2014-3	Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations (AASB 1 & AASB 11)
AASB 2014-4	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)
AASB 1057	Application of Australian Accounting Standards
AASB 2014-9	Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements
AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101
AASB 2015-9	Amendments to Australian Accounting Standards – Scope and Application Paragraphs [AASB 8, AASB 133 & AASB 1057]

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

The Company has adopted each of the above new and amended standards. The application of these standards did not have a material impact on the results of the Group for the reporting period. Refer to Note 1(u) which details the joint arrangements policy of the Group.

Standards issued but not yet effective and not early adopted by the Company

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting period, some of which are relevant to the Company. The new and amended standards that are relevant to the Company are listed below:

Reference	Title	Summary	Application date of standard
AASB 9	<i>Financial Instruments</i>	<p>AASB 9 (December 2014) is a new standard which replaces AASB 139. This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.</p> <p>AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early adoption. The own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments.</p> <p>Classification and measurement</p> <p>AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139. There are also some changes made in relation to financial liabilities.</p> <p>The main changes are described below.</p> <p>Financial assets</p> <p>a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.</p> <p>b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p> <p>Financial liabilities</p> <p>Changes introduced by AASB 9 in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss (FVPL) using the fair value option.</p> <p>Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows:</p> <ul style="list-style-type: none"> ▶ The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ▶ The remaining change is presented in profit or loss <p>AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains or losses attributable to changes in the entity's own credit risk would be recognised in OCI. These amounts recognised in OCI are not recycled to profit or loss if the liability is ever repurchased at a discount.</p>	1 January 2018

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

Reference	Title	Summary	Application date of standard
		<p>Impairment</p> <p>The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.</p> <p>Hedge accounting</p> <p>Amendments to AASB 9 (December 2009 & 2010 editions and AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.</p> <p>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E.</p> <p>AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014.</p> <p>AASB 2014-8 limits the application of the existing versions of AASB 9 ((AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after 1 January 2015.</p>	
AASB 15	Revenue from Contracts with Customers	<p>AASB 15 <i>Revenue from Contracts with Customers</i> replaces the existing revenue recognition standards AASB 111 <i>Construction Contracts</i>, AASB 118 <i>Revenue</i> and related Interpretations (Interpretation 13 <i>Customer Loyalty Programmes</i>, Interpretation 15 <i>Agreements for the Construction of Real Estate</i>, Interpretation 18 <i>Transfers of Assets from Customers</i>, Interpretation 131 <i>Revenue—Barter Transactions Involving Advertising Services</i> and Interpretation 1042 <i>Subscriber Acquisition Costs in the Telecommunications Industry</i>). AASB 15 incorporates the requirements of IFRS 15 <i>Revenue from Contracts with Customers</i> issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB).</p> <p>AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:</p> <ul style="list-style-type: none"> (a) Step 1: Identify the contract(s) with a customer (b) Step 2: Identify the performance obligations in the contract (c) Step 3: Determine the transaction price (d) Step 4: Allocate the transaction price to the performance obligations in the contract (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation <p>AASB 2015-8 amended the AASB 15 effective date so it is now effective for annual reporting periods commencing on or after 1 January 2018. Early application is permitted.</p> <p>AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.</p> <p>AASB 2016-3 <i>Amendments to Australian Accounting Standards – Clarifications to AASB 15</i> amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent</p>	1 January 2018

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

Reference	Title	Summary	Application date of standard
		<p>considerations and the timing of recognising revenue from granting a licence and provides further practical expedients on transition to AASB 15.</p>	
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	<p>AASB 2014-10 amends AASB 10 Consolidated Financial Statements and AASB 128 to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require:</p> <p>(a) A full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not)</p> <p>(b) A partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.</p> <p>AASB 2014-10 also makes an editorial correction to AASB 10.</p> <p>AASB 2015-10 defers the mandatory effective date (application date) of AASB 2014-10 so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2018** instead of 1 January 2016.</p>	1 January 2018
AASB 16	Leases	<p>The key features of AASB 16 are as follows:</p> <p>Lessee accounting</p> <ul style="list-style-type: none"> • Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. • Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. • AASB 16 contains disclosure requirements for lessees. <p>Lessor accounting</p> <ul style="list-style-type: none"> • AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. • AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk. <p>AASB 16 supersedes:</p> <p>(a) AASB 117 <i>Leases</i></p> <p>(b) Interpretation 4 <i>Determining whether an Arrangement contains a Lease</i></p> <p>(c) SIC-15 <i>Operating Leases—Incentives</i></p> <p>(d) SIC-27 <i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i></p> <p>The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16.</p>	1 January 2019

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

Reference	Title	Summary	Application date of standard
AASB 2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]	This Standard amends AASB 112 <i>Income Taxes</i> (July 2004) and AASB 112 <i>Income Taxes</i> (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017
AASB 2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	This Standard amends AASB 107 <i>Statement of Cash Flows</i> (August 2015) to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017
AASB 2016-5	Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions [AASB 2]	This standard amends AASB 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: <ul style="list-style-type: none"> • The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments • Share-based payment transactions with a net settlement feature for withholding tax obligations • A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled 	1 January 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle	Annual Improvements to IFRS Standards 2014–2016 Cycle	This amending standard addresses the following: <ul style="list-style-type: none"> • IFRS 12 Disclosure of Interests in Other Entities Clarification of the scope of the Standard (effective date 1 January 2017) • IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters (effective date 1 January 2018) • IAS 28 Investments in Associates and Joint Ventures - Measuring an associate or joint venture at fair value. (effective date 1 January 2018) 	1 January 2017
IFRIC Interpretation 22	IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration, which addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency, is effective 1 January 2018.	1 January 2018

The Company has not elected to early adopt any new standards or amendments that are issued but not yet effective. New standards and amendments will be adopted when they become effective.

When adopted, the above standards are not expected to have a material impact to the financial statements. For the AASB 9, it will have no impact on the Group's results accounting for financial assets as it does not have any available for sale assets. There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. For the AASB 15, the Group has made an initial assessment and does not expect to significantly impact the revenue recognition based on the existing revenue sources.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

Summary of Significant Accounting Policies

a) Change in functional and presentation currency of Lion Energy Limited

An entity's functional currency is the currency of the primary economic environment in which the entity operates. During the financial year 2014 the Company completed a major reorganisation, acquiring three new US dollar denominated subsidiaries and became a subsidiary of Risco Energy Unconventional Pte Ltd. Consequently, the directors had determined that the functional currency of the company and each of its subsidiaries is US dollars, as the US dollar is the currency that mainly influences the revenues and costs of both the parent entity and each of its subsidiaries, and is therefore the currency of the primary economic environment in which they operate. The parent entity's functional currency was previously Australian dollars. The change in functional currency of the parent entity has been applied prospectively with effect from 1 July 2014 in accordance with the requirements of the accounting standards.

Following the change in functional currency, the Company has elected to change its presentation currency from Australian dollars to US dollars. The directors believe that changing the presentation currency to US dollars will enhance comparability with its industry peer group, a majority of which report in US dollars. The change in presentation currency represents a voluntary change in accounting policy, which has been applied retrospectively.

To give effect to the change in functional and presentation currency, the assets and liabilities of the company, which had an Australian dollar functional currency at 30 June 2014 were converted into US dollars at a fixed exchange rate on 1 July 2014 of US\$1:A\$1.0594 and the contributed equity, reserves and retained earnings were converted at applicable historical rates. In order to derive US dollar opening balances, the Australian dollar functional currency assets and liabilities at 1 July 2013 were converted at the spot rate of US\$1:A\$1.0934 on the reporting date; revenue and expenses for the twelve months ended 30 June 2014 were converted at the average exchange rates of US\$1:A\$1.0895 for the reporting period, or at the exchange rates ruling at the date of the transaction to the extent practicable, and equity balances were converted at applicable historical rates.

The above stated procedures resulted in the recognition of a foreign currency translation reserve of US\$2,862,775 as at the 31 December 2016 (2015: US\$2,862,775).

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent Entity and its subsidiaries as at and for the period ended 31 December each year. The Parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intragroup transactions have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition. A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction. Non-controlling interests are allocated their share of net profit after tax in the statement of profit or loss and other comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary; derecognises the carrying amount of any non-controlling interest; derecognises the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received; recognises the

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

fair value of any investment retained; recognises any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Investments in subsidiaries are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate statement of profit or loss and other comprehensive income of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the Company will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

c) Foreign currency translation

The presentation currency of the Company and its subsidiaries is United States Dollars. The functional currency of the Company and its subsidiaries is United States Dollars. Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences in the consolidated financial report are taken to the statement of profit or loss and other comprehensive income with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the statement of profit or loss and other comprehensive income. Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of the entities in the Group changed during the reporting period as per Note 1a).

d) Taxes

Income Tax

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

have been enacted or substantively enacted at the reporting date. Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of profit or loss.

e) Employee Benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave. Employee benefits, expenses and revenues arising in respect of wages and salaries; non-monetary benefits; annual leave; long service leave and other leave and other employee entitlements are charged against profits on a net basis.

Contributions are made by the Group to employee superannuation funds and are charged as expenses when incurred. The Group has no legal obligation to cover any shortfall in any superannuation fund's obligation to provide benefits to employees on retirement.

f) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with a maturity of three months or less. For the purpose of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts and investments in money market instruments with less than 14 days to maturity.

g) Revenue recognition

Revenue from oil sales is recognised upon completion of each oil lifting (ie. loading of the oil onto the tanker) by the purchaser. The Group's share of crude oil from its Indonesian production items is sold via an open tender each time a lifting is made.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

h) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except: where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority. Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from the investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

i) Impairment of non current assets

The Group assesses at each reporting date whether there is an indication that a non current asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

j) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership. The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis. Contingent rentals are recognised as an expense in the financial year in which they are incurred.

k) Issued capital

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

l) Property, Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Plant and equipment – over 2 to 15 years

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any indication of impairment exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

m) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Financial difficulties of the debtor, default payments, or debts more than 90 days overdue are considered objective evidence of impairment. Bad debts are written off when identified.

n) Trade and other payables

Trade payables and other payables are carried at amortised cost which represents future liabilities for goods and services received, whether or not billed to the Company.

o) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of crude oil inventories includes direct materials, direct labour, transportation costs and variable and fixed overhead costs relating to production activities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

p) Significant accounting judgements, estimates and assumptions

Significant accounting judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Exploration and evaluation assets

The Group's accounting policy for exploration and evaluation expenditure is set out below. The application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves are found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under our policy, we conclude that we are unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalised amount will be written off to the statement of profit or loss and other comprehensive income.

Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Key Estimates – Taxation

Balances disclosed in the financial statements and the notes thereto, related to taxation, are based on the best estimates of directors. These estimates take into account both the financial performance and position of the Company as they pertain to current income taxation legislation, and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents that directors' best estimate, pending an assessment by the Australian Taxation Office.

Indonesian First Tranche Petroleum (FTP)

At 30 June 2014 a provision for deferred income tax related to tax potentially payable by the Group on its share of First Tranche Petroleum which has already been received from Seram project production. Such tax will only be payable in the event that the contractors exhaust the pool of sunk costs prior to expiry of the PSC.

As a result of the decline in the oil price, and based on existing reserve estimates, the company no longer believes that this sunk cost pool will be fully utilised. As a consequence it is unlikely that the company will be liable for income tax on FTP, and hence the provision has been reversed in the current period.

Equity settled transactions

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of ordinary shares is determined with reference to the Company's share price on the ASX. The Group measures the fair value of options at the grant date using a Black Scholes formula taking into account the terms and conditions upon which the instruments were granted.

q) Exploration, Evaluation and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area; or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made. When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis. Any changes in the estimates for the costs

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

r) Share-based payment transactions

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions'). There is currently a Employee Share Option Plan (ESOP) in place to provide these benefits, which provides benefits to directors and executives. The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a Black Scholes model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ('market conditions'). The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition. Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

s) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element. Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for: costs of servicing equity (other than dividends) and preference share dividends; the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

t) Interests in Associates

Associates are entities over which the Consolidated Entity has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the Consolidated Entity's share of net assets of the associate. Dividends received or receivable from associates reduce the carrying amount of the investment.

If the Consolidated Entity's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long term receivables, the Consolidated Entity will not recognise further losses unless it has incurred obligations or made payments on behalf of the associate.

u) Interests in Joint Arrangements

Joint arrangements represent the contractual sharing of control between parties in a business venture where unanimous decisions about relevant activities are required.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

Separate joint venture entities providing joint venturers with an interest to net assets are classified as a joint venture and accounted for using the equity method. Refer to Note 1(t) for a description of the equity method of accounting.

Joint venture operations represent arrangements whereby joint operators maintain direct interests in each asset and exposure to each liability of the arrangement. The Group's interests in the assets, liabilities, revenue and expenses of the joint operations are included in the respective line items of the financial statements. Information about the joint arrangements is set out in Note 23.

All of the Group's current joint arrangements are treated as joint operations.

v) Business Combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of (a) fair value of consideration transferred, (b) the recognised amount of any non-controlling interest in the acquire, and (c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

NOTE 2. GOING CONCERN BASIS

The financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activity, realisation of assets and the settlement of liabilities in the normal course of business. The Consolidated Entity incurred a net loss before income tax of \$1,069,747 (2015: \$1,620,943), expended a net operating cash outflow of \$540,281 (2015: \$1,231,933) and expended a net investing cash outflow of \$721,088 (2015: \$2,467,285) for the year to 31 December 2016.

The Consolidated Entity is currently in a positive net current asset position, including cash of \$1,246,866 (2015: \$2,129,296). The Directors are confident that the Group has sufficient cash to fund its share of currently approved joint venture activities within the next 12 months from the date the financial statements are approved and will be able to meet existing commitments as they fall due. The Directors will also continue to carefully manage discretionary expenditure in line with the Group's cash flow.

NOTE 3. GLOSSARY

The following abbreviations are used throughout this report:

the Company	Lion Energy Limited
Consolidated Entity	Lion Energy Limited and its controlled entities
the Group	Lion Energy Limited and its controlled entities
KRX	KRX Energy Pte Ltd
KRX Group	KRX Energy Pte Ltd and its subsidiaries
KRX SBA	KRX Energy SBA Pte Ltd
Parent Entity	Lion Energy Limited
Tower	Tower Energy Indonesia Ltd
REU	Risco Energy Unconventional Pte Ltd
Risco	Risco Energy Investments Pte Ltd
Risco Group	Risco Energy Investments Pte Ltd and its controlled entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

Consolidated Entity	
12 Months to 31 December 2016 \$	18 Months to 31 December 2015 \$

NOTE 4. REVENUE AND EXPENSES

The loss before income tax expense includes the following revenues and expenses where disclosure is relevant in explaining the performance of the Group:

REVENUE

Oil sales	1,167,421	2,168,104
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Finance income:

Interest receivable from other persons	2,312	12,984
Legal settlement	-	98,238
	2,312	111,222

EXPENSES

Cost of goods sold:

Production costs	588,433	1,082,199
Depreciation, Depletion & Amortisation	538,401	673,665
	1,126,834	1,755,864

Administration expenses:

Depreciation	4,072	6,731
Consultants	171,402	400,729
Consultants - share based payments	48,002	145,501
Legal expenses	27,652	88,332
Professional fees	148,246	281,479
Rental costs	10,939	59,182
Travel	41,428	135,330
Other administration expenses	94,001	144,921
	545,742	1,262,205

Employee benefit expenses

Wages, salaries and directors fee	502,876	750,821
Share based payments	37,346	38,923
Superannuation	19,422	34,655
	559,644	824,399

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

	Consolidated Entity	
	12 Months to	18 Months to
	31 December	31 December
	2016	2015
	\$	\$

NOTE 5. INCOME TAX

A reconciliation between the tax expense and the product of accounting loss before income tax multiplied by the Group's applicable income tax rate is as follows:

LOSS FROM CONTINUING OPERATIONS	(1,069,747)	(1,620,943)
Prima facie income tax benefit on operating loss calculated at 30%	(320,924)	(486,283)
Non-deductible expenses	218,309	247,886
Difference of effective foreign income tax rates	16,704	(78,111)
Income tax benefit not brought to account as realisation of the benefit is not virtually certain	85,911	316,508
Deferred tax assets recognised and offset against deferred tax liabilities	-	(784,980)
INCOME TAX BENEFIT FROM CONTINUING OPERATIONS	-	(784,980)

	Consolidated Entity	
	2015	2015
	\$	\$

UNRECOGNISED DEFERRED TAX BALANCES

Unrecognised deferred tax asset – temporary differences	11,505	13,266
Unrecognised deferred tax asset – revenue losses	5,969,349	7,729,682
Unrecognised deferred tax asset – capital losses	413,270	435,373

DEFERRED TAX ASSET NOT BROUGHT TO ACCOUNT

6,394,124	8,178,321
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NOTE 6. EARNINGS PER SHARE

Both basic and diluted EPS have been calculated using the following variables:

Profit/(Loss) used in the calculation of basic/diluted EPS	(1,069,747)	(835,963)
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic/diluted earnings per share	97,107,335	95,694,045

NOTE 7. TRADE AND OTHER RECEIVABLES (CURRENT)

Trade debtors	596,431	391,938
Other debtors and prepayments	60,345	128,001
Performance bond collateral	50,000	155,000
	706,776	674,939

All of the Group's trade and other receivables have been reviewed for indicators of impairment. No receivables were found to be impaired.

NOTE 8. INVENTORIES

Oil inventories in tank (at cost)	-	42,360
Joint Operations materials (at cost)	343,299	295,320
	343,299	337,680

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

	Consolidated Entity	
	2015	2015
	\$	\$
NOTE 9. PLANT AND EQUIPMENT		
PLANT AND EQUIPMENT		
At cost	268,016	263,703
Accumulated depreciation	(257,607)	(245,864)
TOTAL PLANT AND EQUIPMENT	10,409	17,839
MOVEMENTS IN THE CARRYING AMOUNT OF PLANT AND EQUIPMENT		
PLANT AND EQUIPMENT		
At the beginning of the financial period	17,839	22,917
Additions	(3,358)	1,653
Depreciation expense	(4,072)	(6,731)
TOTAL PLANT AND EQUIPMENT	10,409	17,839

NOTE 10. TRADE AND OTHER RECEIVABLES (NON CURRENT)

Performance bond collateral	131,250	131,250
TOTAL	131,250	131,250

Lion, via one of its joint venture partners, has lodged collateral to support its exploration commitments in the South Block A PSC. These funds will only be released once the firm commitment pursuant to the PSC is completed.

NOTE 11. CAPITALISED EXPLORATION AND EVALUATION EXPENDITURE

Capitalised exploration and evaluation expenditure	8,778,733	8,025,118
TOTAL	8,778,733	8,025,118

MOVEMENTS IN THE CARRYING AMOUNT OF CAPITALISED EXPLORATION AND EVALUATION EXPENDITURE

At the beginning of the financial period	8,025,118	7,340,094
Expenditure during the period	753,615	685,024
AT THE END OF THE FINANCIAL PERIOD	8,778,733	8,025,118

Capitalised exploration and evaluation expenditure above includes \$2,041,003 (2015: \$1,844,195) of costs incurred in carrying out joint studies and submitting joint study applications to Indonesian authorities over areas in central and Northern Sumatra. This is a mechanism for undertaking exploratory activities and gaining the associated technical data in a region that attaches with it pre-emptive rights to acquire production sharing contracts over the acreage when it is included in periodic bidding rounds. Should the areas of interest associated with each study not progress to the Group seeking to acquire the PSC or progressing further evaluation the costs are expensed.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

	Consolidated Entity	
	2016	2015
	\$	\$
NOTE 12. OIL AND GAS PROPERTIES		
Oil and gas properties	930,863	1,338,180
	930,863	1,338,180
	930,863	1,338,180

MOVEMENTS IN THE CARRYING AMOUNT OF OIL AND GAS PROPERTIES

At the beginning of the financial period	1,338,180	441,488
Expenditure during the period	131,084	1,570,357
Depreciation, Depletion & Amortisation	(538,401)	(673,665)
Currency exchange adjustment	-	-
	930,863	1,338,180
AT THE END OF THE FINANCIAL PERIOD	930,863	1,338,180

NOTE 13. TRADE AND OTHER PAYABLES (CURRENT)

Sundry creditors and accrued expenses	297,155	248,675
Share of Joint Operations payables	589,676	540,921
	886,831	789,596
	886,831	789,596

NOTE 14. ISSUED CAPITAL

108,186,532 (2015: 96,197,377) fully paid ordinary shares	47,887,762	47,421,356
	47,887,762	47,421,356

MOVEMENTS IN ISSUED CAPITAL

	Shares		\$	
	2016	2015	2016	2015
At the beginning of the period	96,197,377	95,029,377	47,421,356	47,238,387
Issued on 19 August 2014	-	214,096	-	39,693
Issued on 25 February 2015	-	795,769	-	123,901
Issued on 15 October 2015	-	158,135	-	23,168
Issued on 4 July 2016	323,770	-	38,999	-
Issued on 6 December 2016	10,415,385	-	400,777	-
Issued on 21 December 2016	1,250,000	-	46,826	-
Share issue expenses	-	-	(20,196)	(3,793)
	108,186,532	96,197,377	47,887,762	47,421,356
AT THE END OF THE FINANCIAL PERIOD	108,186,532	96,197,377	47,887,762	47,421,356

On 19 August 2014, the Company issued 214,096 fully paid ordinary shares for A\$0.20 per share for a total of US\$39,693 to consultants in lieu of cash payments.

On 25 February 2015, the Company issued 795,769 fully paid ordinary shares for A\$0.20 per share for a total of US\$123,901 to consultants and staff in lieu of cash payments.

On 15 October 2015, the Company issued 158,135 fully paid ordinary shares for A\$0.20 per share for a total of US\$23,168 to consultants in lieu of cash payments.

On 4 July 2016, the Company issued 250,000 for the agreed incentive fee of US\$37,346 (A\$50,000). On the same date, 73,770 fully paid ordinary shares were issued to pay consulting fees of US\$1,653 (A\$2,213) in lieu of cash payment.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

On 6 December 2016, the Company issued 9,800,000 fully paid ordinary shares for A\$0.05 per share to raise a total of US\$365,130 in cash. The Company also issued 615,385 fully paid ordinary shares for consulting fees of US\$35,647 in lieu of cash payment.

On 21 December 2016, the Company issued 1,000,000 fully paid ordinary shares for A\$0.05 per share to raise a total of US\$36,124 in cash. The Company also issued 250,000 fully paid ordinary shares to pay consulting fees of S\$10,702 in lieu of cash payment.

CAPITAL MANAGEMENT

Management controls the capital of the Group comprising the liquid assets held by the Group in order to maintain an appropriate debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern. The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements. Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues. There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

TERMS AND CONDITIONS OF CONTRIBUTED EQUITY

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from sale of all surplus assets in proportion to the number of, and amounts paid up, of shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at any meeting of the Company.

	Consolidated Entity	
	2016	2015
	\$	\$
NOTE 15. RESERVES		
Option premium reserve	(27,070)	(27,070)
Currency translation reserve	2,862,775	2,862,775
	2,835,705	2,835,705
MOVEMENTS IN OPTION PREMIUM RESERVE		
At the beginning of the financial period	(27,070)	(27,070)
Addition/transfer	-	-
AT THE END OF THE FINANCIAL PERIOD	(27,070)	(27,070)
MOVEMENTS IN CURRENCY TRANSLATION RESERVE		
At the beginning of the financial period	2,862,775	2,862,775
Addition/transfer	-	-
AT THE END OF THE FINANCIAL PERIOD	2,862,775	2,862,775

The option premium reserve is used to accumulate the fair value of options issued and premiums received on the issue of options. The foreign currency translation reserve is used to record exchange differences arising from the change of functional currency that commencing in prior year from Australian Dollar to US Dollar.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

	Company	
	2016	2015
	\$	\$
NOTE 16. PARENT ENTITY		
FINANCIAL INFORMATION ON THE PARENT ENTITY AS AT THE END OF THE FINANCIAL PERIOD:		
CURRENT ASSETS		
Cash and cash equivalents	992,040	1,951,089
Trade and other receivables	97,961	154,422
TOTAL CURRENT ASSETS	1,090,001	2,105,511
NON-CURRENT ASSETS		
Plant and equipment	7,269	11,341
Investments in subsidiaries	2,752,914	2,752,914
Loans to subsidiaries	23,649	9,393
Capitalised exploration and evaluation expenditure	262,174	86,690
TOTAL NON-CURRENT ASSETS	3,046,006	2,860,338
TOTAL ASSETS	4,136,007	4,965,849
CURRENT LIABILITIES		
Trade and other payables	188,254	154,631
Amounts owing to subsidiaries	6,226,671	6,180,706
TOTAL CURRENT LIABILITIES	6,414,925	6,335,337
TOTAL LIABILITIES	6,414,925	6,335,337
NET LIABILITIES/ ASSETS	(2,278,918)	(1,369,488)
EQUITY		
Issued capital	47,856,018	47,421,356
Option premium reserve	2,681,190	2,681,190
Accumulated losses	(52,816,126)	(51,472,034)
TOTAL EQUITY	(2,278,918)	(1,369,488)
FINANCIAL INFORMATION ON THE PARENT ENTITY FOR THE FINANCIAL PERIOD:		
Loss after related income tax expense	(1,344,093)	(7,828,918)
Other comprehensive income		-
TOTAL COMPREHENSIVE INCOME	(1,344,093)	(7,828,918)

There are no contingent liabilities of the Parent Entity as at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

	Consolidated Entity	
	2016	2015
	\$	\$
NOTE 17. CASH FLOW INFORMATION		
RECONCILIATION OF CASH FLOW FROM OPERATIONS WITH LOSS AFTER INCOME TAX		
Loss after tax	(1,069,747)	(835,963)
<i>Non-cash flow items in loss</i>		
Depreciation of plant and equipment	4,072	6,730
Depreciation, Depletion & Amortisation of development expenditure	538,401	673,665
Share/option based payments	85,348	182,969
<i>Changes in assets and liabilities</i>		
Decrease/(increase) in trade debtors	(192,090)	(333,012)
Decrease/(increase) in other debtors and prepayments	(5,619)	(8,054)
Increase/(decrease) in other creditors and accruals	99,354	(133,288)
Increase/(decrease) in provision for deferred income tax	-	(784,980)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	(540,281)	(1,231,933)
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
<i>Cash and cash equivalents at the end of the financial period is shown in the accounts as:</i>		
Cash and cash equivalents	993,467	1,975,412
Share of joint operations cash	253,399	153,884
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD	1,246,866	2,129,296

NON-CASH FINANCING AND INVESTING ACTIVITIES

The following non-cash financing or investing activities occurred during the period:

- 939,155 shares were issued to pay a total of \$48,002 consulting fees during the year of in lieu of cash payments.
- 250,000 shares were issued to pay for Mr Smith's incentive share with deemed value of \$37,346.

The following non-cash financing or investing activities occurred during the prior period:

- 214,096 shares at A\$0.20 were issued to consultants in lieu of cash payments.
- 795,769 shares at A\$0.20 were issued to staff and consultants in lieu of cash payments.
- 158,135 shares at A\$0.20 were issued to consultants in lieu of cash payments.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

Consolidated Entity
2016 2015
\$ \$

NOTE 18. EXPENDITURE COMMITMENTS

OPERATING LEASE COMMITMENTS

Non-Cancellable operating lease commitments:

Payable

not later than one year	13,674	13,674
later than 1 year but not later than 5 years	17,093	30,768

AGGREGATE EXPENDITURE CONTRACTED FOR AT REPORTING DATE

	30,767	44,442
	30,767	44,442

The Company has a lease in place for the Company's registered office and principal place of business. The terms of the lease are that the lease is for a 3.5 years term from 1 September 2015 with an amount payable per month of A\$1,583.33 plus GST which is subject rent reviews yearly.

EXPLORATION COMMITMENTS

The Group has exploration commitments pursuant to its Production Sharing Contracts with the Government of Indonesia. At year end these totalled US\$1,221,000 (2015: US\$1,050,000). The Group has indirectly, through a joint venture partner, provided a security bond of US\$131,250 in respect of this commitment. Subsequent to year end this commitment was fulfilled through the drilling of the Amunah Timur-1 exploration well.

NOTE 19. AUDITORS' REMUNERATION

Remuneration of the auditor of the Company for:

Auditing or reviewing the financial report	42,969	46,991
Other services	-	-

	42,969	46,991
	42,969	46,991

NOTE 20. KEY MANAGEMENT PERSONNEL

REMUNERATION OF KEY MANAGEMENT PERSONNEL

Short term employee benefits	501,837	719,178
Post-employment benefits	19,453	30,958
Share based payments	37,346	38,925

	558,636	789,061
	558,636	789,061

NOTE 21. SEGMENT INFORMATION

IDENTIFICATION OF REPORTABLE SEGMENTS

The Group has identified its operating segments based on internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group's principal activities are oil and gas exploration, development and production. These activities are all located in the same geographical area being Indonesia. Given there is only one segment being in one geographical area the financial results from this segment are equivalent to the financial statements of the Consolidated Entity as a whole.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

22. CONTROLLED ENTITIES

	Country of Incorporation	Principal Activity	Group Ownership Interest	
			2016 %	2015 %
<i>Parent Entity</i>				
Lion Energy Limited	Australia	Holding Company		
<i>Entities controlled by Lion Energy Limited</i>				
Lion International Investment Limited	Cayman Islands	Oil & gas exploration and production	100%	100%
Lion Energy Limited USA, Inc	Delaware, USA	Holding Company	100%	100%
KRX Energy Pte Ltd	Singapore	Holding Company	100%	100%
Peutu Energy Pte Ltd	Singapore	Dormant	100%	100%
Tamiang Energy Pte Ltd	Singapore	Dormant	100%	100%
Bengkalis Energy Pte Ltd	Singapore	Dormant	100%	100%
Balam Energy Pte Ltd	Singapore	Dormant	100%	100%
<i>Entities controlled by KRX Energy Pte Ltd</i>				
KRX Energy (SBA) Pte Ltd	Singapore	Oil & gas exploration	100%	100%
Tower Indonesia Shale Ltd	BVI	Oil & gas exploration	100%	100%
<i>Entities controlled by Lion Energy Limited USA, Inc</i>				
Lion USA LLC	Delaware, USA	Dormant	100%	100%

The functional currency of all entities within the Group is United States Dollars (US\$).

NOTE 23. JOINT ARRANGEMENTS

The Group has interests in the following joint operations. The consolidated financial statements reflect the Group's share of all jointly held assets, liabilities, revenues and expenses of these joint operations.

Name of the Joint Operation	Principal Place of Business	Principal Activity	Proportion of Ownership Interests Held by the Group	
			31 December 2016	31 December 2015
Seram (Non-Bula) Joint Operation	Indonesia	Exploration and development	2.5%	2.5%
South Block A Joint Operation	Indonesia	Exploration and development	40.7%	35.0%

NOTE 24. CONTINGENT LIABILITIES

As at 31 December 2016 the Group had the following contingent liability:

To meet the requirements of a conventional joint study, Lion has established a bank guarantee with the Indonesian Government for a total of US\$500,000, of which 10% has been lodged as performance bond (see note 7). This study is almost completed. The last meeting is planned for March 2017, after which the Group will redeem the performance bond.

NOTE 25. SUPERANNUATION COMMITMENTS

The Company makes contributions to complying superannuation funds based on the requirements of the Australian Superannuation Guarantee Charge or such higher amount as has been agreed with individual employees. There is a legally enforceable obligation on the Company to contribute to the superannuation plan for those contributions that have been agreed with individual employees as part of their conditions of employment.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

NOTE 26. FINANCIAL INSTRUMENTS

FINANCIAL RISK MANAGEMENT POLICIES

The Group's financial instruments consist mainly of deposits with banks, trade and other receivables and trade and other payables, which arise directly from its operations. The Group's policy is that no trading in financial instruments shall be undertaken. The main purpose of non-derivative financial instruments is to finance Group operations. Derivatives are not used by the Group and the Group does not speculate in the trading of derivative instruments.

TREASURY RISK MANAGEMENT

The Board considers the Group's financial risk exposure and treasury management strategies in the context of the Group's operations. The Board's overall risk management strategy seeks to assist the Group in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

FINANCIAL RISK EXPOSURES AND MANAGEMENT

The main risks the Group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and price risk. The Board reviews each of these risks on an on-going basis.

INTEREST RATE RISK

The Company has a policy of minimising its exposure to interest payable on debt. The Group has no debt that requires the payment of interest.

FINANCIAL INSTRUMENTS	TERMS AND CONDITIONS AND INTEREST RATE RISK
Bank Deposits	Bank deposits are either held at call, subject to notice of withdrawal or subject to maturity after a specified period of time. All cash held is subject to floating interest rate risk.
Receivables	There are no specific terms and conditions that may affect the amount, timing and certainty of future cash flows as they are all managed on a case by case basis. These are non interest bearing and there is no exposure to interest rate risk.
Accounts Payable	There are no specific terms and conditions that may affect the amount, timing and certainty of future cash flows as they are all managed on a case by case basis. These are non interest bearing and there is no exposure to interest rate risk.
Equity	Details of equity securities issued and outstanding are disclosed separately in these financial statements. These are non interest bearing and there is no exposure to interest rate risk.

FOREIGN CURRENCY RISK

The Group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the Group's measurement currency. The Group also exposed to fluctuations in foreign currencies arising from deposits with banks denominated in foreign currencies. The Group does not seek to hedge this exposure as it keeps the bulk of its cash reserves in US Dollars, being the currency in which most of its joint venture costs are denominated.

The following table outlines the amounts in the statement of financial position denominated in a foreign currency:

	AMOUNTS IN AUD 2016 \$
<i>Financial Assets</i>	
Cash assets	520,074
Receivables	19,399
<i>Financial Liabilities</i>	
Payables	139,867

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

LIQUIDITY RISK

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate funds are available.

CREDIT RISK

The maximum exposure to credit risk, excluding the value of any collateral or other security, at reporting date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. There are no material amounts of collateral held as security at 31 December 2016. Credit risk is managed on a group basis and reviewed by the Board. It arises from exposures to customers as well as through deposits with financial institutions. The Board monitors credit risk by actively assessing the quality and liquidity of counter parties, consequently only banks are utilised for deposits and all potential customers are assessed for credit worthiness taking into account their size, market position and financial standing. The counterparties included in trade and other receivables at 31 December 2016 are not rated, however given the amount and nature of these financial instruments, the Board is satisfied that they represent a low credit risk for the Group. There are no significant concentrations of credit risk within the Group.

MAJOR CUSTOMERS

The Group's share of crude oil from its Indonesian production items is sold via an open tender each time a lifting is made, therefore it is not exposed to any major customer price risk.

PRICE RISK

The Group is exposed to commodity price risk through its share of oil sales from the Seram joint operation. The Group does not currently hedge the price at which it sells oil.

FINANCIAL INSTRUMENT COMPOSITION AND MATURITY ANALYSIS

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts may not reconcile to the statement of financial position.

	Consolidated Entity	
	2016	2015
	\$	\$
TRADE AND OTHER RECEIVABLES ARE EXPECTED TO BE RECEIVED AS FOLLOWS:		
Less than 6 months	706,776	674,939
6 months to 1 year	-	-
Later than 1 year but not later than 5 years	-	-
Over 5 years	131,250	131,250
	838,026	806,189
	838,026	806,189

TRADE AND SUNDRY PAYABLES ARE EXPECTED TO BE PAID AS FOLLOWS:

Less than 6 months	886,831	789,596
6 months to 1 year	-	-
Later than 1 year but not later than 5 years	-	-
Over 5 years	-	-
	886,831	789,596
	886,831	789,596

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

FAIR VALUES

The aggregate fair values of the Consolidated Entity's financial assets and financial liabilities, both recognised and unrecognised are as follows:

	CARRYING AMOUNT IN THE FINANCIAL STATEMENTS 2016 \$	AGGREGATE FAIR VALUE 2016 \$	CARRYING AMOUNT IN THE FINANCIAL STATEMENTS 2015 \$	AGGREGATE FAIR VALUE 2015 \$
<i>Financial Assets</i>				
Cash assets	1,246,866	1,246,866	2,129,296	2,129,296
Receivables	838,026	838,026	806,189	806,189
<i>Financial Liabilities</i>				
Payables	886,831	886,831	789,596	789,596

The following methods and assumptions are used to determine the fair value of financial assets and liabilities:

Cash assets and financial assets are carried at amounts approximating fair value because of their short-term nature to maturity. Receivables and payables are carried at amounts approximating fair value. The Group does not carry any financial instruments at 31 December 2016.

SENSITIVITY ANALYSIS

The Group has performed a sensitivity analysis relating to its exposure to interest rate risk and foreign currency risk at reporting date. This sensitivity analysis demonstrates the effect on the current period results and equity which could result from a change in these risks.

INTEREST RATE SENSITIVITY ANALYSIS

At 31 December 2016, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	Consolidated Entity 2016 \$	2015 \$
CHANGE IN PROFIT DUE TO:		
Increase in interest rate by 2%	33,762	79,516
Decrease in interest rate by 2%	(33,762)	(79,516)
CHANGE IN EQUITY DUE TO:		
Increase in interest rate by 2%	33,762	79,516
Decrease in interest rate by 2%	(33,762)	(79,516)

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

FOREIGN CURRENCY RISK SENSITIVITY ANALYSIS

At 31 December 2016, the effect on profit and equity as a result of changes in the exchange rate, with all other variables remaining constant would be as follows:

	Consolidated Entity	
	2016	2015
	\$	\$
CHANGE IN PROFIT DUE TO:		
Improvement in AUD to USD by 5%	61,336	55,069
Decline in AUD to USD by 5%	(61,336)	(55,069)
CHANGE IN EQUITY DUE TO:		
Improvement in AUD to USD by 5%	61,336	55,069
Decline in AUD to USD by 5%	(61,336)	(55,069)

NOTE 27. RELATED PARTY TRANSACTIONS

All related party transactions have been outlined in the KMP remuneration report, found in the director's report, and Note 20. Key Management Personnel.

NOTE 28. DIVIDENDS

No dividends have been paid or proposed during the period.

NOTE 29. EVENTS SUBSEQUENT TO REPORTING DATE

On 16 January 2017, 406,250 unlisted options exercisable at \$0.26 each expired.

As announced on the 5 January 2017, the Amanah Timur-1 well was spudded. Please see "Review of Operations" for results.

No other matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in subsequent financial years.

Independent auditor's report to the members of Lion Energy Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Lion Energy Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a. giving a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance for the year ended on that date; and
- b. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Going concern

Why significant

Due to the Company predominantly being involved in activities associated with exploration for oil and gas and having limited forecasted profit from oil sales, the ability for the Group to manage its committed expenditures and cashflows, raise additional funds from other sources, such as selling assets or raising funds from capital markets, is important for the going concern assumption and, as such, is a significant aspect of our audit.

This assessment is largely based on the expectations of and the estimates made by the Group taking into account the availability and use of funds, the future commitments, the movement in oil prices, and all others.

We consider that the conclusion on whether the Group represents a going concern continues to be a significant risk of material misstatement.

The Group's financial statements were prepared on a going concern basis. Refer to Note 1 to the financial statements for the basis of preparation and the Directors' Report for the Group's assessment of going concern.

How our audit addressed the key audit matter

We assessed the Group's going concern model, including:

- ▶ The liquidity position at year end and the projected cash flows
- ▶ Reasonableness of the projected revenue from oil sales and the relevant cost of sales
- ▶ The accuracy of exploration and evaluation expenditure commitments
- ▶ The anticipated uses of funding
- ▶ Projected administration overhead costs.

We assessed the consistency of the assumptions included within the going concern model with the statements related to future plans and commitments contained within the financial statements.

2. Carrying value of exploration and evaluation expenditure

Why significant

The carrying value of exploration and evaluation assets can be subjective based on the Group's ability, and intention, to continue to explore the asset. The carrying value may also be impacted by the results of exploration work indicating that the mineral reserves may not be commercially viable for extraction. This creates a risk that the amounts stated in the financial statements may not be recoverable.

Refer to Note 11 - Capitalised exploration and evaluation expenditure to the financial statements for the amounts held by the Group as at 31 December 2016 and related disclosure.

How our audit addressed the key audit matter

We evaluated the Group's assessment of the carrying value of exploration and evaluation assets. In obtaining sufficient audit evidence, we:

- ▶ Considered the Group's right to explore in the relevant exploration area which included obtaining and assessing supporting documentation such as license agreements and or correspondence with relevant government agencies
- ▶ Considered the Group's intention to carry out significant exploration and evaluation activity in the relevant exploration area which included assessment of the Group's cash-flow forecast models, discussions with senior management and Directors as to the intentions and strategy of the Group
- ▶ Assessed the carrying value of intangible assets where recent exploration activity in a given exploration license provided negative indicators as to the recoverability of other intangible costs that remain capitalised
- ▶ Assessed the commercial viability of results relating to exploration and evaluation activities carried out in the relevant licensed area
- ▶ Assessed the ability to finance any planned future exploration and evaluation activity.

3. Carrying value of oil and gas properties

Why significant

Considering the volatility of the oil prices and that the Group's carrying amount of the net assets was higher than its market capitalisation at year-end, the Group performed an impairment assessment on its oil and gas assets. Based on the outcome of this impairment assessment, the Group did not recognise any impairment charge. This matter was important to our audit due to the quantum of the carrying value of the asset as well as the judgment involved in the assessment of the recoverability. This assessment requires the Group to make assumptions used in the underlying cash flow forecasts. The assumptions include expectations for production and sales volumes, gross margin and market and economic assumptions such as discount rates and inflation rates.

Refer to Note 12 - Oil and gas properties to the financial statements for the amounts held by the Group as at 31 December 2016 and related disclosure.

How our audit addressed the key audit matter

In obtaining sufficient appropriate audit evidence with respect to oil and gas properties, we:

- ▶ Assessed the Group's discounted cash flow ("DCF") model which calculates the recoverable amount of the Group's assets, in order to determine if any asset impairment or impairment reversals were required
- ▶ Evaluated the Group's assumptions and estimates used to determine the recoverable value of its assets, including those relating to production, costs, capital expenditure, discount rates and inflation rates. We consulted with our valuation and modelling specialists to compare these assumptions against external benchmarks (such as for the forecasted oil prices and discount rate) and considered the assumptions based on our knowledge of the Group and its industry
- ▶ Performed sensitivity on certain component of the model as we deemed reasonable
- ▶ Assessed the adequacy of the Group's disclosures in respect of asset carrying values and impairment assessment assumptions.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Company's 2016 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors
- ▶ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern
- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the audit of the remuneration report

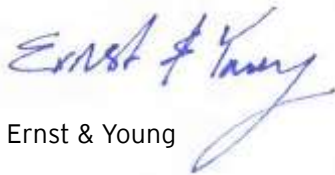
Opinion on the remuneration report

We have audited the Remuneration Report included in pages 7 to 10 of the directors' report for the year ended 31 December 2016.

In our opinion, the Remuneration Report of Lion Energy Limited for the year ended 31 December 2016, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Ernst & Young



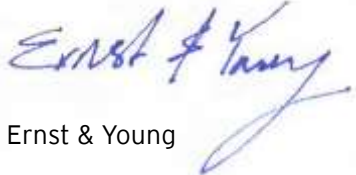
D A Hall
Partner
Perth
29 March 2017

Auditor's independence declaration to the Directors of Lion Energy Limited

As lead auditor for the audit of Lion Energy Limited for the financial year ended 31 December 2016, I declare to the best of my knowledge and belief, there have been:

- a. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b. no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Lion Energy Limited and the entities it controlled during the financial year.



Ernst & Young



D A Hall
Partner
29 March 2017

ADDITIONAL INFORMATION AS AT 8 MARCH 2017

ANALYSIS OF HOLDINGS OF LISTED SHARES AND OPTIONS IN THE COMPANY

	Ordinary Shares
1 — 1,000	165
1,001 — 5,000	67
5,001 — 10,000	151
10,001 — 100,000	122
100,001 — and over	67
Total number of holders	572
Holdings of less than a marketable parcel	384

REGISTERED OFFICE OF THE COMPANY

Suite 7
295 Rokeby Road
Subiaco
Western Australia 6005

Tel: +61 (8) 9221 1500
Fax: +61 (8) 9221 1501

STOCK EXCHANGE LISTING

Quotation has been granted for 108,186,532 ordinary shares and on the Australian Stock Exchange Ltd. The State Office of the Australian Stock Exchange Ltd in Perth, Western Australia has been designated the Home Branch of Lion Energy Limited.

There are no current on-market buy-back arrangements for the Company.

VOTING RIGHTS

For all ordinary shares, voting rights are one vote per member on a show of hands and one vote per share in a poll.

SHARE REGISTRY

The registers of shares and options of the Company are maintained by:-

Computershare Registry Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth, Western Australia 6000

Tel: +61 (8) 9323 2000
Fax: +61 (8) 9323 2033

JOINT COMPANY SECRETARIES

The name of the Joint Company Secretaries are Zane Lewis and Arron Canicais.

TAXATION STATUS

Lion Energy Limited is taxed as a public company.

ADDITIONAL INFORMATION AS AT 8 MARCH 2017

TWENTY LARGEST HOLDERS OF ORDINARY SHARES

Registered Holder	Number of Shares	Percentage of Total
RISCO ENERGY UNCONVENTIONAL PTE LTD	52,535,357	48.56%
TOWER ENERGY INDONESIA LIMITED	6,307,797	5.83%
POUVOIR PTY LTD <BRIMAGE SUPER FUND A/C>	4,421,529	4.09%
KKSH HOLDINGS LTD	4,354,835	4.03%
R K WHYTE PTY LTD <WHYTE SUPER A/C>	3,996,265	3.69%
W & N MORRISON INVESTMENTS PTY LTD <THE MORRISON FAMILY A/C>	3,937,515	3.64%
MR ROBERT FRANCIS DAVIES + MRS YRONNE ELIZABETH DAVIES <THE DAVIES MINYAMA S/F A/C>	2,851,776	2.64%
EMMANUEL CAPITAL PTY LTD	2,196,717	2.03%
MR JOHN JANSEN + MRS DALE LORRAINE JANSEN <JJ RETIREMENT FUND A/C>	1,242,208	1.15%
RIGGY & BOO PTY LIMITED	1,150,000	1.06%
HENSLOW PTY LTD	1,000,000	0.92%
MR KYLE STUART PASSMORE	1,000,000	0.92%
MR KENNETH JOHN BULL	937,504	0.87%
MR GERARD MASTERS + MRS SHARYN MASTERS <MASTERS SUPER FUND A/C>	900,000	0.83%
CLAVERDON (VIC) PTY LTD <FAIRWAY UNIT A/C>	880,000	0.81%
DALE ESTATES PTY LTD <DALE SUPERANNUATION A/C>	800,000	0.74%
TINTERN (VIC) PTY LTD <A & P MILLER FAMILY A/C>	700,000	0.65%
S3 CONSORTIUM PTY LTD	615,385	0.57%
MR RICHARD CHARLES GRIGG	600,695	0.56%
SMALL BUSINESS FINANCE PTY LIMITED	597,645	0.55%
ALL OTHER SHAREHOLDERS	17,161,304	15.86%
Total	<u>108,186,532</u>	<u>100.00%</u>

SUBSTANTIAL SHAREHOLDERS

Date Announced	Name	Number of Shares
22/2/2017	Risco Energy Unconventional Pte Ltd	52,535,357
17/7/2014	Tower Energy	6,307,797

Consistency with business objectives - ASX Listing Rule 4.10.19

In accordance with Listing Rule 4.10.19, the Group states that it has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives. The business objective is primarily exploration for natural resources and acquisition of resource based projects. The Group believes it has used its cash in a consistent manner to which was disclosed under the Prospectus dated 6 November 2013.

ADDITIONAL INFORMATION AS AT 8 MARCH 2017

OIL & GAS TENEMENTS

Tenement or licence area	Lion interest	Comments
Indonesia		
Seram (Non-Bula) Production Sharing Contract	2.5%	Interest held through Lion wholly owned subsidiary Lion International Investment Ltd.
South Block A Production Sharing Contract	40.7%	Interest held through Lion wholly owned subsidiary KRX Energy (SBA) Pte Ltd.

CORPORATE GOVERNANCE STATEMENT

The directors of Lion Energy support and adhere to the principles of corporate governance, recognising the need for the highest standard of corporate behaviour and accountability. Please refer to the corporate governance statement and the appendix 4G released to ASX and posted on the Company website at www.lionenergy.com.au.

The directors are focused on fulfilling their responsibilities individually, and as a Board, for the benefit of all the Company's stakeholders. That involves recognition of, and a need to adopt, principles of good corporate governance. The Board supports the guidelines on the "Principles of Good Corporate Governance and Recommendations – 3rd Edition" established by the ASX Corporate Governance Council.

Given the size and structure of the Company, the nature of its business activities, the stage of its development and the cost of strict and detailed compliance with all of the recommendations, it has adopted a range of modified systems, procedures and practices which enables it to meet the principles of good corporate governance.

The Company's practices are mainly consistent with those of the guidelines and where they do not correlate with the recommendations in the guidelines the Company considers that its adopted practices are appropriate to it.