

# Quarterly Report

1 July to 30 September 2014



## Indonesian drilling program set to commence

### Highlights

- **Seram production continues to exceed forecast averaging 3010 bopd; Phase 3 development under consideration**
- **Lofin-2 appraisal well due to spud late-October**
- **Seismic interpretation high grades Paya Bili prospect, with drilling planned for first quarter 2015**
- **Unconventional applications progressing in conjunction with advanced negotiations on linked conventional opportunities**
- **Unmarketable share purchase facility completed with share register reduced from approximately 1830 to 559 shareholders**

During the quarter, gross crude oil production from the Seram (Non Bula) PSC (Seram Project) was 276,903 barrels at 3010 bopd (75 bopd net to Lion working interest), up from an average of 2818 bopd in the previous quarter. Lion's net share of oil sales revenue (before FTP) was US\$781,316 from the September oil lifting of 340,221bbl, at a price of US\$91.86/bbl. The Operator also proposed a Phase 3 development of the Oseil field, which would significantly grow production and this is currently going through required approval process.

Preparations for spud of Lofin-2 were back on track at the end of the quarter after a delay related with arrival of key equipment. The spud of this exciting appraisal well is now scheduled for late October 2014.

Interpretation of the recently acquired seismic survey in the South Block A PSC (Lion 35%) has resulted in the selection of shallow low risk oil and gas well to test the Paya Bili prospect. Planning for drilling were well underway at end of the quarter with the well now scheduled for early-2015.

An unmarketable share purchase program was successfully concluded which will result in reduced ongoing administrations costs. A total of 1371 unmarketable parcel shareholders, representing 490,263 ordinary shares, were sold into the facility and placed with sophisticated investors. The company has now finalised the sale of these shares and cheques have been mailed to the shareholders.

Commenting on the quarter Kim Morrison Lion's CEO noted "Lion continues to make good progress with both the efficient administration of the company, in our held acreage and with new business activities. We look forward to drilling of the significant Lofin-2 well and are pleased by results of the South Block A seismic interpretation with low-risk, low-cost shallow oil and gas prospects, as well as highly material gas/condensate opportunities, emerging."

### Lion at a glance

- Transforming from a small Indonesian conventional oil and gas player to an Indonesian unconventional oil and gas pioneer.
- Leveraging synergies in conventional assets and access to both infrastructure and markets.
- New executive team and strategic investors with impressive track records for value creation in Indonesia.
- Well-funded to execute the 2014 business plan.

### Contact

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### Directors & Officers

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

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**LION**  
energy

## Operations update (1Q-FY15)

### South Block A PSC

Lion has a 35% interest in the SBA PSC with other participants being PSC operator, RENCO Elang Energy Pte Ltd (51% interest), a company majority controlled by Peak Oil and Gas Ltd (PKO), and PT Prosys Oil & Gas International (14% interest).

The underexplored block is centrally located in the prolific North Sumatra Basin and contains large structures with attractive gas and oil plays. The acquisition of a 183km 2D seismic survey was completed on 2 April 2014. This targeted the Simpang, Djerneh, Amanah, Sungai Iyu and the Paya Bili prospects and leads. These features have a combined P50 prospective resource<sup>1</sup> of 429 bcf gas and 47 mmbbl oil and condensate; Lion's equity share is 150 bcf and 16.4 mmbbl.

The Joint venture has decided to drill a well to test the Paya Bili Prospect. The well to be known as Amanah Timur-1 will test an attractive, shallow (less than 700m total depth), oil and gas prospect with near-term commercialisation potential. The well is planned for drilling in 1Q 2015. A large, operationally more challenging, gas/condensate target will be selected for a planned late-2015 drilling campaign.

### Exploration Drilling

Planning for the Amanah Timur exploration well began in earnest during the quarter. This included preparation of tender document, scouting of the well location, engagement with necessary stakeholders and well design activities.

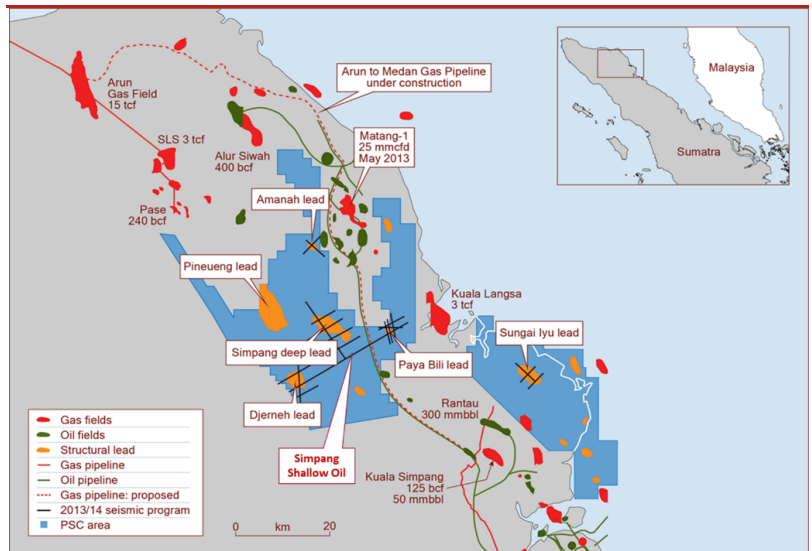
### Relinquishment

A 15% mandatory partial relinquishment, covering areas considered to have low prospectivity and that are operationally challenging, was submitted to the Indonesian regulator for approval in August.

### Expenditures

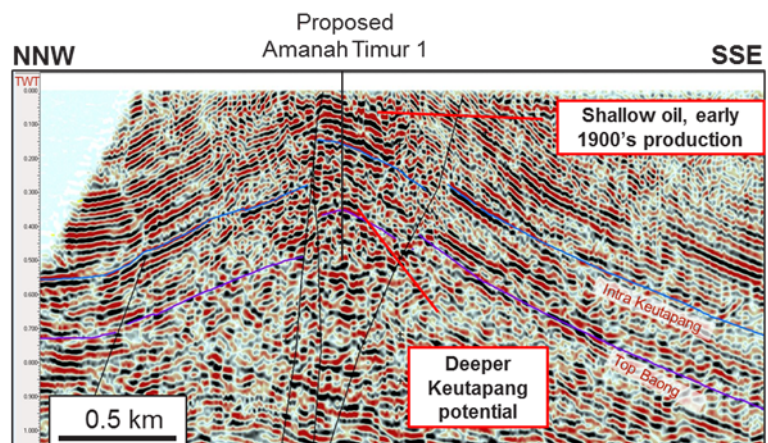
Lion's share of cash calls paid for the quarter was US\$128,750.

South Block A PSC – location map



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

Paya Bili Prospect (to be tested by Amanah Timur 1) – Seismic section



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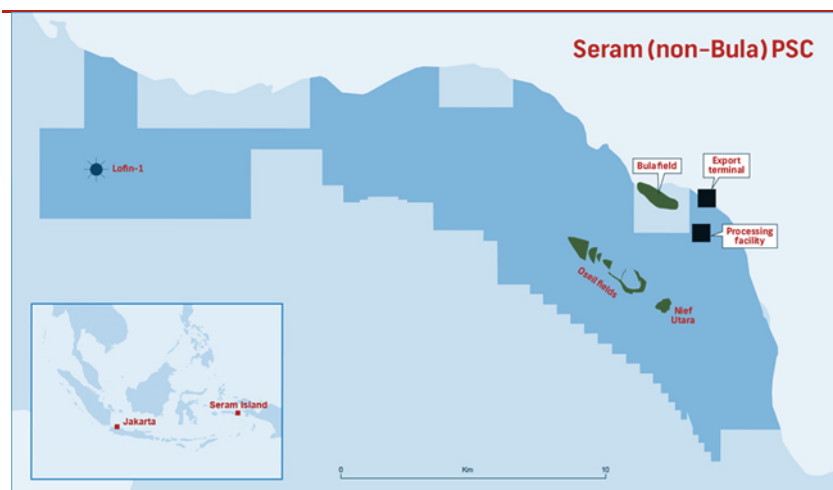


## Seram (Non-Bula) PSC

Lion, via its wholly owned subsidiary, Lion International Investment Ltd, holds a 2.5% participating interest in the Seram (Non-Bula) Block Renewal Production Sharing Contract, located onshore at Seram Island in eastern Indonesia. The major equity holder and operator of the joint venture is CITIC Seram Energy Ltd (51%). Other partners are KUFPEC (Indonesia) Ltd (30%) and Gulf Petroleum Investment (16.5%).

The block contains the Oseil oilfield and surrounding structures that have produced cumulative crude oil production of 12,821,705 barrels since the initial field start-up in January 2003 through to 30 September 2014.

Seram (Non Bula) Block PSC location Map

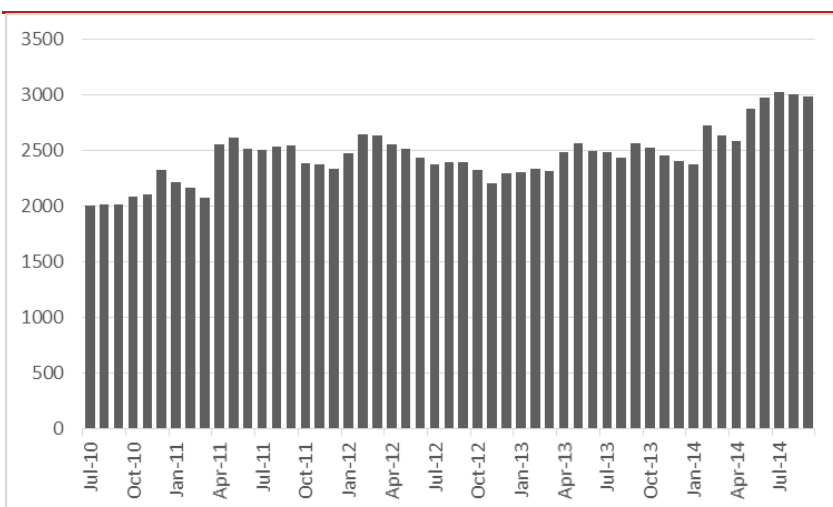


## Production and revenue

During the quarter the daily production rate from the Oseil and surrounding oilfields averaged 3010 bopd (Lion's net working interest being 75 bopd, before FTP). This remains well ahead of the budget forecast of 2500bopd average production for the calendar year.

A lifting of 340,221 barrels of crude was completed on 18 September 2014. The selling price was US\$91.86/bbl. Lion share of the lifting revenue of US\$781,316 (before FTP) was received on 22 October 2014. The inventory of crude oil available for lifting at 30 September 2014 was 22,805 bbl. The next crude oil lifting is expected late December 2014, with receipt of funds net to Lion approximately 35 days thereafter.

Seram (Non Bula) Block PSC – Monthly production rate (bopd)



## Expenditures

Seram (Non Bula) PSC	Exploration	Development	Production
	US\$	US\$	US\$
Expenditure net to Lion (1Q-FY15) <sup>1</sup>	108,500	13,765	173,625
Note 1 – The expenditures herein are Seram PSC results and may differ from Lion's financial reporting due to timing differences			

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## Lofin appraisal well

An exploration well, Lofin-1, was spudded within the Seram (Non-Bula) PSC on 17 January 2012 to test the hydrocarbon potential of the Manusela Formation. In May 2012, the well was side-tracked at 3420m MD (11,219ft) and drilled to a total depth of 4427m MD (14,525ft) and was interpreted still to be in hydrocarbons, representing a current minimum interpreted gross hydrocarbon column of 160m.

- The well flowed gas and oil/condensate (after acidising) at a rate of 15.7 mmscfd and 171 bopd of 36.1 API oil/condensate, with a flowing wellhead pressure of 4750 psi on 24/64 inch choke.
- Downhole shut-in pressure data acquired during testing operations indicated potential for a significant hydrocarbon column below the total depth of the Lofin well.

The Seram JV partners have committed to drill an appraisal well to test the potentially significant Lofin-1 discovery. The well will be drilled to a planned total depth (TD) of 5425m MD (17,800ft MD) with the primary objective Manusela Formation projected at 4509m TVD (14,795ft). The well is anticipated to take 150 days to drill.

The projected TD will make Lofin-2 one of the deepest well penetrations undertaken in Indonesia and the joint venture has worked hard to ensure the best of engineering standards and practices will be utilised. A specialist US company was engaged in the previous quarter to review relevant data and produced a comprehensive report with recommendations on all facets of the Lofin-2 well, including data acquisition, geological and geophysical analysis, the drilling program, the completion and well-test program and risk analysis and contingency plans. Consultants from this company will be utilized during critical periods of the well to provide drilling and testing advice.

The well-site rig-up is currently progressing and spud of Lofin-2 is expected before end October 2014.

## Plan of Further Development

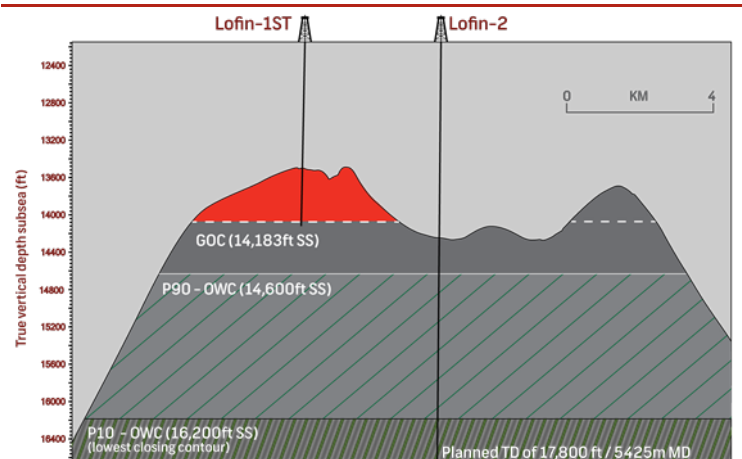
The Seram Joint Venture has a proposed plan of further development (or Phase 3 Development) for the Oseil field, with the area of interest being around the Oseil-2 field. Investment in the Oseil Field Phase 1 Development was commenced in January 2000 and Phase 2 in March 2004. The area of Phase 1 and Phase 2 Development covered in Oseil-1/4 and Oseil-2 fields and provided for the drilling of 18 wells, which have been drilled.

The Phase 3 development plan is proposed to include the drilling of up to 10 additional horizontal wells, three of which have already been drilled under a negotiated arrangement with the regulatory body prior to approval of Phase 3.

The Phase 3 Plan of Development is currently under consideration by the Indonesian regulatory body SKK Migas, and subject to approval, will commence immediately a suitable rig is mobilised to site. The rig tender process is at an advanced stage in anticipation of the approval of Phase 3 by the regulatory body.

Production during Phase 3, plus production from existing wells, is expected to increase to approximately 5,000 bopd based on forecasts prepared by the operator. Economic evaluation was carried out on a 5.5mmbbl incremental reserves case as a result of Phase 3.

Lofin Structure – Schematic Cross-section



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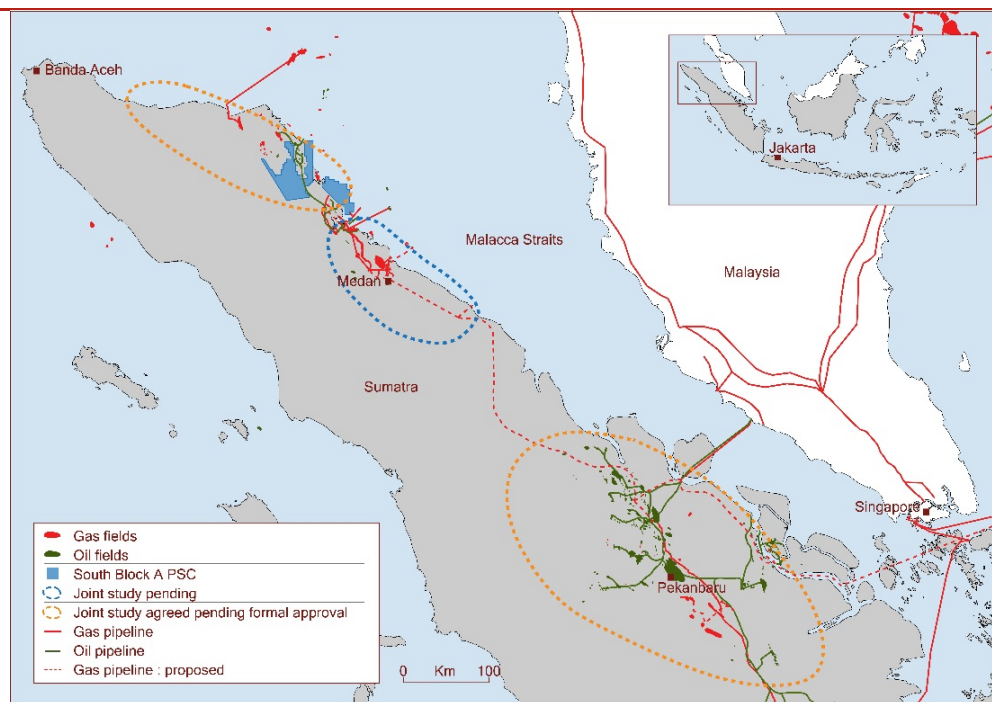
## Unconventional Joint Study Applications

Lion has submitted Joint Study Applications for potential oil and gas unconventional areas in onshore Indonesia covering a total area of about 17,334km<sup>2</sup>. Lion's initial technical assessment has identified potential for multi-tcf scale gas and multi-hundred million barrels of oil in the areas of the applications.

Steady progress was made during the quarter with ongoing engagement with the Indonesian regulators and other operators in the area. Lion remains confident that that 3 joint studies will be awarded prior to end 2014.

Additional details on each of Lion's unconventional projects can be found on the company's website ([www.lionenergy.com.au](http://www.lionenergy.com.au)) and in the prospectus lodged with the ASX on 6 November 2013.

Map of area of Unconventional Applications



## List of tenements

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



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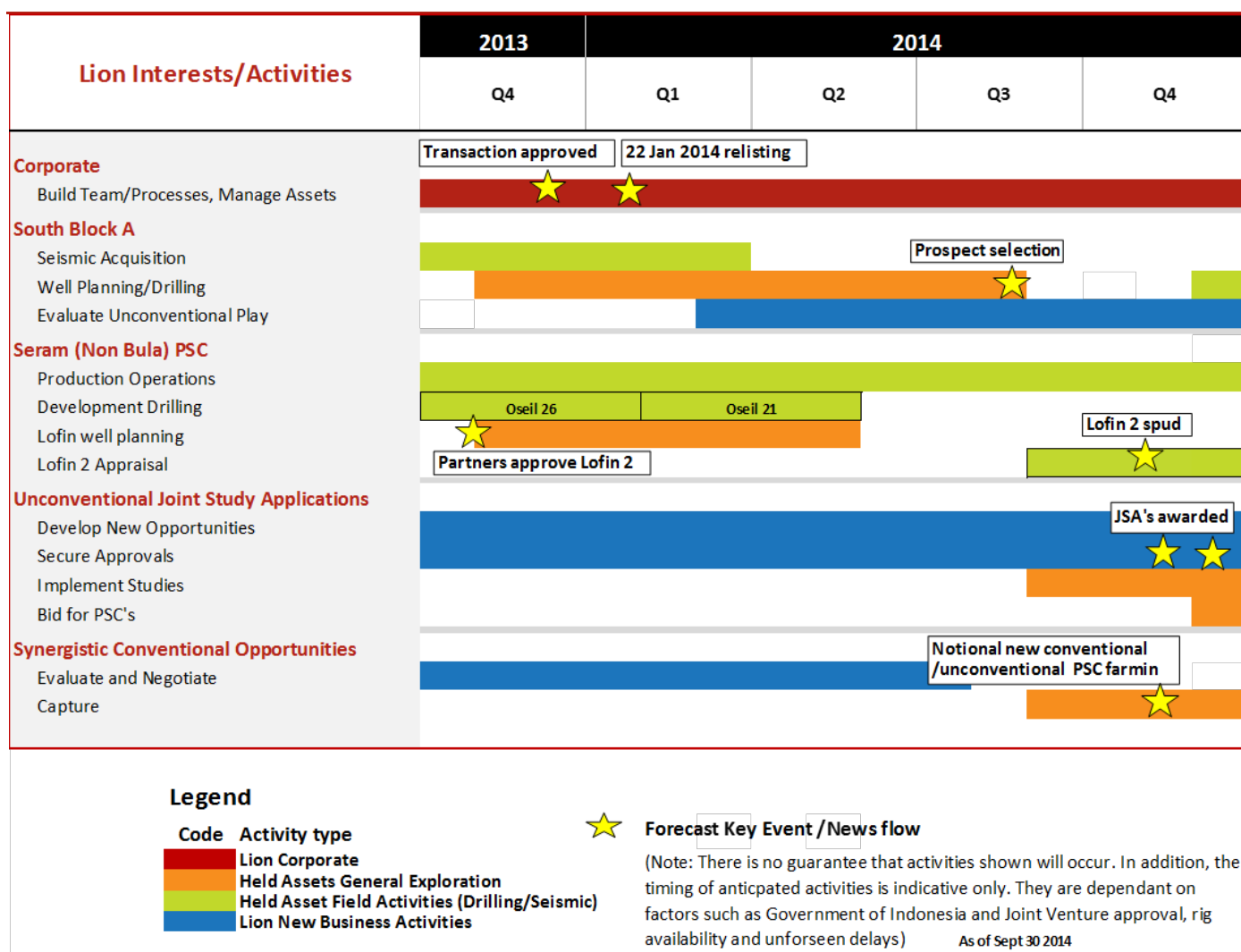
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## Activity schedule

Lion has a fully funded, active 2014 exploration schedule as depicted in the following chart:

Activity and key event timeline (4Q-2013 to end-2014)



## Corporate update 1Q-FY15

### Unmarketable parcel buy-back facility

During the quarter, the company announced that it has instituted a facility for the sale of unmarketable parcels of the Company's ordinary shares. The ASX Listing Rules define an unmarketable parcel as those with a market value of less than \$500. The Company offered this sale to assist minority shareholders of unmarketable parcels to sell shares without having to use a broker or pay brokerage. The Company undertook to pay for all the costs of the sale for shareholders using this facility, excluding tax consequences from the sale which remains the shareholder's responsibility.

The unmarketable parcel sale process has now been successfully completed. As a result of this process the company has reduced its shareholders from approximately 1830 as at 4 September 2014 to a total of 559 as at 6 October 2014.

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During the process, the company received retention requests from 193 unmarketable parcel shareholders and a further 11 shareholders either sold or increased their holdings above the minimum of 2777 shares. A total of 1371 unmarketable parcel shareholders, representing 490,263 ordinary shares, did not elect to retain their shares. The company has now finalised the sale of the shares by these shareholders who received a price of 19.88 cents per share (being the volume weighted average price for 30 days prior to process close date of 4 September 2014).

The shares were placed with sophisticated investors at 19 cents per share (net of a 4.4% placement fee). The company has paid all fees and costs associated with the sale of the shares and cheques were be mailed to unmarketable parcel shareholders by 13 October 2014.

The Company values all of its shareholders, however, it was incurring significant administrative costs maintaining such a large number of unmarketable parcels. By facilitating this sale, the Company has reduced the administrative costs associated with maintaining a large number of very small holdings.

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

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

## Glossary

bbl: barrels	mmscfd: million standard cubic feet of gas per day	psi: pounds per square inch feet
bcf: billion cubic feet	mmbbl: million barrels	tcf: trillion cubic
bopd: barrels oil per day	MD: measured depth	ss TVD: sub-sea true vertical depth
BOP: blow out preventer	PSC: Production Sharing Contract	TD: total depth
FTP: first tranche petroleum		

## About Lion

Lion Energy Ltd is an ASX listed oil and gas exploration and production company focused on Indonesia, where it has been operating for some 15 years. It has two existing conventional Production Sharing Contracts (PSCs) – Seram and South Block A - and an early mover position in the fledgling Indonesian unconventional industry via four Joint Study Applications.

Lion's leadership team has extensive experience in the South-East Asian oil and gas industry, particularly Indonesia. In its recent recapitalisation, two Indonesian strategic investors, Risco Energy and Tower Energy, became substantial shareholders in the company.