LION energy

# A NEW APPROACH TO ASIAN ENERGY

# ANNUAL REPORT 2016

# CORPORATE DIRECTORY

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# HIGHLIGHTS

## FINANCIAL

- Prudent financial management in challenging industry conditions, consolidated cash balance of US$1,246,866 as at 31 December 2016 with additional US$519,345 in oil lifting receivables
- Seram PSC cash flow positive after suspension of development drilling, with ~US$40,000 a month net
- Successful capital raising of $650,000

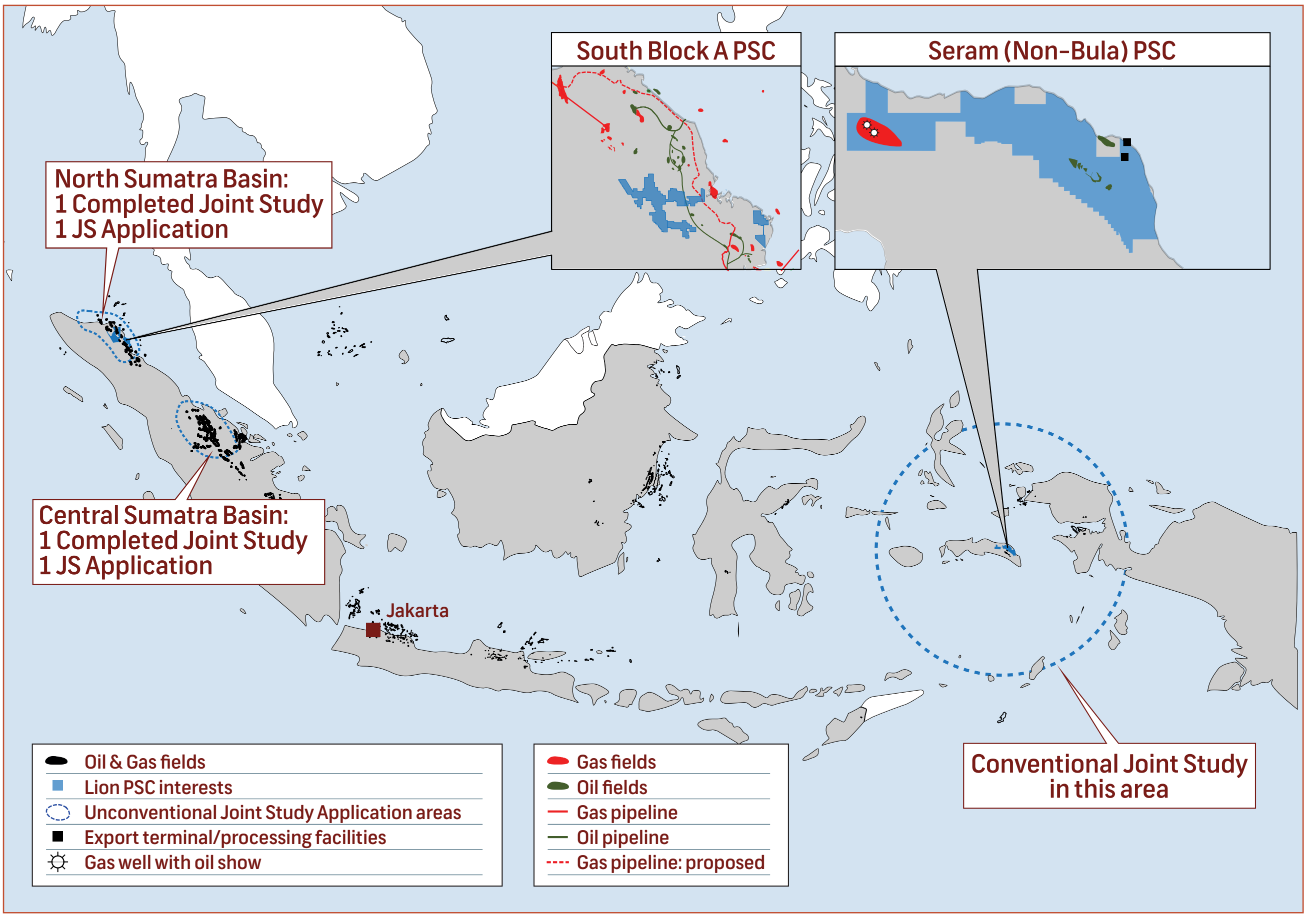
## ORGANISATION

- Continuing cost reduction measures reducing administration overhead by 15%
- Maintain highly skilled team

## OPERATIONS

- Gross production from the Seram PSC was 1.39 million barrels (3,805 bopd) for the year, up 14%
- Record crude oil lifting completed from the Seram oil field in December (500,235 barrels)
- Oseil-22 well came on-line in January 2016, lifting field daily production
- Seram PSC extension application lodged
- Increased equity in the South Block A PSC to 40.7%
- Post year-end, Amanah Timur-1 exploration well drilled as a discovery with interpreted gas and oil zones encountered
- Two unconventional joint studies completed in North and Central Sumatra with multi-tcf potential
- Excellent progress on new business front with exciting new conventional joint study awarded in Eastern Indonesia
- Active new business initiatives in the region with focus on acquiring production assets

**"... Amanah Timur-1 exploration well drilled as a discovery with interpreted gas and oil zones encountered"**




**Lion's Indonesian Portfolio**

## Dear fellow shareholders,

Lion made good progress throughout 2016, in some of the most challenging oil industry conditions of our lifetimes. Now, as we enter 2017, I am confident that we have built a pipeline of existing projects and new opportunities to thrive as sentiment improves.

We are all aware that crude oil prices plummeted to a low of approximately US$30/barrel in January 2016; and that the price has recovered modestly to US$56/barrel at year end, from the highs of US$110/barrel in mid-2014. As a consequence investor sentiment in the energy sector during the past year has been subdued, reflected in the low share prices of listed entities, large and small. Against this backdrop, all listed companies in Australia have had to contend with the issues of capital preservation in a market where revenues of producers have been reduced; and raising funds is very difficult across the sector, forcing companies to, amongst other things, reduce overheads and limit exploration and development expenditure to cut outflows. Lion has responded to the same issues during the past year.

The company is fortunate to have producing assets in the material Seram Production Sharing Contract in eastern Indonesia which continues to out-perform expectations and deliver good net cash flow to Lion. The Operator, with Lion's support, has made good progress in reducing costs as a result of suspension of development activity and with savings in operational and administrative areas already initiated and more planned. This has resulted in the cost of producing a barrel of oil being reduced from approximately US$28.00/barrel in 2014, to US$22.61/barrel in 2015 and US$14.34 in 2016. Crude oil liftings during 2016 were just over 1.4 million barrels at an average price of US$33.96/ barrel, resulting in revenue to Lion of approximately US$1.068 million after deducting government entitlement.

Through 2016 plans advanced for drilling in our South Block A PSC which resulted in the Amanah Timur-1 (AMT-1) discovery well early in 2017. Although full evaluation was not possible for operational reasons, the well counted as our remaining commitment activity and the joint venture was granted a four-year extension to this exciting block by the Indonesian regulator.

In addition, Lion was able to complete a small but important capital raising of $650,000 in December 2016, which was significantly supported by existing shareholders and directors. I take this opportunity to thank them for their continued support. In addition, I welcome new shareholders that participated in the capital raising to the company's share registry.

My final comment on the challenges confronting the energy sector; the significant compensation reductions imposed and accepted by directors, both executive and non-executive, and advisors, that was implemented in the 3rd quarter of calendar year 2015 was followed by a part deferral of compensation effective 1st July 2016. The cost reductions were made to compensation levels already below industry averages and the deferral initiated willingly by all parties to assist in cash preservation is a strong recognition of our commitment to Lion's future.

## STRATEGIC ADJUSTMENTS

I commented in my address last year that we had made strategic adjustments to focus more on acquisition of either conventional producing or near-term production assets, with gas taking priority over oil opportunities. Whilst we have maintained our rights to our attractive, but longer-term unconventional acreage, we have tempered our initial strategy following the company restructure in early 2014 prior to the oil price collapse.

This refocused strategy remains in place with lower cost, near term production conventional opportunities the primary focus of the company's team. On that front, whilst I cannot report any new acquisitions or developments during the period, there have been significant inroads on several fronts that may or may not come to fruition during 2017.

In the background, the company is still pursuing the unconventional opportunities it was progressing prior to the oil price crash. These represent low cost options to an improving industry environment. The company's strategy is however, to limit resources applied in this area; sufficient only to achieve completion of the objective at minimal cost and to not compromise pursuit of conventional opportunities by diversion of limited resources.

## OPERATIONAL HIGHLIGHTS

In the Seram Production Sharing Contract, crude oil volumes sold in 2016 were 20% above 2015 sales, which in turn were approximately 16% above 2014 sales. Coupled with the reduction in cost per barrel, this has resulted in a significantly improved financial return on this project and we are currently receiving net cash of approximately US$40,000 per month.

In our South Block A PSC the preparation through 2016 and drilling of the AMT-1 well in early January 2017 should also be considered a highlight, albeit somewhat subdued by the forced abandonment of the well as a result of the stuck drill pipe. The well represents a new field discovery in a number of zones penetrated prior to abandonment; with further upside potential in the deeper "800" and "900" sandstone objectives not reached. These objectives have however been significantly upgraded by the results of this well and the South Block A joint venture is actively pursuing a follow-up well to appraise those zones already penetrated in AMT-1 and to drill the deeper "800" and "900" sandstone objectives not reached in the first well.

While evaluation of well results is ongoing, Lion is reviewing commercialisation options for the potential resource discovered at Amanah Timur.

Importantly, the Indonesian regulator approved AMT-1 as a commitment well and thus granted the joint venture participants a 4-year extension to the exploration term, to January 2021. The PSC area of 421km$^2$ encompasses all identified prospects and leads in the original permit area, including the potential company maker Jerneh gas/condensate prospect that Lion will be supporting drilling in the 2017 work program. The Jerneh prospect is one of the largest undrilled structures in the North Sumatra Basin and success would transform our company given the proximity to high value gas markets and infrastructure.

We are pleased that Lion has been able to increase its equity position to 40.7% from 35%. This provides the company with additional equity to entice a farminee to the Jerneh drilling should it decide to, whilst still being able to retain a meaningful equity position.

On another front, Lion has long recognised the potential of the under explored eastern Indonesia region. The discovery of the significant Lofin gas field on Seram Island by the Seram PSC joint venture, in which Lion is a participant, is evidence of the untapped potential resources within this under-explored region.

Lion is currently conducting a Joint Study over a large area in eastern Indonesia which we are confident has significant exploration potential. The Joint Study is due for completion in March 2017. Due to the competitive nature of the Joint Study process, the company cannot disclose the actual area of the study. Suffice to say, the Board and executives of Lion are excited by the opportunity and, on the right terms, are keen to secure a PSC over the area for its exploration and development potential.

## COMMITTED LION TEAM

Whilst the energy industry has been through difficult times as the result of low oil prices, the company has been able to retain an industry recognised and respected board of directors comprising Tom Soulsby and Chris Newton as non-executive directors, Kim Morrison as Chief Executive Officer and Stuart Smith as Executive Director, responsible for all finance aspects of the group.

In addition, the company has retained the commitment of its key advisory board members; Mr Sammy Hamzah, an Indonesian citizen and significant Lion shareholder with strong connections through the petroleum industry and government; Mr Amrullah Hasyim, also an Indonesian citizen, who provides a key liaison role as well as providing commercial and engineering insight gained through his 30-year career with Halliburton in senior positions in locations around the world; Dr Andrew Cullen, a petroleum geoscientist with diverse skills; Dr Harold Williams, a petroleum geochemist with strong unconventional expertise; and Mr Mike Ellis, a drilling engineer with wide-ranging Indonesian experience.

Combined with our excellent Company Secretary and accounting support led by Zane Lewis, as well as office management and outsourced IT support, our team remains committed to driving Lion to success.

It would be remiss of me to not mention the passing late in 2016 of a member of the advisory team and significant shareholder, Mr Roger Whyte. Roger was a very close associate and personal friend as well as a highly respected geologist and geophysicist within the industry. He made a significant contribution to the company and will be sadly missed.

## LION MAINTAINS INDONESIAN FOCUS

Nothing in the past year has altered the company's focus on Indonesia and the abundant opportunities that exist in this vibrant and growing economy.

In fact, the energy hungry economy continues to demand growing gas fired electricity volumes throughout the archipelago. The 2014 National Energy Plan forecast oil and gas demand to at least double by 2025. The Board of Lion is focused on the resultant opportunities this presents and is considering various projects in both the upstream and midstream.

Through its Indonesian based directors and advisory members, Lion is well positioned to investigate these opportunities and ultimately secure participation. This very much aligns with the company's strategy to "focus more on acquisition of either conventional producing or near-term production assets, with gas taking priority over oil opportunities".

Indonesia's Ministry of Energy and Mineral Resources (MEMR) estimates that domestic demand for energy will rise by around 7% per year, with electricity demand alone projected to nearly triple between 2010 and 2030.

As an archipelago, the Indonesian transmission network is segregated into many power grids - eight interconnected networks and 600 isolated grids that are all operated by PLN, the only state-owned power utility company in Indonesia and the country's only fully-integrated power utility company.

Facing potentially drastic electricity shortages over the medium-term, the government is moving to fast-track programs to accelerate power generation.

Lion is focused on assessing natural gas production opportunities to generate power in remote areas and potentially supply gas to power some of the 600 isolated grids operated by PLN.

## THE YEAR AHEAD

I have already touched on some of the potential for Lion in 2017, specifically:

- Ongoing revenue from the Seram PSC and progress on renewal post-end 2019 to enable the huge Lofin gas resource to be developed.
- In the South Block A PSC:
  - Further drilling activity at the Amanah Timur discovery and commercialisation planning.
  - Support for the drilling of the company maker Jerneh gas condensate prospect in the South Block A in 2017 with funding options, including possible farmout, being evaluated.
- Completion of a Joint Study over a significant area of what Lion considers to be a technically compelling exploration area in eastern Indonesia.
- Maintain our unconventional rights which hold multi-tcf, multi-hundreds of million barrel oil potential.
- Ongoing negotiations on several fronts to acquire additional opportunities with existing or near term production.

In addition, the company is working closely with the Seram PSC on the renewal/extension process, with the current PSC term scheduled to expire on 31 October 2019.

The block contains the Oseil oil field, currently producing at approximately 3,500 barrels of crude oil per day, with potential for further field development at the commencement of any renewal/extension term. Production from this field provides Lion's sole source of revenue.

Also in the block, the Lofin-2 appraisal well drilled in 2015 confirmed a major natural gas accumulation. The 2C Contingent Resource is in excess of 2 tcf of natural gas, with 18.25 million barrels of condensate (on a 100% basis). Lion's net interest in the discovery is approximately 50 bcf of gas, with 0.46 million barrels of associated condensate.

This is a significant hydrocarbon discovery, indeed one of the largest in the SE Asian region in recent times.

Lion executives will continue to work closely with the Seram PSC operator to secure a renewal/extension of this block and rank this objective as one of the highest priorities for 2017.

## IN CLOSING...

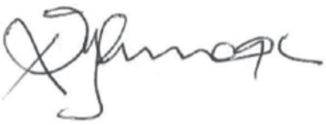
The company has made significant advances in what has been a difficult year for the energy sector and I am confident that the company will prosper from its sound strategy.

The Board and management will continue to confront the challenging market conditions. Sound commercial projects will assist this cause and this is the focus of the company that I have outlined herein.

Once again I acknowledge the hard work and commitment of management, the board, staff and the advisory panel over the past year and thank them on behalf of shareholders. They are acutely aware of the challenges confronting the company in 2017 and together we are committed to deliver success and growth.

Importantly, every director either holds a meaningful parcel of shares in the company and/or represents a significant shareholder(s) – we all have "skin in the game". The non-executive board represents major shareholding and the executive management are significant shareholders.

I take this opportunity to thank all shareholders for their ongoing patience and belief in the company and its strategy. You deserve success from the company and the Board and management will do their utmost as a team to deliver on your expectations.



**Russell Brimage**
Chairman

# LEADERSHIP TEAM

## BOARD & MANAGEMENT

### Russell Brimage

**Chairman**

Mr Brimage has in excess of 40 years of experience in the upstream oil and gas industry, in public listed oil and 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 in Australia 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 cashflow 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.

### Kim Morrison

**Managing Director & CEO**

Mr Kim Morrison, has a successful 30 year career working in senior technical and managerial positions with majors through to small cap companies in locations throughout the world. Mr Morrison graduated from The University of Sydney in 1984 with an Honours degree in Geology and Geophysics. He 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 before joining Marathon Oil in 1989, initially in their Perth office, before moving to Jakarta and Houston. In 2000 he joined Fletcher Challenge in Brunei as Head of Regional Geology, and in 2001, accepted a senior portfolio management role with Shell in Malaysia. Mr Morrison was posted to The Hague in 2005 where he led 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 Energy. KRX became a wholly owned subsidiary of Lion in 2014 and Mr Morrison assumed the role of Chief Executive Officer.

## Stuart B. Smith

### Executive Director

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.

Stuart 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.

## Tom Soulsby

### Non-executive Director

Mr Soulsby is the Chief Executive Officer of Risco Energy and has over 20 years' experience in 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.

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 since2010. 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.

## Chris Newton

### Non-executive Director

Mr Newton is Director for Business Development and Operations of 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 Collingwood College, University of Durham, 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 Pte Ltd in July 2010.

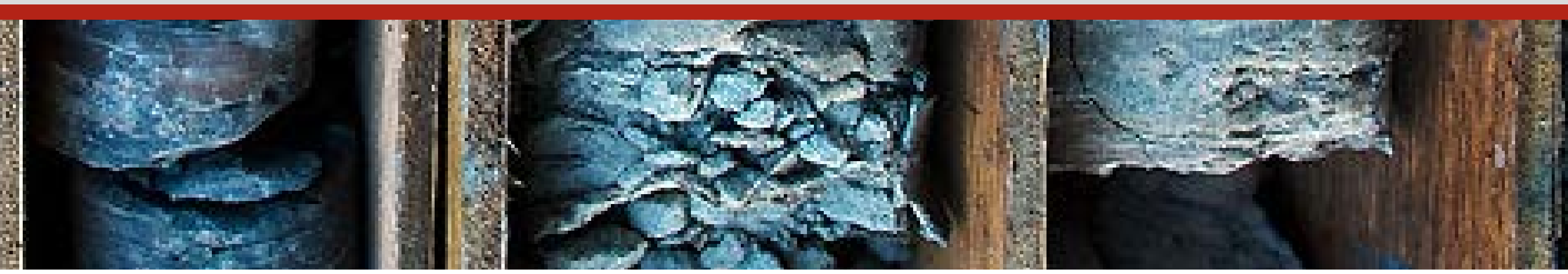
Mr Newton was an active Director of the Indonesian Petroleum Association(IPA) from 2003 to 2008, including serving as President from 2004 to 2007. He remains active in the IPA and is also the oil and gas advisor to the Jakarta based Castle Asia Group.

## Sammy Hamzah

### Principal Advisor

Mr Hamzah is CEO of Tower Energy and a pioneering authority in Indonesian unconventional oil and gas. He formed Tower in 2012 to pursue early entry into unconventional exploration (non-CBM) opportunities in Indonesia. He is also the founding shareholder and CEO of Ephindo Energy Private Limited, Indonesia's leading first mover CBM company. He was formerly Unocal Indonesia Company's (now Chevron Indonesia Company) Senior Vice President in Indonesia and has over 20 years of general management experience.

Mr Hamzah is currently a Board Member of the Indonesian Petroleum Association, Chairman of the Permanent Committee of Coordination of Energy Association at KADIN (Indonesian Chambers of Commerce) and a founder of the CBM Advisory Board, as well as a non-executive director of Rio Tinto Indonesia.



## ADVISORY BOARD

### Mr Amrullah Hasyim

Mr Hasyim has over 30 years experience in the oil and gas industry. His background encompasses extensive operations, technology and business development experience in both onshore and offshore operations.

Prior to his appointment as an Advisor to Lion Energy, Amrullah was General Manager at Ephindo Energy Private Limited from 2007. He continues to work at Ephindo as Advisor to the CEO.

Mr Hasyim worked with international service company Halliburton Energy Services for over 25 years. He has undertaken a number of international assignments including USA, Abu Dhabi and Dubai United Arab Emirates. He graduated from UPN Veteran Yogyakarta majoring in Petroleum Engineering and has a Master of Business Administration from Institute Management Newport Indonesia, Jakarta. He has been a member of the Society of Petroleum Engineering (SPE), USA since 1992.

### Dr Andrew Cullen

Dr Cullen is a geologist with deep and diverse skills accrued through more than 35 years of industry and academic experience. He holds BSc, MSc, and PhD degrees in Geology has been directly involved in wide range of US and international ventures in largely technical leadership roles at Shell International, EOG, and Chesapeake Energy. Dr Cullen is currently Senior Vice President of Geology at Warwick Energy Group, helping craft and lead a subsurface team at the kinetic seams of Engineering, Finance and Land.

Dr Cullen holds adjunct appointments in the Conoco Phillips School of Geology and Geophysics and the College of Law; teaching Petroleum Geology at the University of Oklahoma. He was the AAPG Asia-Pacific Regional Lecturer (2008) and co-organized a Hedberg Conference on Tropical Deltas in Jakarta (2010). Andrew is currently a reviewer for the Journal of Asian Earth Sciences and Tectonophysics. He is a member of AAPG (Grants-In-Aid Committee), Geological Society of America, and the Oklahoma City Geological Society (Board of Directors and Publications Committee).

### Mr Michael Ellis

Mr Ellis holds a BSc in Petroleum Engineering from Montana College of Mineral Science and Technology, and MBA in Management from Monash University. He is a Registered Petroleum Engineer in the State of Alaska. Mr Ellis has an intimate knowledge of the challenges and success factors of working in Indonesia and has proven track record in successfully running drilling operations in wide variety of geographical environments in a safe, cost effective and efficient manner.

Mr Ellis is currently working on unconventional projects in the US although prior to this had an assignment with Pexco in Jakarta where he managed drilling projects in Aceh, Sulawesi and onshore South Sumatra. In this latter role he successfully brought an onshore oil field through development to production. In 2003-2005 Mr Ellis was a VP of Exploitation for Maxus-YPF Repsol, where he was responsible for all operation activities, including financial performance, of 150,000 bopd production from 71 offshore structure with in excess of 400 wells and two FPSO's. From 2005-2006 he was based in Oklahoma working for Samson Oil and Gas on US onshore unconventional projects.

### Dr Harold Williams

Dr Williams, also a holder of a BSc, MSc and a PhD in Geology, is a geochemist with strong unconventional expertise currently working on shale gas studies in the Western Canada Sedimentary Basin (WCSB), Australia (NT) and in Europe, and on Coal Bed Methane also in the in WCSB.

He has impressive international experience and has held senior technical positions with Caltex in Indonesia and published widely-cited papers on Sumatran petroleum systems. Dr Williams has developed and taught courses on applied geochemistry and seismic stratigraphy and also brings to Lion strong operations experience with geological supervision of unconventional wells.

## Zane Lewis

### Joint Company Secretary

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.

## Aaron Canicais

### Joint Company Secretary

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 CFO and Company Secretary for Dawine Limited (ASX:DW8) and is the joint Company secretary for Ardiden Limited (ASX: ADV) and Cycliq Group Limited (ASX: CYQ).

**"... our team remains committed to driving Lion to success"**

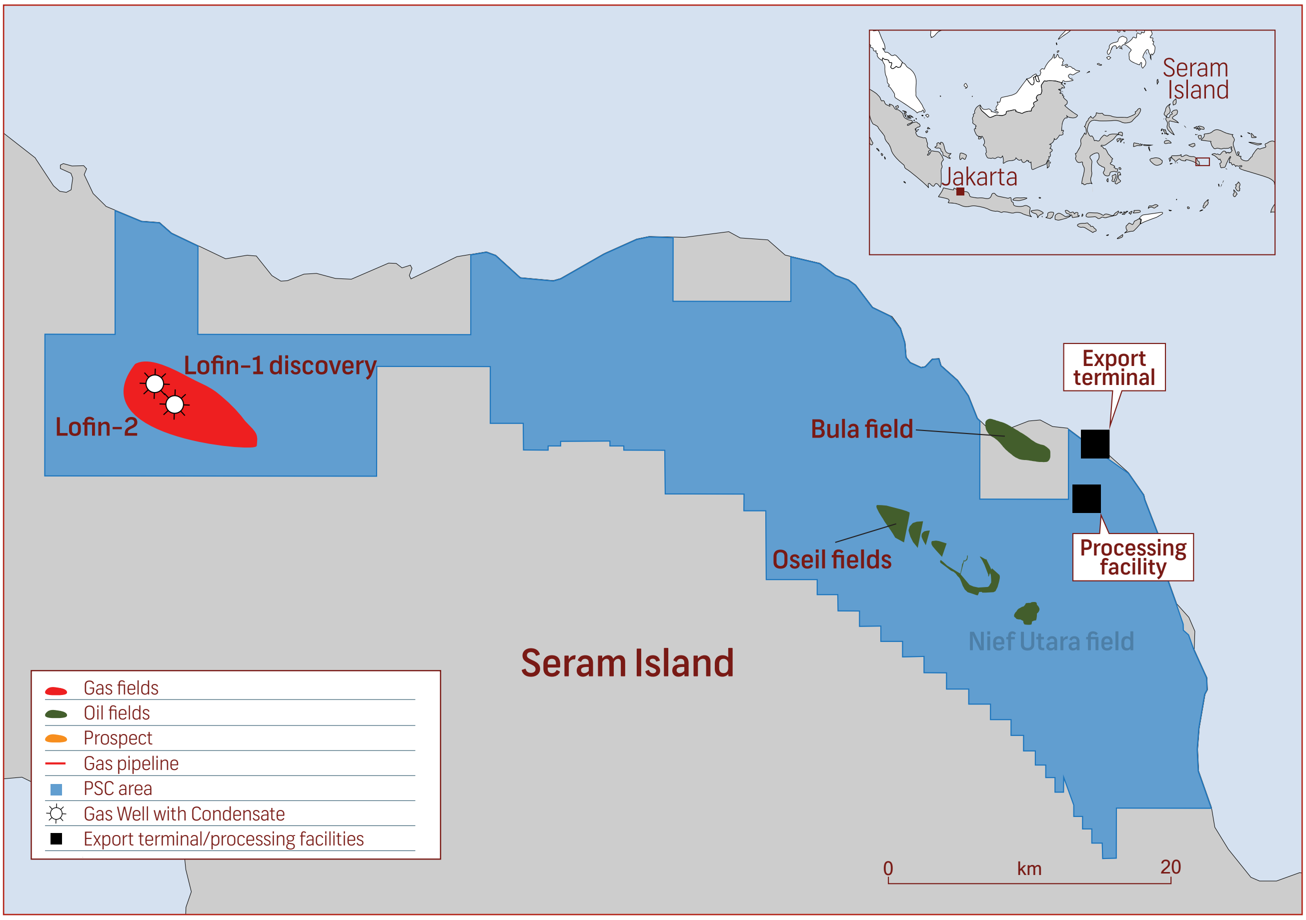
## SERAM (NON-BULA) PSC

Lion, through its wholly owned subsidiary Lion International Investment Limited, holds a 2.5% participating interest in the Seram (Non Bula) Block Production Sharing Contract onshore Seram Island in eastern Indonesia.

The major equity holder and Operator of the Joint Venture is CITIC Seram Energy Limited (51%). Other partners include KUFPEC (Indonesia) Limited (30%) and Gulf Petroleum Investment (16.5%).

The block contains the Oseil oilfield and surrounding structures that are producing approximately 3,500 bopd (88 bopd net to Lion) as at 31 December 2016. Since initial field start-up in January 2003, the field has produced 15,706,760 barrels of crude oil at 2016 calendar year end. The joint venture has identified significant additional contingent oil resources in the Oseil area. In addition, the block contains the Lofin discovery which the joint venture appraised in 2014-15 with the highly successful Lofin-2 well. The 100% 2C contingent resource for Lofin is 2.02 tcf with 18.3 mmbbl condensate making it one of the largest onshore gas discoveries in Indonesia for many years.

The PSC expires end October 2019 and the JV is working at all levels in an endeavour to secure an extension or renewal of the PSC over the area. An application for extension was formally submitted to the relevant Indonesian Government authorities during 2016. Work continues on development options for the large Lofin Gas Field.




**Oseil oilfield and Lofin discovery**

## Reserves

Reserves have been updated from the 31 December 2015 estimate (conducted by US experts, DeGoyler & McNaughton) to account for production during the year.

### Oseil Area Reserves (mbbl)

| Reserves | Reserves (Gross) | | | Reserves (net to Lion working interest;) | | |
|---|---|---|---|---|---|---|
| | Proven (1P) | Proven & Probable (2P)[2] | Proven, Prob & Poss. (3P)[2] | Proven (1P) | Proven & Probable (2P)[2] | Proven, Prob & Poss. (3P)[2] |
| EOY 2015 | 4,881 | 6,106 | 8,662 | 122.02 | 152.65 | 216.55 |
| Production | -1,393 | -1,393 | -1,393 | -34.83 | -34.83 | -34.83 |
| Revision | 0 | 0 | 0 | 0 | 0 | 0 |
| EOY 2016 | 3,488 | 4,713 | 7,269 | 87.19 | 117.82 | 181.72 |

### Oseil Area Contingent Resources (mbbl)

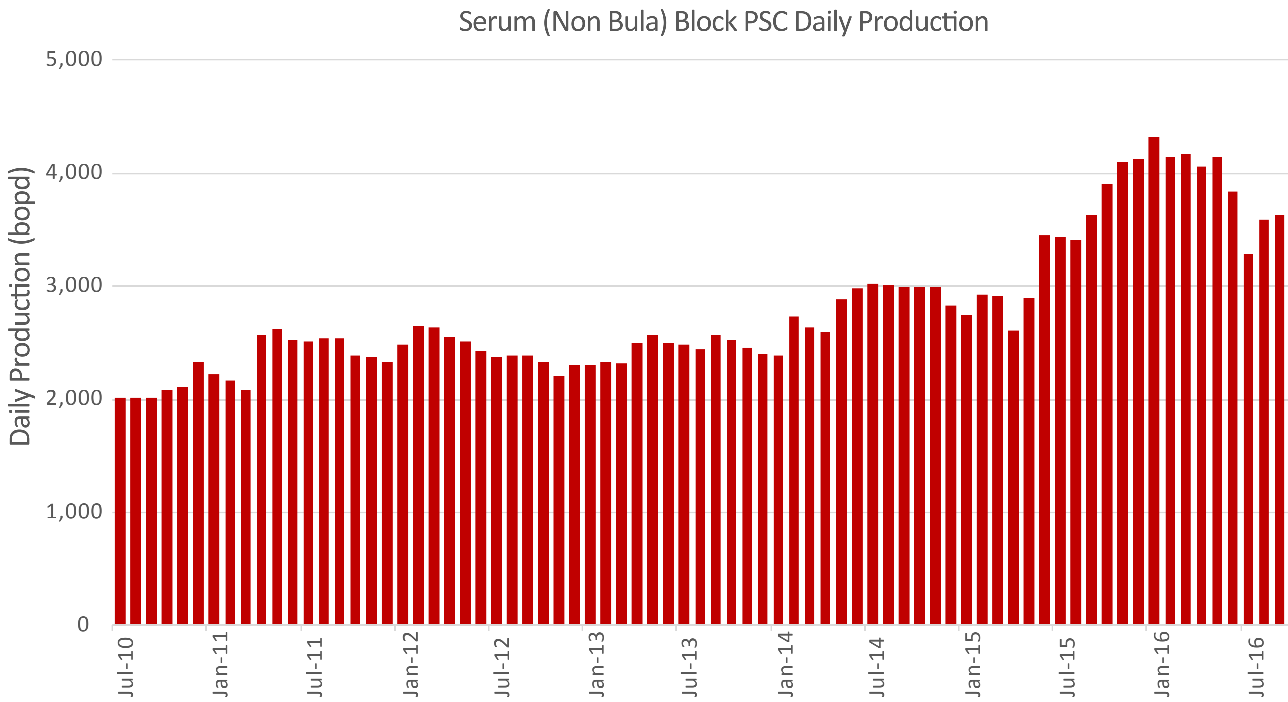
| | Contingent Oil Resources[4, 5] (Gross) | | | Contingent Oil Resources[4, 5] (Net to Lion working interest) | | |
|---|---|---|---|---|---|---|
| | 1C / P90 | 2C / P50 | 3C / P10 | 1C / P90 | 2C / P50 | 3C / P10 |
| EOY 2015 | 1,585 | 2,680 | 17,563 | 39.63 | 67.00 | 439.08 |
| Revision | 0 | 0 | 0 | 0 | 0 | 0 |
| EOY 2016 | 1,585 | 2,680 | 17,563 | 39.63 | 67.00 | 439.08 |

1. Hydrocarbon reserves and resource estimates are expressions of judgment based on knowledge, experience and industry practice. Estimates that were valid when originally calculated may alter significantly when new information or techniques become available. Additionally, by their very nature reserve and resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. As further information becomes available through additional drilling and analysis, the estimates are likely to change. This may result in alterations to development and production plans which may, in turn, adversely affect the company's operations.
2. Incremental probable (2P) and possible (3P) reserves assume further development drilling is undertaken, and hence may not be produced before the expiry of the PSC in 2019 if this program is not successfully executed.
3. Reserves have been estimated using the deterministic method.
4. Contingent resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingent resources have an associated chance of development (economic, regulatory, market and facility, corporate commitment or political risks). These estimates have not been risked for the chance of development. There is no certainty that any portion of the contingent resources will be developed and, if developed, there is no certainty as to either the timing of such development or whether it will be commercially viable to produce any portion of the resources.
5. Contingent Resources comprise oil potential from existing fields post-PSC expiry and other undeveloped oil fields. No estimate has been presented for the Dawang gas field or the Lofin gas/condensate field. For estimates relating to Lofin, please refer to table below of Lofin resource estimate.

## Production

Production for the reporting period from 1 January 2016 to 31 December 2016 from the Oseil oilfield and surrounding structures was 1,392,809 barrels of crude oil at an average daily rate of 3,805 bopd (95 bopd net to Lion). This compares to an average daily rate of 3,222 bopd (80 bopd net to Lion) for 1 July 2014 to 31 December 2015 reporting period, a 14% increase.

The joint venture has, and continues to, reduce costs of production resulting in a significant reduction in 2016 to US$14.34/bbl, a 36% decrease from 2015 calendar year production costs.




A summary of crude oil liftings for the period 1 January to 31 December 2016 is provided in the following Table.

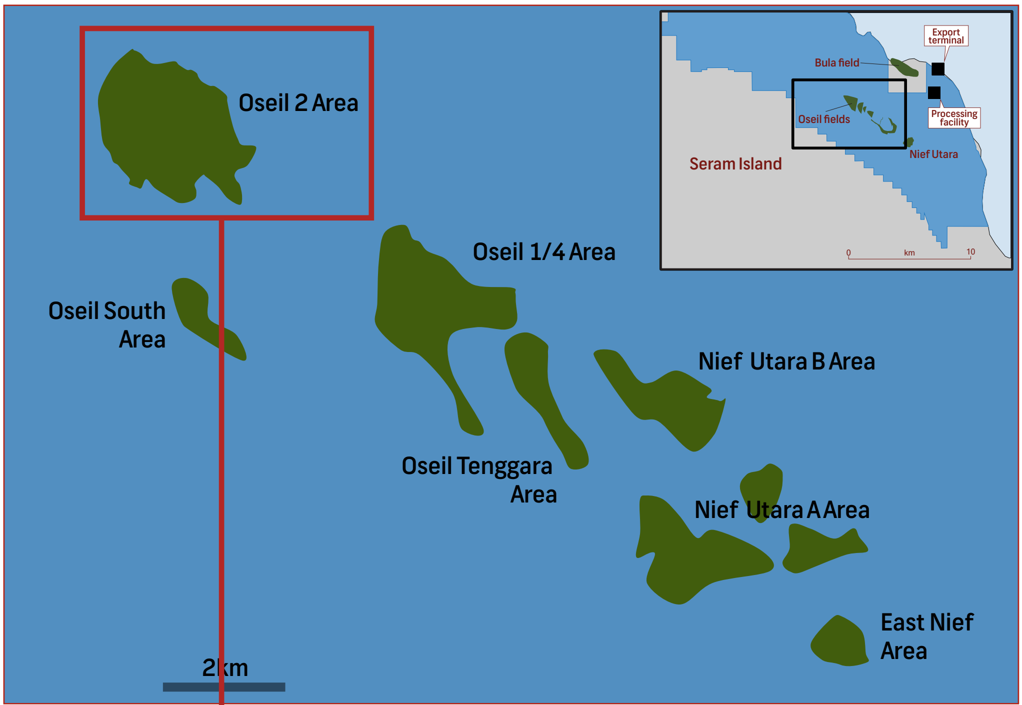
| Date of Lifting | Crude oil lifted (bbl) | Revenue (Net to Lion) USD |
|---|---|---|
| 29 March 2016 | 418,842 | $254,776 |
| 31 July 2016 | 485,495 | $420,415 |
| 25 December 2016 | 500,235 | $519,345 |
| **TOTAL** | 1,404,572 | |

Note: Revenue is before deduction of Indonesian Government share of First Tranche Petroleum

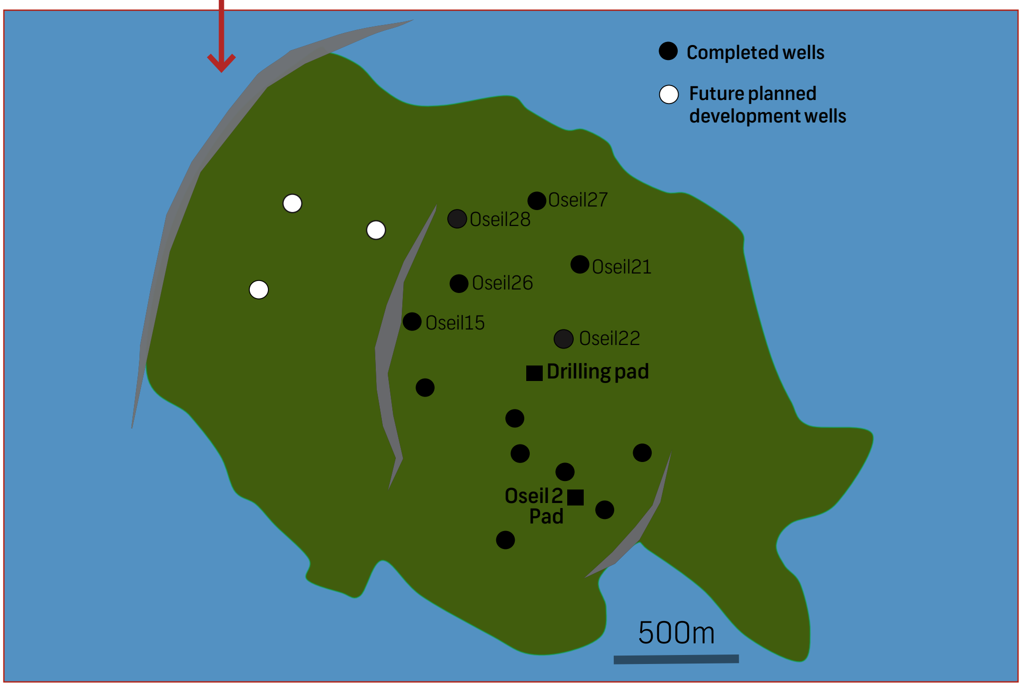
## Phase 3 Development

In 2015, the Seram joint venture secured all external approvals for a third phase of development drilling on the Oseil Field (referred to by the regulators as a Plan of Further Development or POFD), with up to 10 wells within the Oseil-2 field. The Phase 3 POFD was formally approved by the Indonesian regulatory body, SKK Migas, on 5 May 2015. Six of the ten wells approved have already been drilled (Oseil-15, Oseil-21, Oseil-22, Oseil-26, Oseil-27, Oseil-28). As at calendar year end 2016, these wells are supplying approximately 80% of the total Oseil field production of approximately 3500 bopd.

The Oseil-22 development well was the sixth well in the POFD and was completed in early January 2016. Given the oil price environment at the time, the joint venture decided to suspend any further development drilling after Oseil-22.




**Oseil field location map**




**Oseil 2 field area**

## Lofin-Gas Field

In 2015 the Lofin-2 appraisal well confirmed a highly material gas discovery with contingent resources[1] (2C) of 2.02 tcf and 18.3 mmbbl condensate (Lion share 50 bcf gas and 0.5 mmbbl condensate).

The Lofin Field is a thrust faulted four-way dip anticline located 60km west of the Oseil Field. The field is mapped on 1990 and 2008 vintage 2D seismic lines and is approximately 4km wide and 10km in length.

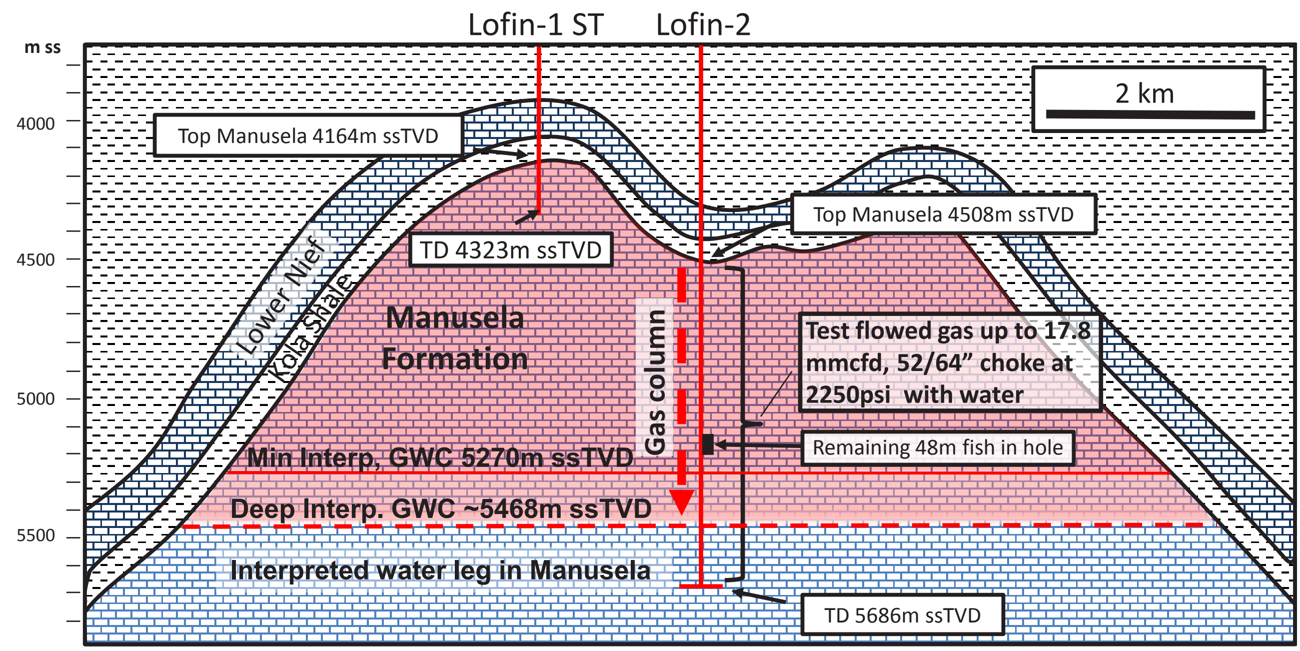
The reservoir is the fractured carbonate of the Jurassic/Triassic age Manusela formation which is the reservoir in the nearby producing Oseil field. The overlying Jurassic marine Kola shale provides the regional seal with the main source rock interpreted to be the underlying mature Late Triassic Saman-Saman Formation.

The Lofin-1 exploration well was drilled in 2012 to a total depth of 4427m MD (4323m ssTVD) and was interpreted still to be in hydrocarbons, representing a current minimum interpreted gross hydrocarbon column of 160m. After acidizing the well flowed gas and oil/condensate at a rate of 15.7 mmcfgd and 171 bopd of 36.1° API condensate, with a flowing wellhead pressure of 4750 psi through a 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-1 well.

The Lofin-2 well to appraise the Lofin-1 discovery spudded on 31 October 2014. Lofin-2 intersected the primary Manusela objective at 4615m MD (4508m ssTVD) and continued through to a total depth of 5861m MD (5686m ssTVD). A successful well test commenced on 21 May 2015 and was conducted as a multi-rate test using different choke sizes to maximise reservoir information, over a 7 day period. On a 52/64 inch choke the well flowed gas at approx. 17.8mmcfpd with approx. 2634bpd water and completion fluid and approx. 54 bpd of 34.9° API condensate, with a flowing wellhead pressure of 2250 psi (96 hour flow period on 52/64 inch choke). On the smallest choke setting (16/64 inch) the well was flowing gas at approx. 4.95mmcfpd with approx. 12 barrels condensate and approx. 280bpd water with a flowing wellhead pressure of 5000 psi (12 hour flow period on 16/64 inch choke). Tested gas quality is good with approximately 3.7% $CO^2$.

Lofin-2 delineated a continuous gas column of up to approximately 1300m for the large Lofin structure and provided critical new information on porosity of the Manusela limestone, net/gross within the hydrocarbon column, fracture density, hydrocarbon saturation and fluid type.

Work is ongoing on development options for this resource which include potential LNG or CNG development.




**Lofin field schematic cross section**

## Lofin Resource Estimate

The Lofin Field 100% 2C Contingent Resource are estimated to be 345.9 mmboe (8.65 mmboe net to Lion) following drilling of the Lofin-2 appraisal well. The resource estimates for gas and condensate are classified as contingent resources as there is no certainty of development due to various factors including, amongst others, economic, regulatory, market and facility, corporate commitment and extension award of the Seram (Non-Bula) Block PSC beyond the current 31 October 2019 expiry date.

An overview of contingent resources for the Lofin Field (100% and Lion working interest share) compiled by Lion (based on independent certification) in accordance with SPE-PRMS classification is shown below:

**In-place and Contingent Resources[1,7,8,9]**
**Lofin Field, Seram (Non-Bula) Block PSC, Seram Island, Indonesia**
**(as at 31 December 2016)**

| Manusela Formation Reservoir | Gross (100%) PSC | | | |
|---|---|---|---|---|
| | In-place | | Recoverable[3,4] | |
| | Low | Mid | 1C | 2C |
| | $(P_{90})$ | $(P_{50})$ | $(P_{90})$ | $(P_{50})$ |
| Gas (bcf) | 1337 | 3070 | 880 | 2020 |
| Condensate[2] (mmbbl) | | | 8.0 | 18.3 |
| Total (mmboe)[6] | 222.8 | 511.7 | 145.5 | 345.9 |
| **Manusela Formation Reservoir** | **Net to Lion Working Interest (2.5%)** | | | |
| | In-place | | Recoverable[3,5] | |
| | Low | Mid | 1C | 2C |
| | $(P_{90})$ | $(P_{50})$ | $(P_{90})$ | $(P_{50})$ |
| Gas (bcf) | 33.43 | 76.75 | 21.99 | 50.50 |
| Condensate (mmbbl) | | | 0.20 | 0.46 |
| Total (mmboe)[6] | 5.57 | 12.79 | 3.64 | 8.65 |

1. Contingent Resources those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingent Resources are a class of discovered recoverable resources. There is no certainty that any portion of the contingent resources will be developed or, if developed, there is no certainty as to either the timing of such development or whether it will be commercially viable to produce any portion of the resources.
2. The condensate is associated with the gas discovery and is estimated from a yield of 8.5 bbl/mmcf.
3. Recoverable hydrocarbon gas volumes have been reduced to account for shrinkage due to condensate recovery.
4. These are the gross recoverable volumes, (i.e., 100% working interest) estimated for the Lofin Area, without any adjustments for company working interest or government entitlement.
5. These are the Company gross recoverable volumes estimated for the Lofin Area, adjusted for company working interest (i.e., 2.5% working interest) but without adjustments for government entitlement.
6. "mmboe" is Million Barrels of Oil Equivalent. BOE's may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 mcf:1 bbl is based on an energy equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.
7. 1C Contingent Resource estimate is considered to be a conservative estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. If probabilistic methods are used, there should be at least a 90 percent probability (P90) that the quantities actually recovered will equal or exceed the low estimate. The C1 drainage area is a cylinder based on the lowest tested gas and a radius of 1,875m.
8. 2C Contingent Resource estimate is considered to be the best estimate of the quantity that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. If probabilistic methods are used, there should be at least a 50 percent probability (P50) that the quantities actually recovered will equal or exceed the best estimate.
9. Resources are calculated deterministically.

## SOUTH BLOCK A PSC

Lion has a 40.7% interest in The South Block A PSC. Lion, in conjunction with Operator RENCO Elang Energy Pte Ltd (REE), announced on 23 November 2016 the increase in this interest from 35% after exercising their right to default PT Prosys Oil & Gas International (POGI) that held a 14% interest in the PSC. REE's interest has increased from 51% to 59.3% following the withdrawal of POGI.

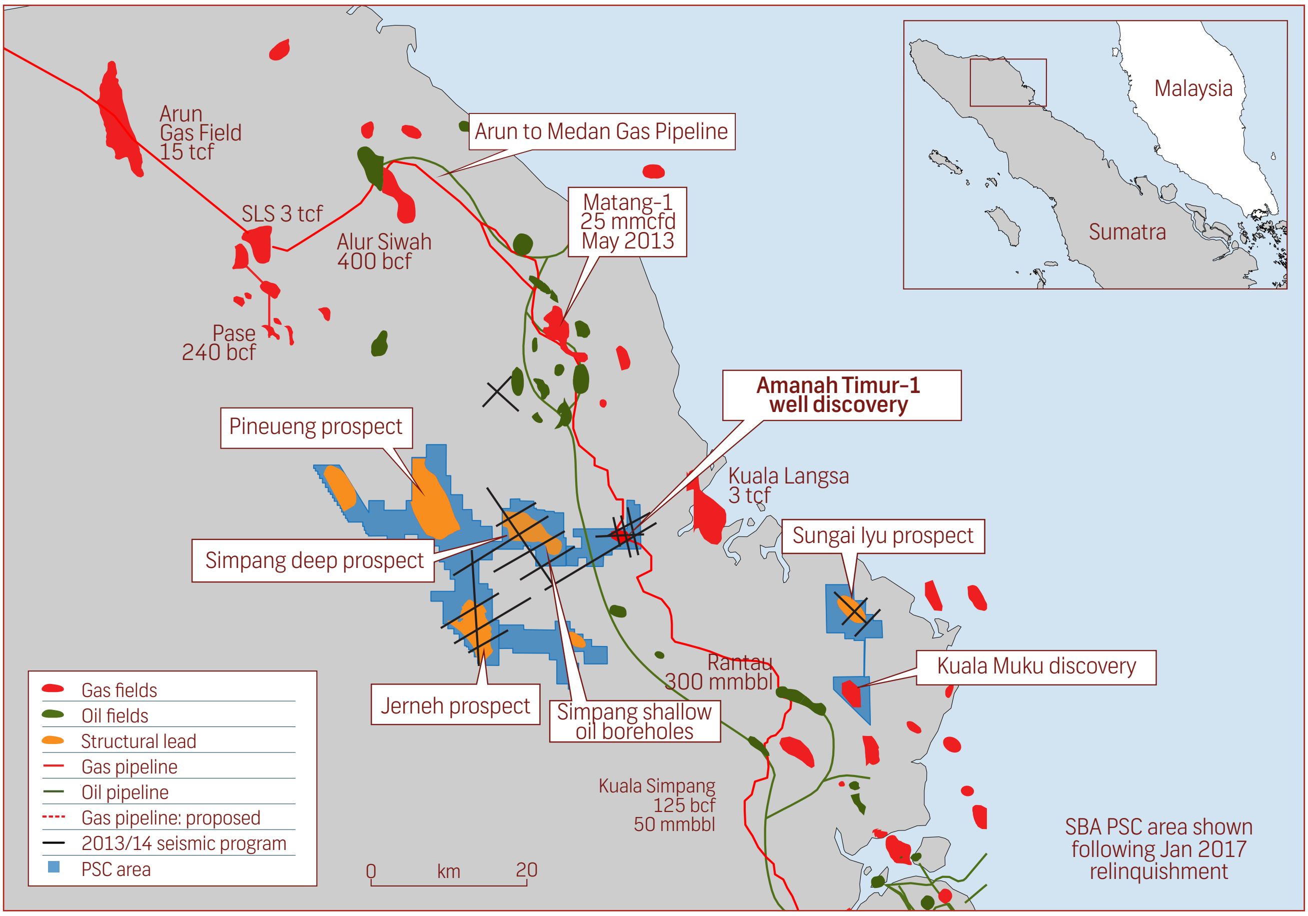
The South Block A PSC is centrally located in the prolific North Sumatra Basin which is one of the most prolific hydrocarbon provinces in Indonesia with over 80 known oil and gas fields and reserves of approximately 25.6 tcf of gas, 900 mmbbl of condensate and 700 mmbbl of oil. The United States Geological Survey estimates undiscovered (conventional) gas of 15 tcf gas (mean) and 180 mmbbl (mean) of natural gas liquids 210 mmbbl (mean) of oil that provides encouragement for additional exploration in the basin.

During 2016 the joint venture elected to drill the Amanah Timur-1 (AMT-1) exploration well. The well was subsequently drilled post year-end and encountered a number of interpreted gas and oil zones with gas flared at surface.

While the well was not able to be fully tested for operational reasons, it was an extremely encouraging discovery and satisfied the joint venture's outstanding commitment well in the block. Work on the AMT-2 appraisal well to fully delineate the discovery is advanced.

Following the drilling of AMT-1, post calendar year-end, the Indonesian regulator, BPMA, has extended the SBA PSC exploration term for an additional four years, effective from 19 January 2017. As part of this extension there was a mandatory relinquishment of the PSC from the previous area of 1,580km$^2$. The remaining area of 421km$^2$ was delineated following a thorough technical review by the JV to ensure all identified prospects and leads were included in the new area. It is divided into two separate blocks; the western block is known as Area 1 and covers an area of 366km$^2$, while the smaller Area 2 block to the east covers an area of 55km$^2$.

The "non-firm" work program in the extension period comprises 3 wells and 50km$^2$ of 3D seismic. Progress will be reviewed by the regulator after 2 years and failure to either complete the program, or have a Plan of Development submitted, may result in expiry of the PSC, importantly, with no financial penalty to participants.

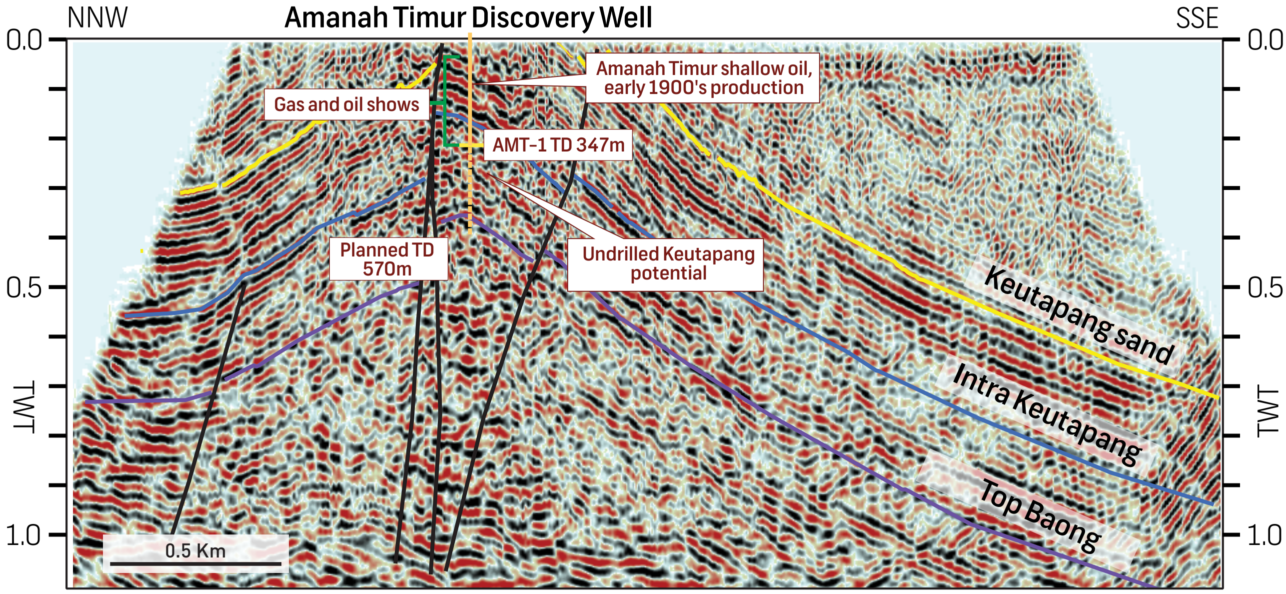



**Location Map South Block A PSC**

## Amanah Timur-1 well

The AMT-1 well was drilled by the Joint Venture in January 2017 post year-end, and was a discovery with gas and condensate flared and interpreted oil zones intersected. The well location is within 6km of the city of Langsa with a population of approximately 150,000. The region has a gas market with solid demand, consequent high prices and a new open access pipeline to Medan extends through the PSC acreage and within 100 metres of the discovery.

AMT-1 had a planned total depth of approximately 570m KB and was designed to test a well-defined anticline which has existing shallow oil reservoirs that produced approximately 200,000 barrels of oil in a period prior to WWII. The well spudded on 3 January 2017 and 9 5/8" casing was set at 78.5m KB. The well drilled an interbedded sandstone, claystone, shale and siltstone section within the Late Miocene age Keutapang Formation in 8 1/2" hole. Key objective intervals were penetrated between 26-58m; high to pre-drill prognosis with strong gas and good oil shows. The total depth of 347m KB was reached on 11 January 2017.

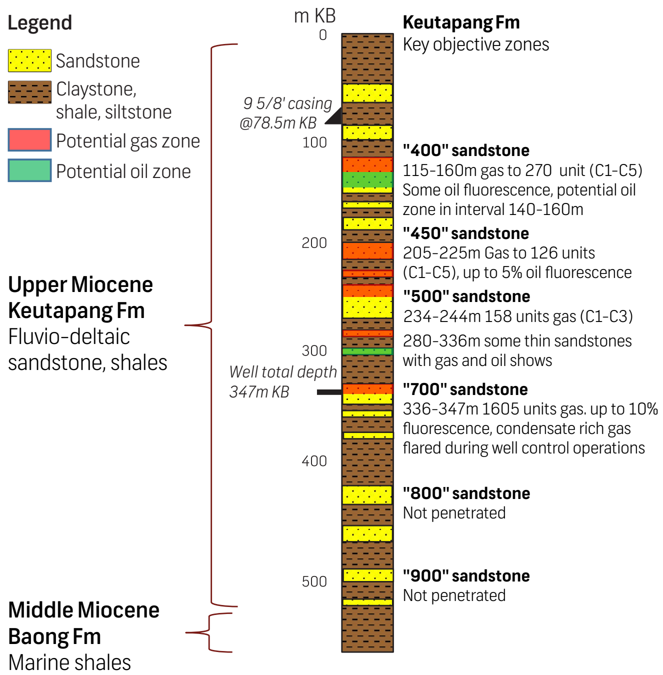



**Amanah Timur - 1 seismic line**

High gas readings encountered from the "700" sandstone objective required the mud weight to be raised from 11 ppg to approximately 14 ppg with some gas flared in the process of raising the mud weight. During operations to ensure the well was stabilised, the drill string unfortunately became stuck. Efforts to free the pipe were unsuccessful and the joint venture, supported by the drilling contractor and the Indonesian regulator, decided the most prudent action was to cement the well to ensure isolation of hydrocarbon zones. Cement was pumped early on 19 January 2017, plugging and abandoning the well.

Lion is currently working to delineate the attractive resource potential and on mid-2017 appraisal plans with the Operator.

## AMT Section



## Jerneh Prospect

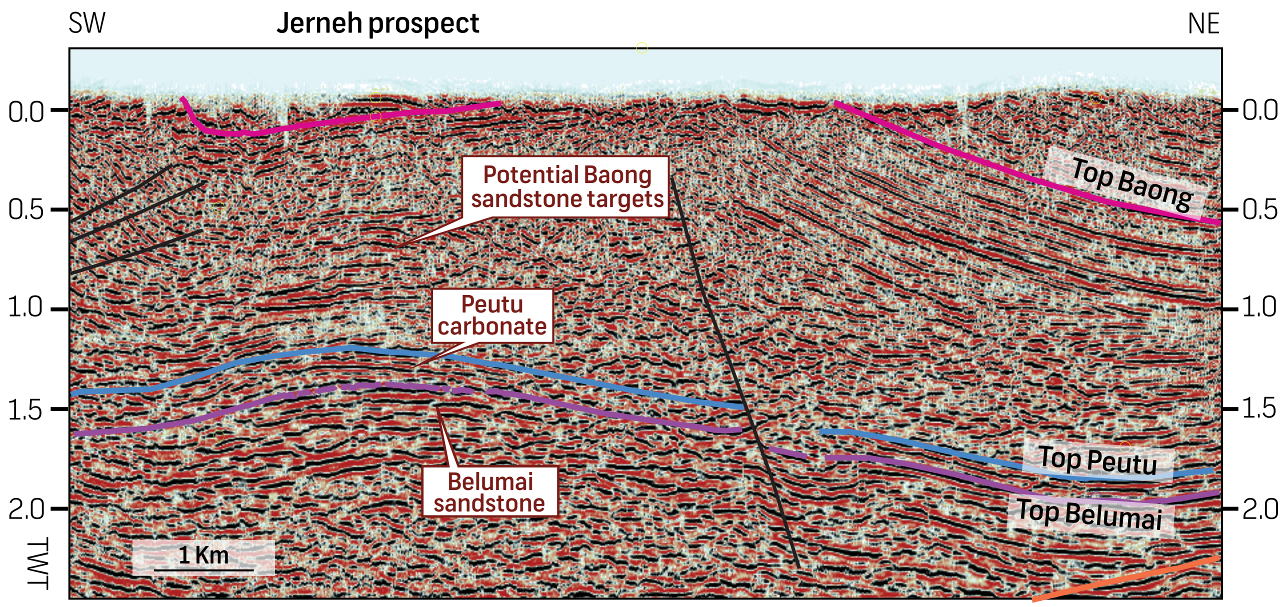
Work has also progressed during 2016 on well planning for drilling the exciting Jerneh gas condensate prospect in the west of the South Block A PSC. Seismic data shot by the joint venture in 2014 confirmed Jerneh as one of the largest undrilled structures in onshore Sumatra with areal closure of up to 60 km[2]. The Peutu limestone and Belumai sandstone, which are major reservoirs in the North Sumatra Basin, are the primary objectives and a well to a depth of approximately 1900m will test the prospect. The new Arun to Medan gas pipeline is within 20km of the prospect and there is strong demand for gas in the region. The joint venture is currently evaluating options to fund and drill Jerneh during 2017.

Prospective resource[1] (100%):

Gas (bcf) P90: 64 P50: 223 Mean: 329 P10: 760

Cond (mmbbl) P90: 1.5 P50: 5.3 Mean: 7.5 P10: 17.6

[1]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.




Jerneh prospect seismic line

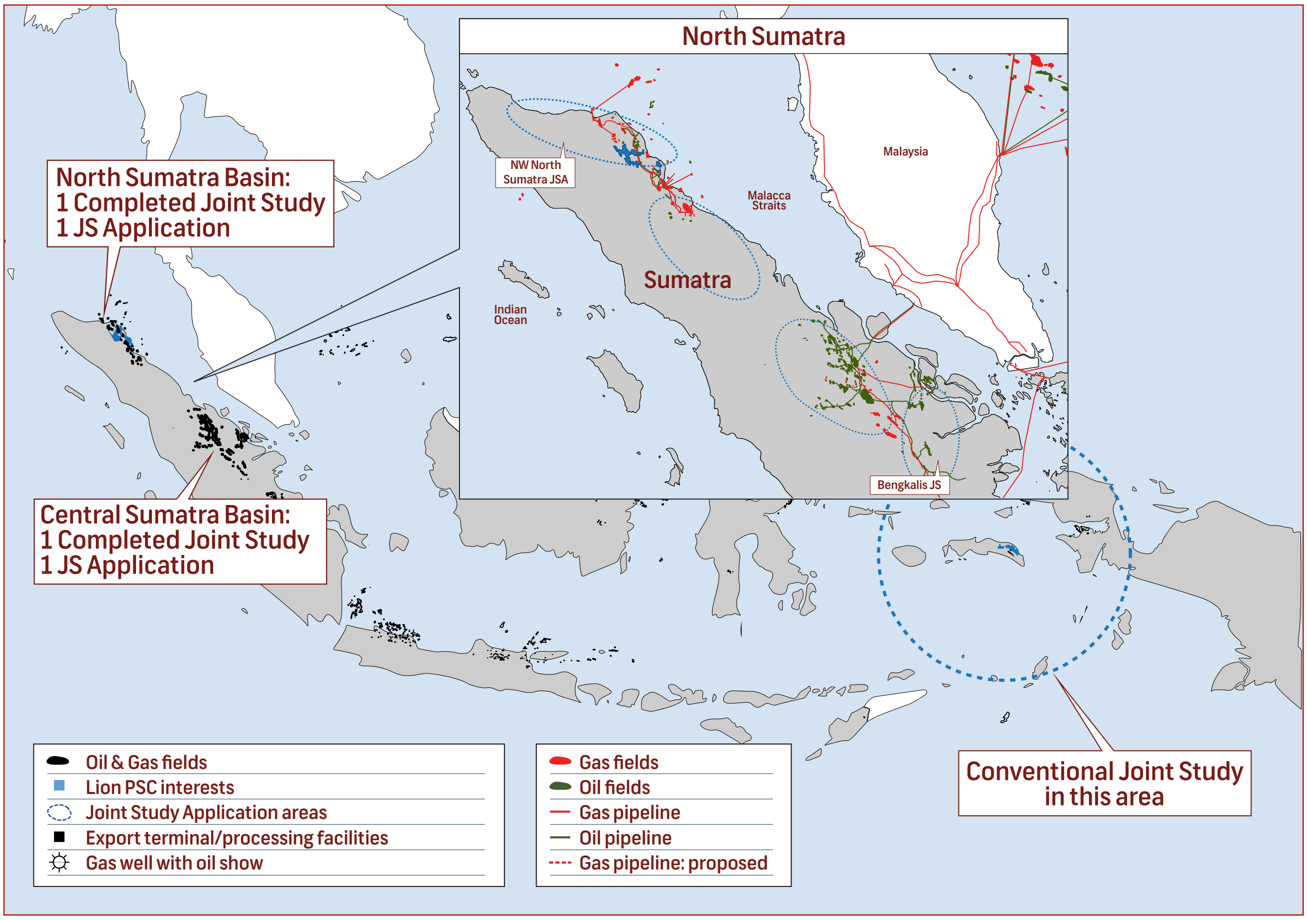
## JOINT STUDIES

Lion has identified substantial potential in Indonesia, for both conventional and unconventional (shale gas, shale oil, tight gas and tight oil) resources. Lion's strategy to target these resources is set with a backdrop of:

- Prolific hydrocarbon basins;
- the energy demands of a growing population approaching 250 million and still at the steep part of the energy consumption / capita growth curve;
- solid economic growth;
- declining production from existing conventional oil and gas fields.

Indonesia became a net oil importer for the first time in 2004, and there is a major projected domestic shortfall in gas supply in the energy hungry Sumatra-Java corridor as well as in Eastern Indonesia in coming years. The Ministry of Energy and Mineral Resources has a National Energy Mix Target in 2025 to increase the use of natural gas from 21% to 30% of total energy use and Indonesia will potentially be a net gas importer within 5 years.

The joint study process provides an effective and relatively low cost means to obtain prospective areas in Indonesia. Companies that conduct a joint study with an assigned University have the right to match any bids on the area studied when they are gazetted. During 2016, in response to decreased oil prices and subsequent depressed market sentiment, Lion refocused efforts to target more conventional resources and reserves while maintaining and prudently advancing our unconventional rights and opportunities.




**Lion Joint Studies**

### Eastern Indonesian Conventional Joint Study

A new conventional Joint Study over a highly prospective area in Eastern Indonesia was formally approved by the regulator MIGAS in May 2016 and work commenced in July 2016 with the assigned University. 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 as at year-end was approaching completion with final meetings planned for March 2017. Lion is extremely pleased with joint study progress and is excited by its potential and is keen to increase our exposure. The exact area and other details on the study are commercially sensitive.

## INDONESIA UNCONVENTIONAL

Lion started to focus on the exploration and appraisal of unconventional resources in Indonesia's proven hydrocarbon basins with involvement through now 100% subsidiary, KRX Energy Pte Ltd in 2012. This followed new regulations and the encouragement from the Government of Indonesia. Lion has targeted areas in Sumatra that meet the following criteria:

- prospective rocks/geology;
- access to infrastructure and gas markets;
- suitable operational environment.

Lion's initial technical assessment has identified potential for multi-tcf scale gas and multi-hundred million barrels of oil in the areas covered by our two completed unconventional joint studies and two remaining joint study applications.

## North Sumatra "Bohorok" Unconventional Joint Study

The unconventional joint study covering 4684km$^2$ was awarded on 20 February 2015. The Lion joint study area is located in the prolific North Sumatran Basin, to the south of the South Block A PSC, in which Lion holds a 40.7% interest, and is in close proximity to the first unconventional PSC in Indonesia awarded to PERTAMINA in 2013 (Sumbagut MNK PSC).

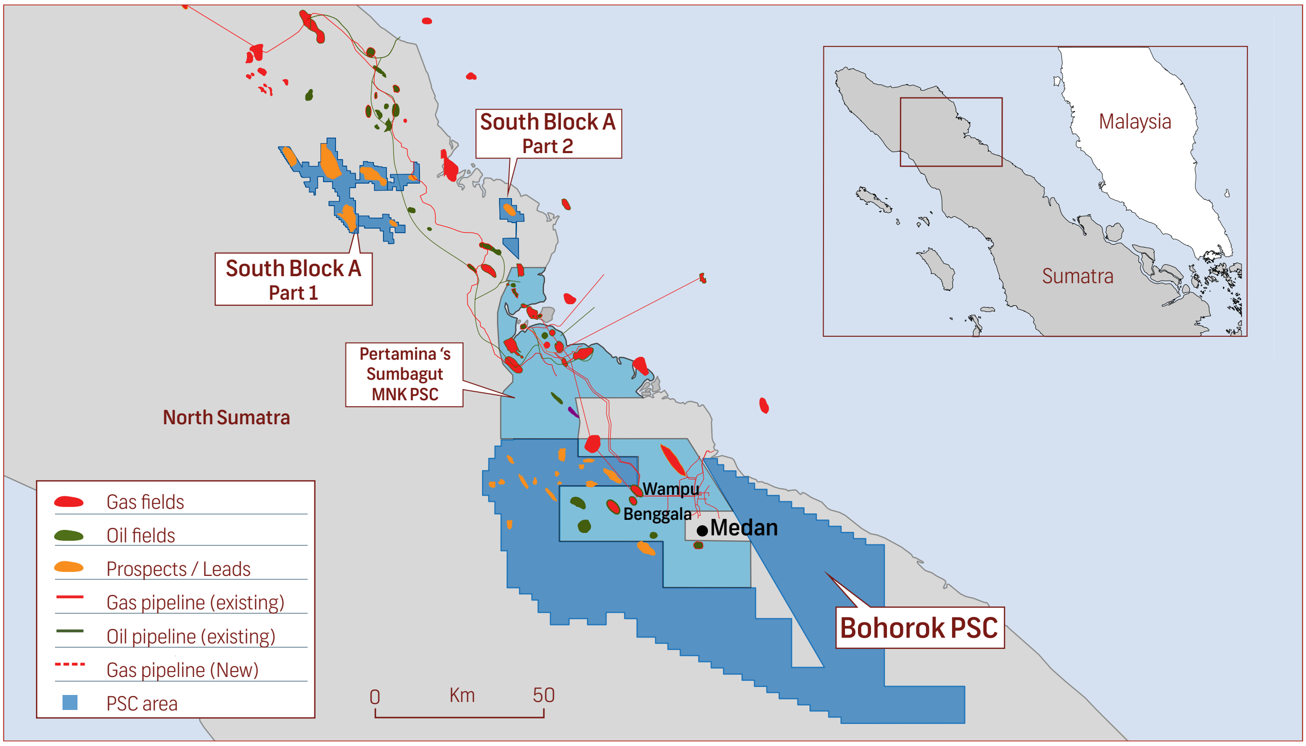
Lion holds a 55% interest and is Operator of the North Sumatra "Bohorok" joint study with the partly overlapping conventional PSC holders (Bukit, New Zealand Oil and Gas and SBL) holding a 45% interest. The cooperation with conventional holders will allow the joint venture to capture significant synergies between conventional and unconventional exploration.

The study was jointly undertaken with Padjadjaran University in Bandung. Interpretation of over 300 samples obtained from a field trip were analysed and show positive characteristics for shale and tight gas plays with attractive total organic carbon content (TOC) and mineralogy indicating rocks are brittle with high quartz and carbonate content. Multi-tcf gas potential has been identified by the study and new unconventional fiscal terms combined with the high gas prices in the area, coupled with close proximity to Medan (Indonesia's 3rd largest city), provide an attractive commercial framework. The final technical meeting with the Indonesian regulator MIGAS, which marks the completion of the study, was held on 19 February 2016. The timing of the release of the resultant PSC for tender will be dependent upon MIGAS, at which time Lion and its consortium members will have a right to match any offers for the block.

Of considerable interest, during the reporting period, PERTAMINA commenced drilling the Melucut-1 unconventional shale well in the Sumbagut PSC adjacent to Lion's unconventional areas. This is the first shale well to be drilled in Indonesia. Logging, perforating, hydraulic fracturing and well testing is planned in the first quarter of 2017. Lion is well positioned to be able to leverage results from this well.

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

| Unconventional Joint Study | Interest % |
|---|---|
| Lion Energy (Operator) | 55.00 |
| Bukit Energy | 20.25 |
| New Zealand Oil & Gas | 20.25 |
| Surya Buana Lestarijaya | 4.50 |




**Bohorok PSC and South Block A PSC - location map**

## Central Sumatra "Bengkalis" Unconventional Joint Study Area

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

Lion has a 75% interest in this joint study. The conventional rights holders in the area of the joint study have an option to maintain a 25% interest in the resultant PSC, if awarded, by paying 25% of the joint study costs at completion of the study. Lion, in return, will evaluate the conventional potential of the area with the opportunity to review an interest if technically warranted. This cooperation between conventional and unconventional rights holders is a key to Lion's strategy to capture significant synergies in exploration and appraisal of the region.

The Central Sumatra Basin is a world class petroleum province with over 13 billion barrels of oil discovered. The Bengkalis Graben, located in the east of the basin, is one of a number of prolific depo-centres within the province. It hosts major discoveries which provides encouragement for the unconventional potential (shale gas/oil and tight gas/oil). Evaluation by Lion indicates the prospective source rocks in the area are at a suitable maturity and depositional setting to be highly attractive unconventional targets.

The joint study has been conducted with the Institute of Technology Bandung, integrating regional geological and geophysical data, to create a model of potential unconventional "sweet spots" within the area. The final technical meeting with the Indonesia regulator MIGAS, which marked the completion of the study, was held on 19 February 2016. Lion is currently seeking to add additional areas in Central Sumatra to the area already studied, to facilitate a more attractive block to be gazetted. The timing of the release of the resultant PSC for tender will be dependent upon MIGAS, at which time Lion and its consortium members will have a right to match any offers submitted for the block.

Central Sumatra unconventional joint study interest holders:

| Unconventional Joint Study | Interest % |
|---|---|
| Lion Energy | 75.00 |
| Conventional PSC rights holder | 25.00 |

## Additional Unconventional Joint Study Applications

In addition to the two completed unconventional joint studies, Lion has submitted two additional Joint Study Applications for potential oil and gas unconventional areas in onshore Indonesia covering a total area of up to 10,000km$^2$. Post year end, pre- joint study meetings have been held with MIGAS on our northwest North Sumatra Basin application.

## NEW BUSINESS OPPORTUNITIES

Lion carried out detailed reviews on over 10 new production or near term production opportunities in the region in 2016. While no new production has been acquired as yet, a number of new highly attractive production projects remain under active evaluation as at reporting time.

**"...new highly attractive production projects remain under active evaluation"**

## GLOSSARY

**bcf:** billion cubic feet

**bopd:** barrels oil per day

**CNG:** compressed natural gas

**GWC:** gas water contact

**LNG:** liquefied natural gas

**mbbl:** thousand barrels

**MD:** measured depth

**mmbbl:** million barrels

**mmscfgd:** million standard cubic feet of gas per day

**PSC:** production sharing contract

**psi:** pounds per square inch

**POFD:** plan of further development

**ss:** subsea

**tcf:** trillion cubic feet

**TD:** total depth

**TVD:** true vertical depth

# RESERVES AND RESOURCES

| Indonesia 31 December 2016 | Lion Equity Share | | | | | |
|---|---|---|---|---|---|---|
| | Gas/Associated Gas Recoverable (bcf) | | | Oil/Condensate Recoverable (mmbbl) | | |
| **Reserves**[1] | **1P** | **2P** | **3P** | **1P** | **2P** | **3P** |
| Oseil Area Developed[2] | | | | 0.061 | 0.061 | 0.061 |
| Oseil Area undeveloped[3] | | | | 0.026 | 0.057 | 0.121 |
| Total Seram (Non-Bula) PSC | | | | 0.087 | 0.118 | 0.182 |
| **Contingent Resources**[5] | **1C** | **2C** | **3C** | **1C** | **2C** | **3C** |
| Oseil Area | 0.01 | 0.03 | 0.26 | 0.04 | 0.07 | 0.44 |
| Lofin Field | 21.99 | 50.50 | n/a | 0.20 | 0.46 | n/a |
| Total Seram (Non-Bula) PSC | 22.00 | 50.54 | 0.26[7] | 0.24 | 0.52 | 0.44[7] |
| **Prospective Resources**[8,9] | **Low P90** | **Best P50** | **High P10** | **Low P90** | **Best P50** | **High P10** |
| Total South Block A PSC | 77.75 | 209.39 | 579.67 | 3.59 | 10.14 | 28.14 |

Notes:

1. Reserve estimates have been calculated using the deterministic method. Analysis of performance trends were used to estimate proved developed reserves. The performance trends associated with new well were used to assess how wells scheduled for future drilling would perform for the purpose of estimating proved undeveloped reserves as well as the probable and possible reserves associated with the future wells. Reserves were estimated only to the expiration date of the PSC.
2. 2P and 3P developed reserves have not been separately estimated by the independent expert and are included in undeveloped category in this table.
3. Includes undeveloped reserves which are quantities expected to be recovered through future investments: (a) from new wells on undrilled acreage in known accumulations, (b) from deepening existing wells to a different (but known) reservoir, (c) from infill wells that will increase recovery, or where a relatively large expenditure is required to either recomplete an existing well or install production or transportation facilities for primary or improved recovery projects.
4. Undeveloped Probable and Possible reserves are included in this table however it should be noted there is uncertainty on whether these can be recovered prior to PSC expiry in 2019 as the recovery will require significant investment.
5. Contingent resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingent Resources have an associated chance of development (economic, regulatory, market and facility, corporate commitment or political risks). These estimates have not been risked for the chance of development. There is no certainty that any portion of the contingent resources will be developed and, if developed, there is no certainty as to either the timing of such development or whether it will be commercially viable to produce any portion of the resources.
6. 3C contingent resources have not been calculated for the Lofin Field. The 3C number provided refers to Oseil area only.
7. 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.
8. Prospective Resources in this Table have been estimated probabilistically at lead level but combined arithmetically to provide the portfolio number. The aggregate P90 may be a very conservative estimate and the aggregate P10 may be a very optimistic estimate due to the portfolio effects of arithmetic summation.
9. No prospective resources provided for the Unconventional Joint Studies or Joint Study Applications as these have not yet been converted to PSC's as at 31 December 2016.

## 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 Limited. Mr Morrison holds a B.Sc. (Hons) in Geology and Geophysics from the University of Sydney and has over 30 years' experience in exploration, appraisal and development of oil and gas resources - including evaluating petroleum reserves and resources. Mr Morrison has reviewed the results, procedures and data contained in this Annual Report. Mr Morrison consents to the release of this report and to the inclusion of the matters based on the information in the form and context in which it appears. Mr Morrison is a member of AAPG.

## Governance and Audit information

The governance arrangements for the reporting of hydrocarbon Reserves and Resources are based on the following procedure: Periodic assessment of proposed changes and additions to the Company's Reserves and Resource database, based on technical work conducted by Lion Energy staff and advisors with contributions from asset operators, peer review and external experts where appropriate.

For the Seram (Non-Bula) PSC the Oseil field reserves and contingent resources have been adjusted for production through 2016. A Lofin Contingent Resource estimate was organised by the Operator of the project after completion of the Lofin-2 appraisal well. This estimate was undertaken by independent third party resource evaluators. Results are reviewed and compiled internally by Lion Energy, overseen by the Chief Executive Officer who is a petroleum reserves and resources evaluator qualified in accordance with ASX Listing Rule requirements.

No public reporting of any reserves or resources estimate is permitted without approval of the Chief Executive Officer. All public reporting of the reserves or resources estimates is in accordance with the requirements set out in Chapter 5 of the ASX Listing Rules and Lion Energy's policies. Annual reports are subject to Board approval.

The Reserves, Contingent Resources and Prospective Resources estimates provided in this report are overseen by Mr Kim Morrison (Chief Executive Officer). Depending on the asset, either deterministic or probabilistic methods have been used to compile Reserve and Contingent Resource estimates and the probabilistic method has been used to compile Prospective Resource estimates.

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.

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 Sumartra. 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.

### 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.

## 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.

| | |
|---|---|
| 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<br>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.

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.*

**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 |

## 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 entitles 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).

### 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

| | Number of Ordinary Shares | | | |
|---|---|---|---|---|
| | 1 January 2016 or Appointment | 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.

### 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)

## 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 | |
|---|---|
| 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).

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 | |
|---|---|---|---|
| | | **12 months to 31 December 2016** | **18 Months to 31 December 2015** |
| | **Note** | | **$** |
| 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 | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| 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

| | Note | Consolidated Entity 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

| | Note | Consolidated Entity<br>12 Months to 31 December 2016 | Consolidated Entity<br>18 Months to 31 December 2015<br>$ |
|---|---|---|---|
| **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** | **17** | **(540,281)** | **(1,231,933)** |
| **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** | **17** | **1,246,866** | **2,129,296** |

*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 *Materiality* |
| 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 | *Financial Instruments* | 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.<br><br>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.<br><br>**Classification and measurement**<br><br>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.<br><br>The main changes are described below.<br><br>***Financial assets***<br><br>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.<br><br>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.<br><br>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.<br><br>***Financial liabilities***<br><br>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.<br><br>Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows:<br><br>► The change attributable to changes in credit risk are presented in other comprehensive income (OCI)<br><br>► The remaining change is presented in profit or loss<br><br>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. | 1 January 2018 |

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

| Reference | Title | Summary | Application date of standard |
|---|---|---|---|
| | | **Impairment**<br><br>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.<br><br>**Hedge accounting**<br><br>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.<br><br>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.<br><br>AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014.<br><br>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. | |
| AASB 15 | Revenue from Contracts with Customers | AASB 15 *Revenue from Contracts with Customers* replaces the existing revenue recognition standards AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related Interpretations (Interpretation *13 Customer Loyalty Programmes*, Interpretation 15 *Agreements for the Construction of Real Estate,* Interpretation 18 *Transfers of Assets from Customers*, Interpretation 131 *Revenue—Barter Transactions Involving Advertising Services* and Interpretation 1042 *Subscriber Acquisition Costs in the Telecommunications Industry*). AASB 15 incorporates the requirements of IFRS 15 *Revenue from Contracts with Customers* issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB).<br><br>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:<br><br>(a) Step 1: Identify the contract(s) with a customer<br><br>(b) Step 2: Identify the performance obligations in the contract<br><br>(c) Step 3: Determine the transaction price<br><br>(d) Step 4: Allocate the transaction price to the performance obligations in the contract<br><br>(e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation<br><br>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.<br><br>AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.<br><br>AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15* amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent | 1 January 2018 |

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

| Reference | Title | Summary | Application date of standard |
|---|---|---|---|
| | | considerations and the timing of recognising revenue from granting a licence and provides further practical expedients on transition to AASB 15. | |
| AASB 2014-10 | Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | 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:<br>(a) A full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not)<br>(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.<br>AASB 2014-10 also makes an editorial correction to AASB 10.<br>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. | 1 January 2018 |
| AASB 16 | Leases | The key features of AASB 16 are as follows:<br>Lessee accounting<br>• 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.<br>• 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.<br>• AASB 16 contains disclosure requirements for lessees.<br>**Lessor accounting**<br>• 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.<br>• 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.<br>AASB 16 supersedes:<br>(a) AASB 117 *Leases*<br>(b) Interpretation 4 *Determining whether an Arrangement contains a Lease*<br>(c) SIC-15 *Operating Leases—Incentives*<br>(d) SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a*<br>*Lease*<br>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. | 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 *Income Taxes* (July 2004) and AASB 112 *Income Taxes* (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 *Statement of Cash Flows* (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:<br><br>• The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments<br><br>• Share-based payment transactions with a net settlement feature for withholding tax obligations<br><br>• 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:<br><br>• IFRS 12 Disclosure of Interests in Other Entities Clarification of the scope of the Standard (effective date 1 January 2017)<br><br>• IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters (effective date 1 January 2018)<br><br>• 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:A1.0934 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 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 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 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:

| | 2016 $ | 2015 $ |
|---|---|---|
| **REVENUE** | | |
| Oil sales | 1,167,421 | 2,168,104 |
| | | |
| **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 31 December 2016 $ | Consolidated Entity 18 Months to 31 December 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:

| | 2016 $ | 2015 $ |
|---|---|---|
| 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 $ | Consolidated Entity 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 |

### 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 |
| | 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 $ | Consolidated Entity 2015 $ |
|---|---|---|
| **NOTE 12. OIL AND GAS PROPERTIES** | | |
| Oil and gas properties | 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 | - | - |
| 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 |
| **NOTE 14. ISSUED CAPITAL** | | |
| 108,186,532 (2015: 96,197,377) fully paid ordinary shares | 47,887,762 | 47,421,356 |

MOVEMENTS IN ISSUED CAPITAL

| | Shares 2016 | Shares 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) |
| **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.

### NOTE 15. RESERVES

| | Consolidated Entity 2016 $ | Consolidated Entity 2015 $ |
|---|---|---|
| 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

### NOTE 16. PARENT ENTITY

FINANCIAL INFORMATION ON THE PARENT ENTITY AS AT THE END OF THE FINANCIAL PERIOD:

| | Company 2016 $ | Company 2015 $ |
|---|---|---|
| **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:

| | 2016 $ | 2015 $ |
|---|---|---|
| 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

### NOTE 17. CASH FLOW INFORMATION

| | Consolidated Entity 2016 $ | Consolidated Entity 2015 $ |
|---|---|---|
| RECONCILIATION OF CASH FLOW FROM OPERATIONS WITH LOSS AFTER INCOME TAX | | |
| Loss after tax | (1,069,747) | (835,963) |
| *Non-cash flow items in loss* | | |
| 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 |
| *Changes in assets and liabilities* | | |
| 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

*Cash and cash equivalents at the end of the financial period is shown in the accounts as:*

| | 2016 $ | 2015 $ |
|---|---|---|
| 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

### NOTE 18. EXPENDITURE COMMITMENTS

| | Consolidated Entity 2016 $ | Consolidated Entity 2015 $ |
|---|---|---|
| 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 |

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

| | 2016 $ | 2015 $ |
|---|---|---|
| Remuneration of the auditor of the Company for: | | |
| Auditing or reviewing the financial report | 42,969 | 46,991 |
| Other services | - | - |
| | 42,969 | 46,991 |

### NOTE 20. KEY MANAGEMENT PERSONNEL

| | 2016 $ | 2015 $ |
|---|---|---|
| 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 |

### 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 % |
|---|---|---|---|---|
| *Parent Entity* | | | | |
| Lion Energy Limited | Australia | Holding Company | | |
| *Entities controlled by Lion Energy Limited* | | | | |
| 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% |
| *Entities controlled by KRX Energy Pte Ltd* | | | | |
| KRX Energy (SBA) Pte Ltd | Singapore | Oil & gas exploration | 100% | 100% |
| Tower Indonesia Shale Ltd | BVI | Oil & gas exploration | 100% | 100% |
| *Entities controlled by Lion Energy Limited USA, Inc* | | | | |
| 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 $ |
|---|---|
| *Financial Assets* | |
| Cash assets | 520,074 |
| Receivables | 19,399 |
| *Financial Liabilities* | |
| 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 |
| 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 |

## 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 $ |
|---|---|---|---|---|
| *Financial Assets* | | | | |
| Cash assets | 1,246,866 | 1,246,866 | 2,129,296 | 2,129,296 |
| Receivables | 838,026 | 838,026 | 806,189 | 806,189 |
| *Financial Liabilities* | | | | |
| 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 $ | Consolidated Entity 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.

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# 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.

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## 1. Going concern

| Why significant | How our audit addressed the key audit matter |
|---|---|
| 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.<br>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.<br>We consider that the conclusion on whether the Group represents a going concern continues to be a significant risk of material misstatement.<br>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. | We assessed the Group's going concern model, including:<br>► The liquidity position at year end and the projected cash flows<br>► Reasonableness of the projected revenue from oil sales and the relevant cost of sales<br>► The accuracy of exploration and evaluation expenditure commitments<br>► The anticipated uses of funding<br>► Projected administration overhead costs.<br>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 | How our audit addressed the key audit matter |
|---|---|
| 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.<br>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. | We evaluated the Group's assessment of the carrying value of exploration and evaluation assets. In obtaining sufficient audit evidence, we:<br>► 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<br>► 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<br>► 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<br>► Assessed the commercial viability of results relating to exploration and evaluation activities carried out in the relevant licensed area<br>► Assessed the ability to finance any planned future exploration and evaluation activity. |

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### 3. Carrying value of oil and gas properties

| Why significant | How our audit addressed the key audit matter |
|---|---|
| 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 discount rates and inflation rates.<br><br>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. | In obtaining sufficient appropriate audit evidence with respect to oil and gas properties, we:<br>► 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<br>► 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<br>► Performed sensitivity on certain component of the model as we deemed reasonable<br>► 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.

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## 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.

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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

Ernst & Young

D A Hall

D A Hall
Partner
Perth
29 March 2017

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## 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 11 APRIL 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 | 150 |
| 10,001 — 100,000 | 122 |
| 100,001 — and over | 67 |
| Total number of holders | 571 |
| Holdings of less than a marketable parcel | 383 |

### 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 11 APRIL 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> | 3,273,276 | 3.03 |
| 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 |
| MR RICHARD CHARLES GRIGG | 600,695 | 0.56 |
| SMALL BUSINESS FINANCE PTY LIMITED | 597,645 | 0.55 |
| MR ROBERT DAVIES | 592,204 | 0.55 |
| ALL OTHER SHAREHOLDERS | 16,762,985 | 15.49% |
| Total | 108,186,532 | 100.00% |

### 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 |

## ADDITIONAL INFORMATION AS AT 11 APRIL 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.

LION energy


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