



Financial Report 2017

For the Period 1 January to 31 December 2017

Lion Energy Limited
ABN 51 000 753 640



CORPORATE DIRECTORY

DIRECTORS: Thomas Soulsby (Executive Chairman)
Damien Servant (Executive Director)
Russell Brimage (Non-executive Director)
Christopher Newton (Non-executive Director)
Zane Lewis (Non-executive Director)

JOINT COMPANY SECRETARIES: Zane Lewis
Arron Canicais

ABN: 51 000 753 640

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

DIRECTORS REPORT

The directors of Lion Energy Limited A.C.N. 000 753 640 ("Parent Entity" or "Company" or "Lion") present their report including the consolidated financial report of the Company and its controlled entities ("Consolidated Entity" or "the Group") for the year ended 31 December 2017. The Company is a listed public company limited by shares, incorporated and domiciled in Australia.

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
Thomas Soulsby
Christopher Newton
Damien Servant (Appointed 13 February 2018)
Zane Lewis (Appointed 13 February 2018)
William (Kim) Morrison (Resigned 13 February 2018)
Stuart Smith (Resigned 13 February 2018)

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 \$10,135,616 for the year ended 31 December 2017 (2016: \$1,069,747).

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 2017.

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:

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 25 August 2017, 250,000 ordinary shares were issued to Mr Smith being the third year's incentive due. The expense was recognised as at 31 December 2017 for \$39,470 (A\$50,000).

On the same date 202,000 shares were issued to consultants in lieu of cash settlement for its consultancy service of \$6,059 (A\$7,676.)

DIRECTORS REPORT

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%)

Annual production from the Oseil oilfield and surrounding structures was 1,042,053 bbls of crude oil at an average daily rate of 2855 bopd. (2016 production 1,392,809 bbls of crude oil at an average daily rate of 3805 barrels of oil per day, 90 bopd net to Lion). This represents a 25% natural decline in production from the prior calendar year.

Calendar year operating cost of US\$16.56/bbl was up 13.4% from the previous year, despite actual operating cost expenditure reduction of 13.5%, due to the 25% reduction in production.

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. Meetings between the Operator (CITIC Seram Energy Ltd) and the Indonesian regulatory bodies (SKK Migas, MIGAS and the Ministry of Energy & Mineral Resources) are ongoing.

SOUTH BLOCK A PSC (LION 40.7%)

The Indonesian regulator, the BPMA, granted an extension of the South Block A PSC exploration term for an additional four years, effective from 19 January 2017. This follows the drilling of the Amanah Timur (AMT-1) discovery well which completed the firm commitment obligations in the block. The remaining area of the PSC is now 421km² and the area has been carefully selected by the Joint Venture to ensure all identified prospects and leads are included therein.

The Amanah Timur exploration well (AMT-1) was drilled to total depth of 347m and encountered strong gas and good oil shows from at least three of the interpreted hydrocarbon zones. The well was spudded on 3 January 2017 and reached Total Depth of 347mKB on 11 January 2017. The well was plugged and abandoned as a discovery following unsuccessful attempts to free stuck drill pipe. The well did not test the deeper objectives on the Amanah Timur structure.

Encouraged by the positive result, the South Block A joint venture has made good progress in planning for the appraisal well AMT-2, which the JV considers, if successful, will qualify for the submission of a Plan of Development submission to the regulators (commercialization). Detailed well planning is expected to ensure the deeper objectives are tested by the AMT-2 well.

The Operator is scheduling for a mid-May 2018 spud date for the AMT-2 appraisal well.

JOINT STUDIES

Lion's unconventional efforts have been focussed on the prolific North and Central Sumatra Basins, in which the company's evaluation indicates the prospective source rocks are at a suitable maturity and depositional setting to be highly attractive unconventional targets. Potential for enormous quantities of tight (low permeability) gas and oil is recognised.

As a result, Lion has acquired a highly attractive early mover unconventional position in Indonesia through three completed unconventional joint studies and one ongoing joint study applications totalling over 10,000 sq.km. In completing the joint studies, Lion and its consortium members gain the right to match the highest offer (if any) for a block when gazetted.

Lion holds a 55% interest and is Operator of the North Sumatra "Bohorok" Unconventional Joint Study with rights covering an area of 2998 sq.kms, 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 sq.kms and is located in the east of the Central Sumatra Basin, Lion has a 75% interest and is Operator of this study.

DIRECTORS REPORT

A conventional Joint Study over a prospective area in Eastern Indonesia was formally approved by the regulator MIGAS in May 2016. The Joint Study was completed in March 2017. By conducting the study Lion gains preferential rights to an area of over 6500 sq.km. The exact location of the area remains commercially sensitive. In May 2017 Lion announced it had reached agreement with the management of Transform Exploration Pty Ltd ("Transform Exploration"), the partner in the Joint Study, to acquire their 50% rights to the area in exchange for issuing 4.8 million Lion ordinary shares. The share issue was approved by shareholders at Lion's AGM on 30 May 2017. As a result, Lion now has 100% rights to the area. Lion expects the area will be gazetted by the Indonesian government in 2018 and the company have rights to match the highest bid.

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). Lion decisions to proceed on any PSC will be subject to commercial assessment of the terms, including the minimum work commitment tabled by the government.

A further Joint Study application in Northern Sumatra is awaiting provisional government approval, having already been approved by the central government authority MIGAS and a Joint Study application in West Central Sumatra is at discussion level with MIGAS and subject to final agreement with conventional rights holders, prior to approval.

STRATEGIC REVIEW

On 28 March 2018, the Company announced the result of a strategic review, pursuant to which it was decided to direct the Company resources to acquiring oil and gas producing, or near term producing assets in SE Asia, whilst looking to dispose those current assets considered non-core.

In line with this revised strategy, the Company will retain the Seram PSC core production and cash flow asset and intends to further build its portfolio via acquisition of, or farm-in to, additional interests in producing assets and will review other opportunities considered complimentary to such assets. The Company also intends to pursue operatorship in any new ventures where the position is available.

Non-core assets are those that the Company consider higher risk conventional exploration and unconventional assets, specifically all other conventional assets and the unconventional inventory of completed joint studies and joint studies in process, other than any joint study in process considered complimentary to core assets either held of being considered.

SIGNIFICANT EVENTS SUBSEQUENT TO REPORTING DATE

On 13 February 2018, there were board changes made with Kim Morrison and Stuart Smith resigning from the Board and Damien Servant and Zane Lewis being appointed.

On 28 March 2018, the Company announced the result of a strategic review. Please refer to the review of operations section in the directors' report for further information.

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 orientated projects.

DIRECTORS REPORT

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

THOMAS LEO SOULSBY

DIRECTOR (EXECUTIVE CHAIRMAN)

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

DIRECTORS REPORT

RUSSELL ERNEST BRIMAGE

CHAIRMAN (NON-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

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

DIRECTORS REPORT

DAMIEN SERVANT

DIRECTOR (EXECUTIVE)

Qualifications and Experience:

Mr Servant has more than a decade of experience in investment banking in South East Asia, with expertise in regional oil and gas asset debt funding.

Mr Servant's extensive regional investment banking experience is also informed by a background in engineering. This makes him crucial to the identification, assessment and execution of value-creating oil and gas investment opportunities.

Starting his investment banking career with BNP Paribas, Mr Servant then joined Merrill Lynch as a director of Debt Capital Markets Division in Singapore. He went on to become a Director of Standard Merchant Bank's Debt Products Group before joining Risco Energy in 2013.

Mr Servant holds an engineering degree from École Nationale Supérieure des Télécommunications and a Master of Finance from University Paris Dauphine.

Directorships of other listed companies in the 3 years prior to the end of the Financial Period:	Nil
Interest in shares and options of the Company:	Nil
Directors meetings attended:	0 of 3 held during term of directorship in financial period
Appointed:	13 February 2018

ZANE ROBERT LEWIS

DIRECTOR (NON-EXECUTIVE)

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.

Directorships of other listed companies in the 3 years prior to the end of the Financial Period:	Nil
Interest in shares and options of the Company:	719,567 Ordinary Shares
Directors meetings attended:	0 of 3 held during term of directorship in financial period
Appointed:	13 February 2018

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.

DIRECTORS REPORT

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
Resigned as Director, made redundant as CEO:	13 February 2018

STUART BRUCE SMITH DIRECTOR (EXECUTIVE)

Qualifications and Experience:

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

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

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

Directorships of other listed companies in the 3 years prior to the end of the Financial Period:	None
Special Responsibilities:	Executive Director, with overall responsibility for finance matters for the Group Executive Director KRX Energy Pte Ltd (effective 1 February 2014)
Interest in shares and options of the Company:	750,000
Directors meetings attended:	3 of 3 held during term of directorship in financial period
Appointed:	10 June 2014
Resigned:	13 February 2018

DIRECTORS REPORT

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 Company Secretary for a range of ASX listed entities.

Appointed: 1 July 2015.

DIRECTORS MEETINGS

During the period ended 31 December 2017, 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 2017. 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.

DIRECTORS REPORT

The table below sets out information about the Consolidated Entity's earnings and movements in shareholders wealth for the past five years up to and including the current financial year.

	31/12/17	31/12/16	31/12/15	30/06/14	30/06/13
	12 mos	12 mos	18 mos *	12 mos	12 mos
Loss after tax expenses	10,135,616	1,069,747	835,963	1,730,393	2,760,313
Loss per share – cents	9.21	1.10	0.87	2.87	2.32
Share price – cents	4.68	4.56	8.04	19.96	2.23

* The Consolidated Entity changed its yearend from 30 June to 31 December; hence, the first year it changed covered 18 months.

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

DIRECTORS REPORT

DETAILS OF REMUNERATION

Compensation 12 months to 31 December 2017

	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	77,719	2,652		80,371	0%
Kim Morrison	167,968	17,730		185,698	0%
Stuart Smith	143,040		39,470	182,510	20%
Thomas Soulsby	54,000			54,000	0%
Christopher Newton	54,062			54,062	0%
TOTAL COMPENSATION – FOR KEY MANAGEMENT PERSONNEL	496,789	20,382	39,470	556,641	

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	

Notes:

- Represents 250,000 incentive shares issued in 2017 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 2017 (2016: \$nil).
- 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 2017 (2016: \$nil).
- The Company also reimburses validly incurred business expenses of directors. These are not included in the table above.

SHARES AND OPTIONS HELD BY KEY MANAGEMENT PERSONNEL

	1 January 2017 or Appointment	Number of Ordinary Shares Issued as Compensation	Net Change Other	31 December 2017 or Resignation
Russell Brimage	4,428,329	-	-	4,428,329
Kim Morrison	4,083,349	-	-	4,083,349
Stuart Smith	500,000	250,000	-	750,000
Christopher Newton	-	-	-	-
Thomas Soulsby	-	-	-	-
	9,011,678	250,000	-	9,261,678

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

DIRECTORS REPORT

OTHER INFORMATION

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

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

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

At the last AGM, the shareholders voted to adopt the remuneration report for the year ended 31 December 2016. The company did not receive any specific feedback at the AGM regarding its remuneration policies.

End of Remuneration Report (Audited)

DIRECTORS REPORT

SHARE OPTIONS ISSUED AND OUTSTANDING

The following Options were issued on 16 January 2014 and expired during the reporting period:

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 2017.

SHARE OPTIONS EXERCISED

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 \$10,872 (2016: \$16,183) 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

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 2017. A copy of this declaration appears at the end of this report.

DIRECTORS REPORT

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.

A handwritten signature in blue ink, appearing to read 'T. Soulsby', with a stylized, looping flourish at the end.

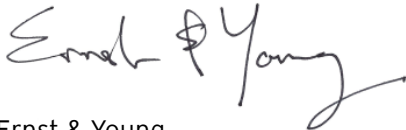
Thomas Soulsby
Executive Chairman
29 March 2018
Perth, Western Australia

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 2017, 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



Darryn Hall
Partner
29 March 2018

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 DECEMBER 2017**

		Consolidated Entity	
		31 December 2017	31 December 2016
	Note	\$	\$
Sales revenue	4	1,056,350	1,167,421
Cost of goods sold	4	(900,691)	(1,126,834)
GROSS PROFIT		155,659	40,587
Financing income	4	1,828	2,312
Administration expenses	4	(424,888)	(545,742)
Employee benefit expenses		(580,768)	(559,644)
Foreign exchange gain / (loss)		19,846	(7,260)
Capitalised Exploration Expenditure Write Off Expense	11	(9,307,293)	-
LOSS BEFORE INCOME TAX EXPENSE		(10,135,616)	(1,069,747)
Income tax benefit/(expense)	5	-	-
LOSS AFTER RELATED INCOME TAX EXPENSE		(10,135,616)	(1,069,747)
OTHER COMPREHENSIVE INCOME			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX		-	-
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(10,135,616)	(1,069,747)
EARNINGS/(LOSS) PER SHARE			
BASIC LOSS PER SHARE (CENTS PER SHARE)	6	(9.21)	(1.10)
DILUTED LOSS PER SHARE (CENTS PER SHARE)	6	(9.21)	(1.10)

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 2017

		Consolidated Entity	
		31 December	31 December
		2017	2016
	Note	\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	17	823,113	1,246,866
Trade and other receivables	7	416,967	706,776
Inventories	8	327,602	343,299
TOTAL CURRENT ASSETS		1,567,682	2,296,941
NON-CURRENT ASSETS			
Plant and equipment	9	7,088	10,409
Receivables	10	-	131,250
Capitalised exploration and evaluation expenditure	11	266,698	8,778,733
Oil & gas properties	12	548,485	930,863
TOTAL NON-CURRENT ASSETS		822,271	9,851,255
TOTAL ASSETS		2,389,953	12,148,196
CURRENT LIABILITIES			
Trade and other payables	13	1,074,688	886,831
TOTAL CURRENT LIABILITIES		1,074,688	886,831
TOTAL LIABILITIES		1,074,688	886,831
NET ASSETS		1,315,265	11,261,365
EQUITY			
Issued capital	14	48,077,278	47,887,762
Reserves	15	2,835,705	2,835,705
Accumulated losses		(49,597,718)	(39,462,102)
TOTAL EQUITY		1,315,265	11,261,365

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 2017

		Consolidated Entity	
		31 December	31 December
		2017	2016
Note		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
	Receipts from customers	1,258,160	897,261
	Receipts from legal settlement	2,159	34,331
	Production expenditure	(304,293)	(594,052)
	Payments to suppliers and employees	(921,900)	(880,133)
	Interest received	1,828	2,312
	NET CASH FROM /(USED IN) OPERATING ACTIVITIES	35,954	(540,281)
17			
CASH FLOWS FROM INVESTING ACTIVITIES			
	Disposal of property, plant and equipment	1,912	3,358
	Exploration and evaluation expenditure	(469,480)	(698,362)
	Expenditure on oil and gas properties	(11,985)	(131,084)
	Refund/(placement) of performance bond collateral	-	105,000
	NET CASH USED IN INVESTING ACTIVITIES	(479,553)	(721,088)
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			
	Net foreign exchange differences	19,846	(2,119)
	Cash and cash equivalents at beginning of period	1,246,866	2,129,296
	CASH AND CASH EQUIVALENTS AT END OF PERIOD	823,113	1,246,866
17			

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

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2017

ATTRIBUTABLE TO MEMBERS OF THE COMPANY	Issued Capital \$	Option Premium Reserve \$	Currency Translation Reserve \$	Accumulated Losses \$	Total Equity \$
AT 1 JANUARY 2016	47,421,356	(27,070)	2,862,775	(38,392,355)	11,864,706
Loss for period	-	-	-	(1,069,747)	(1,069,747)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	-	-	-	(1,069,747)	(1,069,747)
Securities issued	486,602	-	-	-	486,602
Share based payments	(20,196)	-	-	-	(20,196)
AT 31 DECEMBER 2016	47,887,762	(27,070)	2,862,775	(39,462,102)	11,261,365
Loss for the year	-	-	-	(10,135,616)	(10,135,616)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	-	-	-	(10,135,616)	(10,135,616)
Securities issued	189,516	-	-	-	189,516
Equity raising costs	-	-	-	-	-
AT 31 DECEMBER 2017	48,077,278	(27,070)	2,862,775	(49,597,718)	1,315,265

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 2017

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 2017 were authorised for issue in accordance with a resolution of the directors on 29 March 2018. 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 and 23.

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.

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 effective 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 2017. These new and revised standards are:

Reference	Title
AASB 2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses
AASB 2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107
AASB 2017-2	Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle

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.

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

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

Reference	Title	Summary	Application date of standard
AASB 9	<i>Financial Instruments</i>	AASB 9 replaces AASB 139 <i>Financial Instruments: Recognition and Measurement</i> . Except for certain trade receivables, an entity initially measures a	1 January 2018

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

Reference	Title	Summary	Application date of standard
		<p>financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs.</p> <p>Debt instruments are subsequently measured at FVTPL, amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held.</p> <p>There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch.</p> <p>Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.</p> <p>For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.</p> <p>All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB 9, including the embedded derivative separation rules and the criteria for using the FVO.</p> <p>The incurred credit loss model in AASB 139 has been replaced with an expected credit loss model in AASB 9.</p> <p>The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies in the hedge accounting model in AASB 139.</p>	
AASB 15	Revenue from Contracts with Customers	<p>AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111 <i>Construction Contracts</i>, AASB 118 <i>Revenue</i>, AASB Interpretation 13 <i>Customer Loyalty Programmes</i>, AASB Interpretation 15 <i>Agreements for the Construction of Real Estate</i>, AASB Interpretation 18 <i>Transfers of Assets from Customers</i> and AASB Interpretation 131 <i>Revenue – Barter Transactions Involving Advertising Services</i>) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 <i>Leases</i> (or AASB 16 <i>Leases</i>, once applied).</p> <p>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 an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps:</p> <ul style="list-style-type: none"> ▶ Step 1: Identify the contract(s) with a customer ▶ Step 2: Identify the performance obligations in the contract ▶ Step 3: Determine the transaction price ▶ Step 4: Allocate the transaction price to the performance obligations in the contract ▶ Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. 	1 January 2018

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

Reference	Title	Summary	Application date of standard
AASB 2016-5	<i>Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions</i>	<p>This Standard amends AASB 2 <i>Share-based Payment</i>, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:</p> <ul style="list-style-type: none"> ► The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments ► Share-based payment transactions with a net settlement feature for withholding tax obligations ► A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. 	1 January 2018
AASB 2017-1	<i>Amendments to Australian Accounting Standards – Transfers of Investments Property, Annual Improvements 2014-2016 Cycle and Other Amendments</i>	<p>The amendments clarify certain requirements in:</p> <p>AASB 1 <i>First-time Adoption of Australian Accounting Standards</i> – deletion of exemptions for first-time adopters and addition of an exemption arising from AASB Interpretation 22 <i>Foreign Currency Transactions and Advance Consideration</i></p> <ul style="list-style-type: none"> ► AASB 12 <i>Disclosure of Interests in Other Entities</i> – clarification of scope ► AASB 128 <i>Investments in Associates and Joint Ventures</i> – measuring an associate or joint venture at fair value ► AASB 140 <i>Investment Property</i> – change in use. 	1 January 2018
AASB Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration</i>	<p>The Interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transaction for each payment or receipt of advance consideration.</p>	1 January 2018
AASB 16	<i>Leases</i>	<p>AASB 16 requires lessees to account for all leases under a single on balance sheet model in a similar way to finance leases under AASB 117 <i>Leases</i>. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).</p> <p>Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.</p> <p>Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.</p>	1 January 2019
AASB 2017-7	<i>Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures</i>	<p>This Standard amends AASB 128 <i>Investments in Associates and Joint Ventures</i> to clarify that an entity is required to account for long-term interests in an Associate or joint venture, which in substance form part of the net investment in the associate or joint venture but to which the equity method is not applied, using AASB 9 <i>Financial Instruments</i> before applying the loss allocation and impairment requirements in AASB 128.</p>	1 January 2019

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

Reference	Title	Summary	Application date of standard
AASB 2018-1	Annual Improvements to IFRS Standards 2015–2017 Cycle	<p>The amendments clarify certain requirements in:</p> <ul style="list-style-type: none"> ▶ AASB 3 <i>Business Combinations</i> and IFRS 11 <i>Joint Arrangements</i> - previously held interest in a joint operation ▶ AASB 112 <i>Income Taxes</i> - income tax consequences of payments on financial instruments classified as equity ▶ AASB 123 <i>Borrowing Costs</i> - borrowing costs eligible for capitalisation. 	1 January 2019

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 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.

Summary of Significant Accounting Policies

a) 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. Both the functional and presentation currency of the Group is in US Dollars.

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

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 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

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 2017

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 31 December 2015 financial statements. No change on the view since then to 31 December 2017 financial statements.

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,

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

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 an 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 2017

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 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 \$10,135,616 (2016: \$1,069,747), received a net operating cash inflow of \$35,954 (2016: net operating cash outflow \$540,281) and expended a net investing cash outflow of \$479,553 (2016: \$721,088) for the year to 31 December 2017.

The Consolidated Entity is currently in a positive net current asset position, including cash of \$823,113 (2016: \$1,246,866). 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. The Directors note that should uncommitted business activities or continued exploration and evaluation activities not resolve themselves as anticipated, the business may require expenditure in excess of funds available. Options with regard to funding those activities will need to be sought. Should the Group not achieve additional funding required, there is uncertainty whether the Group would continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

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 2017

Consolidated Entity
31 December 2017 31 December 2016
\$ \$

NOTE 4. REVENUE AND EXPENSES

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

REVENUE

Oil sales	1,056,350	1,167,421
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Finance income:

Interest receivable from other persons	1,828	2,312
	1,828	2,312

EXPENSES

Cost of goods sold:

Production costs	506,328	588,433
Depreciation, Depletion & Amortisation	394,363	538,401
	900,691	1,126,834

Administration expenses:

Depreciation	1,409	4,072
Consultants	107,940	171,402
Consultants - share based payments	2,814	48,002
Legal expenses	43,348	27,652
Professional fees	156,941	148,246
Rental costs	12,123	10,939
Travel	33,444	41,428
Other administration expenses	66,869	94,001
	424,888	545,742

Employee benefit expenses

Wages, salaries and directors fee	519,636	502,876
Share based payments	39,470	37,346
Superannuation	21,662	19,422
	580,768	559,644

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

Consolidated Entity
31 December 2017 31 December 2016
\$ \$

NOTE 5. INCOME TAX

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

LOSS FROM CONTINUING OPERATIONS	(10,135,616)	(1,069,747)
Prima facie income tax benefit on operating loss calculated at 27.5% (2016:30%)	(2,787,295)	(320,924)
Non-deductible expenses	1,780,011	218,309
Difference of effective foreign income tax rates	680,403	16,704
Income tax benefit not brought to account as realisation of the benefit is not virtually certain	326,881	85,911
Deferred tax assets recognised and offset against deferred tax liabilities	-	-
INCOME TAX BENEFIT FROM CONTINUING OPERATIONS	-	-

Deferred tax balances as at 31 December 2017 were not recognised in the statement of financial position. These relate to the deferred tax assets from the following accounts:

Accruals	15,251	11,505
Unused tax losses – revenue losses	6,003,762	5,969,349
Unrecognised deferred tax asset – capital losses	409,144	413,270
DEFERRED TAX ASSET NOT BROUGHT TO ACCOUNT	6,428,156	6,394,124

The Group's unused tax losses that arose from revenue primarily relates to those incurred by the parent company based in Australia of \$11,326,308 (2016: \$10,330,588) that are available indefinitely for offsetting against future taxable profits of the parent. In addition, it also includes a total of \$7,940,382 (2016: \$7,829,476) of unused tax losses incurred by the foreign subsidiaries domiciled in the US and in Singapore.

The Group has unused capital losses of \$1,487,795 (2016: \$1,377,567) that arose mainly from the loan related transactions in the prior years and are available for offsetting against future taxable capital gains of parent company.

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	(10,135,616)	(1,069,747)
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic/diluted earnings per share	110,028,329	97,107,335

NOTE 7. TRADE AND OTHER RECEIVABLES (CURRENT)

Trade debtors	268,368	596,431
Other debtors and prepayments	17,349	60,345
Performance bond collateral	131,250	50,000
	416,967	706,776

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

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

Consolidated Entity

2017	2016
\$	\$

NOTE 8. INVENTORIES

Joint Operations materials (at cost)

327,602	343,299
<u>327,602</u>	<u>343,299</u>

NOTE 9. PLANT AND EQUIPMENT

PLANT AND EQUIPMENT

At cost

268,016	268,016
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Accumulated depreciation

(260,928)	(257,607)
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TOTAL PLANT AND EQUIPMENT

<u>7,088</u>	<u>10,409</u>
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MOVEMENTS IN THE CARRYING AMOUNT OF PLANT AND EQUIPMENT

PLANT AND EQUIPMENT

At the beginning of the financial period

10,409	17,839
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Disposal

(1,912)	(3,358)
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Depreciation expense

(1,409)	(4,072)
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TOTAL PLANT AND EQUIPMENT

<u>7,088</u>	<u>10,409</u>
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NOTE 10. TRADE AND OTHER RECEIVABLES (NON CURRENT)

Performance bond collateral

-	131,250
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<u>-</u>	<u>131,250</u>
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Lion, via one of its joint venture partners, has lodged collateral to support its exploration commitments in the South Block A PSC. These funds were released to the joint operator when the firm commitment pursuant to the PSC was completed, which was post yearend. It is expected the Group will be refunded in 2018.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

Consolidated Entity

2017 **2016**
\$ \$

NOTE 11. CAPITALISED EXPLORATION AND EVALUATION EXPENDITURE

Capitalised exploration and evaluation expenditure	266,698	8,778,733
TOTAL	266,698	8,778,733

MOVEMENTS IN THE CARRYING AMOUNT OF CAPITALISED EXPLORATION AND EVALUATION EXPENDITURE

At the beginning of the financial period	8,778,733	8,025,118
Expenditure during the period	795,258	753,615
Capitalised exploration expenditure written off	(9,307,293)	-
AT THE END OF THE FINANCIAL PERIOD	266,698	8,778,733

Capitalised exploration and evaluation expenditure above includes \$266,698 (2016: \$8,778,733) 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.

The Board has undertaken a strategic review of assets with a view to rationalising non-core assets and focussing on a production orientated portfolio of projects in line with the announcement to the ASX on 28 March 2018. There are no committed plans to fund activities on any of the group's areas of interest except for the East Seram area of interest. The Board has therefore taken the approach to impair to nil the exploration and evaluation costs on all areas of interest excluding the East Seram Joint Study which continues to be carried forward at its full cost.

NOTE 12. OIL AND GAS PROPERTIES

Oil and gas properties	548,485	930,863
	548,485	930,863

MOVEMENTS IN THE CARRYING AMOUNT OF OIL AND GAS PROPERTIES

At the beginning of the financial period	930,863	1,338,180
Expenditure during the period	11,985	131,084
Depreciation, Depletion & Amortisation	(394,363)	(538,401)
AT THE END OF THE FINANCIAL PERIOD	548,485	930,863

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

Consolidated Entity

2017 2016
\$ \$

NOTE 13. TRADE AND OTHER PAYABLES (CURRENT)

Sundry creditors and accrued expenses	374,250	297,155
Share of Joint Operations payables	700,438	589,676
	<u>1,074,688</u>	<u>886,831</u>

NOTE 14. ISSUED CAPITAL

113,438,532 (2016: 108,186,532) fully paid ordinary shares	<u>48,077,278</u>	<u>47,887,762</u>
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MOVEMENTS IN ISSUED CAPITAL

	Shares		\$	
	2017	2016	2017	2016
At the beginning of the period	108,186,532	96,197,377	47,887,762	47,421,356
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
Issued on 25 August 2017	5,252,000	-	189,516	-
Share issue expenses	-	-	-	(20,196)
AT THE END OF THE FINANCIAL PERIOD	113,438,532	108,186,532	48,077,278	47,887,762

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.

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.

On 25 August 2017, the Company issued 4,800,000 fully paid ordinary shares to acquire further 50% interest in the East Seram Joint Study of US\$143,987 (A\$182,400). The Company also issued 250,000 for the agreed incentive fee of US\$39,470 (A\$50,000). On the same date, 202,000 fully paid ordinary shares were issued to pay consulting fees of US\$6,059 (A\$7,676) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

TERMS AND CONDITIONS OF CONTRIBUTED EQUITY

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

	Consolidated Entity	
	2017	2016
	\$	\$
NOTE 15. RESERVES		
Option premium reserve	(27,070)	(27,070)
Currency translation reserve	2,862,775	2,862,775
	<u>2,835,705</u>	<u>2,835,705</u>

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	<u>(27,070)</u>	<u>(27,070)</u>

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	<u>2,862,775</u>	<u>2,862,775</u>

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.

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

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

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

The above stated procedures resulted in the recognition of a foreign currency translation reserve of US\$2,862,775 as at the 31 December 2017 (2016: US\$2,862,775).

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

	Company	
	2017	2016
	\$	\$
NOTE 16. PARENT ENTITY		
FINANCIAL INFORMATION ON THE PARENT ENTITY AS AT THE END OF THE FINANCIAL PERIOD:		
CURRENT ASSETS		
Cash and cash equivalents	793,473	992,040
Trade and other receivables	6,047	97,961
TOTAL CURRENT ASSETS	799,520	1,090,001
NON-CURRENT ASSETS		
Plant and equipment	5,860	7,269
Investments in subsidiaries	2,752,914	2,752,914
Loans to subsidiaries	21,749	23,649
Capitalised exploration and evaluation expenditure	266,698	262,174
TOTAL NON-CURRENT ASSETS	3,047,221	3,046,006
TOTAL ASSETS	3,846,741	4,136,007
CURRENT LIABILITIES		
Trade and other payables	276,276	188,254
Amounts owing to subsidiaries	7,097,876	6,226,671
TOTAL CURRENT LIABILITIES	7,374,152	6,414,925
TOTAL LIABILITIES	7,374,152	6,414,925
NET LIABILITIES	(3,527,411)	(2,278,918)
EQUITY		
Issued capital	48,077,278	47,856,018
Option premium reserve	2,681,190	2,681,190
Accumulated losses	(54,285,879)	(52,816,126)
TOTAL EQUITY	(3,527,411)	(2,278,918)
FINANCIAL INFORMATION ON THE PARENT ENTITY FOR THE FINANCIAL PERIOD:		
Loss after related income tax expense	(1,438,009)	(1,344,093)
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME	(1,438,009)	(1,344,093)

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 2017

Consolidated Entity

2017
\$

2016
\$

NOTE 17. CASH FLOW INFORMATION

RECONCILIATION OF CASH FLOW FROM OPERATIONS WITH LOSS AFTER INCOME TAX

Loss after tax	(10,135,616)	(1,069,747)
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Non-cash flow items in loss

Depreciation of plant and equipment	1,409	4,072
Depreciation, Depletion & Amortisation of development expenditure	394,363	538,401
Capitalised exploration expenditure written down	9,307,293	-
Foreign exchange	(19,846)	-
Share/option based payments	2,814	85,348

Changes in assets and liabilities

Decrease/(increase) in trade debtors	305,506	(192,090)
Decrease/(increase) in other debtors and prepayments	-	(5,619)
Increase/(decrease) in other creditors and accruals	180,031	99,354
Increase/(decrease) in provision for deferred income tax	-	-

NET CASH FROM/(USED IN) OPERATING ACTIVITIES

35,954 (540,281)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

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

Cash and cash equivalents	793,473	993,467
Share of joint operations cash	29,640	253,399

CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD

823,113 1,246,866

NON-CASH FINANCING AND INVESTING ACTIVITIES

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

- 202,000 shares were issued to pay a total of \$6,059 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 \$39,470.

The following non-cash financing or investing activities occurred during the previous 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

Consolidated Entity
2017 2016
\$ \$

NOTE 18. EXPENDITURE COMMITMENTS

OPERATING LEASE COMMITMENTS

Non-Cancellable operating lease commitments:

Payable

not later than one year	2,434	13,674
later than 1 year but not later than 5 years	-	17,093

AGGREGATE EXPENDITURE CONTRACTED FOR AT REPORTING DATE

	2,434	30,767
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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. During the subsequent period the Company agreed to cancel the lease with an end date of 1 March 2018.

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 (2016: US\$1,221,000). The Group has indirectly, through a joint venture partner, provided a security bond of US\$131,250 in respect of this commitment. Subsequent to year end this commitment was fulfilled through the drilling of the Amunah Timur-1 exploration well.

NOTE 19. AUDITORS' REMUNERATION

Remuneration of the auditor of the Company for:

Auditing or reviewing the financial report - Australia	32,544	27,982
Auditing or reviewing the financial report - Singapore	26,172	-
	58,715	27,982

NOTE 20. KEY MANAGEMENT PERSONNEL

REMUNERATION OF KEY MANAGEMENT PERSONNEL

Short term employee benefits	496,789	501,837
Post-employment benefits	20,382	19,453
Share based payments	39,470	37,346
	556,641	558,636

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 2017

22. CONTROLLED ENTITIES

	Country of Incorporation	Principal Activity	Group Ownership Interest	
			2017 %	2016 %
<i>Parent Entity</i>				
Lion Energy Limited	Australia	Holding Company		
<i>Entities controlled by Lion Energy Limited</i>				
Lion International Investment Limited	Cayman Islands	Oil & gas exploration and production	100%	100%
Lion Energy Limited USA, Inc	Delaware, USA	Holding Company	100%	100%
KRX Energy Pte Ltd	Singapore	Holding Company	100%	100%
Peutu Energy Pte Ltd	Singapore	Dormant	100%	100%
Tamiam Energy Pte Ltd	Singapore	Dormant	100%	100%
Bengkalis Energy Pte Ltd	Singapore	Dormant	100%	100%
Balam Energy Pte Ltd	Singapore	Dormant	100%	100%
<i>Entities controlled by KRX Energy Pte Ltd</i>				
KRX Energy (SBA) Pte Ltd	Singapore	Oil & gas exploration	100%	100%
Tower Indonesia Shale Ltd	BVI	Oil & gas exploration	100%	100%
<i>Entities controlled by Lion Energy Limited USA, Inc</i>				
Lion USA LLC	Delaware, USA	Dormant	100%	100%

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

NOTE 23. JOINT ARRANGEMENTS

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

Name of the Joint Operation	Principal Place of Business	Principal Activity	Proportion of Ownership Interests Held by the Group	
			31 December 2017	31 December 2016
Seram (Non-Bula) Joint Operation	Indonesia	Production, exploration and development	2.5%	2.5%
South Block A Joint Operation	Indonesia	Exploration and development	40.7%	40.7%

NOTE 24. CONTINGENT LIABILITIES

As at 31 December 2017 the Group had no contingent liabilities.

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 2017

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 2017 \$	AMOUNTS IN AUD 2016 \$
<i>Financial Assets</i>		
Cash assets	66,501	520,074
Receivables	3,167	19,399
<i>Financial Liabilities</i>		
Payables	33,530	139,867

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

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 2017. 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 2017 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	
	2017	2016
	\$	\$
TRADE AND OTHER RECEIVABLES ARE EXPECTED TO BE RECEIVED AS FOLLOWS:		
Less than 6 months	285,717	706,776
6 months to 1 year	-	-
Later than 1 year but not later than 5 years	131,250	-
Over 5 years	-	131,250
	416,967	838,026

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

Less than 6 months	1,074,688	886,831
6 months to 1 year	-	-
Later than 1 year but not later than 5 years	-	-
Over 5 years	-	-
	1,074,688	886,831

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

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 2017 \$	AGGREGATE FAIR VALUE 2017 \$	CARRYING AMOUNT IN THE FINANCIAL STATEMENTS 2016 \$	AGGREGATE FAIR VALUE 2016 \$
<i>Financial Assets</i>				
Cash assets	823,113	823,113	1,246,866	1,246,866
Receivables	416,967	416,967	838,026	838,026
<i>Financial Liabilities</i>				
Payables	1,074,688	1,074,688	886,831	886,831

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 2017.

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 2017, 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	
	2017 \$	2016 \$
CHANGE IN PROFIT DUE TO:		
Increase in interest rate by 2%	20,728	33,762
Decrease in interest rate by 2%	(20,728)	(33,762)
CHANGE IN EQUITY DUE TO:		
Increase in interest rate by 2%	20,728	33,762
Decrease in interest rate by 2%	(20,728)	(33,762)

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

FOREIGN CURRENCY RISK SENSITIVITY ANALYSIS

At 31 December 2017, 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	
	2017	2016
	\$	\$
CHANGE IN PROFIT DUE TO:		
Improvement in AUD to USD by 5%	5,020	61,336
Decline in AUD to USD by 5%	(5,020)	(61,336)
CHANGE IN EQUITY DUE TO:		
Improvement in AUD to USD by 5%	5,020	61,336
Decline in AUD to USD by 5%	(5,020)	(61,336)

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 13 February 2018, there were board changes made with Kim Morrison and Stuart Smith resigning from the Board and Damien Servant and Zane Lewis joining the Board.

On 28 March 2018, the Company announced the result of a strategic review. Please refer to the review of operations section in the directors' report for further information.

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.

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 2017 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) subject to the matter set out in Note 2, 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 2017.

On behalf of the Board of Directors.



Thomas Soulsby
Executive Chairman
29 March 2018
Perth, Western Australia

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 2017, 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 2017 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.

Material uncertainty related to going concern

We draw attention to Note 2 in the financial report. The conditions as set forth in Note 2 indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

1. Carrying value of exploration and evaluation expenditure

Why significant

The carrying value of capitalised exploration and evaluation expenditure is assessed for impairment when facts and circumstances indicate that exploration and evaluation expenditure for an area of interest may exceed its recoverable amount.

The determination as to whether there are any indicators to require capitalised exploration and evaluation expenditure for an area of interest to be assessed for impairment involves a number of judgments. This includes whether the Group will be able to maintain tenure, plans to undertake ongoing exploration and evaluation activities and if there is sufficient information for a decision to be made that the carrying amount of capitalised exploration and evaluation expenditure is unlikely to be recovered in full from successful development and exploitation or by sale. During the year the Group recognised an impairment charge of \$9.3 million in relation to areas of interest where indicators of impairment were identified.

Refer to Note 11 in the financial statements for the capitalised exploration and evaluation assets and related disclosures, including in respect of the impairment assessment.

How our audit addressed the key audit matter

We considered the Group's assessment as to whether there were indicators present that required the exploration and evaluation asset to be tested for impairment as at 31 December 2017 and for the areas of interest that were tested for impairment we assessed the resulting impairment write-down. In doing so we:

- ▶ considered the Group's right to explore in the relevant exploration area which included obtaining and assessing supporting documentation such as license agreements and or correspondence with relevant government agencies;
- ▶ considered the Group's intention to carry out significant exploration and evaluation activities in the relevant areas of interest which included discussions with senior management and Directors as to the intentions and strategy of the Group;
- ▶ understood whether the Group had made an assessment that technical and commercial viability of extracting mineral resources for all areas of interest had been demonstrated in considering whether it was appropriate to continue to classify the capitalised exploration and evaluation expenditure as an exploration and evaluation asset;
- ▶ assessed the Group's ability to finance its planned future exploration and evaluation activity, which in the current period, was a primary factor for the impairments recognised during the period as set out in Note 11;
- ▶ given the existence of impairment indicators, we assessed the Group's methodology for measuring the recoverable amount of the relevant areas of interest and calculation of the resulting impairment charge as at 31 December 2017.

We also assessed the adequacy of the disclosures in Note 11 of the financial statements.

2. Carrying value of oil and gas properties

Why significant

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

Refer to Note 12 - Oil and gas properties to the financial statements for the amounts held by the Group as at 31 December 2017 and related disclosure.

How our audit addressed the key audit matter

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

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

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2017 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and accordingly we will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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 on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on the audit of the remuneration report

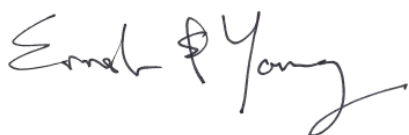
Opinion on the remuneration report

We have audited the Remuneration Report included in pages 8 to 11 of the directors' report for the year ended 31 December 2017.

In our opinion, the Remuneration Report of Lion Energy Limited for the year ended 31 December 2017, 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



Darryn Hall
Partner
Perth
29 March 2018

ADDITIONAL INFORMATION AS AT 5 MARCH 2018

ANALYSIS OF HOLDINGS OF LISTED SHARES AND OPTIONS IN THE COMPANY

	Ordinary Shares
1 — 1,000	166
1,001 — 5,000	64
5,001 — 10,000	132
10,001 — 100,000	108
100,001 — and over	67
Total number of holders	536
Holdings of less than a marketable parcel	257

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 113,438,532 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 Canicaïs.

TAXATION STATUS

Lion Energy Limited is taxed as a public company.

ADDITIONAL INFORMATION AS AT 5 MARCH 2018

TWENTY LARGEST HOLDERS OF ORDINARY SHARES

Registered Holder	Number of Shares	Percentage of Total
RISCO ENERGY UNCONVENTIONAL PTE LTD	52,535,357	46.31%
MR ROBERT FRANCIS DAVIES + MRS YRONNE ELIZABETH DAVIES <THE DAVIES MINYAMA S/F A/C>	6,419,441	5.66%
TOWER ENERGY INDONESIA LIMITED	6,307,797	5.56%
TRANSFORM EXPLORATION PTY LTD	4,800,000	4.23%
POUVOIR PTY LTD <BRIMAGE SUPER FUND A/C>	4,421,529	3.90%
KKSH HOLDINGS LTD	4,354,835	3.84%
W & N MORRISON INVESTMENTS PTY LTD <THE MORRISON FAMILY A/C>	3,937,515	3.47%
KA SPENCER PTY LTD <KA SPENCER SUPER A/C>	1,998,133	1.76%
MR JOHN JANSEN + MRS DALE LORRAINE JANSEN <JJ RETIREMENT FUND A/C>	1,242,208	1.10%
RIGGY & BOO PTY LIMITED	1,150,000	1.01%
MRS MARY LLEWELYN DULLARD <ESTATE ROGER K WHYTE A/C>	1,006,566	0.89%
MR KYLE STUART PASSMORE	1,000,000	0.88%
MRS MARY LLEWELYN DULLARD	991,566	0.87%
MR KENNETH JOHN BULL	937,504	0.83%
MR GERARD MASTERS + MRS SHARYN MASTERS <MASTERS SUPER FUND A/C>	900,000	0.79%
CLAVERDON (VIC) PTY LTD <FAIRWAY UNIT A/C>	880,000	0.78%
MS NADA SAADE	817,503	0.72%
DALE ESTATES NO 1 PTY LTD	800,000	0.71%
MR STUART SMITH	750,000	0.66%
TINTERN (VIC) PTY LTD <A & P MILLER FAMILY A/C>	700,000	0.62%
ALL OTHER SHAREHOLDERS	17,488,578	15.42%
Total	113,438,532	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	6,419,441
07/11/2017	Mr Robert Francis Davies & Mrs Yronne Elizabeth Davies <The Davies Minyama S/F A/C>	5,844,441

ADDITIONAL INFORMATION AS AT 5 MARCH 2018

OIL & GAS TENEMENTS

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