

Quarterly Report

1 July to 30 September 2015



Lofin milestone discovery, development drilling success

Highlights

- **Lofin 2C contingent resources: 2020bcf gas and 18.25mmbbl condensate (100% basis) (50bcf and 0.46mmbbl net to Lion)**
- **Successful Oseil-28 development well boosts average production by 17% on the preceding quarter**
- **Unconventional joint studies nearing completion in the prolific North and Central Sumatra Basins**
- **Active new business program in opportunity rich environment**

Despite difficult industry conditions Lion Energy Limited (“Lion” or “Company”) continues to make solid operational progress, particularly on the appraisal and development front. In response to these conditions Lion and its joint venture operators have implemented aggressive cost saving measures.

The highlight for the quarter was the completion of the Lofin-2 appraisal well and the subsequent release of Contingent Resource estimates for the field (ASX release dated 8 October 2015). The estimate of 2020bcf (2C contingent resource) represents a major resource and the JV partners will now focus on studying appraisal and development options for the field and securing a PSC renewal.

Average daily oil production at our Seram PSC increased 17% to 3488bopd (87bopd net to Lion) for the quarter, from 2984bopd the previous quarter, driven by successful drilling and completion of Oseil-28 well with production at 766bopd at 30 September 2015. Gross crude oil production was 320,899 barrels (7571bbl net to Lion). A crude oil lifting of 400,119bbl was completed on 8 September 2015 (Lion share 10,003bbl). Lion’s share of gross lifting revenue, estimated at approximately US\$0.33mil, is expected to be received 35 days following the lifting. The daily production rate at the close of the quarter of 4053bopd bodes well for further increment in the current quarter. This compares to 3440bopd at the end of the previous quarter.

In other activities, good progress has been made on the unconventional joint studies and for planned drilling in the South Block A PSC scheduled for May 2016.

Lion’s CEO, Kim Morrison noted “The contingent resource of 2tcf for the Lofin discovery, with Lion’s working interest share of 50bcf is clearly material for the Company. Our efforts are now focussed on securing a renewal to the PSC post the 2019 expiry. We are also pleased with the results of Oseil-28 which has lifted Lion’s share of Seram PSC production to over 100bopd as at quarter end and we look forward to further growth with ongoing development drilling planned. Lion continues to pursue an active new business program focussing on producing or low-risk appraisal opportunities.”

Lion at a glance

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

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Operations update (3Q-FY15)

Seram (Non-Bula) Block PSC

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

The block contains the Oseil oilfield and surrounding structures that have yielded cumulative crude oil production of 13,941,562 barrels since production started in January 2003 through to 30 September 2015.

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

Production and revenue

During the quarter the daily production rate from the Oseil and surrounding oilfields averaged 3488bopd (Lion's net working interest being 87bopd, before government entitlement).

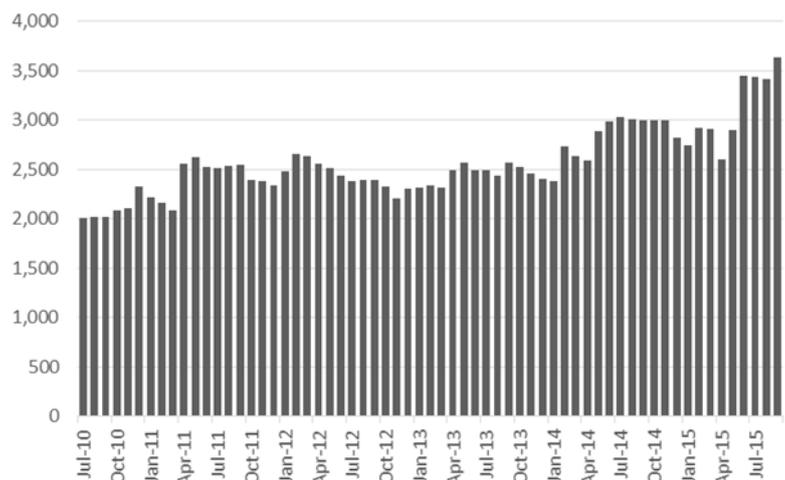
The steady uptrend in production has been maintained into 2015 and a positive result from the development well drilling at Oseil-28 has lifted field daily production above 4000bopd at quarter end, with the contribution from Oseil-28 at 766bopd at 30 September 2015.

Crude oil available for lifting at 30 September was 83,844bbl. A final calendar year lifting of in excess of 400,000bbl is expected in December 2015, with receipt of funds net to Lion approximately 35 days thereafter.

Seram (Non Bula) Block PSC - Location Map



Seram (Non Bula) Block - Daily Production per Calendar Month (bopd)



Expenditures

Seram (Non Bula) PSC	Exploration	Development	Production
	US\$	US\$	US\$
Expenditure net to Lion (3Q-CY15) ¹	69,685	218,856	168,796

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

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Lofin Field

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

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

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

- After acidising the well flowed gas and oil/condensate at a rate of 15.7mmcf/d and 171bopd of 36.1° API condensate, with a flowing wellhead pressure of 4750psi on 24/64 inch choke.
- Downhole shut-in pressure data acquired during testing operations indicated potential for a significant hydrocarbon column below the total depth of the Lofin-1 well giving the joint venture significant encouragement to drill an appraisal well.

The Lofin-2 well to appraise the Lofin-1 discovery spudded on 31 October 2014. Lofin-2 intersected the primary Manusela objective at 4615m MD (4508m ssTVD). Wireline logging at the original programmed total depth (TD) of 5471m MD (5348m ssTVD), included pressure measurements and samples. Wireline logs provided good data on the Manusela Formation carbonate reservoir which has low average porosity (~4%), net/gross of approximately 30% although with fractures evident throughout the carbonate section. The data acquired provided strong evidence that the hydrocarbon column continued deeper within the fractured Manusela limestone section. The well was therefore drilled to a revised total depth of 5861m MD (5686m ssTVD).

On pulling out of hole at this revised TD the drill pipe became stuck and on attempting to pull free parted with the top of the 253m long portion of stuck drill string at 5025m MD (4948m ssTVD). A number of attempts to free the stuck pipe were unsuccessful and the joint venture elected to conduct a flow test over the open-hole section of the Manusela Formation.

A successful well test commenced on 21 May 2015 and was conducted as a multi-rate test using different choke sizes to maximise reservoir information, over a 7 day period. On a 52/64 inch choke the well flowed gas at approx. 17.8mmcf/d with approx. 2634bpd water and completion fluid and approx. 54 bpd of 34.9° API condensate, with a flowing wellhead pressure of 2250 psi (96 hour flow period on 52/64 inch choke). On the smallest choke setting (16/64 inch) the well was flowing gas at approx. 4.95mmcf/d with approx. 12 barrels condensate and approx. 280bpd water with a flowing wellhead pressure of 5000psi (12 hour flow period on 16/64 inch choke). Tested gas quality is good with approximately 5% CO₂.

The results indicate well flow was occurring around the stuck drill pipe and the presence of water in the test is interpreted to come from the lower part of the well coincident with a decrease in gas readings while drilling from around 5586m MD (5456m ssTVD) to total depth. The well delineated a continuous gas column of up to approximately 1300m for the large Lofin structure.

The Lofin-2 well provided critical new information on porosity of the Manusela limestone, net/gross within the hydrocarbon column, fracture density, hydrocarbon saturation, fluid type and contacts.

Lofin Resource Estimate

As disclosed in the company's announcement on 8 October 2015, the data acquired during the drilling of Lofin-1ST1 and Lofin-2, combined with seismic data, has been used in calculating contingent resources for the Lofin Field. The resource estimates for gas and condensate are classified as contingent resources as there is no certainty of development due to various factors including, amongst others, economic, regulatory, market and facility, corporate commitment and extension award of the Seram Non-Bula Block PSC beyond the current 31 October 2019 expiry date. The joint venture is currently reviewing further appraisal requirements and potential development options for the Lofin Field.

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

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In-place and Contingent Resources^{1,9}				
Lofin Field, Seram (Non-Bula) Block PSC, Seram Island, Indonesia				
(as at 31 August 2015)				
Manusela Formation Reservoir	Gross (100%) PSC			
	In-place		Recoverable^{3,4}	
	Low (P₉₀)	Mid (P₅₀)	1C (P₉₀)	2C (P₅₀)
Gas (bcf)	1337.0	3070.0	879.5	2020.1
Condensate ² (mmbbl)			8.0	18.3
Total (MMBOE) ⁶	222.8	511.7	145.5	345.9
Manusela Formation Reservoir	Net to Lion Working Interest (2.5%)			
	In-place		Recoverable^{3,5}	
	Low (P₉₀)	Mid (P₅₀)	1C (P₉₀)	2C (P₅₀)
Gas (bcf)	33.43	76.75	21.99	50.50
Condensate (mmbbl)			0.20	0.46
Total (MMBOE) ⁶	5.57	12.79	3.64	8.65

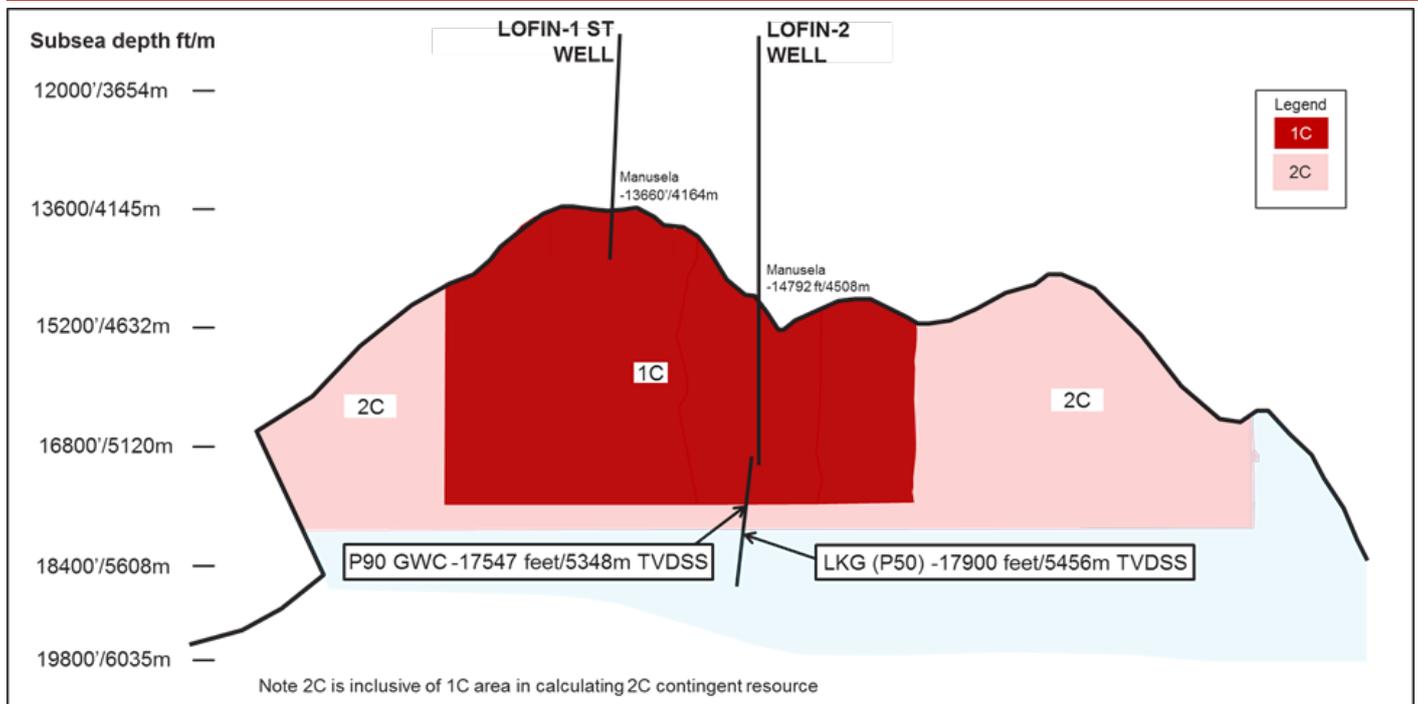
- Contingent Resources those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingent Resources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

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Schematic diagram showing Contingent Resources (1C and 2C) areas used in calculations



Shareholders and potential investors should note that there is no certainty or assurance that any portion of the contingent resources in the Lofin Field will be developed or, if developed, there is no certainty as to either the timing of such development or whether it will be commercially viable to produce any portion of the contingent resources and that the actual volume that might be produced (if any) may be different from the estimated amounts provided in this announcement.

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Oseil Oil Field

Phase 3 Development

The Seram joint venture has secured all external approvals for a third phase of development drilling on the Oseil Field (referred to by the regulators as a Plan of Further Development or POFD), with up to 10 wells within the Oseil-2 field. The Phase 3 POFD was formally approved by the Indonesian regulatory body, SKK Migas, on 5 May 2015. Five of the ten wells approved have already been drilled

The estimated total cost of the remaining five Phase 3 wells and related facilities is US\$49.9mil (US\$1.25mil net to Lion). One well is planned for in 2015, with the remaining 4 of the program scheduled for calendar year 2016. Reserves to be addressed by each of the five wells is around 0.4-0.6 million barrels. It is expected that the operator will stage the drilling program such that these capital costs can be financed by the free cash flow from the existing production from the field. The drilling of all five remaining wells will be subject to positive outcomes of the earlier wells in the program.

The recently completed Oseil-28 development well was the fifth well in the POFD.

Oseil-28 Development Well

The Oseil-28 well was directionally drilled to target, the Manusela fractured carbonate in the northern part of the faulted 4-way dip closure of the Oseil-2 up-thrown fault block

The well spudded on 18 July 2015 and the rig was released 9 September 2015. Excluding mobilization and rig up time, the well was drilled, completed and tested in 53 days, 34 days less than the well program projection.

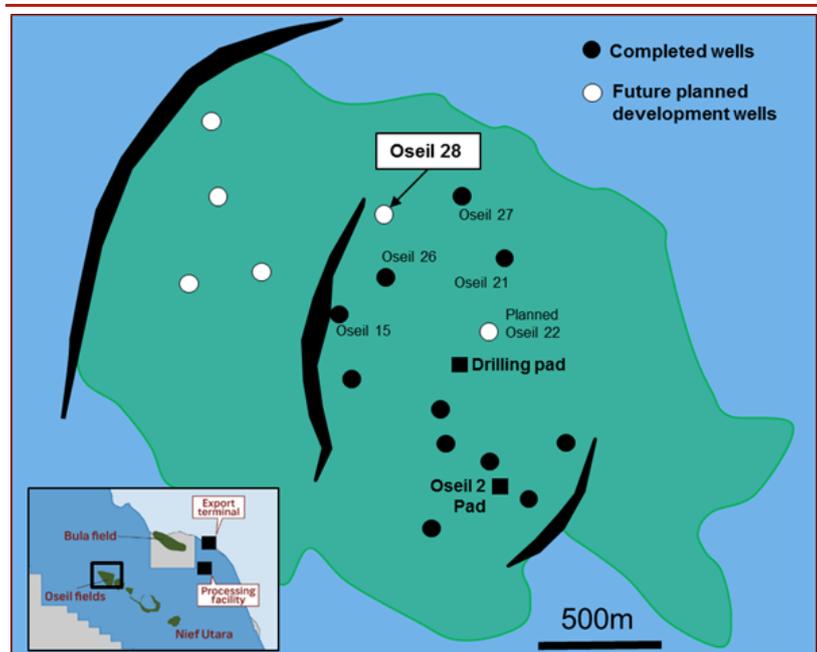
The well was drilled approximately US\$2.25mil under the budget projection of US\$9.955mil and continues the efficiency drive by the operator that has resulted in drilling costs over the past four wells of the Phase 3 program being 15.8% below projections.

Oseil-28 reached TD of 2347m MD (1949m TVD) in the Manusela limestone objective and was completed with an ESP. As at quarter end the well was producing at 766bopd on 23/64" choke. The next well is the Oseil-22 well planned to spud in early November 2015.

Oseil field overview



Oseil-2 field area



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South Block A PSC

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

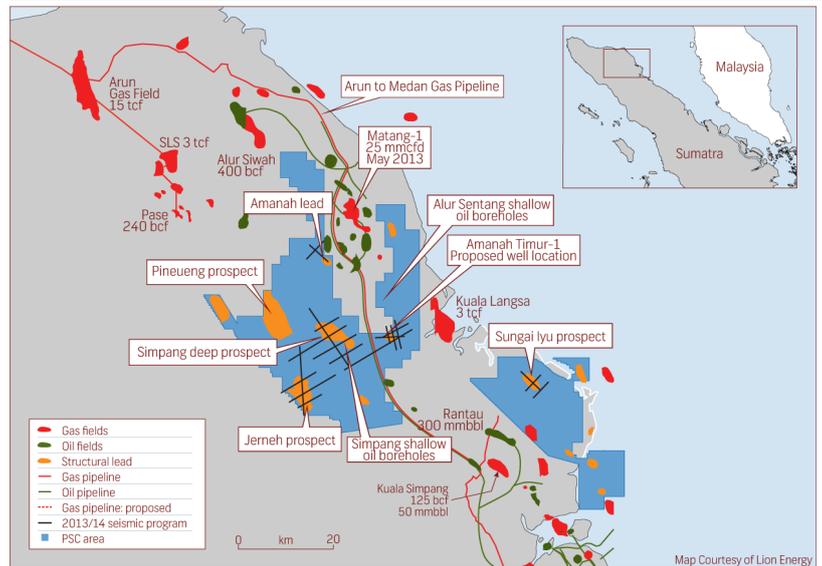
The underexplored block is centrally located in the prolific North Sumatra Basin and contains large structures with attractive gas and oil plays. The region has a strong demand, high priced gas market and a new open access pipeline connected to Medan extends through the PSC acreage.

Exploration Drilling

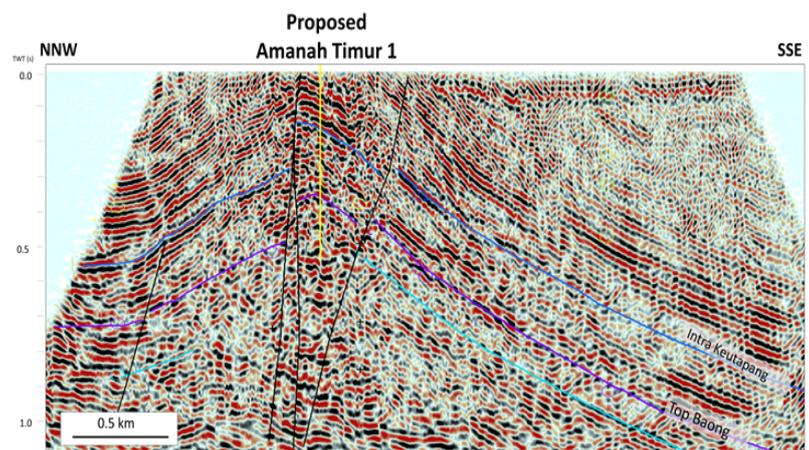
The Joint venture is making good progress planning for the Amanah Timur well, testing the previously named Paya Bili Prospect. The operator has prepared bid documentation and held meetings with contractors targeting a spud date in May 2016.

This is a shallow, low-cost well (estimated 100% cost approximately US\$2mil) testing a well defined anticline which has existing shallow oil reservoirs that produced approximately 200,000 barrels of oil in a period prior to WWII. The planned well will test this sequence and deeper undrilled reservoir within the objective late Miocene Keutapang section. It has near-term commercialisation potential with good infrastructure in close proximity.

South Block A PSC – location map



Amanah Timur Prospect – seismic section



Amanah Timur Prospect	Prospective resources ¹		
	P90	P50	P10
Oil (mmbbl)	1.1	2.7	6.0
Gas(bcf)	1.4	3.0	6.9
Combined (mmboe)	1.3	3.2	7.2

Volumes for Stacked late Miocene Keutapang objectives

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

Expenditures

Cash calls paid during the quarter totalled \$97,487 net to Lion.

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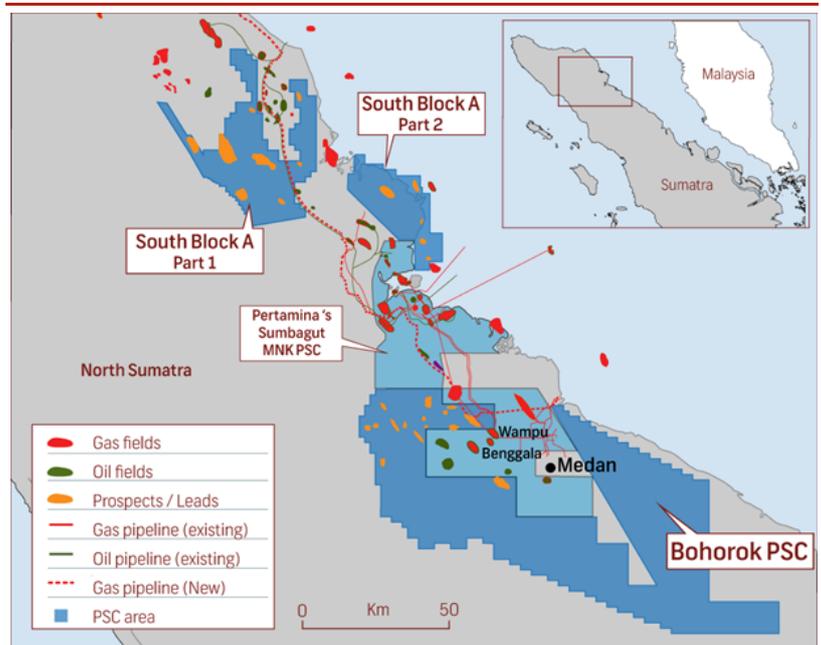
North Sumatra “Bohorok” Unconventional Joint Study

The unconventional joint study covering 4684km² was awarded on 20 February 2015. The Lion joint study area is located to the south of the South Block A PSC in which Lion holds a 35% interest and is in close proximity to the first unconventional PSC in Indonesia awarded to Pertamina in 2013 (Sumbagut MNK PSC).

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

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

Bohorok PSC and South Block A PSC– location map



Good progress was made on the joint study during the quarter. The study is being jointly undertaken with Padjadjaran University in Bandung. A geological field trip to the area was safely completed with over 300 shallow core samples obtained. Analysis of these samples was undertaken and an interim meeting was held with the Indonesia regulator MIGAS on 1 October 2015.

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

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

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Central Sumatra Unconventional Joint Study Area

An unconventional joint study, covering 2481km², located in the east of the Central Sumatra Basin covering part of the Bengkalis Graben was awarded on 20 February 2015.

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

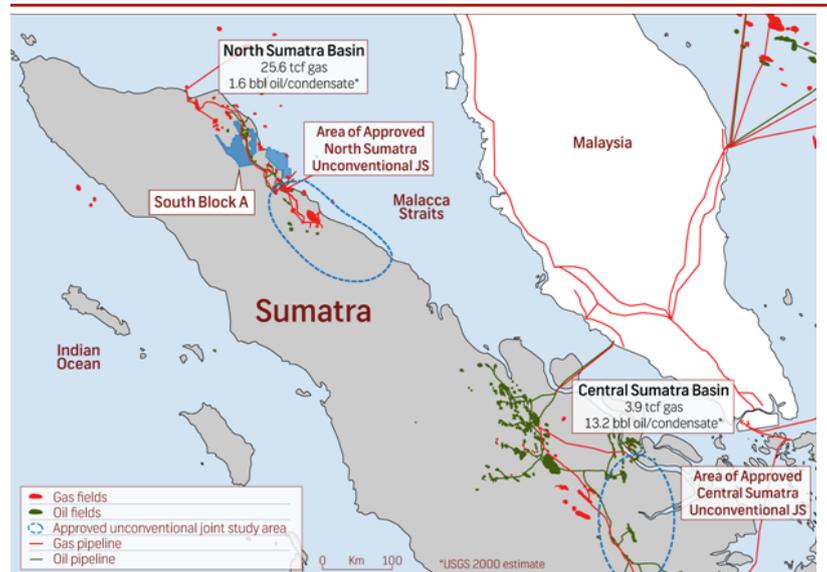
The Central Sumatra Basin is a world class petroleum province with over 13 billion barrels of oil discovered. The Bengkalis Graben, located in the east of the basin, is one of a number of prolific depo-centres within the province. It hosts major discoveries; encouragement for the unconventional potential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

The joint study is being conducted with the Institute of Technology Bandung. Geological studies and seismic interpretation were completed during the quarter and an interim meeting held with the Indonesian regulator MIGAS on October 1st, 2015.

Central Sumatra unconventional joint study interest holders:

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

North and Central Sumatra – Joint Study Areas Location Map



Unconventional Joint Study Applications

In addition to the two approved joint studies, Lion has submitted two additional Joint Study Applications for potential oil and gas unconventional areas in onshore Indonesia covering a total area of about 10,000km². Lion's initial technical assessment has identified potential for multi-tcf scale gas and multi-hundred million barrels of oil in the areas of the applications.

Progress continued during the quarter with ongoing engagement with the Indonesian regulators and other rights holders in the area.

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

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List of tenements

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

Corporate

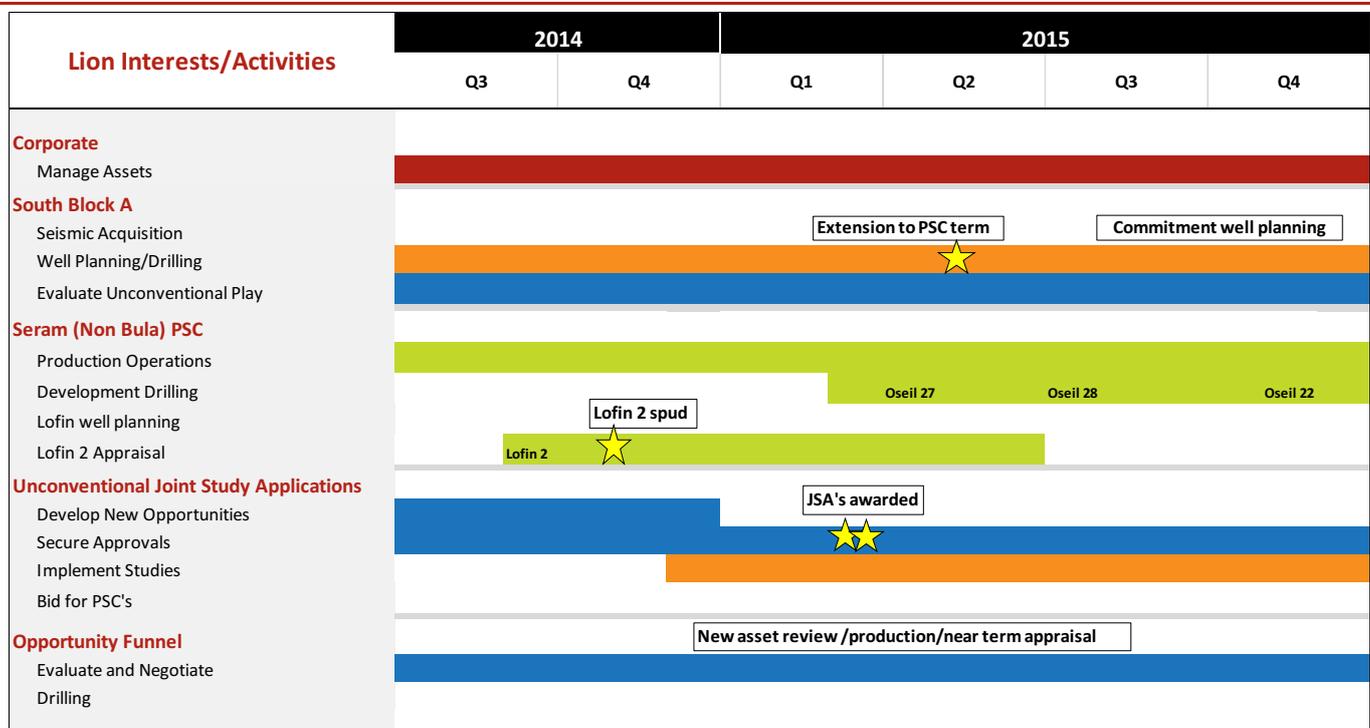
Cost saving initiative

Lion approved some prudent cost saving measures during the quarter including reduction to executive and advisor remuneration. As part of this initiative, Lion has moved to new premises effective October 20th, 2015, resulting in a significant reduction in office lease costs.

Activity schedule

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

Activity and key event timeline (3Q-2014 to end-2015)



Legend

Code	Activity type
Red	Lion Corporate
Orange	Held Assets General
Green	Held Asset Field Act
Blue	Lion New Business A

As of June 31 2015

★ Forecast Key Event /News flow

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

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Competent Persons Statement: Qualified Petroleum Reserves and Resources Evaluator

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

Glossary

bbbl: barrels

bcf: billion cubic feet

bopd: barrels oil per day

BOP: blow out preventer

ESP: Electric submersible pump

FTP: first tranche petroleum

LKG: lowest known gas

mmscfd: million standard cubic feet of gas per day

mmbbl: million barrels

MD: measured depth

PSC: Production Sharing Contract

psi: pounds per square inch feet

tcf: trillion cubic feet

ss TVD: sub-sea true vertical depth

TD: total depth

END