

Financial Report 2021

For the period 1 January to
31 December 2021

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)

COMPANY SECRETARY: Arron Canicais

ABN: 51 000 753 640

REGISTERED OFFICE: Suite 1, 295 Rokeby Road
Subiaco WA 6008, Australia

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AUDITORS: **Hall Chadwick WA Audit Pty Ltd**
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SHARE REGISTRY: **Computershare Investor Services Pty Ltd**
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This financial report covers Lion Energy Limited and its subsidiaries. The Company'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 2021. 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
Zane Lewis

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 and progressing is green hydrogen strategy.

During the year the Company commenced exploring opportunities in the green hydrogen space within Australia, there were no other significant changes in the nature of the principal activities during the financial period.

OPERATING RESULTS

The net loss for the Consolidated Entity, after income tax amounted to \$1,831,575 for the year ended 31 December 2021 (2020: \$746,274).

DIVIDENDS

No dividends have been paid or declared during the financial year by the Company.

The directors have recommended that no dividend be paid by the Company in respect of the year ended 31 December 2021.

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.

SERAM (NON-BULA) PSC

Lion participated in oil production and workover activities in the Seram (Non-Bula) PSC in 2021. Gross production was 550,734 (average 1,509 bopd), a 12.6% decline over the 2020 production of 630,311 barrels reflecting the natural decline of the Oseil field.

One well was drilled in 2021 (Oseil-23) and the joint-venture completed 2 liftings of 299,775 barrels and 241,693 barrels in July and December respectively. This compares to a total lifted volume of 790,008 barrels in 2020 from 3 liftings. Gross inventory as of 31 December 2021 was 7,217 barrels. The impact of Covid-19 on Seram (Non-Bula) operations was minimal, with no interruptions to production or activities.

DIRECTORS REPORT

EAST SERAM PSC

The East Seram PSC was signed in July 2019 with Lion having a 100% participating interest through its wholly owned subsidiary Balam Energy Pte Ltd. Lion announced in September 2019 the farming out of a 40% participating interest to OPIC East Seram Corporation ("OESC"), a subsidiary of Taiwan's CPC Corporation.

During 2021, Lion processed and interpreted the 664km marine high resolution 2D data recorded in Q4 2020 offshore Seram Island. Two areas were covered by the survey, the offshore Bula Bay area which is immediately offshore the 20mmbbl Bula Oil Field and the offshore Kobi area. The survey resulted in Lion exceeding its firm commitment obligations in the and Lion entered Permit Year 4 in good standing on July 18, 2021.

Planning continued during the year for the approximate 200km onshore seismic acquisition survey which is now scheduled for 2022 following delays due to the Covid situation in Indonesia. The survey will investigate the high ranked, onshore fold belt leads in the East Seram PSC.

GREEN HYDROGEN

In 2021, Lion announced its intention to explore green hydrogen opportunities and aim to become a producer and distributor of green hydrogen to the heavy mobility industry. The Company entered into a number of non-binding partnerships with companies involved in hydrogen equipment and vehicle manufacturing as well a potential hydrogen off takers. Lion also commenced evaluating the potential for building a network of modular hydrogen production and refuelling stations in Australia.

CORPORATE

During the year, Lion raised a total of A\$12.3 million from share issues, option conversions and convertible notes. Funds are to be used towards the company's existing projects in Indonesia and green hydrogen opportunities in Australia. Cash balance as of 31 December 2021 was US\$8.6 million (excluding joint-venture cash).

SIGNIFICANT EVENTS SUBSEQUENT TO REPORTING DATE

On 19th of January 2022, 42,187,500 fully paid ordinary shares were issued on conversion of the convertible notes.

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

In 2022, Lion aims to secure its first location for a hydrogen refuelling station driven largely by state governments in Australia driving the zero-emission transition for public transport.

Lion will also continue to pursue its activity of oil and gas exploration and evaluation, notably the onshore seismic programme in its East Seram PSC and the Lofin 2 well test in the Seram (Non-Bula) PSC.

DIRECTORS REPORT

ENVIRONMENTAL ISSUES

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

INFORMATION ON DIRECTORS AND COMPANY SECRETARY

THOMAS LEO SOULSBY

DIRECTOR (EXECUTIVE CHAIRMAN)

Qualifications and Experience:

Mr Soulsby is the CEO of Risco Energy (Risco) 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 (B.Bus Accounting) and Monash Universities (Grad Dip Arts (Asian Studies)), 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 a 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. Mr Soulsby was a key driver for strategic stakes in both Tap Oil and Lion Energy for Risco.

Directorships of other listed companies in the 3 years prior to the end of the Financial Period:	Tap Oil Ltd (resigned 31 January 2018)
Interest in shares and options of the Company at the date of this report:	6,580,673 Ordinary Shares 3,958,333 Listed Options 6,800,000 Performance Rights
Directors meetings attended:	3 of 3 held during term in financial period
Appointed:	10 January 2014

DIRECTORS REPORT

RUSSELL ERNEST BRIMAGE DIRECTOR (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:	None
Interest in shares and options of the Company at the date of this report:	6,119,971 Ordinary Shares 833,334 Listed Options 1,250,000 Performance Rights
Directors meetings attended:	3 of 3 held during term in financial period
Director since:	2005

CHRISTOPHER BASIL NEWTON DIRECTOR (NON-EXECUTIVE)

Qualifications and Experience:

Chris Newton has had a 40-year career in oil and gas covering the spectrum of the industry – from exploration, development, production and petroleum economics to strategic planning, business development and senior leadership. Chris has spent more than 25 years in leadership and senior resource industry roles in South East Asia. Roles included Managing Director for Fletcher Challenge Petroleum in Brunei, President and GM for Santos in Indonesia and CEO of Indonesian listed Energy Mega Persada. Chris was an active Director of the Indonesian Petroleum Association (IPA) between 2003 to 2008, including serving as President from 2004 to 2007. Chris is an oil and gas adviser to the Jakarta-based Castle Asia Group. Mr Newton currently serves as Executive Chairman of Tap Oil Ltd.

Mr Newton holds a Bachelor in Geology from Durham University, England, Mr Newton also holds a Grad Dip in Applied Finance and Investment from the Securities Institute of Australia (SIA).

Directorships of other listed companies in the 3 years prior to the end of the Financial Period:	Tap Oil Ltd: Delisted 18 December 2020
Interest in shares and options of the Company at the date of this report:	2,329,007 Ordinary Shares 1,666,667 Listed Options 1,250,000 Performance Rights
Directors meetings attended:	3 of 3 held during term 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.

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 at the date of this report:	2,829,167 Ordinary Shares 1,822,917 Listed Options 4,250,000 Performance Rights
Directors meetings attended:	3 of 3 held during term in financial period
Appointed:	13 February 2019

ZANE LEWIS

DIRECTOR (NON-EXECUTIVE)

Qualifications and Experience:

Mr Lewis is a principal and joint founder of corporate advisory firm SmallCap Corporate which specialises in corporate advice and compliance administration to ASX listed companies.

Mr Lewis is a Non-Executive Director of Lion Energy Limited (ASX:LIO), Kingsland Global (ASX:KLO), Kairos Minerals Limited (ASX: KAI) and Odessa Minerals Limited (ASX:ODE).

Zane provides the Board with a wealth of knowledge obtained from his diverse financial and corporate experience in previous appointments.

Mr Lewis holds a Bachelor of Economics from the University of Western Australia and is a Fellow of the Governance Institute of Australia.

Directorships of other listed companies in the 3 years prior to the end of the Financial Period:	Kingsland Global Limited: current Odessa Minerals Limited: current Kairos Minerals Limited: current Tap Oil Limited: delisted 18 December 2020 Vital Metals Limited: resigned 4 August 2020 Fraser Range Metals: resigned 24 December 2019 8Vic Limited: resigned 23 May 2019.
Interest in shares and options of the Company at the date of this report:	4,577,900 Ordinary Shares 3,333,333 Listed Options 1,250,000 Performance Rights
Directors meetings attended:	3 of 3 held during term in financial period
Appointed:	13 February 2019

DIRECTORS REPORT

ARRON CANICAIS

COMPANY SECRETARY

Qualifications and Experience:

Mr Canicais is a Chartered Accountant with 14 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.

ZANE LEWIS

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, Resigned 24 March 2021.

DIRECTORS MEETINGS

During the year ended 31 December 2021, 3 meetings of directors were held. 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 2021. 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 Consolidated Entity including all directors of the Company.

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

Remuneration is set at levels to reflect market conditions and encourage the continued services of directors and executives. There is no direct relationship between remuneration and the performance of the Company.

DIRECTORS REPORT

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

	31/12/21	31/12/20	31/12/19	31/12/18	31/12/17
	12 months	12 months	12 months	12 months	12 months
Loss after tax expenses	1,831,575	746,274	778,200	727,683	10,135,616
Loss per share – cents	0.68	0.36	0.38	0.54	9.21
Share price – cents	6.66	2.50	2.30	3.50	4.68

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:

Thomas Soulsby	Executive Chairman
Russell Brimage	Non-Executive Director
Damien Servant	Executive Director
Christopher Newton	Non-Executive Director
Zane Lewis	Non-Executive Director

SERVICE AGREEMENTS

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

Name	Base Salary/ Director Fees	Incentives through shares	Term of Agreement	Notice Period***
Thomas Soulsby*	US\$202,500	-	No fixed term	1 month
Russell Brimage	US\$43,200	-	No fixed term	N/A
Damien Servant**	US\$142,500	-	No fixed term	1 month
Christopher Newton	US\$43,200	-	No fixed term	N/A
Zane Lewis	US\$43,200	-	No fixed term	N/A

* Of Mr Thomas Soulsby's total fees of \$202,500, \$141,750 of fees are paid out of the East Seram Joint Operation, which is jointly funded by the Consolidated Entity and the Joint Venture Partner. The total fees attributable to the Consolidated Entity per year is US \$145,800.

** Of Mr Damien Servant's total fees of \$142,500, \$71,250 of fees are paid out of the East Seram Joint Operation, which is jointly funded by the Consolidated Entity and the Joint Venture Partner. The total fees attributable to the Consolidated Entity per year is US \$114,000.

DIRECTORS REPORT

DETAILS OF REMUNERATION

Compensation 12 months to 31 December 2021

	Short Term Benefits ¹ \$	Post employment benefits (super- annuation) \$	Share based payments \$	Termination benefits \$	Total ² \$	% of remuneration that is equity based
COMPENSATION OF DIRECTORS BASED ON FEES APPROVED BY THE BOARD OF DIRECTORS.						
Thomas Soulsby	145,800	-	62,133	-	207,933	29.88
Russell Brimage	43,200	-	11,650	-	54,850	21.24
Damien Servant	114,000	-	38,833	-	152,833	25.41
Zane Lewis	43,209	-	11,650	-	54,859	21.24
Christopher Newton	43,152	-	11,650	-	54,802	21.26
TOTAL COMPENSATION – FOR KEY MANAGEMENT PERSONNEL	389,361	-	135,916	-	525,277	

Compensation 12 months to 31 December 2020

	Short Term Benefits ¹ \$	Post employment benefits (super- annuation) \$	Share based payments \$	Termination benefits \$	Total ² \$	% of remuneration that is equity based
COMPENSATION OF DIRECTORS BASED ON FEES APPROVED BY THE BOARD OF DIRECTORS.						
Thomas Soulsby	145,800	-	-	-	145,800	-
Russell Brimage	43,129	-	-	-	43,129	-
Damien Servant	114,000	-	-	-	114,000	-
Zane Lewis	43,177	-	-	-	43,177	-
Christopher Newton	43,179	-	-	-	43,179	-
TOTAL COMPENSATION – FOR KEY MANAGEMENT PERSONNEL	389,285	-	-	-	389,285	

Notes:

- 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 2021 (2020: \$nil).
- The Company also reimburses validly incurred business expenses of directors. These are not included in the table above.
- During the year, Mr Thomas Soulsby and Mr Damien Servant were paid consulting fees from the East Seram Joint Operation of \$141,750 (2020: \$141,750) and \$71,250 (2020: \$71,250) respectively. The fees attributable to the Group for Mr Soulsby and Mr Servant was \$85,050 (2020: \$85,050) and \$42,750 (2020: \$42,750) respectively, which has been included in their reported compensation.

DIRECTORS REPORT

SHARES HELD BY KEY MANAGEMENT PERSONNEL

	1 January 2021 or Appointment	Number of Ordinary Shares Issued as Compensation	Net Change Other	31 December 2021 or Resignation
Thomas Soulsby	797,340	-	4,533,333	5,330,673
Russell Brimage	5,061,637	-	1,058,334	6,119,971
Damien Servant	100,000	-	2,416,667	2,516,667
Christopher Newton	437,340	-	1,891,667	2,329,007
Zane Lewis	1,019,567	-	3,558,333	4,577,900
	7,415,884	-	13,458,334	20,874,218

These net changes during the year relate to on-market purchases of ordinary shares or through conversion of performance rights.

OPTIONS HELD BY KEY MANAGEMENT PERSONNEL

	1 January 2021 or Appointment	Number of Options Issued as Compensation	Net Change Other	31 December 2021 or Resignation
Thomas Soulsby	-	-	3,333,333	3,333,333
Russell Brimage	-	-	833,334	833,334
Damien Servant	-	-	1,666,667	1,666,667
Christopher Newton	-	-	1,666,667	1,666,667
Zane Lewis	-	-	3,333,333	3,333,333
	-	-	10,833,334	10,833,334

These net changes during the year relate to acquiring, exercising, or expiring of options.

PERFORMANCE RIGHTS HELD BY KEY MANAGEMENT PERSONNEL

	1 January 2021 or Appointment	Number of Performance Rights Issued as Compensation	Net Change Other	31 December 2021 or Resignation
Thomas Soulsby	-	8,000,000	(1,200,000)	6,800,000
Russell Brimage	-	1,500,000	(225,000)	1,275,000
Damien Servant	-	5,000,000	(750,000)	4,250,000
Christopher Newton	-	1,500,000	(225,000)	1,275,000
Zane Lewis	-	1,500,000	(225,000)	1,275,000
	-	17,500,000	(2,625,000)	14,875,000

These net changes during the year relate to expiry or conversion of performance rights. Refer below of performance rights issued during the year.

During the year 17,500,000 of Performance rights were issued to Directors, as shown above. Based on the numbers of performance rights issued to Directors they are broken down in the following tranches:

Tranche 1 - 15%	Tranche 2 – 15%	Tranche 3 – 20%	Tranche 4 – 25%	Tranche 5 – 25%
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DIRECTORS REPORT

The assumption of each tranche is located below:

ITEM	DIRECTOR Tranche 1	DIRECTOR Tranche 2	DIRECTOR Tranche 3	DIRECTOR Tranche 4	DIRECTOR Tranche 5
Grant Date	05/07/2021	05/07/2021	05/07/2021	05/07/2021	05/07/2021
Fair value per option - \$USD	\$0.0307	\$0.0262	\$0.0240	\$0.0217	\$0.0205
Number of performance rights	2,625,000	2,625,000	3,500,000	4,375,000	4,375,000
Target Price - \$AUD	\$0.04	\$0.08	\$0.12	\$0.16	\$0.20
Expected volatility	111%	111%	111%	111%	111%
Expiry Period	3 years	3 years	3 years	3 years	3 years
Expected dividend yield	Nil	Nil	Nil	Nil	Nil
Risk free rate	0.18%	0.18%	0.18%	0.18%	0.18%
Underlying share price at grant date - \$AUD	\$0.049	\$0.049	\$0.049	\$0.049	\$0.049
Expiry	04/07/2024	04/07/2024	04/07/2024	04/07/2024	04/07/2024

OTHER INFORMATION

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

A company associated with Mr Zane Lewis provides company secretarial and accounting services to Lion Energy Limited. The total fees charged to the Group relating to these services was USD \$47,172.

Apart from the above, 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 2020. 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

As at 31 December 2021, there are 102,926,689 options on issue and 15,342,500 performance rights on issue. All options and performance rights were issued during the year.

SHARE OPTIONS EXERCISED

During the year, 1,537,122 ordinary shares were issued by virtue of the exercise of options.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

During the financial period, the Company paid premiums of \$24,207 (2020: \$17,285) 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, Hall Chadwick WA Audit Pty Ltd, 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 Hall Chadwick WA Audit Pty Ltd 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 2021. 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 design.

Thomas Soulsby
Executive Chairman
31 March 2022
Perth, Western Australia

To the Board of Directors,

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

As lead audit Director for the audit of the financial statements of Lion Energy Limited for the financial year ended 31 December 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

Yours Faithfully

Hall Chadwick

HALL CHADWICK WA AUDIT PTY LTD

Mark Delaurentis

MARK DELAURENTIS CA
Director

Dated at Perth this 31st day of March 2022

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021**

		Consolidated Entity	
		31 December 2021	31 December 2020
	Note	\$	\$
Revenue	4	945,888	935,033
Cost of goods sold	4	(508,227)	(577,061)
GROSS PROFIT		437,661	357,972
Other income	4	105	13,378
Administration expenses	4	(1,083,375)	(747,941)
Finance costs	14	(906,460)	-
Foreign exchange loss		(71,578)	(14,247)
Impairment – Oil & Gas Properties	12	(148,152)	(293,707)
LOSS BEFORE INCOME TAX EXPENSE		(1,771,799)	(684,545)
Income tax expense	5	(59,776)	(61,729)
LOSS AFTER RELATED INCOME TAX EXPENSE		(1,831,575)	(746,274)
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		(1,831,575)	(746,274)
LOSS PER SHARE			
BASIC LOSS PER SHARE (CENTS PER SHARE)	6	(0.68)	(0.36)
DILUTED LOSS PER SHARE (CENTS PER SHARE)	6	(0.68)	(0.36)

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 2021

		Consolidated Entity	
		31 December 2021	31 December 2020
	Note	\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	19	8,683,378	661,624
Trade and other receivables	7	469,330	323,745
Inventories	8	251,490	298,644
TOTAL CURRENT ASSETS		9,404,198	1,284,013
NON-CURRENT ASSETS			
Plant and equipment	9	3,775	3,487
Receivables	10	182,250	407,250
Capitalised exploration and evaluation expenditure	11	464,362	415,211
Oil & gas properties	12	-	-
TOTAL NON-CURRENT ASSETS		650,387	825,948
TOTAL ASSETS		10,054,585	2,109,961
CURRENT LIABILITIES			
Trade and other payables	13	307,287	260,081
Convertible notes	14	1,367,173	-
TOTAL CURRENT LIABILITIES		1,674,460	260,081
NON-CURRENT LIABILITIES			
Provision for restoration	15	199,570	194,682
TOTAL NON-CURRENT LIABILITIES		199,570	194,682
TOTAL LIABILITIES		1,874,030	454,763
NET ASSETS		8,180,555	1,655,198
EQUITY			
Issued capital	16	56,869,909	50,664,973
Reserves	17	4,992,096	2,840,100
Accumulated losses		(53,681,450)	(51,849,875)
TOTAL EQUITY		8,180,555	1,655,198

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

		Consolidated Entity	
		31 December	31 December
		2021	2020
	Note	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		800,305	653,295
Payments to suppliers and employees		(1,279,050)	(983,564)
Income tax paid		(59,776)	(61,729)
Interest received		105	13,378
NET CASH USED IN OPERATING ACTIVITIES	19	(538,416)	(378,620)
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposal of property, plant and equipment		-	168
Purchase of property, plant and equipment		(708)	-
Exploration and evaluation expenditure		(49,151)	(244,417)
Expenditure on oil and gas properties		(217,778)	(370,528)
Refund of performance bond collateral		225,000	-
NET CASH FROM / (USED IN) INVESTING ACTIVITIES		(42,637)	(614,777)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from equity issues		5,486,428	-
Share issue costs		(329,737)	-
Proceeds from convertible notes		3,598,482	-
NET CASH FROM / (USED IN) FINANCING ACTIVITIES		8,755,173	-
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		8,174,120	(993,397)
Net foreign exchange differences		(152,366)	(14,245)
Cash and cash equivalents at beginning of period		661,624	1,669,266
CASH AND CASH EQUIVALENTS AT END OF PERIOD	19	8,683,378	661,624

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

ATTRIBUTABLE TO MEMBERS OF THE COMPANY	Issued Capital \$	Option Premium Reserve \$	Share Based Payment Reserve \$	Currency Translation Reserve \$	Convertible Note Reserve	Accumulated Losses \$	Total Equity \$
At 31 DECEMBER 2019	50,664,973	(27,070)	4,395	2,862,775	-	(51,103,601)	2,401,472
Loss for the year	-	-	-	-	-	(746,274)	(746,274)
Other comprehensive income	-	-	-	-	-	-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	-	-	-	-	-	(746,274)	(746,274)
At 31 DECEMBER 2020	50,664,973	(27,070)	4,395	2,862,775	-	(51,849,875)	1,655,198
Loss for the year	-	-	-	-	-	(1,831,575)	(1,831,575)
Other comprehensive income	-	-	-	-	-	-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	-	-	-	-	-	(1,831,575)	(1,831,575)
Transactions with owners in their capacity as owners:							
Securities issued	5,477,427	-	-	-	-	-	5,477,427
Share issue costs	(549,992)	-	220,255	-	-	-	(329,737)
Convertible notes issued	-	-	1,758,931	-	157,470	-	1,916,401
Convertible notes converted	1,194,293	-	-	-	(44,710)	-	1,149,583
Performance Rights issued	-	-	143,258	-	-	-	143,258
Performance rights vested	83,208	-	(83,208)	-	-	-	-
At 31 DECEMBER 2021	56,869,909	(27,070)	2,043,631	2,862,775	112,760	(53,681,450)	8,180,555

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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 2021 were authorised for issue in accordance with a resolution of the directors on 31 March 2022. The Parent Entity is a 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 24 and 25.

The Group's registered office is in Suite 1, 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.

Since 1 January 2021, the Consolidated Entity has adopted all Accounting Standards and Interpretations effective from 1 January 2020. Other than the changes described below, the accounting policies adopted are consistent with those of the previous financial year. The Consolidated Entity has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New and Revised Standards that are effective for these Financial Statements

The Group has adopted all new and revised Standards that are effective for these financial statements. The adoption of the new or amended standards and interpretations did not result in any significant changes to the Group's accounting policies.

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

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements, to the extent they are considered applicable to the Group, are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

- *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);*
- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);*
- *Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS16 and IAS 41); and*
- *References to Conceptual Framework (Amendments to IFRS 3).*
- *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);*
- *Definition of Accounting Estimates (Amendments to IAS 8); and*
- *Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022. However, in May 2020, the effective date was deferred to annual reporting periods beginning on or after 1 January 2023.

In response to feedback and enquiries from stakeholders, in December 2020, the IFRS Interpretations Committee (IFRIC) issued a Tentative Agenda Decision, analysing the applicability of the amendments to three scenarios. However, given the comments received and concerns raised on some aspects of the amendments, in April 2021, IFRIC decided not to finalise the agenda decision and referred the matter to the IASB. In its June 2021 meeting, the IASB tentatively decided to amend the requirements of IAS 1 with respect to the classification of liabilities subject to conditions and disclosure of information about such conditions and to defer the effective date of the 2020 amendment by at least one year.

The Group is currently assessing the impact of these new accounting standards and amendments. The Group will assess the impact of the final amendments to IAS 1 on classification of its liabilities once those are issued by the IASB. The Group does not believe that the amendments to IAS 1, in their present form, will have a significant impact on the classification of its liabilities, as the conversion feature in its convertible debt instruments is classified as an equity instrument and therefore, does not affect the classification of its convertible debt as a non-current liability.

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 Company is US Dollars.

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its controlled subsidiaries as at 31 December 2021. 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 YEAR ENDED 31 DECEMBER 2021

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. 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.

d) Taxes

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax is recognised using the full liability balance sheet approach. 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 YEAR ENDED 31 DECEMBER 2021

e) Employee Benefits

Provision is made for employee benefits accumulated as a result of employees and directors rendering services up to the reporting date. These benefits include wages, salaries, and director fees. Employee benefits, expenses and revenues arising in respect of wages, salaries, and director fees are charged against profits on a gross basis.

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 original 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 original maturity date of three months or less.

g) Revenue

Revenue from contracts with customers

Revenue from oil sales from contracts with customers is recognised at a point in time when the control of the product is transferred to the customer, which is typically upon completion of the lifting (i.e. loading of the oil onto the tanker) by the customer, at an amount that reflects the consideration to which the Consolidated Entity expects to be entitled in exchange for those products.

Interest revenue

Interest revenue is recognised on a proportional basis using the effective interest rates method.

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 other than receivables

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 YEAR ENDED 31 DECEMBER 2021

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

The Group as lessee

At inception of a contract, the Group assesses if the contract contains or is a lease. If there is a lease present, a right-of-use asset and a corresponding lease liability are recognised by the Group where the Group is a lessee. However, all contracts that are classified as short-term leases (ie a lease with a remaining lease term of 12 months or less) and leases of low-value assets are recognised as an operating expenses on a straight-line basis over the term of the lease.

Initially the lease liability is measured at the present value of the lease payments still to be paid at the commencement date. The lease payments are discounted at the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses the incremental borrowing rate.

Lease payments included in the measurement of the lease liability are as follows:

- fixed lease payments less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options;
- lease payments under extension options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, any lease payments made at or before the commencement date and any initial direct costs. The subsequent measurement of the right-of-use assets is at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the lease term or useful life of the underlying asset, whichever is the shortest.

Where a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group anticipates to exercise a purchase option, the specific asset is depreciated over the useful life of the underlying asset.

Where a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group anticipates to exercise a purchase option, the specific asset is depreciated over the useful life of the underlying asset.

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, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise,

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred:

Plant and equipment – over 2 to 15 years

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) Oil & Gas Properties

Oil & Gas Properties are stated at cost less accumulated depreciation, depletion and amortisation and impairment. Cost includes expenditure that is directly attributable to the development of the oil and gas properties.

Depreciation, depletion and amortisation is calculated based on a unit of production basis over recoverable reserves. Recoverable reserves are subject to review annually. The recoverable reserves are estimates calculated from available production and reservoir data and are subject to change. A significant change in estimate could give rise to a material adjustment to the carrying amounts of assets and liabilities in the next annual reporting period.

n) Trade and other receivables

Trade receivable (without a significant financing component) are initially recognised at their transaction price and all other receivables are initially measured at fair value. Receivables are measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- it is held within a business model with the objective to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For the purposes of the assessment whether contractual cash flows are solely payments of principal and interest, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non recourse features).

The Group recognises an allowance for expected credit losses ("ECLs") for all receivables not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate ("EIR").

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

For trade receivables and other receivables due in less than 12 months, the Group applies the simplified approach in calculating ECLs, as permitted by IFRS 9. Therefore, the Group does not track changes in credit risk, but instead, recognises a loss allowance based on the financial asset's lifetime ECL at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. For any other financial assets carried at amortised cost (which are due in more than 12 months), the ECL is based on the 12-month ECL. The 12-month ECL is the proportion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment including forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows and usually occurs when past due for more than one year and not subject to enforcement activity.

o) Trade and other payables

Trade payables and other payables are recognised initially at fair value.

Subsequent measurement is at amortised cost and is done using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

p) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Crude oil inventories: cost of direct materials, direct labour, transportation costs, and variable and fixed overhead costs relating to production activities.
- Raw materials: purchase cost on a first-in/first-out basis

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

r) 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 moved to oil and gas properties, and are then 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

On farm-out transactions during the exploration and evaluation phase of the asset, the Group does not record any expenditure made by the farmee on its account. It also does not recognise any gain or loss on its exploration and evaluation farm-out arrangements, but redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

Farm-outs and carried interest— in the exploration and evaluation phase

For carried interests Lion recognises the expenditure when they are providing the carry to the other parties. Where the Group are being carried Lion does not recognise any expenditure paid or to be paid for on their behalf.

s) Provision for site restoration

A provision is made for the obligation to restore operating locations. The provision is first recognised in the period in which the obligation arises. The nature of restoration activities includes the removal of facilities, abandonment of wells and restoration of affected areas.

Restoration provisions are updated annually, with the corresponding movement recognised against the related oil and gas properties.

Over time, the liability is increased for the change in the present value based on a pre-tax discount rate appropriate to the risks inherent in the liability. The unwinding of the discount is recorded as an accretion charge within finance costs. The carrying amount capitalised in oil and gas properties is depreciated over the useful life of the related asset.

Costs incurred that relate to an existing condition caused by past operations and do not have a future economic benefit are expensed.

t) 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, options or performance 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 for options and a Monte Carlo simulation model for performance rights.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

u) 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.

v) Interests in Joint Arrangements

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

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 25.

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

w) 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.

x) Convertible Notes

Convertible notes are separated into their component parts based on the terms of the contract. When the notes are denominated in foreign currency, the conversion right represents a derivative liability. The fair value of the derivative feature is determined using an appropriate option pricing model. The derivative liability is initially recognised at fair value and subsequently carried at fair value through profit and loss. The remainder of the proceeds received on issue of the notes is allocated to the host debt contract that is subsequently measured at amortised cost until it is extinguished on conversion or redemption.

y) 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 above. 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, the Group concludes that it is unlikely to recover the expenditure by future

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

exploitation or sale, then the relevant capitalised amount will be written off to the statement of profit or loss and other comprehensive income.

Taxation

Balances disclosed in the financial statements and the notes thereto, related to taxation, are based on the best judgments of directors. These judgments 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 judgment, pending an assessment by the Australian Taxation Office.

Joint arrangements

Judgement is required to determine when the Group has joint control, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group has determined that the relevant activities for its joint arrangements relate to the operating and capital decisions of the arrangement, such as: the approval the capital expenditure programme for each year, and appointing, remunerating and terminating the key management personnel of, or service providers to, the joint arrangement. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries.

Judgement is also required to classify a joint arrangement as either a joint operation or joint venture. Classifying the arrangement requires the Group to assess their rights and obligations arising from the arrangement. Specifically, it considers:

- The structure of the joint arrangement – whether it is structured through a separate vehicle
- When the arrangement is structured through a separate vehicle, the Group also considers the rights and obligations arising from:
 - The legal form of the separate vehicle
 - The terms of the contractual arrangement
 - Other facts and circumstances (when relevant)

This assessment often requires significant judgement, and a different conclusion on joint control and also whether the arrangement is a joint operation or a joint venture, may materially impact the accounting.

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 – Impairment of oil & gas properties

In determining the recoverable amount of assets, in the absence of quoted market prices, estimations are made regarding the present value of future cash flows. For oil and gas assets, expected future cash flow estimation is based on reserves, future production profiles, commodity prices and costs. These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of the oil & gas assets.

Key Estimates – Reserves estimates

Estimates of recoverable quantities of proven and probable reserves include assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact asset carrying values, the provision for restoration and the recognition of deferred tax assets, due to changes in expected future cash flows. Reserves are integral to the amount of depreciation, depletion and amortisation charged to the income statement and the calculation of inventory.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Key Estimates - Deferred taxes

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. An estimation is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

Key Estimates - 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.

NOTE 2. GOING CONCERN BASIS

The financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activity, realisation of assets and the settlement of liabilities in the normal course of business. The Consolidated Entity incurred a net loss before income tax of \$1,771,799 (2020: \$684,545 loss) and expended a net operating cash outflow of \$538,416 (2020: \$378,620 outflow) for the year to 31 December 2021.

The Consolidated Entity is currently in a positive net current asset position of \$7,729,798 (2020: \$1,023,932). The Directors are confident that the Group currently has sufficient cash to fund its share of 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.

NOTE 3. GLOSSARY

The following abbreviations are used throughout this report:

the Company or Parent Entity	Lion Energy Limited
Consolidated Entity or the Group	Lion Energy Limited and its controlled entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Consolidated Entity
31 December 31 December
2021 2020
\$ \$

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

Revenue from contracts with customers - Oil sales	885,888	875,033
Management fees	60,000	60,000
	<u>945,888</u>	<u>935,033</u>

The oil sales revenue relates to liftings from the Seram (Non-Bula) PSC located in Indonesia are recognised at point in time.

Other income:

Interest income	105	13,378
	<u>105</u>	<u>13,378</u>

EXPENSES
Cost of goods sold:

Production costs	438,601	500,240
Depreciation, Depletion & Amortisation	69,626	76,821
	<u>508,227</u>	<u>577,061</u>

Administration and employee benefit expenses:

Depreciation	419	419
Consultants	76,613	33,932
Legal expenses	9,694	1,750
Professional fees	244,332	188,485
Rental costs	4,509	4,130
Travel	8,828	3,611
Wages, salaries and directors fee	459,809	431,248
Share based payment expense	143,258	-
Other administration expenses	135,913	84,366
	<u>1,083,375</u>	<u>747,941</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Consolidated Entity
31 December 2021 31 December 2020
\$ \$

NOTE 5. INCOME TAX

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

LOSS FROM CONTINUING OPERATIONS	(1,771,799)	(684,545)
Prima facie income tax benefit on operating loss calculated at 25% (2020:26%)	(442,949)	(177,982)
Non-deductible expenses	97,217	73,853
Amortisation of convertible note transaction cost	234,913	-
Difference of effective foreign income tax rates	454	(39,423)
Income tax benefit not brought to account	170,141	205,281
INCOME TAX EXPENSE FROM CONTINUING OPERATIONS	59,776	61,729

Deferred tax balances as at 31 December 2021 were not recognised in the statement of financial position. These relate to the deferred tax assets from the following accounts:

Accruals	50,366	12,670
Unrecognised deferred tax asset – temporary differences	-	-
Unrecognised deferred tax asset – revenue losses	3,498,593	4,501,320
Unrecognised deferred tax asset – capital losses	371,949	482,902
DEFERRED TAX ASSET NOT BROUGHT TO ACCOUNT	3,902,908	4,996,892

The Group's unused tax losses that arose from revenue primarily relates to those incurred by the parent company based in Australia of AUD \$11,972,436 (2020: AUD \$11,473,393) that are available indefinitely for offsetting against future taxable profits of the parent.

The Group has unused capital losses of AUD \$1,487,796 (2020: AUD \$1,487,796) 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. LOSS PER SHARE

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

Loss used in the calculation of basic/diluted EPS	(1,831,575)	(746,274)
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic/diluted earnings per share	268,130,971	207,401,790

NOTE 7. TRADE AND OTHER RECEIVABLES (CURRENT)

Trade debtors	399,496	297,676
Other debtors	69,834	26,069
	469,330	323,745

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

	Consolidated Entity	
	2021 \$	2020 \$
NOTE 8. INVENTORIES		
Oil in Storage	7,663	10,242
Inventory - materials	243,827	288,402
	<u>251,490</u>	<u>298,644</u>

NOTE 9. PLANT AND EQUIPMENT

PLANT AND EQUIPMENT

Gross carrying amount at cost	255,064	254,260
Accumulated depreciation	(251,289)	(250,773)
	<u>3,775</u>	<u>3,487</u>
TOTAL PLANT AND EQUIPMENT		

MOVEMENTS IN THE CARRYING AMOUNT OF PLANT AND EQUIPMENT

PLANT AND EQUIPMENT

At the beginning of the financial period	3,487	4,074
Disposals	707	(168)
Depreciation expense	(419)	(419)
	<u>3,775</u>	<u>3,487</u>
TOTAL PLANT AND EQUIPMENT		

NOTE 10. RECEIVABLES (NON CURRENT)

Performance bonds collateral	122,250	347,250
Deposit with SKK Migas	60,000	60,000
	<u>182,250</u>	<u>407,250</u>

Performance bonds collateral:

Lion has lodged collateral to support its exploration commitments in the East Seram PSC and production commitments in the Seram (Non-Bula) PSC. The performance bonds were for \$375,000 for East Seram and \$122,250 for Seram Non Bula.

For East Seram, the actual performance bond was \$1,500,000 but the payment was through a guarantee arrangement that only resulted to \$375,000 cash outlay from the Group.

As a result of the farmout of East Seram PSC dated 25 September 2019 Lion received \$150,000 from the Farm-in partner for its share of the Performance bonds collateral.

During the year, the remaining East Seram performance bond collateral totalling \$225,000 was refunded back to Lion.

Lion expects the remaining Seram (Non-Bula) PSC bond collateral will be refunded in 2024.

Deposit with SKK Migas:

Under the East Seram PSC, Lion provided a \$100,000 deposit to SKK Migas for administrative and technical purposes.

As a result of the farmout of East Seram PSC dated 25 September 2019, Lion received \$40,000 from the Farm-in partner for its share of the deposit.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Consolidated Entity

2021 2020
\$ \$

NOTE 11. CAPITALISED EXPLORATION AND EVALUATION EXPENDITURE

Capitalised exploration and evaluation expenditure	464,362	415,211
TOTAL	464,362	415,211

MOVEMENTS IN THE CARRYING AMOUNT OF CAPITALISED EXPLORATION AND EVALUATION EXPENDITURE

At the beginning of the financial period	415,211	1,359,160
Expenditure during the period	49,151	244,417
Disposal – 40% interest in East Seram PSC	-	(1,188,366)
AT THE END OF THE FINANCIAL PERIOD	464,362	415,211

Capitalised exploration and evaluation expenditure above includes \$464,362 (2020: \$415,211) of costs incurred in carrying out joint studies and submitting joint study applications to Indonesian authorities over the East Seram Joint Study, that was converted to a PSC in 2018, which continues to be carried forward at its full cost. This East Seram PSC has an initial term of six years.

NOTE 12. OIL AND GAS PROPERTIES

Consolidated Entity

2021 2020
\$ \$

Oil and gas properties at cost	2,875,761	2,657,983
Accumulated depreciation, depletion, amortisation and impairment	(2,875,761)	(2,657,983)
	-	-

MOVEMENTS IN THE CARRYING AMOUNT OF OIL AND GAS PROPERTIES

At the beginning of the financial period	-	-
Expenditure during the period	217,778	370,528
Depreciation, Depletion & Amortisation	(69,626)	(76,821)
Impairment	(148,152)	(293,707)
AT THE END OF THE FINANCIAL PERIOD	-	-

This asset relates to the Seram (Non-Bula) PSC. The PSC was originally due to expire on 31 October 2019. An extension was granted for an additional 20 years. Lion Energy holds 2.5% of this PSC (2020: 2.5%). As part of the Group's assessment of impairment of oil & gas properties in 2021, it identified that the carrying value exceeded its recoverable value and have therefore impaired the entire asset as at that balance date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

NOTE 13. TRADE AND OTHER PAYABLES (CURRENT)

Trade and other payables	307,287	260,081
	<u>307,287</u>	<u>260,081</u>

NOTE 14. CONVERTIBLE NOTES

	2021	2020
Convertible notes	1,367,173	-
	<u>1,367,173</u>	<u>-</u>
MOVEMENTS IN THE CARRYING AMOUNT OF CONVERTIBLE NOTES	Number	\$
At the beginning of the financial period	-	-
Initial recognition of convertible notes (net of transaction costs) ¹	4,892,000	1,643,814
Finance expense accretion	-	906,460
Conversion of convertible notes	(1,517,000)	(1,149,583)
Impact of foreign exchange	-	(33,518)
AT THE END OF THE FINANCIAL PERIOD	<u>3,375,000</u>	<u>1,367,173</u>

On 22 April 2021 1,517,000 convertible notes with a face value of AUD \$1,517,000 were issued to investors (announced 23 April 2021). Each note was issued with the following terms:

- Face value of AUD \$1 per note
- Maturity date: 31 December 2021
- Security: Unsecured
- Conversion: subject to approval at a General Meeting (completed 5 July 2021)
- Conversion price of AUD \$0.03 per share
- Each share issued from the convertible notes will include a 1:1 Option
- Interest: 12% per annum

The option terms include a AUD \$0.04 exercise price with an expiry of 2 years from the issue date. During the year all of the convertible notes issued on 22 April 2021 was converted to ordinary shares.

²On 15 November 2021 3,375,000 convertible notes with a face value of AUD \$3,375,000 were issued to investors (announced 17 November 2021). Each note was issued with the following terms:

- Face value of AUD \$1 per note
- Maturity date: 31 December 2022
- Security: Unsecured
- Conversion: subject to approval at a General Meeting (completed 12 January 2022)
- Conversion price of AUD \$0.08 per share
- Each share issued from the convertible notes will include a 1:2 Option
- Interest: 12% per annum

The option terms include an AUD \$0.12 exercise price with an expiry of 2 years and 6 months from the issue date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

22 April 2021 convertible notes:

The April options were valued using the Black-Scholes methodology with the following assumptions:

Underlying share price (\$)	0.038
Exercise price (\$)	0.04
Expected volatility	95.5%
Life of the options (years)	2
Expected dividends	Nil
Risk free rate	0.07%

The convertible notes are classified as compound financial instruments for accounting purposes. On initial recognition, the debt component was USD \$1,130,206. Finance expenses totalling USD \$731,997 were capitalised against the debt, with a net carrying value of \$398,209 recognised on issue date. \$44,710 was attributed to the residual equity component of the convertible notes, and financial expense accretion of \$776,707 was recognised during the year.

On 6 July 2021, all convertible notes were fully converted into shares.

15 November 2021 convertible notes:

The November options were valued using the Black-Scholes methodology with the following assumptions:

Underlying share price (\$)	0.097
Exercise price (\$)	0.12
Expected volatility	151.5%
Life of the options (years)	2.5
Expected dividends	Nil
Risk free rate	0.58%

The convertible notes are classified as compound financial instruments for accounting purposes. On initial recognition, the debt component was USD \$2,272,538. Finance expenses totalling USD \$1,026,934 were capitalised against the debt, with a net carrying value of \$1,245,604 recognised on issue date. \$68,050 was attributed to the residual equity component of the convertible notes, and financial expense accretion of \$129,753 was recognised during the year.

NOTE 15. PROVISION FOR RESTORATION (NON-CURRENT)

	Consolidated Entity	
	2021	2020
	\$	\$
Provision for restoration	199,570	194,682
	199,570	194,682

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Consolidated Entity
2021 2020
\$ \$

NOTE 16. ISSUED CAPITAL

382,360,223 (2020: 207,401,790) fully paid ordinary shares 56,869,909 50,664,973

MOVEMENTS IN ISSUED CAPITAL

	Shares		\$	
	2021	2020	2021	2020
At the beginning of the period	207,401,790	207,401,790	50,664,973	50,664,973
Placement issued 29 April 2021	31,100,000	-	723,728	-
Director participation in placement issued 6 July 2021	11,666,667	-	264,701	-
Conversion of convertible notes issued 6 July 2021	51,697,144	-	1,194,293	-
Vesting of performance rights issued 17 September 2021	2,707,500	-	83,208	-
Conversion of options issued 5 November 2021	499,334	-	15,007	-
Conversion of options issued 18 November 2021	737,788	-	21,547	-
Placement issued 23 November 2021	76,250,000	-	4,443,735	-
Conversion of options issued 26 November 2021	300,000	-	8,709	-
Share issue expenses	-	-	(549,992)	-
AT THE END OF THE FINANCIAL PERIOD	382,360,223	207,401,790	56,869,909	50,664,973

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. For the purpose of the Group's capital management, capital includes issued capital and all other equity reserves. The Group includes within net debt, trade and other payables. There are no externally imposed capital requirements. Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues. There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

TERMS AND CONDITIONS OF CONTRIBUTED EQUITY

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

	Consolidated Entity	
	2021	2020
	\$	\$
NOTE 17. RESERVES		
Option premium reserve	(27,070)	(27,070)
Share based payment reserve	2,043,631	4,395
Currency translation reserve	2,862,775	2,862,775
Convertible note reserve	112,760	-
	<u>4,992,096</u>	<u>2,840,100</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 SHARE BASED PAYMENT RESERVE		
At the beginning of the financial period	4,395	4,395
Options issued for the financial year	1,979,186	-
Vesting of performance rights for the financial year	143,258	-
Performance milestones met during the year and issued	(83,208)	-
AT THE END OF THE FINANCIAL PERIOD	<u>2,043,631</u>	<u>4,395</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>
MOVEMENTS IN CONVERTIBLE NOTE RESERVE		
At the beginning of the financial period	-	-
Addition/transfer	157,470	-
Converted to	(44,710)	-
AT THE END OF THE FINANCIAL PERIOD	<u>112,760</u>	<u>-</u>

The option premium reserve is used to accumulate the fair value of options issued and premiums received on the issue of options.

The share based payment reserve was used to record the value of performance rights issued to key management personnel.

The foreign currency translation reserve was used to record the exchange differences arising from the change of presentation currency effective 1 July 2014 from Australian Dollar to US Dollar.

The convertible note reserve is used to record the differences between the fair value of debt and the face value of convertible notes classified as compound financial instruments.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

	Company	
	2021	2020
	\$	\$
NOTE 18. PARENT ENTITY		
FINANCIAL INFORMATION ON THE PARENT ENTITY AS AT THE END OF THE FINANCIAL PERIOD:		
CURRENT ASSETS		
Cash and cash equivalents	8,614,109	631,163
Trade and other receivables	43,417	20,788
TOTAL CURRENT ASSETS	8,657,526	651,951
NON-CURRENT ASSETS		
Plant and equipment	3,343	3,761
Investments in subsidiaries	756,222	756,222
TOTAL NON-CURRENT ASSETS	759,565	759,983
TOTAL ASSETS	9,417,091	1,411,934
CURRENT LIABILITIES		
Trade and other payables	95,536	58,453
Convertible note	1,367,173	
Amounts owing to subsidiaries	8,039,356	7,697,321
TOTAL CURRENT LIABILITIES	9,502,065	7,755,774
TOTAL LIABILITIES	9,502,065	7,755,774
NET ASSETS	(84,974)	(6,343,840)
EQUITY		
Issued capital	56,869,910	50,664,974
Reserves	4,837,581	2,685,586
Accumulated losses	(61,792,465)	(59,694,400)
TOTAL EQUITY	(84,974)	(6,343,840)
FINANCIAL INFORMATION ON THE PARENT ENTITY FOR THE FINANCIAL PERIOD:		
Loss after related income tax expense	(2,098,065)	(655,669)
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME	(2,098,065)	(655,669)

There are no contingent liabilities of the Parent Entity as at the reporting date. There are no contractual commitments of the Parent Entity as at the reporting date. The Parent Entity has not entered into any guarantees in relation to the debts of its subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Consolidated Entity
2021 **2020**
\$ **\$**

NOTE 19. CASH FLOW INFORMATION

RECONCILIATION OF CASH FLOW FROM OPERATIONS WITH LOSS AFTER INCOME TAX

LOSS AFTER TAX	(1,831,575)	(746,274)
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Non-cash flow items in loss

Depreciation of plant and equipment	419	419
Depreciation, Depletion & Amortisation of development expenditure	69,626	76,821
Foreign exchange	38,387	14,246
Impairment of oil & gas properties	148,153	293,707
Share based payments	143,258	-
Finance costs	939,651	-

Changes in assets and liabilities

Decrease/(increase) in trade debtors	(140,695)	(281,738)
Increase/(decrease) in inventories	47,154	166,641
Increase/(decrease) in other creditors and accruals	47,206	97,558

NET CASH USED IN OPERATING ACTIVITIES

	(538,416)	(378,620)
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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	8,614,109	632,864
Share of joint operations cash	69,269	28,760

CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD

	8,683,378	661,624
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NON-CASH FINANCING AND INVESTING ACTIVITIES

During the year the Company incurred non-cash financing expenses of \$939,651, associated with the issue of the convertible notes as described in Note 14. There were no other non-cash financing or investing activities that occurred during the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

NOTE 20. EXPENDITURE COMMITMENTS

EXPLORATION COMMITMENTS

The Group has exploration commitments pursuant to its Production Sharing Contracts with the Government of Indonesia. At year end these totalled \$841,300 (2020: \$1,046,304). The Group has provided security bond of US\$122,250 in respect of this commitment.

Consolidated Entity

2021	2020
\$	\$

NOTE 21. AUDITORS' REMUNERATION

Remuneration of the auditor of the Company for:

Auditing or reviewing the financial report – Australia

47,897	45,308
47,897	45,308

NOTE 22. KEY MANAGEMENT PERSONNEL

REMUNERATION OF KEY MANAGEMENT PERSONNEL

Short term employee benefits	389,362	389,285
Post-employment benefits	-	-
Share based payments	135,916	-
Termination benefits	-	-
	525,277	389,285

Other Transactions:

A company associated with Mr Zane Lewis provides company secretarial and accounting services to Lion Energy Limited. The total fees charged to the Group relating to these services was \$47,172 (2020: \$58,389).

During the year, \$213,000 of consulting fees were paid by the East Seram Joint Operation to Mr Thomas Soulsby and Mr Damien Servant (2020: \$213,000). The proportion attributable to the Group totalling \$127,800 has been included in short term employee benefits (2020: \$127,800).

Apart from the above, there were no other transactions with key management personnel.

NOTE 23. 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 YEAR ENDED 31 DECEMBER 2021

NOTE 24. CONTROLLED ENTITIES

	Country of Incorporation	Principal Activity	Group Ownership Interest 2021 %	2020 %
<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	-% ¹	-% ¹
KRX Energy Pte Ltd	Singapore	Holding Company	-% ²	100%
Balam Energy Pte Ltd	Singapore	Oil & gas exploration and production	100%	100%
Seram Energy Pte Ltd	Singapore	Dormant holding entity	100%	100%
<i>Entities controlled by KRX Energy Pte Ltd</i>				
Tower Indonesia Shale Ltd	BVI	Oil & gas exploration	-% ³	100%
<i>Entities controlled by Lion Energy Limited USA, Inc</i>				
Lion USA LLC	Delaware, USA	Dormant	-% ¹	-% ¹

(1) These entities were deregistered on 8 May 2020.

(2) KRX Energy Pte Ltd was deregistered on 4 October 2021.

(3) Tower Indonesia Shale Ltd was deregistered on 13 January 2021.

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

NOTE 25. 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 2021	31 December 2020
Seram (Non-Bula) Joint Operation ¹	Indonesia	Production, exploration and development	2.5%	2.5%
East Seram Joint Operation	Indonesia	Exploration and development	60%	60%

There are no contingent assets or contingent liabilities arising from these joint operations, apart from as discussed in note 26.

¹In January 2021, CITIC Seram, the operator of the Seram (Non-Bula) PSC, was requested by the Government of Indonesia, in accordance with the terms of the PSC, to offer a 10% participating interest to a Regional-Owned Company appointed by the Local Government of Maluku. The 10% would be transferred by the existing participants in the PSC pro-rata to their respective participating interests.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

In March 2021, CITIC Seram received a first Letter of Intent from the Regional-Owned Company requesting to start a due diligence process. In January 2022, the Regional-Owned Company advised it had completed its due-diligence and intends to acquire the 10% participating interest subject to commercial terms to be agreed. Based on a letter issued by the Minister of Energy and Mineral Resources in the Republic of Indonesia, the price for the 10% participating interest will be 10% of the performance bond provided by the PSC at the time of PSC extension in 2019.

The process is expected to complete by Q2 2022. At completion, Lion's participating interest in Seram (Non-Bula) PSC will reduce to 2.25% from 2.5% currently.

NOTE 26. CONTINGENT LIABILITIES

As at 31 December 2021 the Group had no contingent liabilities, except for the portion of the performance bond in East Seram PSC of \$1,125,000 (2020: \$1,125,000) that was paid through a guarantee arrangement (Note 10). This portion of the performance has been included in expenditure commitments as per Note 20.

NOTE 27. 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. The Group has exposure to interest rate risk through its cash balances; however, this exposure is not considered to be significant.

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 functional 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 2021 \$	AMOUNTS IN AUD 2020 \$
<i>Financial Assets</i>		
Cash assets	1,304,251	34,437
Receivables	-	6,814
<i>Financial Liabilities</i>		
Payables	39,539	21,434

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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 2021. 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 2021 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. All trade receivables disclosed in the financial statements were fully received subsequent to the reporting date.

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 (Non-Bula) 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 liabilities. As such, the amounts may not reconcile to the statement of financial position.

	Consolidated Entity	
	2021	2020
	\$	\$
TRADE AND SUNDRY PAYABLES MATURING AS FOLLOWS:		
Less than 6 months	307,287	260,081
6 months to 1 year	-	-
Later than 1 year but not later than 5 years	-	-
Over 5 years	-	-
	<u>307,287</u>	<u>260,081</u>

FAIR VALUES

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 derivative financial instruments at 31 December 2021.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

FOREIGN CURRENCY RISK SENSITIVITY ANALYSIS

At 31 December 2021, 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	
	2021	2020
	\$	\$
INCREASE/(DECREASE) IN PROFIT DUE TO:		
Improvement in AUD to USD by 5%	(49,488)	348
Decline in AUD to USD by 5%	49,488	(348)
INCREASE/(DECREASE) IN EQUITY DUE TO:		
Improvement in AUD to USD by 5%	(49,488)	348
Decline in AUD to USD by 5%	49,488	(348)

NOTE 28. RELATED PARTY TRANSACTIONS

During the year, Lion Energy Limited charged a management fee to the East Seram joint arrangement of \$150,000. The total revenue attributable to the group was \$60,000 (2020: \$60,000).

Apart from the above, all related party transactions have been outlined in the KMP remuneration report, found in the director's report, and Note 22. Key Management Personnel.

NOTE 29. DIVIDENDS

No dividends have been paid or proposed during the period.

NOTE 30. SHARE BASED PAYMENT EXPENSE

The Advisor Options and the Director Options are defined as share based payments. The valuation of share based payment transactions is measured by reference to fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted.

ITEM	Lead Manager Options
Grant Date	05/07/2021
Fair value per option \$USD	\$0.0220
Number Of Options	10,000,000
Exercise Price	\$0.04
Expected volatility	111%
Expiry Period	2 years
Expected dividend yield	Nil

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

The Advisor Options and the Director Performance rights and Options are defined as share based payments. The valuation of share based payment transactions is measured by reference to fair value of the equity instruments at the date at which they are granted. The fair value of the following options was determined using the Hoadley-Barrier pricing model, taking into account the terms and conditions upon which the options were granted. The conditions of vesting are market-based.

ITEM	DIRECTOR AND CONSULTANT OPTIONS Tranche 1	DIRECTOR AND CONSULTANT OPTIONS Tranche 2	DIRECTOR AND CONSULTANT OPTIONS Tranche 3	DIRECTOR AND CONSULTANT OPTIONS Tranche 4	DIRECTOR AND CONSULTANT OPTIONS Tranche 5
Grant Date	05/07/2021	05/07/2021	05/07/2021	05/07/2021	05/07/2021
Fair value per option - \$USD	\$0.0307	\$0.0262	\$0.0240	\$0.0217	\$0.0205
Number of performance rights	2,625,000	2,625,000	3,500,000	4,375,000	4,375,000
Target Price - \$AUD	\$0.04	\$0.08	\$0.12	\$0.16	\$0.20
Expected volatility	111%	111%	111%	111%	111%
Expiry Period	3 years	3 years	3 years	3 years	3 years
Expected dividend yield	Nil	Nil	Nil	Nil	Nil
Risk free rate	0.18%	0.18%	0.18%	0.18%	0.18%
Underlying share price at grant date - \$AUD	\$0.049	\$0.049	\$0.049	\$0.049	\$0.049
Expiry	04/07/2024	04/07/2024	04/07/2024	04/07/2024	04/07/2024

Total share-based payments for the year is \$2,122,443 (amount includes \$143,258 for vesting of performance rights, \$220,255 for options to lead manager and \$1,758,930 as per note 14).

NOTE 31. EVENTS SUBSEQUENT TO REPORTING DATE

On 19th of January 2022, 42,187,500 fully paid ordinary shares were issued on conversion of the convertible notes.

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 2021 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 2021.

On behalf of the Board of Directors.



Thomas Soulsby
Executive Chairman
31 March 2022
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 ("the Consolidated Entity"), which comprises the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion:

- a. the accompanying financial report of the Consolidated Entity is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2021 and of its financial performance for the year then ended; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

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 Consolidated Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Revenue Recognition</p> <p>During the year ended 31 December 2021, Lion Energy Limited generated sales revenue of \$945,888 (2020: \$935,033).</p> <p>Revenue recognition has been included as a key audit matter in the audit report due to its financial significance and the significant increase in revenue during the year.</p>	<ul style="list-style-type: none"> • Evaluated the appropriateness of recognition of revenue; • Enquired with the key managerial personnel and executives of the company to the sales process and their application to revenue recognition; • Performing substantive audit procedures by verifying revenue to relevant supporting documentation including underlying agreements with customers, bill of lading, sales invoices, verification of receipts to Lion Energy and ensuring the revenue was recognised in the correct period. • We assessed the appropriateness of the related disclosures in Note 4 to the financial statements.
<p>Convertible Notes</p> <p>As disclosed in Note 14 to the financial report, the Consolidated Entity issued convertible notes during the year with a face value of \$4,892,000. As at 31 December 2021, the balance of the Convertible Notes liability was \$1,367,173 which reflects the tranches received to date less relevant transaction costs which are required to be amortised over the term of the convertible notes and those amounts converted into shares.</p> <p>Convertible Notes are considered to be a key audit matter due to:</p> <ul style="list-style-type: none"> • the value of the balance; and • the complexities involved in the recognition and measurement of convertible financial 	<p>Our procedures amongst others included:</p> <ul style="list-style-type: none"> • Analysing the agreement to identify the key terms and conditions for each convertible note; • Verification of the funds received from the issue of convertible notes during the year; • Assessing the accounting treatment of the financial instruments in accordance with the recognition and measurement as well as the disclosure requirements of the relevant Australian Accounting Standards; • Evaluating management's option valuations and assessing the assumptions

Key Audit Matter	How our audit addressed the Key Audit Matter
instruments and associated transaction costs.	<p>and inputs used;</p> <ul style="list-style-type: none"> • Verifying the conversion of debt to equity during the year; • Assessing the calculation including relevant amortisation of finance costs for the year; and • Assessing the adequacy of the disclosures in Note 14 to the financial report.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Consolidated Entity's annual report for the year ended 31 December 2021 but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state in accordance with Australian Accounting Standard *AASB 101 Presentation of Financial Statements*, that the financial report complies with International Financial Reporting Standards.

In preparing the financial report, the directors are responsible for assessing the Consolidated Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Consolidated Entity or to cease operations, or has 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 judgement 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 Consolidated Entity'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 Consolidated Entity'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 Consolidated Entity 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 Consolidated Entity to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Consolidated Entity 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 with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period 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 Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2021. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with s 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.

Auditor's Opinion

In our opinion, the Remuneration Report of Lion Energy Limited, for the year ended 31 December 2021, complies with section 300A of the Corporations Act 2001.



HALL CHADWICK WA AUDIT PTY LTD



MARK DELAURENTIS CA
Director

Dated at Perth this 31st day of March 2022