LION energy

Annual Report 2018

CORPORATE DIRECTORY

DIRECTORS

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

JOINT COMPANY SECRETARIES:

Zane Lewis
Arron Canicais

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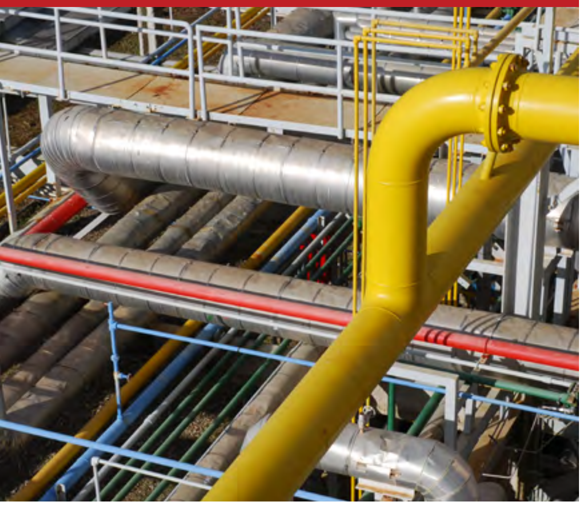
This financial report covers both Lion Energy Limited as an individual entity and the consolidated entity comprising Lion Energy Limited and its subsidiaries. The Group's presentation currency is United States Dollars (US$). The functional currency of Lion Energy and all other controlled entities of Lion Energy Limited is United States Dollars (US$). A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report. The directors' report is not part of the financial report.

CONTENTS

HIGHLIGHTS

> Lion continues to weather the challenging oil industry conditions and is actively targeting strong growth opportunities in Indonesia



Financial

- Market capitalisation at 0.04 cps of A$8.3mil as at 31 December 2018, compared to A$6.8mil as at 31 December 2017.
- Lion raised A$3.2m and captured the highly prospective East Seram Gross Split PSC and participated in the Seram (Non Bula) Gross Split PSC contract extension.
- Continuing prudent financial management in challenging industry conditions, consolidated cash balance of US$1,054,515 at 31 December 2018.
- Seram (Non Bula) PSC continues to be cash flow positive with ongoing cost savings and higher oil price balancing natural production decline.
- Lion's revenue share from crude oil liftings in Seram (Non Bula) PSC US$1,017,578 (before deduction of Indonesian Government entitlement).

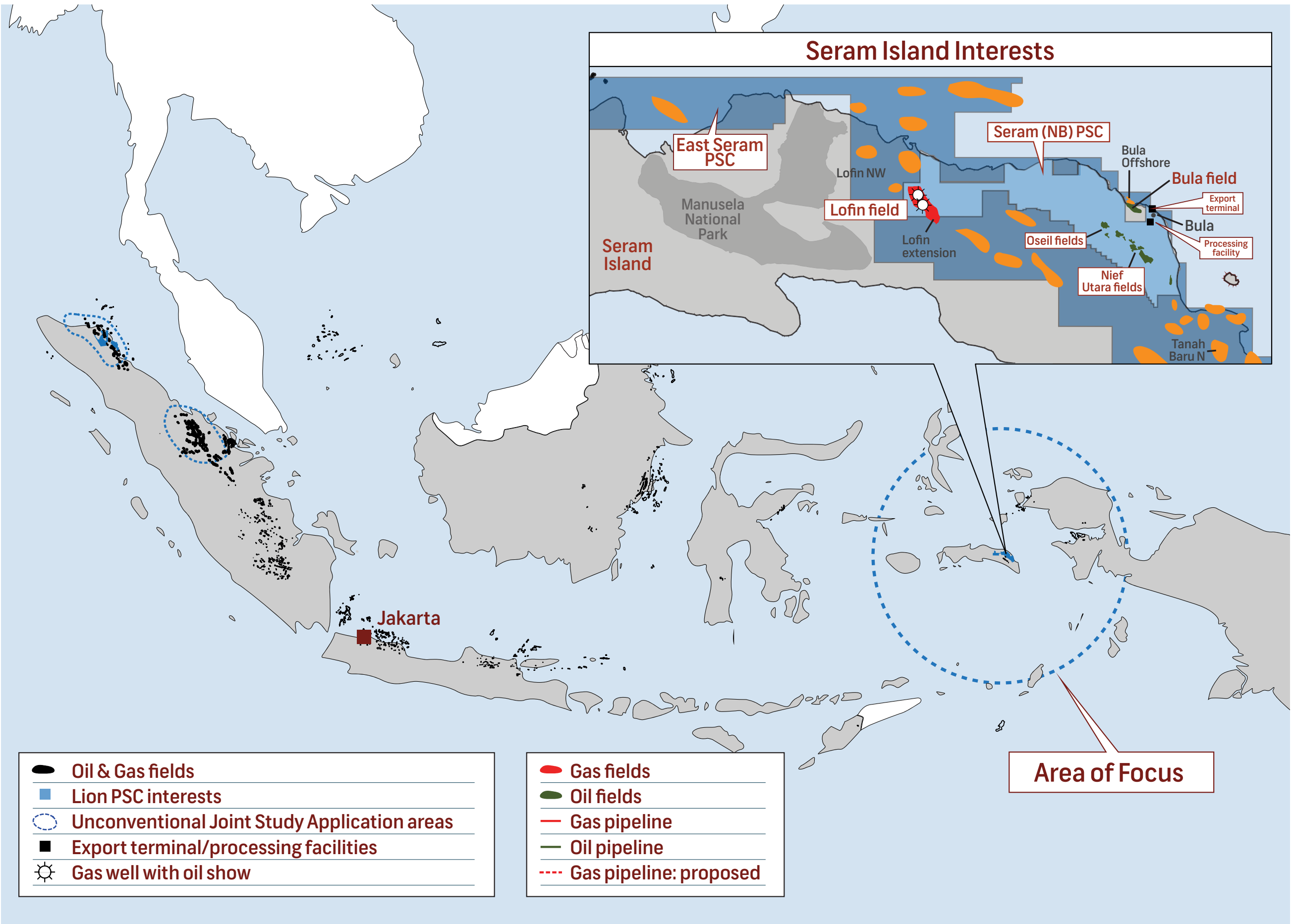
Organisation

- Staff strengthened after the appointment of the new Chairman and CFO, followed up by building our technical team including the appointment of an Exploration Manager and the establishment of a Jakarta office.
- New Chairman, Tom Soulsby, is executing the new strategy and has secured the acquisition of a further 16.5% stake in the Seram (Non Bula) PSC, which contains the Oseil Field and the large Lofin gas discovery. The deal is still subject to funding and both Government of Indonesia and Lion shareholder's approval.
- Lion signed the East Seram Gross Split PSC, which, inter alia, contains the Lofin gas field extension, and is working through its firm commitment obligations after establishing a Jakarta office.
- Lion exited the South Block A PSC.
- Unconventional Joint Studies are not being pursued.

Operations

- Gross production from the Seram (Non Bula) PSC was 0.701 million barrels (average 1,921 bopd) for the year, a natural decline of 32.7% over the year.
- Gross crude oil liftings for the year from the Seram (Non Bula) PSC 728,786 barrels (Lion net share 17,195 barrels after GOI entitlement),
- The Seram (Non Bula) PSC renewal was granted for a further 20 years until 31 October 2039, on commercially attractive gross split terms, securing access to ongoing oil production and upside associated with the significant Lofin gas discovery further evaluation and potential commercialization.
- Lion announced the acquisition of a further 16.5% working interest in the Seram (Non Bula) PSC, which has the potential to transform Lion from a small oil and gas company with a small resource and reserve base, to a significant oil and gas player in Southeast Asia with a 2P + 2C oil and gas reserve and resource base of over 60 mmboe's.
- Lion commenced planning seismic activities and a farm out process on the East Seram Gross Split PSC.

CHAIRMAN'S MESSAGE



Lion's Indonesian Portfolio

Introduction

It is with pleasure that I write to you for the second time in my capacity as Executive Chairman of the company. One year ago I spoke of resetting strategy saying that "setting the right course, having the right people with determination and skills, combined with careful decision-making and accessing capital, is key to our recovery and success".

When I wrote that I had some ideas and I am pleased to report now that we have made significant progress on those ideas. We have (i) set a new course, (ii) offloaded non core assets, (iii) raised A$3.2m in new capital, (iv) captured two long tenure gross split production sharing contracts and (v) secured rights for a further 16.5% stake in one of our core assets, containing the large Lofin Gas discovery.

Let me talk you through the way I see the market, the business environment in our core market, Indonesia, and how I see the outlook one year after taking over Chairmanship. I will review Lion's 2018 year and explain what our next plans are.

Chairman's Message

Global Oil Market Context/Indonesian Business Environment and the Outlook

In terms of the global market for energy, I believe that gas will continue to play an increasingly important role in Asia, driven largely by climate change concerns and the impact this is having on coal demand in markets like China. Despite Indonesian elections coming up in April 2019, I believe that there has been an improvement in the investment climate for projects in Indonesia driven by the new gross split oil and gas PSC regime combined with tight energy market dynamics and another recent Lofin sized gas discovery in Sumatra by Repsol in the Sakakemang PSC . I believe that the outlook for gas demand and gas commercialization in a tight Indonesian gas market is exciting.

I believe that the role of coal will remain significant, but positioning Lion in a substitute energy product like gas makes a lot of sense. BP recently said that cascading actions taken against coal, in light of the Paris Agreement, would lead to a flat demand outlook such that demand for coal in 2040 will be close to the levels of 2010. The implications for gas of this outlook are tremendous. Against this back drop, the trend in global fuel mix shows that whilst oil, coal and gas are currently the big three, gas will overtake coal in the number 2 spot by the end of the 2020's. This follows on from gas being the single largest growth segment over the last three years.

Credit Suisse recently stated that they expect a continuation of deepening of the global gas/LNG market, but expected tightness to re-emerge in the early 2020's.

It is on the back of these trends that Lion is rolling out an expansion strategy in gas, and to a lesser extent, oil.

Indonesia, our core market, is no exception to the above trend. Indonesia has been a leader in the production of gas and LNG since the late 1970's but is close to becoming a net importer of LNG itself as domestic demand for gas outstrips domestically available supply. Presidential Regulation No. 22 of 2017 outlining the National Energy Plan (NEP 2017) projects a domestic gas deficit by 2020 with demand outstripping production significantly by 2050.

We are positioning Lion to take advantage of global, regional and country specific opportunities in energy demand, and the movement away from coal to gas and renewables.

The deficits outlined by the NEP 2017 is driven by the fact that Indonesia should continue to record GDP growth rates above 5.0%. Whilst this is enviable by developed world standards, it remains modest by comparison to Indonesia's potential. The Jokowi led coalition government will complete its first full term in April, 2019. Jokowi has been successful at maintaining political and economic stability and Indonesia continues to enjoy an "investment grade" credit rating by all three major credit rating agencies. I remain optimistic that our core focus on Indonesia will differentiate Lion such that it outperforms its ASX energy peers. I do not expect any significant change to result from the upcoming Indonesian election.

Sustained economic growth, which I believe will continue to be in the 5.0-5.3% range, means the Indonesian government has a big challenge on its hands satisfying the country's thirst for energy. Energy demand is expected to increase to a staggering 400 Million Tonnes of Oil Equivalent (MTOE) by 2025, up from 163 MTOE in 2017 (SKK Migas, Mar 2018). By any measure, Indonesia will be a powerhouse of energy consumption by the mid 2020's. By comparison, only five countries in the world today annually consume more than 400 MTOE, namely the USA, China, India, Russia and Japan. Indonesia first exceeded Australia's annual consumption of energy in 2006, and now consumes some 30% more.

This Indonesia-Australia differential may be in the order of 100%+ by 2025 based on relative energy consumption growth rates.

The opportunities that Indonesia's energy sector dynamics open up are extraordinary for Lion Energy and we plan to continue to focus on Indonesia as a core Southeast Asian market and a place where we have local knowledge and experience advantages.

Finally, local fiscal terms in Indonesia have improved a lot from being globally uncompetitive, with the adoption of a "gross split" regime, which puts the onus back on the contractor for cost management and decision-making. Lion is at the forefront of this process and we are benefitting from the promised light handed, flexible and enabling regulatory environment that goes with the new PSC regime. The good news is that our first project under the new regime, the Oseil field, has close to a 90% contractor take. These are some of the highest in Indonesia and top quartile in the world of "oil and gas" fiscal terms.

> **Indonesia will be a powerhouse of energy consumption by the mid 2020's.**

Chairman's Message

2018 Operational Highlights

Annual production from the Oseil oilfield and surrounding structures was 701,107 bbls of crude oil at an average daily rate of 1921 bopd (2017 production 1,042,053 bbls of crude oil at an average daily rate of 2855 barrels of oil per day). This represents a 32.7% natural decline in production from the prior calendar year.

On 31 May 2018, the Ministry of Minerals Resources ("ESDM") of the Republic of Indonesia granted the Seram (Non-Bula) PSC partners a 20-year extension beyond the previous PSC expiry date of 31 October 2019. The renewal involved the payment of a signature bonus of US$1,000,000 and a performance bond of US$4,889,200 by the PSC participants on a gross basis (Lion 2.5%). This is now done.

On 4 May 2018 the Company was awarded by ESDM the East Seram Gross Split PSC. This was formally executed on 18 July 2018. The terms of the PSC include the payment of a signature bonus of US$500,000 and the provision of a US$1,500,000 performance bond (Lion 100%). This is now done.

During 2018, the Company initiated seismic survey planning, undertook extensive technical studies and commenced a farm-out process.

In December 2018, the Company's subsidiary executed a conditional sale and purchase agreement ("SPA") for the acquisition of a further 16.5% interest in Seram (Non Bula) PSC. The consideration comprises an initial payment of US$32 million (subject to various adjustments) upon completion of the transaction, US$7,200,000 upon full field plan of development ("POD") approval and another US$4,800,000 upon first gas production from the approved full field POD. The transaction is subject to various conditions and has not yet completed at the date of this Report.

New Strategy In Action

In light of the challenging 2017 year, I led a strategic review in early 2018 for Lion's Board and following a review of the entire portfolio, the Company decided to direct its resources to acquiring oil and gas producing assets in Southeast Asia, whilst looking to dispose those assets considered non-core.

In line with this revised strategy, the Company elected to retain the Seram PSC core production and cash flow asset, and to further build our portfolio via acquisition or farm-in. Additional interests in producing assets and other opportunities considered complimentary to the Company's revised strategy were also to be considered.

After announcing this new strategy, we announced in May 2018 the award of the East Seram PSC, which, inter alia, contains the extension of the Lofin Gas discovery. Immediately thereafter the Company signed the extension of the Seram (Non Bula) PSC and raised just over AUD$3m in new funding. In accordance with the Company's new strategic decision to divest non-core assets, the Company divested of its stake in the South Block A PSC.

Lion subsequently announced the acquisition of a further 16.5% of the Seram (Non Bula) PSC and is now focused on closing that transaction whilst working with the operator, Citic Seram Energy to fast track de-risking the Lofin discovery and its related gas markets.

New Board Configuration

We announced a strategic review and Board changes back in February 2018.

We are fortunate to have two excellent new Board members complimentary to the new strategy. Specifically, Zane Lewis and Damien Servant. Zane is the Company Secretary at Lion and has over 20 years of corporate advisory experience with various ASX and AIM companies.

Damien was the Chief Financial Officer of Risco Energy and has more than 15 years of experience in M&A and capital markets with various financial institutions in the region.

Chris Newton remains a Non-executive Director and I move from being a Non-executive Director to Executive Chairman.

In Closing....

I have been an oil industry executive for 15 years having served for listed and private companies in Indonesia, USA, Singapore and Australia over that time. I have lived through two major oil price cycles and the related ebbs and flows of investor sentiment. I am sensing that we are now well into a sentiment recovery period and despite progress made by Lion outlined above, I plan to continue to make Lion relevant in this space and to create value for shareholders along the way. I would like to take the opportunity to thank all shareholders for their ongoing patience and belief in the company.

Sincerely

Tom Soulsby

Executive Chairman

> **"I plan to continue to make Lion relevant in this space and to create value for shareholders along the way**

LEADERSHIP TEAM

Tom Soulsby

Executive Chairman

Tom Soulsby was appointed Executive Chairman on 13 February 2018.

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.

Damien Servant

Executive Director

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. A background in engineering compliments Mr Servant's extensive regional investment banking experience.

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

Board and Management

Russell Brimage

Non-executive Director

Mr Brimage has in excess of 40 years of experience in the upstream oil and gas industry, in public listed oil and gas companies and the service industry, both onshore and offshore. In the service industry, founder and Managing Director of Oilserv Australia in 1982 – the company became a dominant service contractor in Australia providing contract field operations, testing and wire-line services, facility design and construction, and drilling and work-over services. In the public company arena, demonstrated capability in capacity as CEO to secure and develop producing assets, often via industry counter-cyclical transactions, to transform companies from zero revenue to positive cashflow and profitability, with successful outcomes in Indonesia and the state and federal shallow waters of the US Gulf Coast. As CEO of an ASX listed entity, early mover in identifying shale opportunities in the US with the farm-in to approximately 60,000 acres in the Niobrara shale play in the states of Colorado and Wyoming in August 2009.

Chris Newton

Non-executive Director

In a career spanning 40 years in oil and gas he has covered the spectrum of exploration, development and production, developing core strengths in petroleum economics, strategic planning, business development and ultimately, top management and leadership. A 1978 geology graduate from Collingwood College, University of Durham, England, Mr Newton also holds a Grad Dip in Applied Finance and Investment from the Securities Institute of Australia (SIA). He has spent more than 25 years in Southeast Asia in various industry capacities including Managing Director of Fletcher Challenge in Brunei, a stint as Managing Director of Shell Deepwater Borneo, President of Santos – Indonesia and CEO of Jakarta-listed oil and gas company, EMP. Along with Mr Soulsby, he was a co-founder director of Risco Energy Pte Ltd in July 2010 and was instrumental in Risco's success as a leading oil and gas investor in Southeast Asia. Mr Newton is also Chairman of ASX listed Tap Oil Ltd.

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

Leadership Team

Zane Lewis

Non-executive Director and Joint Company Secretary (appointed Non-executive Director 13/2/2018)

Mr Lewis is the Company Secretary of Lion Energy and has over 20 years of corporate advisory experience with ASX and AIM listed companies.

Mr Lewis is a Non-executive Director for a number of ASX Listed companies and is a Fellow of the Governance Institute of Australia.

Arron Canicais

Joint Company Secretary

Mr Canicais is a Chartered Accountant with 10 years of 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 for 5 years at Bentleys Audit and Corporate, a West Perth audit firm that specialises in the audits of junior exploration entities in WA. He has had significant exposure to the reporting and financial requirements of exploration entities. He is currently the CFO and Company Secretary for several ASX listed and unlisted companies.

“Lion has a network of strong technical and market relevant commercial expertise

Note: Kim Morrison resigned as Director concurrent with his resignation as CEO, effective February 13th 2018. Stuart Smith resigned as Director effective February 13th 2018.

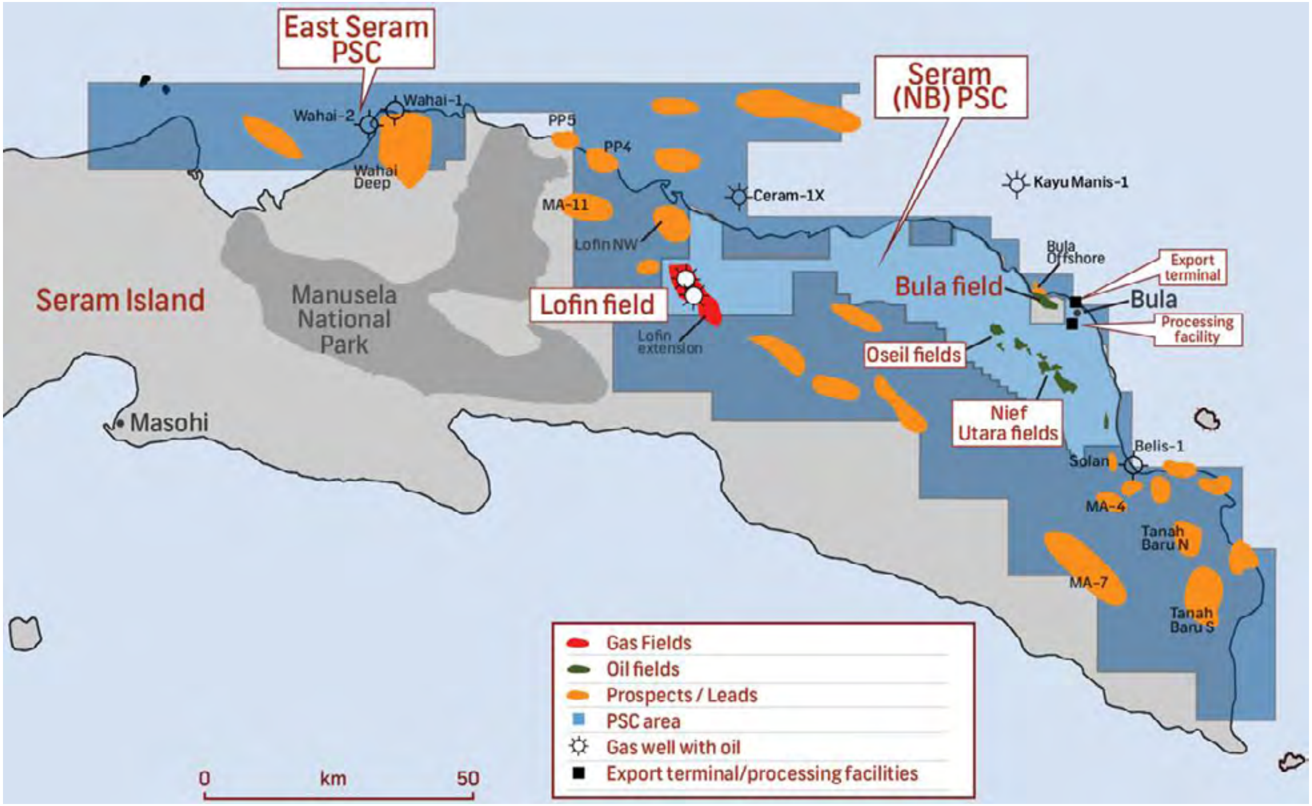


Figure 1. Map of East Seram PSC showing existing fields and key prospect and leads

[1]Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of geologic discovery and a chance of development. Prospective Resources are further categorized in accordance with the range of uncertainty associated with recoverable estimates, assuming discovery and development, and may be sub-classified based on project maturity.

Seram (Non-Bula) PSC

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

The major equity holder and Operator of the Joint Venture is CITIC Seram Energy Limited (41%). Other partners include PT Petro Indo Mandiri (30%) and Gulf Petroleum Investment (16.5%). The block contains the Oseil oilfield and surrounding structures that produced at a rate of 1906 bopd during December 2018 (45 bopd net to Lion). Since initial field start-up in January 2003, the field has produced 17,449,422 barrels of crude oil at 2018 calendar year end. The joint venture has identified significant additional contingent oil resources in the Oseil area. In addition, the block contains the Lofin discovery which the joint venture appraised in 2014-15 with the highly successful Lofin-2 well. The 100% 2C contingent resource for Lofin is 2.02 tcf with 18.3 mmbbl condensate making it one of the largest onshore gas discoveries in Indonesia for many years. During 2018, the PSC was extended until October 2039. Work continues on development options for the large Lofin discovery.

Seram (Non-Bula) PSC

Reserves

Reserves have been updated from the 31 December 2017 estimate (conducted by US experts, DeGoyler & McNaughton) to account for production from the effective date of the report to 31 December 2018 with some adjustments made with confirmation of extension of the Seram (Non-Bula) PSC beyond October 2019 during 2018.

Oseil Area Reserves[1] (mbbl)

	Reserves (Gross) 100%			Reserves (net to Lion working interest)		
	Proven (1P)	Proven & Probable (2P)[2]	Proven, Prob & Poss. (3P)[2]	Proven (1P)	Proven & Probable (2P)[2]	Proven, Prob & Poss. (3P)[2]
EOY 2017	2,112	4,107	5,512	52.8	102.7	137.8
Production	-701	-701	-701	-17.5	-17.5	-17.5
Revision	0	0	0	0	0	0
EOY 2018	1,411	3,406	4,811	35.3	92	120.3

Oseil Area Contingent Resources (mbbl)

	Contingent Oil Resources[4, 5] (Gross)			Contingent Oil Resources[4, 5] (Net to Lion working interest)		
	1C / P90	2C / P50	3C / P10	1C / P90	2C / P50	3C / P10
EOY 2017	140	837	10,184	3.5	20.9	254.6
Revision	0	0	0	0	0	0
EOY 2018	140	837	10,184	3.5	20.9	254.6

1. Hydrocarbon reserves and resource estimates are expressions of judgment based on knowledge, experience and industry practice. Estimates that were valid when originally calculated may alter significantly when new information or techniques become available. Additionally, by their very nature reserve and resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. As further information becomes available through additional drilling and analysis, the estimates are likely to change. This may result in alterations to development and production plans which may, in turn, adversely affect the company's operations.
2. Incremental probable (2P) and possible (3P) reserves assume further development drilling is undertaken which are part of an approved Plan of Further Development in the Oseil 2 area.
3. Reserves have been estimated using the deterministic method.
4. Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingent resources have an associated chance of development (economic, regulatory, market and facility, corporate commitment or political risks). These estimates have not been risked for the chance of development. There is no certainty that any portion of the contingent resources will be developed and, if developed, there is no certainty as to either the timing of such development or whether it will be commercially viable to produce any portion of the resources.
5. Contingent Resources comprise oil potential from existing fields which will require further, yet to be approved, development drilling and other undeveloped oil fields.
6. No estimate has been presented in this table for the Dawang gas field or the Lofin gas/condensate field. For estimates relating to Lofin, please refer to table of Lofin resource estimate on page 15.

Seram (Non-Bula) PSC

Production

Production for the reporting period from 1 January 2018 to 31 December 2018 for the Oseil oilfield and surrounding structures was 701,107 barrels of crude oil at an average daily rate of 1921 bopd (45 bopd net to Lion). This compares to an average daily rate of 2855 bopd (67 bopd net to Lion) for calendar year 2017 reporting period, a 32.7% decrease year on year.

The joint venture has, and continues to reduce costs of production. However, as a result of the 32.7% reduction in production over the year, the per barrel cost of production increased from $16.56 in 2017 to $24.67, a 49% increase. Additionally, the 2018 operating costs included a staff termination provision of US$3.6 million. Adjusted for this provision for comparison purposes, the operating cost per barrel was $19.35. Actual operating expense declined in 2018 to $13.6 million, from $17.3 million in 2017. The Operator continues efforts to reduce operating expenditure whilst maximizing production.

Lion's share of remaining 2P reserves at end of 2018 was 92 mbbls vs 103 mbbls at end of 2017.

Date of Lifting	Crude oil lifted (bbl)	Revenue (Net to Lion) USD
25 June 2018	359,929	$582,283
24 December 2018	368,857	$435,365
TOTAL	**728,786**	**$1,017,578**

Note: Revenue is before deduction of Indonesian Government entitlement.

Seram (Non-Bula) PSC

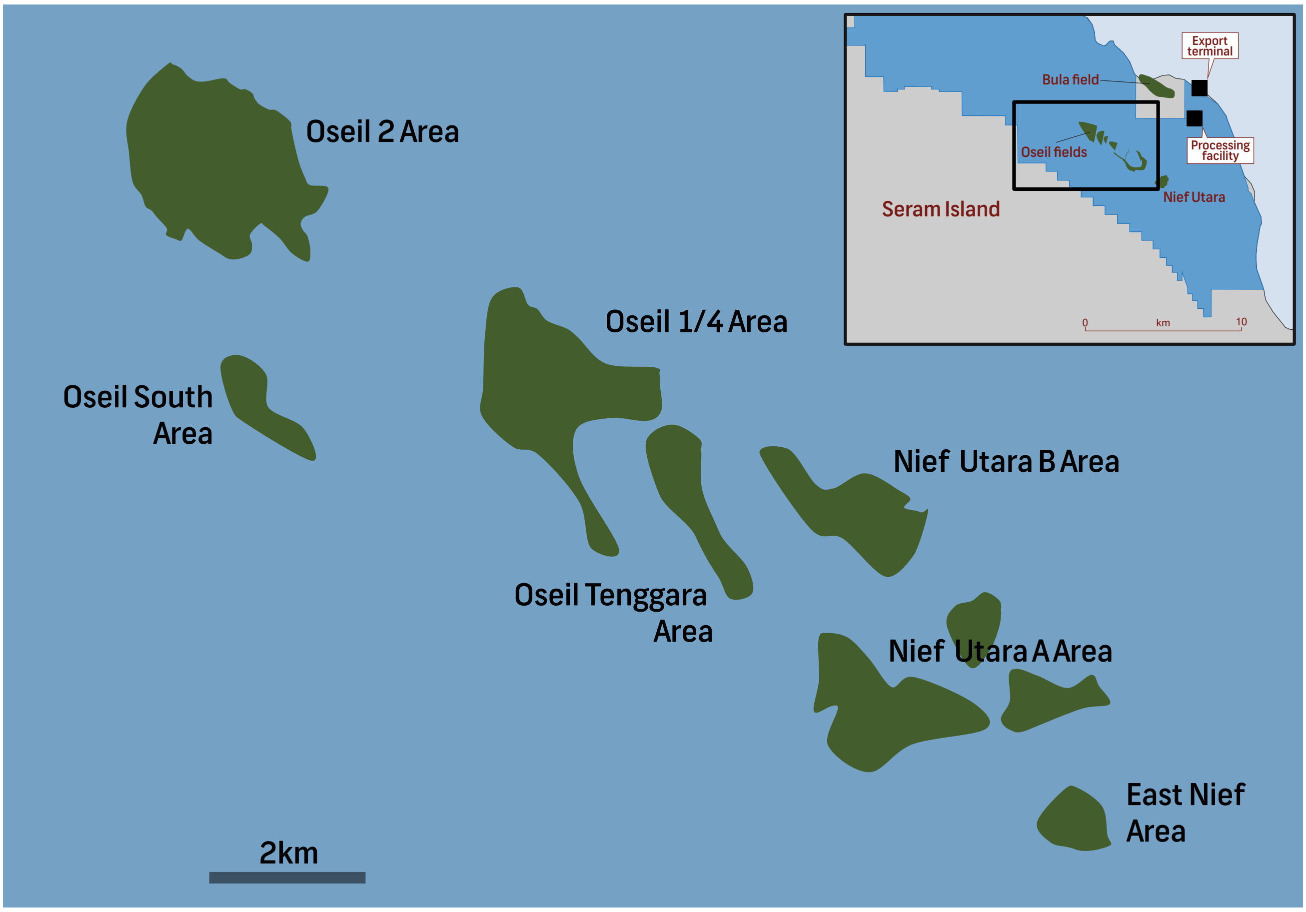


Figure 2. Oseil Oilfield and surrounding structures

Lofin Gas Discovery

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

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

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

The Lofin-1 exploration well was drilled in 2012 to a total depth of 4427m MD (4323m ssTVD) and was interpreted still to be in hydrocarbons, representing a current minimum interpreted gross hydrocarbon column of 160m. Downhole shut-in pressure data acquired during testing operations indicated potential for a significant hydrocarbon column below the total depth of the Lofin-1 well.

The Lofin-2 well to appraise the Lofin-1 discovery spudded on 31 October 2014. Lofin-2 intersected the primary Manusela objective at 4615m MD (4508m ssTVD) and continued through to a total depth of 5861m MD (5686m ssTVD). Tested gas quality is good with approximately 3.7% CO^2.

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

Seram (Non-Bula) PSC

Lofin Resource Estimate

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

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

In-place and Contingent Resources[1,7,8,9]
Lofin Field, Seram (Non-Bula) Block PSC, Seram Island, Indonesia
(as at 31 December 2015)

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

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

East Seram PSC

East Seram PSC

A key highlight of the year was Lion acquiring a 100% interest in the exciting East Seram PSC in Eastern Indonesia (Figure 3). The new PSC was signed on July 17, 2018, following a successful bid in the 2018 Government of Indonesia gazettal round. The 6510 km^2 East Seram PSC covers much of the eastern part of Seram Island and surrounds the producing Seram (Non-Bula) PSC in which Lion has a 2.5% participating interest. Importantly the new PSC contains the southeast extension of the 2 TCF Lofin field, which was appraised by Seram (Non Bula) PSC participants in 2015, and the offshore extension of the 20 mmbbl Bula Field of which Lion was operator from 2000-2005. Lion's extensive knowledge and database of the area allows the Company a competitive advantage and has proved critical in high grading and subsequently obtaining the new acreage.

The East Seram PSC is awarded under Indonesia's new Gross Split PSC system which significantly reduces the bureaucratic burden on companies while providing internationally competitive fiscal terms with company profit share of at least 75% before corporate income tax. A modest commitment for the 3-year firm program consists of 500km 2D seismic (to be acquired either onshore or offshore) as well as geological and geophysical studies. No commitment wells are included in the primary 3-year term.

Since acquiring the acreage Lion has undertaken detailed technical studies and delineated an impressive portfolio of 18 prospects and leads with Best estimate (P50) combined prospective resource[1] of 1.23 billion boe (refer table X). Key leads include MA-7 which has high side estimate prospective resource[1] of over 1 billion boe.

A 500 km 2D seismic survey is scheduled for 2020 and planned to cover high graded prospects and leads as well as the extensions of the Lofin and Bula field. Planning for the survey which is expected to be shot both on and offshore is well underway. Lion is confident this will result in a suite of drill ready targets and reinforce the East Seram PSC as one of the most high-potential exploration blocks in the SE Asian region.

East Seram PSC

Technical overview

The East Seram PSC encompasses a significant part of the Eastern Indonesian Seram Basin. The PSC has geological affinities to nearby provinces that host major oil and gas reserves, including the prolific Papuan fold belt in PNG as well as the Salawati and Bintuni basins in Irian Jaya. Recent technical work, including a new structural study by Lion, highlights similarities of the Seram fold belt, in terms of geological age, paleo-geographic setting, fractured Jurassic limestone reservoir and Triassic-Jurassic source rock type, to world-class fold belt plays in Iran (Zagros fold belt) and in Pakistan (Sulaiman fold belt).

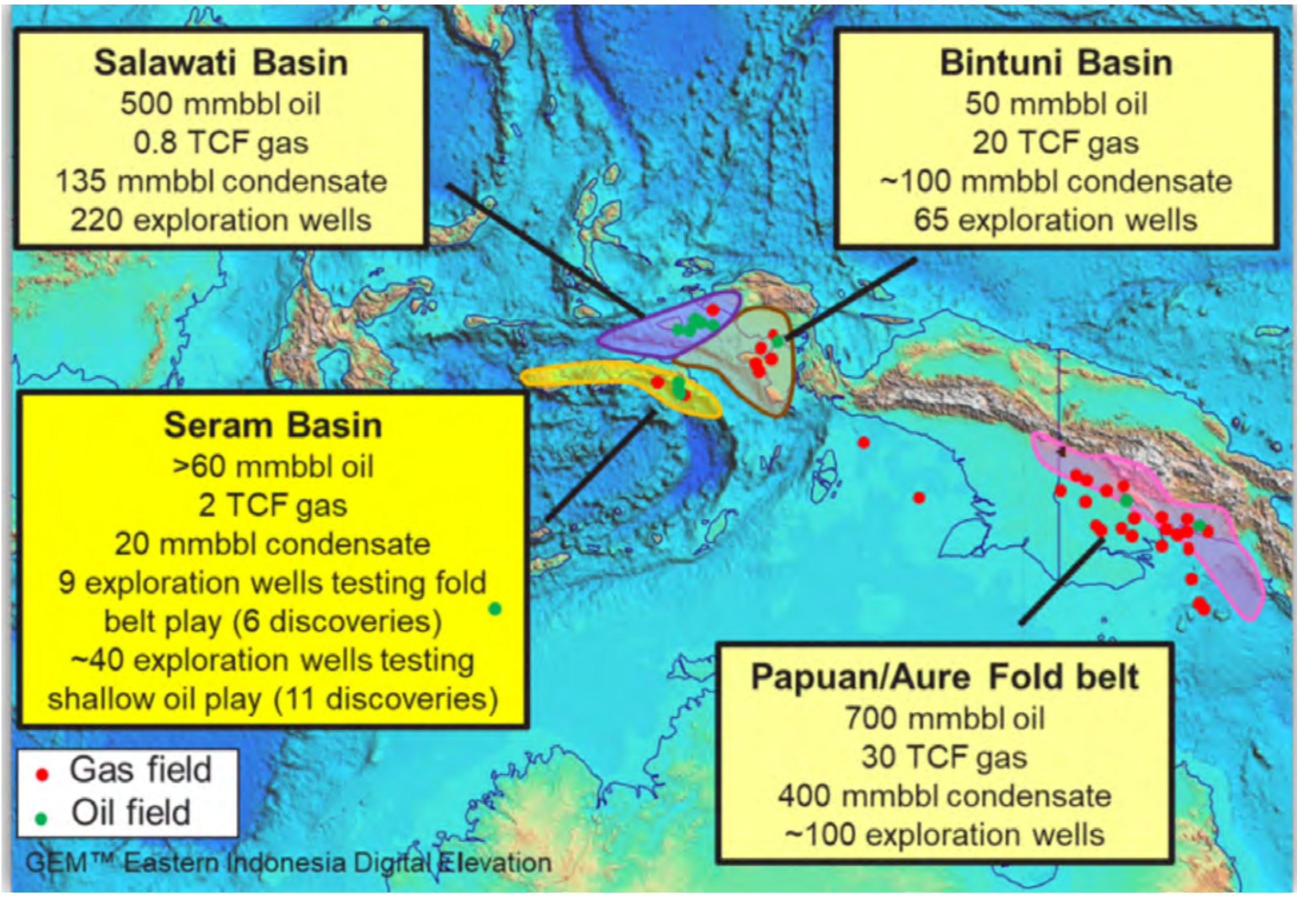


Figure 3. Key exploration statistics for provinces in vicinity of the Seram Basin

The East Seram block contains two main proven plays:

- The Triassic to Early Jurassic Manusela limestone oil and gas play is the primary reservoir objective with over 430mmboe discovered to date in the basin including the producing Oseil field and the Lofin gas field discovery. All 6 wells that have intersected the Manusela limestone to date in the area have been discoveries. The limestone is often fractured resulting in good flow rates. MA-7 is the highest ranked lead and is expected to be oil prone with reservoir objective estimated at approximately 1500m.
- A shallow Plio-Pleistocene oil play with sandstone & carbonate objectives in the Fufa Formation. The play includes the 20 mmbbl Bula Oil field. The East Seram PSC contain the potential offshore extension of this field, as well as a number of additional on and offshore leads including the PP-4 lead with areal extent potential up to 30 km^2

East Seram PSC

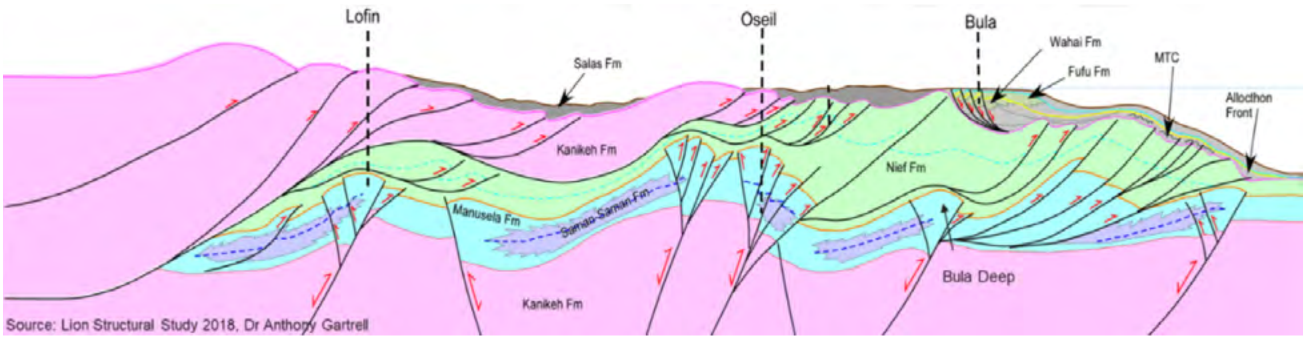


Figure 4. Schematic diagram from Lion structural study showing the structural style of East Seram with key fields

Portfolio

A total of 18 prospects and leads are currently characterised in East Seram and this portfolio is anticipated to expand with ongoing work. Details are shown in Table x in Reserves and Resource section of this report.

A plot of Chance of Success vs P50 Prospective Resource (Figure x) shows this impressive portfolio and highlights the range of targets available.

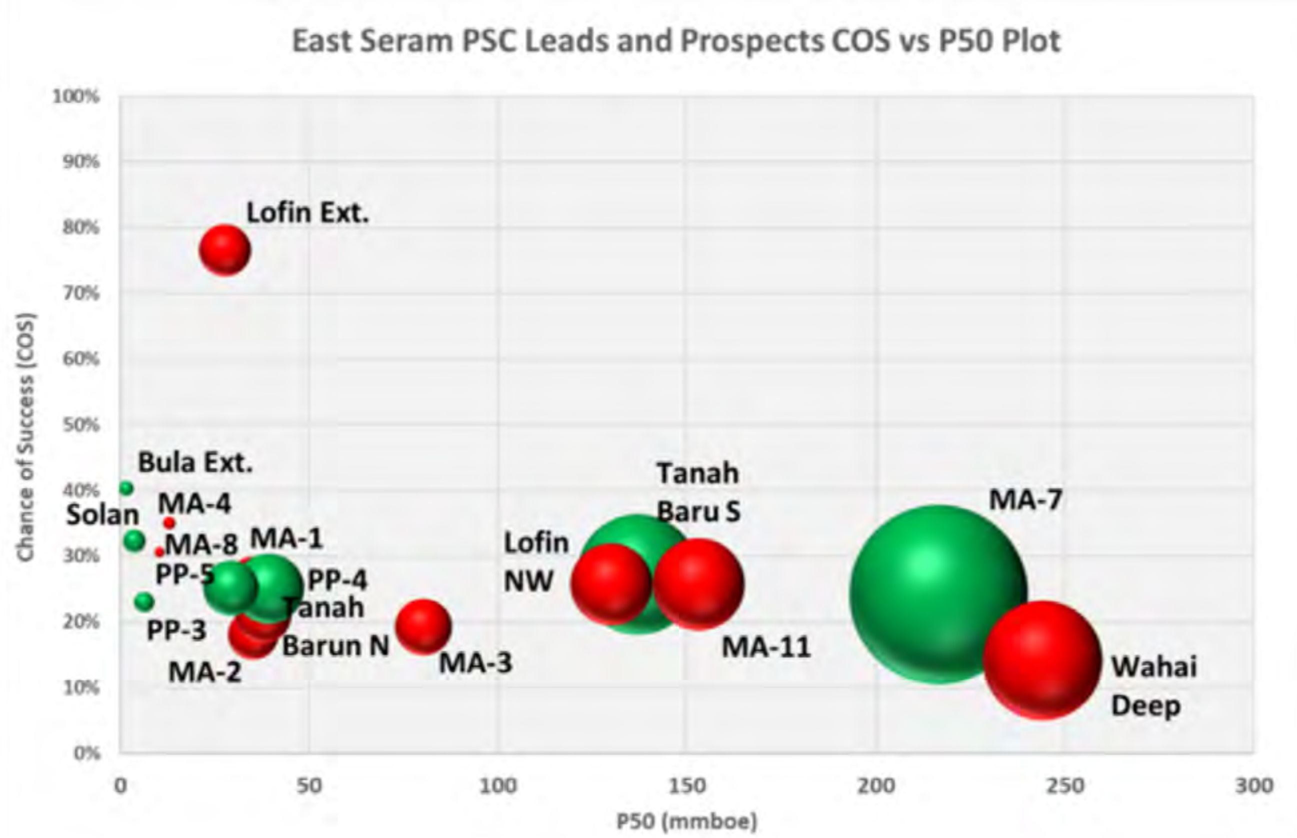


Figure 5. Chance of success versus P50 mmboe prospective resource.

The green coloured bubble refers to leads which are dominantly expected to be oil filled by volume whereas red is dominantly expected gas filled. Bubble size is related to relative NPV (net present value).

East Seram PSC

East Seram PSC Prospective Resource [1,2,3]		Lion Working Interest (100%)									
		HC Gas Recoverabe			Oil/ Cond Recoverable			Combined[4] mmboe			COS[5]
Lead/ Prospect	Target	Low P90	Best P50	High P10	Low P90	Best P50	High P10	Low P90	Best P50	High P10	%
Fold Belt Play											
MA-7	Manusela carbonate	33.7	160.6	748.3	39.4	189.8	881.4	45.2	216.6	1006.1	24%
Wahai Deep	Manusela carbonate	196.4	689.6	2632.9	34.1	129.1	466.8	66.8	244.1	905.6	14%
MA-11	Manusela carbonate	164.2	587.4	2017.5	15.9	55.1	184.3	43.3	153.0	520.5	26%
Tanah Baru S	Manusela carbonate	77.4	281.9	911.1	22.7	90.0	339.1	35.6	137.0	490.9	24%
Lofin NW (MA10)	Manusela carbonate	147.6	485.6	1623.5	13.9	49.0	146.71	38.5	129.9	417.3	20%
MA-3	Manusela carbonate	62.5	236.3	860.1	10.7	40.9	143.5	21.1	80.3	286.8	19%
MA-8	Manusela carbonate	26.1	100.8	359.6	5.3	21.0	81.2	9.7	37.8	141.1	21%
MA-2	Manusela carbonate	23.8	96.4	349.6	4.8	19.2	75.0	8.8	35.2	133.3	18%
Tanah Baru N	Manusela carbonate	36.1	123.7	424.6	4.6	17.5	61.1	10.6	38.1	131.9	20%
MA-1	Manusela carbonate	32.1	100.4	294.6	5.4	17.8	53.3	10.8	34.5	102.4	27%
Lofin Extension[6]	Manusela carbonate	69.2	154.4	291.7	0.9	2.0	3.9	12.4	27.7	52.5	75%
MA-4	Manusela carbonate	18.2	58.8	176.0	0.9	3.3	9.7	3.9	13.0	39.0	35%
MA-4 NE	Manusela carbonate	14.5	41.5	122.6	1.1	3.5	11.0	3.5	10.4	31.4	31%
Shallow Play											
PP-4	Fufa sst/carbonate	3.7	11.6	35.9	10.5	37.4	130.2	11.1	39.3	136.2	25%
PP-5	Fufa sst/carbonate	3.9	8.2	19.5	10.7	28.0	71.5	11.4	29.3	74.8	25%
PP-3	Fufa sst/carbonate				3.1	6.4	13.1	3.1	6.4	13.1	23%
Solan	Fufa Sst	0.7	1.5	3.6	1.5	3.6	8.7	1.6	3.8	9.3	32%
Offshore Bula Extension	Fufa sst/carbonate				0.5	1.6	4.8	0.5	1.6	4.8	43%
Combined		**909.9**	**3138.6**		**186.0**	**715.1**	**2685.2**	**337.8**	**1238.2**	**4497.0**	**27%**

Table 1 East Seram PSC Prospective Resource Summary

Notes:

1. Prospective resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of geologic discovery and a chance of development. Prospective Resources are further categorized in accordance with the range of uncertainty associated with recoverable estimates, assuming discovery and development, and may be sub-classified based on project maturity.
2. Prospective resources in this Table have been estimated probabilistically at lead level but combined arithmetically to provide the portfolio number. The aggregate P90 may be a very conservative estimate and the aggregate P10 may be a very optimistic estimate due to the portfolio effects of arithmetic summation.
3. Closure areas for individual leads are based on seismic interpretation with realistic low side and high side estimates. Other key parameters, such as net pay, porosity, hydrocarbon saturation and oil versus gas ratios, used to calculate prospective resource are taken from known field data and regional trends.
4. Conversion for gas factor of 6mcf=1boe used to convert gas to barrels of oil equivalent (boe).
5. Chance of success (chance of geological discovery): The estimated probability that exploration activities will confirm the existence of a significant accumulation of potentially recoverable petroleum
6. Lofin Field Extension potential in East Seram PC potential currently assigned as prospective resource rather than contingent resource pending further analysis.

Glossary

New Business Opportunities

Lion continued to actively review new business opportunities through 2018 with a focus on acquiring production assets.

Glossary

bcf: billion cubic feet

bopd: barrels oil per day

CNG: compressed natural gas

GWC: gas water contact

LNG: liquefied natural gas

mbbl: thousand barrels

MD: measured depth

mmbbl: million barrels

mmscfgd: million standard cubic feet of gas per day

ppg: pounds per gallon

PSC: production sharing contract

psi: pounds per square inch

POFD: plan of further development

sq.km: square kilometers

ss: subsea

tcf: trillion cubic feet

TD: total depth

TVD: true vertical depth

RESERVES AND RESOURCES

Table 1 East Seram PSC Prospective Resource Summary													
Resources	Play	100%						Lion WI Share					
		Gas/Associated Gas Recoverable (BCF)			Oil/ Condensate Recoverable (MMbbl)			Gas/Associated Gas Recoverable (BCF)			Oil/ Condensate Recoverable (MMbbl)		
Reserves[1]		1P	2P	3P	1P	2P	3P	1P	2P	3P	1P	2P	3P
Oseil Area Developed[2]	Manusela				1.131	2.082	2.084				0.028	0.052	0.052
Oseil Area Developed[3]	Manusela				0.281	1.598	2.728				0.007	0.040	0.068
Total Reserves					**1.412**	**3.680**	**4.812**				**0.035**	**0.092**	**0.120**
Contingent Resources[4]		1C	2C	3C	1C	2C	3C	1C	2C	3C	1C	2C	3C
Seram Oseil Area	Manusela	0.39	1.34	10.36	0.14	0.83	10.18	0.01	0.03	0.2590	0.004	0.021	0.255
Seram PSC Lofin Field	Manusela	879.50	2020.10	NA	7.95	18.25	NA	21.99	50.50		0.199	0.456	
Total Contingent Resources		**879.89**	**2021.44**	**10.36[5]**	**8.09**	**19.08**	**10.18[5]**	**21.997**	**50.536**	**0.259[5]**	**0.202**	**0.477**	**0.255[5]**

Notes:

1. Reserve estimates have been calculated using the deterministic method. Analysis of performance trends were used to estimate proved developed reserves. The performance trends associated with new well were used to assess how wells scheduled for future drilling would perform for the purpose of estimating proved undeveloped reserves as well as the probable and possible reserves associated with the future wells. Reserves were estimated only to the expiration date of the PSC.
2. Developed reserves include forecast production from existing Oseil 2 and Oseil11&4 areas beyond the Oct 2019 with the renewal of the Seram (Non-Bula) PSC announced during 2018.
3. Includes undeveloped reserves which are quantities expected to be recovered through future investments: (a) from new wells on undrilled acreage in known accumulations, (b) from deepening existing wells to a different (but known) reservoir, (c) from infill wells that will increase recovery, or where a relatively large expenditure is required to either recomplete an existing well or install production or transportation facilities for primary or improved recovery projects. Amounts included in this table refer to reserves from the Oseil-2 area which are planned to be targeted by an approved Plan of Further Development.
4. Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingent Resources have an associated chance of development (economic, regulatory, market and facility, corporate commitment or political risks). These estimates have not been risked for the chance of development. There is no certainty that any portion of the contingent resources will be developed and, if developed, there is no certainty as to either the timing of such development or whether it will be commercially viable to produce any portion of the resources.
5. 3C Contingent Resources have not been calculated for the Lofin Field. The 3C number provided refers to Oseil area only.

Reserves and Resources

Resources	Play	100%						Lion WI Share					
		Gas/Associated Gas Recoverable (BCF)			Oil/ Condensate Recoverable (MMbbl)			Gas/Associated Gas Recoverable (BCF)			Oil/ Condensate Recoverable (MMbbl)		
Prospective Resources[6,7]		Low P90 (1U)	Best P50 (2U)	High P10 (3U)	Low P90 (1U)	Best P50 (2U)	High P10 (3U)	Low P90 (1U)	Best P50 (2U)	High P10 (3U)	Low P90 (1U)	Best P50 (2U)	High P10 (3U)
Bula Dangkal	Kanikeh/ Manusela				1.9	8.2	25.9				0.046	0.20	0.65
East Seram PSC (Lion 100%)													
MA7	Manusela	33.7	160.6	748.3	39.4	189.8	881.4	33.7	160.6	748.3	39.4	189.8	881.4
Wahai Deep	Manusela	196.4	689.6	2632.9	34.1	129.1	466.8	196.4	689.6	2632.9	34.1	129.1	466.8
MA 11	Manusela	164.2	587.4	2017.5	15.9	55.1	184.3	164.2	587.4	2017.5	15.9	55.1	184.3
Tanah Baru S	Manusela	77.4	281.9	911.1	22.7	90.0	339.1	77.4	281.9	911.1	22.7	90.9	339.1
Lofin NW (MA 10)	Manusela	147.6	485.6	1623.5	13.9	49.0	146.7	147.6	485.6	1623.5	13.9	49.0	146.7
MA 3	Manusela	62.5	236.3	860.1	10.7	40.9	143.5	62.5	236.3	860.1	10.7	40.9	143.5
Tanah Baru N	Manusela	36.1	123.7	424.6	4.6	17.5	61.1	36.1	123.7	424.6	4.6	17.5	61.1
MA 2	Manusela	23.8	96.4	349.6	4.8	19.2	75.0	23.8	96.4	349.6	4.8	19.2	75.0
MA 8	Manusela	23.8	96.4	349.6	4.8	19.2	75.0	23.8	96.4	349.6	4.8	19.2	75.0
MA 1	Manusela	32.1	100.4	294.6	5.4	17.8	53.3	32.1	100.4	294.6	5.4	17.8	53.3
Lofin Extension[8]	Manusela	69.2	154.4	291.7	0.9	2.0	3.9	69.2	154.4	291.7	0.9	2.0	3.9
MA 4	Manusela	18.2	58.8	176.0	0.9	3.3	9.7	18.2	58.8	176.0	0.9	3.3	9.7
MA 4 NE	Manusela	14.5	41.5	122.6	1.1	3.5	11.0	14.5	41.5	122.6	1.1	3.5	11.0
PP4	Plio-Pleistocene	3.7	11.6	35.9	10.5	37.4	130.2	3.7	11.6	35.9	10.5	37.4	130.2
PP5	Plio-Pleistocene	3.9	8.2	19.5	10.7	28.0	71.5	3.9	8.2	19.5	10.7	28.0	71.5
PP3	Plio-Pleistocene				3.1	6.4	13.1	0.0	0.0	0.0	3.1	6.4	13.1
Solan	Plio-Pleistocene	0.7	1.5	3.6	1.5	3.6	8.7	0.7	1.5	3.6	1.5	3.6	8.7
Offshore Bula	Plio-Pleistocene				0.5	1.6	4.8	0.0	0.0	0.0	0.5	1.6	4.8
Sub-total East Seram PSC		907.7	3134.2	10860.8	185.5	713.3	2679.0	907.7	3134.2	10860.8	185.5	713.3	2679.0
Total Prospective Resource		**907.7**	**3134.2**	**10860.8**	**187.3**	**721.4**	**2704.9**	**907.7**	**3134.2**	**10860.8**	**185.5**	**713.5**	**2679.6**

6. Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of discovery (geological chance of success or GCOS) and a chance of development (economic, regulatory, market and facility, corporate commitment or political risks). The chance of commerciality is the product of these two risk components. There is no certainty that any portion of the prospective resources will be discovered and, if discovered, there is no certainty that it will be developed or, if it is developed, there is no certainty as to either the timing of such development or whether it will be commercially viable to produce any portion of the resources.
7. Prospective Resources in this Table have been estimated probabilistically at lead level but combined arithmetically to provide the portfolio number. The aggregate P90 may be a very conservative estimate and the aggregate P10 may be a very optimistic estimate due to the portfolio effects of arithmetic summation.

Competent Persons Statement

Competent Persons Statement: Qualified Petroleum Reserves and Resources Evaluator

Pursuant to the requirements of the ASX Listing Rules Chapter 5, the technical information, reserve and resource reporting provided in this document are based on and fairly represent information and supporting documentation that has been prepared and/or compiled by Mr Kim Morrison, Exploration Manager of Lion Energy Limited. Mr Morrison holds a B.Sc. (Hons) in Geology and Geophysics from the University of Sydney and has over 30 years' experience in exploration, appraisal and development of oil and gas resources - including evaluating petroleum reserves and resources. Mr Morrison has reviewed the results, procedures and data contained in this website. Mr Morrison consents to the release of this report and to the inclusion of the matters based on the information in the form and context in which it appears. Mr Morrison is a member of AAPG.

Governance and Audit Information

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

For the Seram (Non-Bula) PSC the Oseil field reserves and contingent resources have been adjusted for production through 2018. A Lofin Contingent Resource estimate was organised by the Operator of the project after completion of the Lofin-2 appraisal well. This estimate was undertaken by independent third party resource evaluators. Results are reviewed and compiled internally by Lion Energy, overseen by the Exploration Manager who is a petroleum reserves and resources evaluator qualified in accordance with ASX Listing Rule requirements.

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

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

Financial Report 2018

For the period 1 January to 31 December 2018

Lion Energy Limited
ABN 51 000 753 640

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 2018. The Company is a listed public company limited by shares, incorporated and domiciled in Australia.

DIRECTORS

The names of the directors of the Company in office at any time during or since the financial period and up to the date of this financial report are as follows. Directors were in office for the entire period unless otherwise stated.

Russell Brimage
Thomas Soulsby
Christopher Newton
Damien Servant (appointed 13 February 2018)
Zane Lewis (appointed 13 February 2018)
William (Kim) Morrison (resigned 13 February 2018)
Stuart Smith (resigned 13 February 2018)

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the period were oil & gas exploration, development and production and investment in the oil & gas industry.

There were no significant changes in the nature of the principal activities during the financial period.

OPERATING RESULTS

The net loss for the Consolidated Entity, after income tax amounted to $727,683 for the year ended 31 December 2018 (2017: $10,135,616).

DIVIDENDS

No dividends have been paid or declared since the start of the financial period by the Company.

The directors have recommended that no dividend be paid by the Company in respect of the year ended 31 December 2018.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS AND REVIEW OF OPERATIONS

The following significant changes in the state of affairs of the Consolidated Entity occurred during the financial period:

SHARE BASED COMPENSATION

On 8 June 2018, the Company issued 5,691,829 shares to directors and consultants in lieu of cash payments. On the same day, 6,250,000 performance rights were issued to directors of the Company.

Apart from conserving cash, Lion believes that including a share component in the compensation builds a greater level of alignment with shareholders than usually seen with advisors/consultants as a result of their equity stake in the company.

Seram (Non-Bula) PSC (Lion 2.5%)

Annual production from the Oseil oilfield and surrounding structures was 701,107bbls of crude oil at an average daily rate of 1921 bopd (2017 production 1,042,053 bbls of crude oil at an average daily rate of 2855 barrels of oil per day). This represents a 32.7% natural decline in production from the prior calendar year.

On 31 May 2018, the Ministry of Minerals Resources of the Republic of Indonesia granted the Seram (Non-Bula) PSC partners a 20-year extension beyond the previous PSC expiry date of 31 October 2019. The renewal involved the payment of a signature bonus of US$1,000,000 and a performance bond of US$4,889,200 by the PSC participants on a gross basis (Lion 2.5%).

Lion has announced on 7 September 2018 an updated reserve and resource Seram (Non-Bula) PSC.

On December 2018, the Company's subsidiary executed a conditional sale and purchase agreement ("SPA") for the acquisition of a further 16.5% interest in Seram (Non-Bula) PSC. The consideration would consist of US$32 million (subject to various adjustments) payable upon completion of the transaction, US$7,200,000 upon full field plan of development ("POD") approval and another US$4,800,000 upon first gas production from the approved full field POD. The transaction is subject to various conditions and has not yet completed at the date of this Report.

East Seram PSC (Lion 100%)

On 4 May 2018 the Company was awarded the East Seram Gross Split PSC. This was formally executed on 18 July 2018. The terms of the PSC include the payment of a signature bonus of US$500,000 and the provision of a US$1,500,000 performance bond (Lion 100%).

During Q4 2018, the Company initiated seismic survey planning, undertook extensive technical studies and is currently considering exploring opportunities of a farm-out.

South Block A PSC (Lion 40.7%)

On 23 July 2018, Lion's subsidiary executed an agreement to sell Lion's holding in South Block A to Blue Sky Resources Ltd for a nominal amount of $10. Lion retains a right to a production royalty with a maximum value of US$4,500,000.

Under the terms of the royalty agreement, Lion is entitled to a royalty equal to 0.8% of the revenue derived from the SBA PSC up to a maximum of US$4,500,000. The royalty will accrue and become payable once 50% of the SBA PSC cost recovery pool at first oil has been recovered.

Joint Studies

No activities were undertaken by Lion in relation to the joint studies, in line with the strategy announced on 28 March 2018.

Strategic review

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

As a result of this, the Company disposed of its holding in the South Block A PSC on 23 July 2018.

Board Changes

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

Capital Management

On 8 June 2018 the Company issued 24,242,857 shares at $0.035 to raise AU$848,500 before costs. On 6 and 8 June 2018 two convertible loans were entered into to raise a total of AU$2,241,000. On 6 December 2018, the Company issued 64,028,572 ordinary shares at a contractual issue price of A$0.035 upon conversion of the convertible loans, as approved by shareholders on 7 November 2018.

SIGNIFICANT EVENTS SUBSEQUENT TO REPORTING DATE

No matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in subsequent financial years.

LIKELY DEVELOPMENTS

The Company will continue to pursue its principal activity of oil and gas exploration and evaluation, particularly in respect to the projects, as outlined in the Review of Operations' of this Report. The Company will also continue to evaluate new business opportunities in Indonesia with a focus on adding production orientated projects.

The Company has entered into a conditional purchase agreement with Gulf Petroleum Investment Company KSCC ("GPI") to acquire GPI's 16.5% stake in the Seram (Non-Bula) PSC, increasing Lion's stake from 2.5% to 19%. Lion will continue to work towards satisfaction of the conditions precedent to closing of the purchase agreement. As some of the conditions are not within the control of Lion, there can be no assurance that the proposed transaction will complete. The main conditions precedent are:

- Approval from the Indonesian regulator
- Approval from the joint-venture partners
- Fulfilment of any regulatory conditions imposed on Lion by the Corporations Act of ASX Listing Rules (shareholder approval under Listing Rule 11.1.2 is required)
- Provision of a corporate guarantee by Lion to the seller to guarantee the Buyer's obligations in relation the contingent considerations

Exploration Risk

Oil and Gas exploration and development are high-risk undertakings, and there is no assurance that exploration of the contracted areas will result in the discovery of an economic deposit. Even if an apparently viable deposit is identified there is no guarantee that it can be economically exploited.

The future exploration activities of the Company may be affected by a range of factors including geological conditions, limitations on activities due to permitting requirements, availability of appropriate exploration equipment, exploration costs, seasonal weather patterns, unanticipated operational and technical difficulties, industrial and environmental accidents and many other factors beyond the control of the Company.

The Board of Directors manage this risk by: performing thorough technical reviews of all exploration acreage; limiting exposure to any one exploration project; ensuring work commitments are kept at management levels; and farming-down exposure where appropriate.

ENVIRONMENTAL ISSUES

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

INFORMATION ON DIRECTORS AND COMPANY SECRETARY

THOMAS LEO SOULSBY
DIRECTOR (EXECUTIVE CHAIRMAN)

Qualifications and Experience:

Mr Soulsby is the CEO of Risco Energy (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:	667,953
Directors meetings attended:	7 of 7 held during term of directorship in financial period
Appointed:	10 January 2014

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:	Executive Chairman (until 13 February 2018)
Interest in shares and options of the Company at the date of this report:	5,061,637 Ordinary Shares
Directors meetings attended:	7 of 7 held during term of directorship in financial period
Director since:	2005

CHRISTOPHER BASIL NEWTON
DIRECTOR (NON-EXECUTIVE)

Qualifications and Experience:

Mr Newton is director of business development and operations for Risco Energy. In a career spanning 35 years in oil and gas he has covered the spectrum of exploration, development and production, developing core strengths in petroleum economics, strategic planning, business development and ultimately, top management.

A 1978 Geology graduate from Durham University, England, Mr Newton also holds a Grad Dip in Applied Finance and Investment from the Securities Institute of Australia (SIA). He has spent more than 25 years in South East Asia in various industry capacities including Managing Director of Fletcher Challenge in Brunei, a stint as Managing Director of Shell Deepwater Borneo, President of Santos – Indonesia and CEO of Jakarta-listed oil and gas company, EMP. Along with Mr Soulsby, he was a co-founder director of Risco Energy in July 2010.

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

Directorships of other listed companies in the 3 years prior to the end of the Financial Period:	Tap Oil Ltd
Interest in shares and options of the Company at the date of this report:	437,340
Directors meetings attended:	7 of 7 held during term of directorship in financial period
Appointed:	10 January 2014

Damien Servant

Director (Executive) Appointed 13 February 2018

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:	Nil
Directors meetings attended:	6 of 6 held during term of directorship in financial period
Appointed:	13 February 2018

Zane Robert Lewis

Director (Non-Executive) Appointed 13 February 2018

Qualifications and Experience:

Mr Lewis has over 20 years' experience and leadership of smallcap multinational companies. His hands-on skillset includes corporate advisory, non executive director and Company Secretary roles at several ASX Listed and unlisted companies as well as extensive international experience managing a group of Software and Tech companies in USA, Europe, Hong Kong, China and Australia.

Directorships of other listed companies in the 3 years prior to the end of the Financial Period:	Nil
Interest in shares and options of the Company at the date of this report:	1,019,567 Ordinary Shares
Directors meetings attended:	5 of 6 held during term of directorship in financial period
Appointed:	13 February 2018

William Kim Morrison

Managing Director & CEO (Executive) Resigned 13 February 2018

Qualifications and Experience:

Mr Morrison has a successful 28 year career working in senior technical and managerial positions with both majors and small cap companies in locations throughout the world. He graduated from The University of Sydney in 1984 with an Honours degree in Geology and Geophysics and also holds a Diploma in Applied Finance and Investment from The Securities Institute of Australia.

Mr Morrison commenced his career as a geologist with Hartogen Energy in Sydney and in 1989 joined Marathon Oil in Perth, subsequently moving with them to Jakarta and Houston. In 2000 he returned to Asia with Fletcher Challenge in Brunei as Head of Regional Geology. In 2001, Mr Morrison took on a senior portfolio management role with Shell in Malaysia and was posted to The Hague in 2005 to lead Shell's Asia Pacific New Ventures team. In 2006 he moved to Libya with Woodside as Onshore Exploration Manager and in 2008 returned to Perth as Business Development Manager for Oilex Ltd. Mr Morrison set up an exploration advisory business in 2010 and also co-founded KRX.

Directorships of other listed companies in the 3 years prior to the end of the Financial Period:	None
Special Responsibilities:	Managing Director and Chief Executive Officer (since 10 January 2014)
Interest in shares and options of the Company (at date of resignation):	4,083,349 Ordinary Shares
Directors meetings attended:	1 of 1 held during term of directorship in financial period
Appointed:	10 January 2014
Resigned	13 February 2018

STUART BRUCE SMITH

DIRECTOR (EXECUTIVE) RESIGNED 13 FEBRUARY 2018

Qualifications and Experience:

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

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

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

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

ZANE LEWIS
JOINT COMPANY SECRETARY

Qualifications and Experience:

Mr Lewis has over 20 years' experience and leadership of smallcap multinational companies. His hands-on skillset includes corporate advisory, non executive director and Company Secretary roles at several ASX Listed and unlisted companies as well as extensive international experience managing a group of Software and Tech companies in USA, Europe, Hong Kong, China and Australia.

Appointed: 28 March 2014.

ARRON CANICAIS
JOINT COMPANY SECRETARY

Qualifications and Experience:

Mr Canicais is a Chartered Accountant with 10 years' experience in audit and assurance and financial officer roles. He holds a Bachelor of Commerce degree from the University of Notre Dame Australia and is an associate member of the Institute of Chartered Accountants Australia and Governance Institute of Australia.

Mr Canicais worked at Bentleys Audit and Corporate, a West Perth audit firm, for 5 years which specialises in the audits of junior exploration entities in WA. He has had significant exposure to the reporting and financial requirements of exploration entities. He is currently the Company Secretary for a range of ASX listed entities.

Appointed: 1 July 2015.

DIRECTORS MEETINGS

During the period ended 31 December 2018, 7 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 2018. 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.

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.

	31/12/18 12 months	31/12/17 12 months	31/12/16 12 months	31/12/15 18 months *	30/06/14 12 months
Loss after tax expenses	727,683	10,135,616	1,069,747	835,963	1,730,393
Loss per share – cents	0.54	9.21	1.10	0.87	2.87
Share price – cents	3.50	4.68	4.56	8.04	19.96

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

The names and positions of key management personnel of the Company and of the Consolidated Entity who have held office during the financial period are:

Thomas Soulsby	Non-Executive Director / Executive Chairman (appointed Executive Chairman 13 February 2018)
Russell Brimage	Non-Executive Chairman / Non-Executive Director (changed to Non-Executive Director 13 February 2018)
Damien Servant	Executive Director (appointed 13 February 2018)
Christopher Newton	Non-Executive Director
Zane Lewis	Non-Executive Director (appointed 13 February 2018)
Kim Morrison	CEO and Managing Director (resigned 13 February 2018)
Stuart Smith	Executive Director (resigned 13 February 2018)

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	Consulting fees	Incentives through shares	Term of Agreement	Notice Period***
Thomas Soulsby (Non-Executive Director until 13 February 2018)	US$24,000	US$30,000	-	No fixed term	N/A
Thomas Soulsby (Executive Chairman from 13 February 2018)	-	US$162,000	-	No fixed term	1 month
Thomas Soulsby (Executive Chairman from 1 August 2018)	-	US$202,500	-	No fixed term	1 month
Russell Brimage	A$36,000*	US$43,200	N/A	No fixed term	N/A
Damien Servant	-	US$114,000	-	No fixed term	1 month
Damien Servant (from 1 August 2018)	-	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
Kim Morrison (resigned 13 February 2018)	A$216,000*	-	-	No fixed term	3 months
Stuart Smith (resigned 13 February 2018)	US$149,040	-	A$50,000**	No fixed term	3 months

* Plus statutory superannuation contributions. Upon Mr Brimage's change in role to non-executive director on 13 February 2018, this service agreement was terminated.

** At the annual general meeting on 25 November 2014, the shareholders approved a total of 750,000 shares, with a deemed value of A$150,000 or A$0.20 per share, as incentive to the director Stuart Smith to be issued over three years at 250,000 (A$50,000) every year after 1st of February. The issuance of the shares was subject to Stuart Smith remaining in employment at Lion.

*** Termination benefits: Kim Morrison was entitled to an additional 1 months' salary on top of the notice period for each year of continuous service to the company (pro-rata up to the date of leaving the entity). In the case of termination without cause Mr Morrison was entitled to receive an additional 3 months' salary on top of the entitles mentioned above.

****The Company has entered into a services contract with Mr Newton for the management and promotion of the Company's interest in the East Seram Block. The terms of this contract are:

- Commencement date of 1 June 2018 for a term of six months from commencement date
- US$10,000 cash remuneration per calendar month.
- Bonus of up to US$150,000 if Lion enters into a farm out agreement, or up to US$275,000 should a farm out process participant enter into a change of control transaction with Lion in addition to, or rather than a farm out agreement. This award lapsed in December 2018.
- Bonus payments were payable in cash or Lion shares at the Company's election, and if paid in shares were subject to shareholder approval.
- If the Company elected to pay by Lion shares, the price per share would have been calculated at a 20% discount to the 30 calendar day VWAP prior to the announcement of a successful farm out.
- One month notice period for termination by either party

Details of Remuneration

	Short Term Benefits[2] $	Post employment benefits (super-annuation) $	Share based payments $	Termination benefits $	Total[3] $	% of remuneration that is equity based
	Compensation 12 months to 31 December 2018					
Compensation of Directors based on fees approved by the Board of directors.						
Thomas Soulsby	169,875	-	1,758[1]	-	171,633	1.02%
Russell Brimage	45,583	184	527[1]	-	46,294	1.14%
Damien Servant	116,375	-	1,056[1]	-	117,431	0.90%
Zane Lewis	39,541	-	527[1]	-	40,068	1.32%
Christopher Newton	104,165	-	527[1]	-	104,692	0.50%
Kim Morrison[4]	11,633	6,644	-	28,334	46,611	-
Stuart Smith[4]	8,936	-	-	69,298	78,234	-
Total compensation – For Key Management Personnel	496,108	6,828	4,395	97,632	604,963	

	Short Term Benefits[2] $	Post employment benefits (super-annuation) $	Share based payments $	Termination benefits $	Total[3] $	% of remuneration that is equity based
	Compensation 12 months to 31 December 2017					
Compensation of Directors based on fees approved by the Board of directors.						
Russell Brimage	77,719	2,652	-	-	80,371	0%
Kim Morrison	167,968	17,730	-	-	185,698	0%
Stuart Smith	143,040	-	39,470[5]	-	182,510	20%
Thomas Soulsby	54,000	-	-	-	54,000	0%
Christopher Newton	54,062	-	-	-	54,062	0%
Total compensation – For Key Management Personnel	496,789	20,382	39,470	-	556,641	

Notes:

1. Represents 6,250,000 performance rights issued in 2018, as approved by the shareholders in May 2018's annual general meeting. There was no other equity compensation issued to directors or executives during the year ended 31 December 2018. Refer below for further details of the performance rights.
2. Short-term benefits represent salaries and/or fees paid to directors both in their capacity as employees and/or as consultants to the Company. There were no bonuses paid in 2018 (2017: $nil).
3. The Company also reimburses validly incurred business expenses of directors. These are not included in the table above.
4. Mr Kim Morrison and Mr Stuart Smith both resigned as directors on13 February 2018, and from that point on were deemed not be key management personnel of the Company. As such, the remuneration included in the table above only includes compensation that each Mr Morrison and Mr Smith were entitled to up to the date of their resignation.
5. Represents 250,000 incentive shares issued in 2017, as approved by the shareholders in November 2014's annual general meeting.

SHARES AND OPTIONS HELD BY KEY MANAGEMENT PERSONNEL

	Number of Ordinary Shares			
	1 January 2018 or Appointment	Issued as Compensation	Net Change Other	31 December 2018 or Resignation
Thomas Soulsby	-	-	557,953	557,953
Russell Brimage	4,428,329	-	633,308	5,061,637
Damien Servant	-	-	-	-
Christopher Newton	-	-	437,340	437,340
Zane Lewis	919,567	-	100,000	1,019,567
Kim Morrison	4,083,349	-	-	4,083,349
Stuart Smith	750,000	-	-	750,000
	10,181,245	-	1,728,601	11,909,846

These net changes during the year relate to the issuance of shares to settle existing financial liabilities of the Group. There were no options held by the directors during the year.

	Number of Performance Rights			
	1 January 2018 or Appointment	Issued as Compensation	Net Change Other	31 December 2018 or Resignation
Thomas Soulsby	-	2,500,000	(2,500,000)	-
Russell Brimage	-	750,000	(750,000)	-
Damien Servant	-	1,500,000	(1,500,000)	-
Christopher Newton	-	750,000	(750,000)	-
Zane Lewis	-	750,000	(750,000)	-
Kim Morrison	-	-	-	-
Stuart Smith	-	-	-	-
	-	6,250,000	(6,250,000)	-

PERFORMANCE RIGHTS

On 8 June 2018 the Company issued 3,125,000 Class A performance Rights and 3,125,000 Class B Performance Rights.

The vesting of Class A Performance Rights is subject to the average monthly volume of shares traded on the ASX from 1 July 2018 to 31 December 2018 exceeding 1.25% of the total shares on issue as at December 31, 2018. This is classified as a non-market condition.

The Vesting of Class B Performance Rights is subject to satisfactory achievement of Total Shareholder Return (TSR). This is classified as a market condition.

The quantum of performance rights that vest will be calculated as follows:

TSR % < 35% = Nil Performance Rights vest

TSR % >= 35% and < 200% = Pro rata of total Performance Rights issued under this agreement.

TSR % >= 200% = 100% of total Performance Rights issued under this agreement.

TSR % is defined as:

$$\left(\frac{Finish\ Date\ Price - Start\ Date\ Price}{Start\ Date\ Price}\right) x\ 100$$

The performance rights were priced using a Monte Carlo simulation model. The valuation and respective inputs into the model are set out in the table below:

	Class A Performance Rights	Class B Performance Rights
Grant date share price	AU$0.036	AU$0.036
Volatility	75%	75%
Risk-free rate	1.48%	1.48%
Performance right life	7 months	7 months
Dividend yield	Nil	Nil
Fair Value	AU$0.036	AU$0.002

Both Class A and Class B Performance rights did not vest upon expiry of the Performance Rights on 31 December 2018. As Class A Performance rights were based on a non-market condition, the expense raised was subsequently reversed upon expiry. The value of this was AU$112,500 (US$79,841). The value of the Class B Performance rights recognised in the Statement of Profit or Loss and Other Comprehensive Income is AU$6,250 (US$4,395).

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. As of the date of his appointment on 13 February 2018, the total fees charged to the Group relating to these services was USD $56,909.

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 2017. The company did not receive any specific feedback at the AGM regarding its remuneration policies.

End of Remuneration Report (Audited)

SHARE OPTIONS ISSUED AND OUTSTANDING

There were no share options on issue during the period ended 31 December 2018, or up to the date of this report.

SHARE OPTIONS EXERCISED

No ordinary shares were issued by virtue of the exercise of options during the year.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

During the financial period, the Company paid premiums of $8,431 (2017: $10,872) in respect of a contract insuring all the directors and officers of the Company and the Consolidated Entity against legal costs incurred in defending proceedings for conduct other than (a) a wilful breach of duty and (b) a contravention of sections 182 or 183 of the *Corporations Act 2001*, as permitted by section 199B of the *Corporations Act 2001*.

Except as disclosed above, the Company and the Consolidated Entity have not, during or since the financial period, in respect of any person who is or has been an officer or director of the Company or a related body corporate:

a) indemnified or made any relevant agreement for indemnifying against a liability, including costs and expenses in successfully defending legal proceedings; or

b) paid or agreed to pay a premium in respect of a contract insuring against a liability for the costs or expenses to defend legal proceedings.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the period.

INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the *Corporations Act 2001* section 307C the auditors of the Company have provided a signed Auditor's Independence Declaration to the directors in relation to the period ended 31 December 2018. A copy of this declaration appears at the end of this 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.

Thomas Soulsby
Executive Chairman
29 March 2019
Perth, Western Australia

Building a better
working world

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Auditor's independence declaration to the Directors of Lion Energy Limited

As lead auditor for the audit of the financial report of Lion Energy Limited for the financial year ended 31 December 2018, I declare to the best of my knowledge and belief, there have been:

a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Lion Energy Limited and the entities it controlled during the financial year.

Ernst & Young

Darryn Hall
Partner
29 March 2019

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Consolidated Entity 31 December 2018 $	 31 December 2017 $
Revenue	4		1,056,350
Cost of goods sold	4	(803,903)	(900,691)
GROSS PROFIT		**156,482**	**155,659**
Financing income	4	31	1,828
Gain on re-measurement of embedded derivative		342,204	-
Administration expenses	4	(1,232,607)	(1,005,656)
Interest expense		(524,779)	-
Foreign exchange gain		99,419	19,846
Capitalised Exploration Expenditure Write Off Expense	11	(198,704)	(9,307,293)
Recovery of written off receivables		96,439	-
Gain on disposal of subsidiary	29	533,832	-
LOSS BEFORE INCOME TAX EXPENSE		**(727,683)**	**(10,135,616)**
Income tax benefit/(expense)	5	-	-
LOSS AFTER RELATED INCOME TAX EXPENSE		**(727,683)**	**(10,135,616)**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:		-	-
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX		-	-
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(727,683)**	**(10,135,616)**
EARNINGS/(LOSS) PER SHARE			
BASIC LOSS PER SHARE (CENTS PER SHARE)	6	(0.54)	(9.21)
DILUTED LOSS PER SHARE (CENTS PER SHARE)	6	(0.54)	(9.21)

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 2018

	Note	Consolidated Entity 31 December 2018 $	31 December 2017 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	18	1,054,515	823,113
Trade and other receivables	7	516,489	416,967
Inventories	8	317,424	327,602
TOTAL CURRENT ASSETS		**1,888,428**	**1,567,682**
NON-CURRENT ASSETS			
Plant and equipment	9	5,386	7,088
Receivables	10	497,250	-
Capitalised exploration and evaluation expenditure	11	1,042,236	266,698
Oil & gas properties	12	277,202	548,485
TOTAL NON-CURRENT ASSETS		**1,822,074**	**822,271**
TOTAL ASSETS		**3,710,502**	**2,389,953**
CURRENT LIABILITIES			
Trade and other payables	13	530,830	1,074,688
TOTAL CURRENT LIABILITIES		**530,830**	**1,074,688**
TOTAL LIABILITIES		**530,830**	**1,074,688**
NET ASSETS		**3,179,672**	**1,315,265**
EQUITY			
Issued capital	14	50,664,973	48,077,278
Reserves	15	2,840,100	2,835,705
Accumulated losses		(50,325,401)	(49,597,718)
TOTAL EQUITY		**3,179,672**	**1,315,265**

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 2018

	Note	Consolidated Entity 31 December 2018 $	 31 December 2017 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		801,113	1,258,160
Receipts from legal settlement		-	2,159
Payments to suppliers and employees		(1,320,525)	(1,226,193)
Interest received		31	1,828
NET CASH FROM /(USED IN) OPERATING ACTIVITIES	**18**	**(519,381)**	**35,954**
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposal of property, plant and equipment		598	1,912
Exploration and evaluation expenditure		(974,242)	(469,480)
Expenditure on oil and gas properties		(82,150)	(11,985)
Placement of performance bond collateral		(497,250)	-
NET CASH USED IN INVESTING ACTIVITIES		**(1,553,044)**	**(479,553)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from equity issues		625,801	-
Capital raising expenses		(4,230)	-
Proceeds from issue of convertible notes		1,656,321	-
NET CASH FROM FINANCING ACTIVITIES		**2,277,892**	**-**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**205,467**	**(443,599)**
Net foreign exchange differences		25,935	19,846
Cash and cash equivalents at beginning of period		823,113	1,246,866
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**18**	**1,054,515**	**823,113**

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 2018

ATTRIBUTABLE TO MEMBERS OF THE COMPANY	Issued Capital $	Option Premium Reserve $	Share Based Payment Reserve $	Currency Translation Reserve $	Accumulated Losses $	Total Equity $
AT 1 JANUARY 2017	**47,887,762**	**(27,070)**	**-**	**2,862,775**	**(39,462,102)**	**11,261,365**
Loss for the year	-	-	-	-	(10,135,616)	(10,135,616)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**-**	**-**	**-**	**-**	**(10,135,616)**	**(10,135,616)**
Securities issued	189,516	-	-	-	-	189,516
AT 31 DECEMBER 2017	**48,077,278**	**(27,070)**	**-**	**2,862,775**	**(49,597,718)**	**1,315,265**
Loss for the year	-	-	-	-	(727,683)	(727,683)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**-**	**-**	**-**	**-**	**(727,683)**	**(727,683)**
Securities issued	846,726	-		-	-	846,726
Equity raising costs	(4,230)	-		-	-	(4,230)
Performance rights issued	-	-	4,395	-	-	4,395
Issue of shares on conversion of convertible loans	1,745,199	-	-	-	-	1,745,199
AT 31 DECEMBER 2018	**50,664,973**	**(27,070)**	**4,395**	**2,862,775**	**(50,325,401)**	**3,179,672**

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

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 2018 were authorised for issue in accordance with a resolution of the directors on 29 March 2019. 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 23 and 24.

The Group's registered office is in Suite 7, 295 Rokeby Road, Subiaco, WA 6008 Australia.

Basis of Preparation of Accounts

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) and the *Corporations Act 2001*. The consolidated financial report of the Group also complies with the International Financial Reporting Standards ("IFRS") and interpretations adopted by the International Accounting Standards Board. The company is a For-Profit entity for the purpose of preparing these financial statements.

The financial report has been prepared on an accruals basis and is based on a historical cost basis. The presentation currency used in this financial report is United States Dollars.

This financial report is issued in accordance with a resolution of the directors of the Company on the same date as the Directors' Declaration above.

Since 1 January 2018, the Consolidated Entity has adopted all Accounting Standards and Interpretations effective from 1 January 2018. 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 Consolidated Entity applied AASB 15 *Revenue from Contracts with Customers* (AASB 15) and AASB 9 *Financial Instruments* (AASB 9) for the first time from 1 January 2018. The nature and effect of these changes as a result of the adoption of these new Accounting Standards are described below.

Several other new and amended Accounting Standards and Interpretations applied for the first time from 1 January 2018 did not have an impact on the consolidated financial statements of the Consolidated Entity and, hence, have not been disclosed.

AASB *9*

AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement (AASB 139) for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied AASB 9 retrospectively, with the initial application date of 1 January 2018. The Group has elected to restate comparative information.

AASB 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The changes in accounting policies resulting from the adoption of AASB 9 did not have a material impact on the Company's consolidated financial statements.

AASB 9 largely retains the existing requirements of AASB 139 for the classification and measurement of financial liabilities, however, it eliminates the previous AASB 139 categories for financial assets being: held to maturity; loans and receivables; and available for sale. Under AASB 9, on initial recognition a financial asset is classified as measured at:

a. Amortised cost;
b. Fair Value through Other Comprehensive Income (FVOCI) – debt investment;
c. FVOCI – equity investment; or
d. Fair Value through Profit or Loss (FVTPL)

The classification of financial assets under AASB 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition. For financial assets measured at amortised cost, these assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses.

As of 31 December 2017 and 31 December 2018, the Company's financial instruments consist of cash and cash equivalents, trade and other receivables, and trade and other payables.

Class of financial instrument presented in the statement of financial position	Original measurement category under AASB 139	New measurement category under AASB 9
Cash and cash equivalents	Loans and receivables	Financial assets at amortised cost
Trade and other receivables	Loans and receivables	Financial assets at amortised cost
Trade and other payables	Financial liability at amortised cost	Financial liability at amortised cost

The change in classification has not resulted in any re-measurement adjustments at 1 January 2018 or 1 January 2017.

Impairment of financial assets
In relation to the financial assets carried at amortised cost, AASB 9 requires an expected credit loss model to be applied as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. In particular, AASB 9 requires the Group to measure the loss allowance at an amount equal to lifetime expected credit loss ("ECL") if the credit risk on the instrument has increased significantly since initial recognition. On the other hand, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group is required to measure the loss allowance for that financial instrument at an amount equal to the ECL within the next 12 months.

As at 1 January 2018 and 1 January 2017, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information. The assessment did not result in any additional impairment being recognised.

AASB 15
The Group has adopted AASB 15 with the date of initial application being 1 January 2018. In accordance with the transitional provisions in AASB 15 the standard has been applied using the full retrospective approach.

AASB 15 supersedes AASB 118 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

It was determined that the adoption of AASB 15 had no impact on the timing and recognition of revenue by the Group as revenue arises entirely from oil lifted at the Seram (Non-Bula) PSC operation, of which Lion is entitled to 2.5%. As a result, the adoption of AASB 15 had no material impact on the Group.

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

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

Reference	Title	Summary	Application date of standard
AASB 16	*Leases*	AASB 16 requires lessees to account for all leases under a single on balance sheet model in a similar way to finance leases under AASB 117 *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases. This new standard is not expected to have material impact on the financial report when adopted as the Group does not have operating or finance leases. Specifically, in relation to the Seram PSC, the Group continues to work with the operator to confirm this assessment.	1 January 2019
AASB 2017-7	*Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures*	This Standard amends AASB 128 *Investments in Associates and Joint Ventures* to clarify that an entity is required to account for long-term interests in an Associate or joint venture, which in substance form part of the net investment in the associate or joint venture but to which the equity method is not applied, using AASB 9 *Financial Instruments* before applying the loss allocation and impairment requirements in AASB 128.	1 January 2019
AASB 2018-1	Annual Improvements to IFRS Standards 2015–2018 Cycle	The amendments clarify certain requirements in: ► AASB 3 *Business Combinations* and IFRS 11 *Joint Arrangements* - previously held interest in a joint operation ► AASB 112 *Income Taxes* - income tax consequences of payments on financial instruments classified as equity ► AASB 123 *Borrowing Costs* - borrowing costs eligible for capitalisation.	1 January 2019
AASB Interpretation 23	Uncertainty over Income Tax Treatments	The interpretation clarifies the application of the recognition and measurement criteria in AASB 112 *Income Taxes* when there is uncertainty over income tax treatments. The interpretation specifically addressed the following: ► Whether an entity considers uncertain tax treatments separately ► The assumptions an entity makes about the examination of tax treatments by taxation authorities ► How an entity determines taxable profit (tax loss), tax bases, unusual tax losses, unused tax credits and tax rates ► How an entity considers changes in facts and circumstances	1 January 2019

The Company has not elected to early adopt any new standards or amendments that are issued but not yet effective. New standards and amendments will be adopted when they become effective. The Group's preliminary assessment indicates that, on adoption, the above new standards or amendments will not have a material impact to the financial statements.

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 2018. 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.

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

Income Tax

Deferred income tax 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.

e) Employee Benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave. Employee benefits, expenses and revenues arising in respect of wages and salaries; non-monetary benefits; annual leave; long service leave and other leave and other employee entitlements are charged against profits on a net basis.

Contributions are made by the Group to employee superannuation funds and are charged as expenses when incurred. The Group has no legal obligation to cover any shortfall in any superannuation fund's obligation to provide benefits to employees on retirement.

f) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with a maturity of three months or less. For the purpose of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts and investments in money market instruments with 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 no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

j) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership. The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis. Contingent rentals are recognised as an expense in the financial year in which they are incurred.

k) Issued capital

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

l) Property, Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Plant and equipment – over 2 to 15 years

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.

Impairment

The carrying values of oil & gas properties are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any indication of impairment exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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).

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 carried at amortised cost which represents future liabilities for goods and services received, whether or not billed to the Company.

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.

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.

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 arrangements 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 24.

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 components parts based on the terms of the contract. As the notes are denominated in foreign currency, the conversion right represents a derivative liability. The fair value of this derivative feature was 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 below. The application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular the assessment of whether economic quantities of reserves are found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under our policy, we conclude that we are unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalised amount will be written off to the statement of profit or loss and other comprehensive income.

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.

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.

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 $727,683 (2017: $10,135,616), expended a net operating cash outflow of $519,381 (2017: net operating cash inflow $35,954) and expended a net investing cash outflow of $1,553,044 (2017: $479,553) for the year to 31 December 2018.

The Consolidated Entity is currently in a positive net current asset position, including cash of $1,054,515 (2017: $823,113). The Directors are confident that the Group has sufficient cash to fund its share of currently approved joint venture activities within the next 12 months from the date the financial statements are approved and will be able to meet existing commitments as they fall due. The Directors will also continue to carefully manage discretionary expenditure in line with the Group's cash flow. The Directors note that should uncommitted business activities or continued exploration and evaluation activities not resolve themselves as anticipated, the business may require expenditure in excess of funds available. Options with regard to funding those activities will need to be sought. Should the Group not achieve additional funding required, there is uncertainty whether the Group would continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

NOTE 3. GLOSSARY

The following abbreviations are used throughout this report:

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

	Consolidated Entity	
	31 December 2018 $	31 December 2017 $

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	960,385	1,056,350

The oil sales revenue relates to liftings from the Seram (Non-Bula) PSC located in Indonesia

Finance income:		
Interest receivable from other persons	31	1,828
	31	1,828
EXPENSES		
Cost of goods sold:		
Production costs	450,470	506,328
Depreciation, Depletion & Amortisation	353,433	394,363
	803,903	900,691
Administration expenses:		
Depreciation	1,103	1,409
Consultants	223,131	107,940
Legal expenses	66,204	43,348
Professional fees	164,747	156,941
Rental costs	12,910	12,123
Travel	48,538	33,444
Wages, salaries and directors fee	611,946	519,636
Share based payments	4,395	39,470
Superannuation	2,633	21,662
Other administration expenses	97,000	66,869
	1,232,607	1,005,656

	Consolidated Entity 31 December 2018 $	Consolidated Entity 31 December 2017 $

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:

	31 December 2018 $	31 December 2017 $
LOSS FROM CONTINUING OPERATIONS	(727,683)	(10,135,616)
Prima facie income tax benefit on operating loss calculated at 27.5% (2017:27.5%)	(200,113)	(2,787,295)
Non-deductible expenses	303,264	1,780,011
Difference of effective foreign income tax rates	(6,485)	680,403
Income tax benefit not brought to account	(96,666)	326,881
INCOME TAX BENEFIT FROM CONTINUING OPERATIONS	-	-

Deferred tax balances as at 31 December 2018 were not recognised in the statement of financial position. These relate to the deferred tax assets from the following accounts:

	31 December 2018 $	31 December 2017 $
Accruals	7,214	15,251
Unused tax losses – revenue losses	5,723,051	6,582,526
Unrecognised deferred tax asset – capital losses	510,762	510,762
DEFERRED TAX ASSET NOT BROUGHT TO ACCOUNT	6,241,027	7,108,539

The Group's unused tax losses that arose from revenue primarily relates to those incurred by the parent company based in Australia of $14,935,697 (2017: $14,615,017) that are available indefinitely for offsetting against future taxable profits of the parent. In addition, it also includes a total of $7,917,997 (2017: $7,940,382) of unused tax losses incurred by the foreign subsidiaries domiciled in the US and in Singapore. The reduction in the deferred tax losses during the year include $1,269,488 attributed to the change in the US federal tax rate from 35% to 21%.

The Group has unused capital losses of $1,857,316 (2017: $1,857,316) 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.

The Group's interest in the producing Seram PSC includes unrecovered tax-effected cost pools available to Lion of $2,074,979 (2017: $2,112,627). These are not being recognised because it is unlikely that the Group and the joint venture will utilise these cost pools.

NOTE 6. EARNINGS PER SHARE

	31 December 2018 $	31 December 2017 $
Both basic and diluted EPS have been calculated using the following variables:		
Loss used in the calculation of basic/diluted EPS	(727,683)	(10,135,616)
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic/diluted earnings per share	134,718,695	110,028,329

NOTE 7. TRADE AND OTHER RECEIVABLES (CURRENT)

	31 December 2018 $	31 December 2017 $
Trade debtors	435,365	268,368
Other debtors	81,124	17,349
Performance bond collateral	-	131,250
	516,489	416,967

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. During the year, $96,349 of previously written off trade debtors were recovered (2017: $nil).

	Consolidated Entity	
	2018 $	**2017** $
NOTE 8. INVENTORIES		
Inventory - materials (at cost)	317,424	327,602
	317,424	327,602

NOTE 9. PLANT AND EQUIPMENT

PLANT AND EQUIPMENT		
Gross carrying amount at cost	254,261	268,016
Accumulated depreciation	(248,875)	(260,928)
TOTAL PLANT AND EQUIPMENT	5,386	7,088
MOVEMENTS IN THE CARRYING AMOUNT OF PLANT AND EQUIPMENT		
PLANT AND EQUIPMENT		
At the beginning of the financial period	7,088	10,409
Disposal	(599)	(1,912)
Depreciation expense	(1,103)	(1,409)
TOTAL PLANT AND EQUIPMENT	5,386	7,088

NOTE 10. RECEIVABLES (NON CURRENT)

Performance bonds collateral	497,250	-
	497,250	-

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, and it is expected the Group will be refunded in 2021 and 2024 respectively. For East Seram, the actual performance bond was $1,500,0000 but the payment was through a guarantee arrangement that only resulted to $375,000 cash outlay from the Group.

	Consolidated Entity	
	2018 $	2017 $

NOTE 11. CAPITALISED EXPLORATION AND EVALUATION EXPENDITURE

	2018 $	2017 $
Capitalised exploration and evaluation expenditure	1,042,236	266,698
TOTAL	1,042,236	266,698
MOVEMENTS IN THE CARRYING AMOUNT OF CAPITALISED EXPLORATION AND EVALUATION EXPENDITURE		
At the beginning of the financial period	266,698	8,778,733
Expenditure during the period	974,242	795,258
Capitalised exploration expenditure written off	(198,704)	(9,307,293)
AT THE END OF THE FINANCIAL PERIOD	1,042,236	266,698

Capitalised exploration and evaluation expenditure above includes $1,042,236 (2017: $266,698) of costs incurred in carrying out joint studies and submitting joint study applications to Indonesian authorities over areas in central and Northern Sumatra. This is a mechanism for undertaking exploratory activities and gaining the associated technical data in a region that attaches with it pre-emptive rights to acquire production sharing contracts over the acreage when it is included in periodic bidding rounds. Should the areas of interest associated with each study not progress to the Group seeking to acquire the PSC or progressing further evaluation the costs are expensed.

The Board has undertaken a strategic review of assets with a view to rationalising non-core assets and focussing on a production orientated portfolio of projects in line with the announcement to the ASX on 28 March 2018. There are no committed plans to fund activities on any of the group's areas of interest except for the East Seram area of interest. The Board has therefore taken the approach to impair to nil the exploration and evaluation costs on all areas of interest excluding the East Seram Joint Study, that was converted to a PSC during the year, 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

	2018 $	2017 $
Oil and gas properties at cost	2,254,816	2,172,666
Accumulated depreciation, depletion and amortisaion	(1,977,614)	(1,624,181)
	277,202	548,485
MOVEMENTS IN THE CARRYING AMOUNT OF OIL AND GAS PROPERTIES		
At the beginning of the financial period	548,485	930,863
Expenditure during the period	82,150	11,985
Depreciation, Depletion & Amortisation	(353,433)	(394,363)
AT THE END OF THE FINANCIAL PERIOD	277,202	548,485

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 (2017: 2.5%). The Company did not identify any indicators of impairment.

	Consolidated Entity	
	2018	2017
	$	$

NOTE 13. TRADE AND OTHER PAYABLES (CURRENT)

	2018 $	2017 $
Trade and other payables	348,274	913,465
Provision for site restoration costs	182,556	161,223
	530,830	1,074,688

NOTE 14. ISSUED CAPITAL

	2018 $	2017 $
207,401,790 (2017: 113,438,532) fully paid ordinary shares	50,576,095	48,077,278

MOVEMENTS IN ISSUED CAPITAL

	Shares		$	
	2018	2017	2018	2017
At the beginning of the period	113,438,532	108,186,532	48,077,278	47,887,762
Issued on 25 August 2017	-	5,252,000	-	189,516
Issued on 8 June 2018	29,934,686	-	846,726	-
Issued on 6 December 2018	64,028,572	-	1,745,199	-
Share issue expenses	-	-	(4,230)	-
AT THE END OF THE FINANCIAL PERIOD	**207,401,790**	**113,438,532**	**50,664,973**	**48,077,278**

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

On 8 June 2018, the Company issued 24,242,857 fully paid ordinary shares as part of a placement for A$0.035 per share to raise a total of US$646,012 in cash (AU$848,500). The Company also issued 5,691,829 fully paid ordinary shares to consultants and directors as approved at the 2018 AGM on 31 May 2018 to pay US$200,714 in lieu of cash payment. The below outlines the details of the shares issued:

	No. of shares	$
Settlement of outstanding fees to contractors	100,000	3,782
Settlement of outstanding fees to Directors	1,507,988	58,152
Settlement of termination benefit to Director	1,720,205	67,266
Issued to consultant for services	2,363,636	71,514
	5,691,829	200,714

The fair value of these instruments were recognised at the fair value of the shares at settlement date.

On 6 December 2018, the Company issued 64,028,572 at a deemed issue price of A$0.035 upon conversion of the Risco Convertible Loan and KL Trio Convertible Loan as approved by shareholders on 7 November 2018. Details of the convertibles notes are as follows:

- The Group issued two convertible loans with principal amounts of AU$921,000 (US$680,711) and AU$1,320,000 (US$975,612) to KL Trio Pte Ltd from Risco Energy Unconventional Pte Ltd respectively

- The notes had a maturity date of 13 December 2018 and 19 December 2018, respectively.

- Following shareholder approval, the note holders could elect to convert the Notes into fully paid ordinary shares of the Company at a conversion price of $0.035 per share. If the Notes were repaid in cash, an additional 10% of the principal amounts was due.

As the Convertible Notes are denominated in AU$, a derivative liability in the amount of US$ 342,204 was initially recognised in respect of the conversion right embedded in the Convertible Notes. The fair value of this derivative liability, level 2 in the fair value hierarchy, was calculated using the Binomial option pricing model with the key input being the share price of AU$0.035. At the date of conversion, being the maturity date of the Convertible Notes, the conversion rights had no value.

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.

	Consolidated Entity	
	2018	2017
	$	$
NOTE 15. RESERVES		
Option premium reserve	(27,070)	(27,070)
Share based payment reserve	4,395	-
Currency translation reserve	2,862,775	2,862,775
	2,840,100	2,835,705
MOVEMENTS IN OPTION PREMIUM RESERVE		
At the beginning of the financial period	(27,070)	(27,070)
Addition/transfer	-	-
AT THE END OF THE FINANCIAL PERIOD	(27,070)	(27,070)
MOVEMENTS IN SHARE BASED PAYMENT RESERVE		
At the beginning of the financial period	-	-
Addition/transfer	4,395	-
AT THE END OF THE FINANCIAL PERIOD	4,395	-
MOVEMENTS IN CURRENCY TRANSLATION RESERVE		
At the beginning of the financial period	2,862,775	2,862,775
Addition/transfer	-	-
AT THE END OF THE FINANCIAL PERIOD	2,862,775	2,862,775

The option premium reserve is used to accumulate the fair value of options issued and premiums received on the issue of options. The foreign currency translation reserve 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 Group also issued performance rights to key management personnel, as approved by shareholders in May 2018's annual general meeting. This resulted in the recognition of share based expense and reserves of $4,395. Refer to Note 16 for further information.

NOTE 16. SHARE BASED PAYMENTS

Performance rights:

On 8 June 2018 the Company issued 3,125,000 Class A Performance Rights and 3,125,000 Class B Performance Rights.

The vesting of Class A Performance Rights is subject to the average monthly volume of shares traded on the ASX from 1 July 2018 to 31 December 2018 exceeding 1.25% of the total shares on issue as at December 31, 2018. This is considered as a non-market condition.

The Vesting of Class B Performance Rights is subject to satisfactory achievement of Total Shareholder Return (TSR). This is considered as a market condition.

The quantum of performance rights that vest will be calculated as follows:

TSR % < 35% = Nil Performance Rights vest

TSR % >= 35% and < 200% = Pro rata of total Performance Rights issued under this agreement.

TSR % >= 200% = 100% of total Performance Rights issued under this agreement.

TSR % is defined as:

$$\left(\frac{Finish\ Date\ Price - Start\ Date\ Price}{Start\ Date\ Price}\right) x\ 100$$

The performance rights were priced using a Monte Carlo simulation model. The valuation and respective inputs into the model are set out in the table below:

	Class A Performance Rights	Class B Performance Rights
Grant date share price	AU$0.036	AU$0.036
Volatility	75%	75%
Risk-free rate	1.48%	1.48%
Performance right life	7 months	7 months
Dividend yield	Nil	Nil
Fair Value	AU$0.036	AU$0.002

Both Class A and Class B Performance rights did not vest upon expiry of the Performance Rights on 31 December 2018. As Class A Performance rights were based on a non-market condition, the expense raised was subsequently reversed upon expiry. The value of this was AU$112,500 (US$79,112). The value of the Class B Performance rights recognised in the Statement of Profit or Loss and Other Comprehensive Income is AU$6,250 (US$4,395).

NOTE 17. PARENT ENTITY

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

	Company 2018 $	Company 2017 $
CURRENT ASSETS		
Cash and cash equivalents	1,028,385	793,473
Trade and other receivables	70,545	6,047
TOTAL CURRENT ASSETS	**1,098,930**	**799,520**
NON-CURRENT ASSETS		
Plant and equipment	4,759	5,860
Investments in subsidiaries	1,511,761	2,752,914
Loans to subsidiaries	-	21,749
Capitalised exploration and evaluation expenditure	-	266,698
TOTAL NON-CURRENT ASSETS	**1,516,520**	**3,047,221**
TOTAL ASSETS	**2,615,450**	**3,846,741**
CURRENT LIABILITIES		
Trade and other payables	109,802	276,276
Amounts owing to subsidiaries	7,329,537	7,097,876
TOTAL CURRENT LIABILITIES	**7,439,339**	**7,374,152**
TOTAL LIABILITIES	**7,439,339**	**7,374,152**
NET LIABILITIES	**(4,823,889)**	**(3,527,411)**
EQUITY		
Issued capital	50,664,974	48,077,278
Option premium reserve	2,685,586	2,681,190
Accumulated losses	(58,174,449)	(54,285,879)
TOTAL EQUITY	**(4,823,889)**	**(3,527,411)**

	Company 2018 $	2017 $
FINANCIAL INFORMATION ON THE PARENT ENTITY FOR THE FINANCIAL PERIOD:		
Financing income	31	1,389
Gain on re-measurement of embedded derivative	342,204	-
Administration expense	(1,049,116)	(857,301)
Interest expense	(524,779)	-
Foreign currency gain	98,971	19,845
Capitalised exploration expenditure write-off expense	-	(244,001)
Impairment loss on subsidiary	(2,755,881)	(357,941)
Loss after related income tax expense	**(3,888,570)**	**(1,438,009)**
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME	**(3,888,570)**	**(1,438,009)**

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.

NOTE 18. CASH FLOW INFORMATION

	Consolidated Entity 2018 $	2017 $
RECONCILIATION OF CASH FLOW FROM OPERATIONS WITH LOSS AFTER INCOME TAX		
LOSS AFTER TAX	(727,683)	(10,135,616)
Non-cash flow items in loss		
Depreciation of plant and equipment	1,103	1,409
Depreciation, Depletion & Amortisation of development expenditure	353,433	394,363
Interest expense	524,779	-
Gain on re-measurement of embedded derivative	(342,204)	-
Capitalised exploration expenditure written down	198,704	9,307,293
Foreign exchange	(99,419)	(19,846)
Payment of services by shares	200,714	
Share/option based payments	4,395	2,814
Gain on disposal of subsidiary	(533,832)	-
Changes in assets and liabilities		
Decrease/(increase) in trade debtors	(89,346)	305,506
Increase/(decrease) in other creditors and accruals	(10,025)	180,031
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	**(519,381)**	**35,954**

	Consolidated Entity 2018 $	2017 $
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	1,028,386	793,473
Share of joint operations cash	26,129	29,640
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD	**1,054,515**	**823,113**

NON-CASH FINANCING AND INVESTING ACTIVITIES

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

- 5,691,829 shares were issued to pay a total of $200,714 consulting and director fees during the year in lieu of cash payments.

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

- 202,000 shares were issued to pay a total of $6,059 consulting fees during the year of lieu of cash payments; and
- 250,000 shares were issued to pay for Mr Smith's incentive share with deemed value of $39,470.

NOTE 19. EXPENDITURE COMMITMENTS

	Consolidated Entity 2018 $	2017 $
OPERATING LEASE COMMITMENTS		
Non-Cancellable operating lease commitments:		
Payable		
not later than one year	-	2,434
later than 1 year but not later than 5 years	-	-
AGGREGATE EXPENDITURE CONTRACTED FOR AT REPORTING DATE	**-**	**2,434**

EXPLORATION COMMITMENTS

The Group has exploration commitments pursuant to its Production Sharing Contracts with the Government of Indonesia. At year end these totalled US$2,722,300 (2017: US$1,221,000). The Group has indirectly, through a joint venture partner, provided a security bond of US$497,250 in respect of this commitment.

NOTE 20. AUDITORS' REMUNERATION

	2018	2017
Remuneration of the auditor of the Company for:		
Auditing or reviewing the financial report - Australia	47,100	41,200
Auditing or reviewing the financial report - Singapore	-	26,172
	47,100	67,372

	Consolidated Entity 2018 $	2017 $
NOTE 21. KEY MANAGEMENT PERSONNEL		
REMUNERATION OF KEY MANAGEMENT PERSONNEL		
Short term employee benefits	496,108	496,789
Post-employment benefits	6,828	20,382
Share based payments	4,395	39,470
Termination benefits	97,632	-
	604,963	556,641

Other Transactions:

A company associated with Mr Zane Lewis provides company secretarial and accounting services to Lion Energy Limited. As of the date of his appointment on 13 February 2018, the total fees charged to the Group relating to these services was USD $56,909.

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

NOTE 22. 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.

23. CONTROLLED ENTITIES

	Country of Incorporation	Principal Activity	Group Ownership Interest 2018 %	2017 %
Entities controlled by Lion Energy Limited				
Lion International Investment Limited	Cayman Islands	Oil & gas exploration and production	100%	100%
Lion Energy Limited USA, Inc	Delaware, USA	Holding Company	100%	100%
KRX Energy Pte Ltd	Singapore	Holding Company	100%	100%
Peutu Energy Pte Ltd[1]	Singapore	Dormant	0%	100%
Tamiang Energy Pte Ltd[1]	Singapore	Dormant	0%	100%
Bengkalis Energy Pte Ltd[1]	Singapore	Dormant	0%	100%
Balam Energy Pte Ltd	Singapore	Dormant	100%	100%
Seram Energy Pte Ltd[2]	Singapore	Oil & gas exploration and production	100%	-
Entities controlled by KRX Energy Pte Ltd				
KRX Energy (SBA) Pte Ltd[3]	Singapore	Oil & gas exploration	0%	100%
Tower Indonesia Shale Ltd	BVI	Oil & gas exploration	100%	100%
Entities controlled by Lion Energy Limited USA, Inc				
Lion USA LLC	Delaware, USA	Dormant	100%	100%

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

Note 1 – These entities were deregistered during the year.

Note 2 – Seram Energy Pte Ltd was incorporated by the Group on 5 November 2018.

Note 3 - KRX Energy (SBA) Pte Ltd was disposed of on 23 July 2018. Refer to Note 29 for further details.

NOTE 24. 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 2018	31 December 2017
Seram (Non-Bula) Joint Operation	Indonesia	Production, exploration and development	2.5%	2.5%
South Block A Joint Operation[1]	Indonesia	Exploration and development	-	40.7%

There are no contingent assets or contingent liabilities arising from these joint operations.

Note 1 – Lion's interest in the South Block A Joint Operation was held in the wholly owned KRX Energy (SBA) Pte Ltd subsidiary. This subsidiary was disposed of on 23 July 2018. Refer to Note 29 for further details.

NOTE 25. CONTINGENT LIABILITIES

As at 31 December 2018 the Group had no contingent liabilities. Similarly, the Group had no contingent liabilities as at 31 December 2017.

NOTE 26. SUPERANNUATION COMMITMENTS

The Company makes contributions to complying superannuation funds based on the requirements of the Australian Superannuation Guarantee Charge or such higher amount as has been agreed with individual employees. There is a legally enforceable obligation on the Company to contribute to the superannuation plan for those contributions that have been agreed with individual employees as part of their conditions of employment.

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 transacting Group company'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 2018 $	**AMOUNTS IN AUD 2017 $**
Financial Assets		
Cash assets	4,902	66,501
Receivables	-	3,167
Financial Liabilities		
Payables	39,539	33,530

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 2018. 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 2018 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 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	
	2018	**2017**
	$	**$**
TRADE AND SUNDRY PAYABLES MATURING AS FOLLOWS:		
Less than 6 months	348,274	913,465
6 months to 1 year	-	-
Later than 1 year but not later than 5 years	-	-
Over 5 years	-	-
	348,274	913,465

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 2018.

SENSITIVITY ANALYSIS

The Group has performed a sensitivity analysis relating to its exposure to interest rate risk and foreign currency risk at reporting date. This sensitivity analysis demonstrates the effect on the current period results and equity which could result from a change in these risks.

INTEREST RATE SENSITIVITY ANALYSIS

At 31 December 2018, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	Consolidated Entity	
	2018	**2017**
	$	**$**
INCREASE/(DECREASE) IN PROFIT DUE TO:		
Increase in interest rate by 2%	20,062	20,728
Decrease in interest rate by 2%	(20,062)	(20,728)
INCREASE/(DECREASE) IN EQUITY DUE TO:		
Increase in interest rate by 2%	20,062	20,728
Decrease in interest rate by 2%	(20,062)	(20,728)

FOREIGN CURRENCY RISK SENSITIVITY ANALYSIS

At 31 December 2018, 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	
	2018	**2017**
	$	**$**
INCREASE/(DECREASE) IN PROFIT DUE TO:		
Improvement in AUD to USD by 5%	1,809	5,020
Decline in AUD to USD by 5%	(1,809)	(5,020)
INCREASE/(DECREASE) IN EQUITY DUE TO:		
Improvement in AUD to USD by 5%	1,809	5,020
Decline in AUD to USD by 5%	(1,809)	(5,020)

NOTE 28. RELATED PARTY TRANSACTIONS

All related party transactions have been outlined in the KMP remuneration report, found in the director's report, and Note 21. Key Management Personnel.

NOTE 29. DISPOSAL OF SUBSIDIARY

On 23 July 2018, Lion's subsidiary executed an agreement to sell the Lion's holding in South Block A to Blue Sky Resources Ltd for a nominal amount of $10. Lion retains a right to a production royalty with a maximum value of US$4,500,000.

Under the terms of the royalty agreement, Lion is entitled to a royalty equal to 0.8% of the revenue derived from the SBA PSC up to a maximum of US$4,500,000. The royalty will accrue and become payable once 50% of the SBA PSC cost recovery pool at first oil has been recovered.

	2018 $
Consideration received:	10
Analysis of assets and liabilities over which control was lost:	
Trade and other receivables	149,160
Trade and other payables	(682,982)
Net liabilities disposed of:	(533,822)
Gain on disposal of subsidiary	533,832

NOTE 30. DIVIDENDS

No dividends have been paid or proposed during the period.

NOTE 31. EVENTS SUBSEQUENT TO REPORTING DATE

No 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 2018 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 2018.

On behalf of the Board of Directors.

Thomas Soulsby
Executive Chairman
29 March 2019
Perth, Western Australia

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

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Independent auditor's report to the members of Lion Energy Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Lion Energy Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a. Giving a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance for the year ended on that date; and

b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Material uncertainty related to going concern

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

1. Carrying value of oil and gas properties

Why significant	How our audit addressed the key audit matter
Considering the volatility of the oil prices, the Group performed an impairment assessment on its oil and gas assets. Based on the outcome of this impairment assessment, the Group did not recognise any impairment charge. This matter was important to our audit due to the quantum of the carrying value of the asset as well as the judgment involved in the assessment of the recoverability. This assessment requires the Group to make assumptions used in the underlying cash flow forecasts. The assumptions include expectations for production and sales volumes, gross margin and market and economic assumptions such discount rates and inflation rates. Refer to Note 12 – Oil and gas properties to the financial statements for the amounts held by the Group as at 31 December 2018 and related disclosure.	In obtaining sufficient appropriate audit evidence with respect to oil and gas properties, we: ► Assessed the Group's discounted cash flow ("DCF") model which calculates the recoverable amount of the Group's assets, in order to determine if any asset impairment or impairment reversals were required ► Evaluated the Group's assumptions and estimates used to determine the recoverable value of its assets, including those relating to production, costs, capital expenditure, discount rates and inflation rates. We consulted with our valuation and modelling specialists to compare these assumptions against external benchmarks (such as for the forecasted oil prices and discount rate) and considered the assumptions based on our knowledge of the Group and its industry ► Performed sensitivity analysis on certain inputs to the model as we deemed reasonable ► Assessed the adequacy of the Group's disclosures in respect of asset carrying values.

2. Carrying value of exploration and evaluation expenditure

Why significant	How our audit addressed the key audit matter
The carrying value of capitalised exploration and evaluation expenditure is assessed for impairment when facts and circumstances indicate that exploration and evaluation expenditure for an area of interest may exceed its recoverable amount. The determination as to whether there are any indicators to require capitalised exploration and evaluation expenditure for an area of interest to be assessed for impairment involves a number of judgments. This includes whether the Group will be able to maintain tenure, plans to undertake ongoing exploration and evaluation activities and if there is sufficient information for a decision to be made that the carrying amount of capitalised exploration and evaluation expenditure is unlikely to be recovered in full from successful development and exploitation or by sale. During the year the Group recognised an impairment charge of $0.2 million in relation to areas of interest where indicators of impairment were identified. Refer to Note 11 in the financial statements for the capitalised exploration and evaluation assets and related disclosures, including in respect of the impairment assessment.	We considered the Group's assessment as to whether there were indicators present that required the exploration and evaluation asset to be tested for impairment as at 31 December 2018 and for the areas of interest that were tested for impairment we assessed the resulting impairment write-down. In doing so we: ► Considered the Group's right to explore in the relevant exploration area which included obtaining and assessing supporting documentation such as license agreements and or correspondence with relevant government agencies ► Considered the Group's intention to carry out significant exploration and evaluation activities in the relevant areas of interest which included discussions with senior management and Directors as to the intentions and strategy of the Group ► Understood whether the Group had made an assessment that technical and commercial viability of extracting mineral resources for all areas of interest had been demonstrated in considering whether it was appropriate to continue to classify the capitalised exploration and evaluation expenditure as an exploration and evaluation asset ► Assessed the Group's ability to finance its planned future exploration and evaluation activity, which in the current period, was a primary factor for the impairments recognised during the period as set out in Note 11 ► Given the existence of impairment indicators, we assessed the Group's methodology for measuring the recoverable amount of the relevant areas of interest and calculation of the resulting impairment charge as at 31 December 2018. We also assessed the adequacy of the disclosures in Note 11 of the financial statements.

3. Convertible notes

Why significant	How our audit addressed the key audit matter
The Group issued Convertible Notes during the year which are considered to be compound financial instruments. The Convertible Notes were denominated in Australian dollars. The Convertible Notes were subsequently converted into ordinary shares. The accounting treatment for a compound financial instrument is complex and requires the exercise of judgement in identifying the component parts of the instrument which are accounted for separately. The fair value of the conversion right, which was recognised as a derivative liability, had to be determined on initial recognition. Due to the complexity of the accounting treatment, and the related estimation uncertainty, this was considered a key audit matter. The details of the Convertible Notes issued, including the valuation of the derivative feature, is disclosed in Note 14.	We evaluated the Group's accounting treatment of the Convertible Notes as a compound financial instrument. Our audit procedures included the following: ► We inspected the loan agreements and obtained an understanding of the relevant terms and conditions; ► We considered the completeness of the Group's identification of the component parts of the compound financial instrument, including the conversion right recognised as a derivative liability; ► We assessed the methodology, inputs and assumptions used by the Group in determining the fair value of the conversion right. In doing so we involved our own valuation specialists; ► We recalculated the amount attributable to the host debt contract within the compound financial instrument on initial recognition being the difference between the face value of the Convertible Notes and the fair value attributed to the conversion right on initial recognition as a derivative liability; and ► We considered the adequacy of the Group's disclosures about the valuation basis and inputs used in the fair value measurement of the conversion right.

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

The Directors are responsible for the other information. The other information comprises the information included in the Company's 2018 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

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

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

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

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Responsibilities of the Directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation

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

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

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

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

Report on the audit of the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 8 to 13 of the Directors' report for the year ended 31 December 2018.

In our opinion, the Remuneration Report of Lion Energy Limited for the year ended 31 December 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Darryn Hall

Darryn Hall
Partner
Perth
29 March 2019

ADDITIONAL INFORMATION AS AT 28 MARCH 2019

OF HOLDINGS OF LISTED SHARES AND OPTIONS IN THE COMPANY

			Ordinary Shares
1	—	1,000	161
1,001	—	5,000	61
5,001	—	10,000	126
10,001	—	100,000	102
100,001	—	and over	79
Total number of holders			529
Holdings of less than a marketable parcel			374

REGISTERED OFFICE OF THE COMPANY

Suite 7
295 Rokeby Road
Subiaco
Western Australia 6005

Tel: +61 (8) 9221 1500
Fax: +61 (8) 9221 1501

STOCK EXCHANGE LISTING

Quotation has been granted for 113,438,532 ordinary shares and on the Australian Stock Exchange Ltd. The State Office of the Australian Stock Exchange Ltd in Perth, Western Australia has been designated the Home Branch of Lion Energy Limited.

There are no current on-market buy-back arrangements for the Company.

VOTING RIGHTS

For all ordinary shares, voting rights are one vote per member on a show of hands and one vote per share in a poll.

SHARE REGISTRY

The registers of shares and options of the Company are maintained by:-

Computershare Registry Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth, Western Australia 6000

Tel: +61 (8) 9323 2000
Fax: +61 (8) 9323 2033

JOINT COMPANY SECRETARIES

The name of the Joint Company Secretaries are Zane Lewis and Arron Canicais.

TAXATION STATUS

Lion Energy Limited is taxed as a public company.

ADDITIONAL INFORMATION AS AT 28 MARCH 2019

TWENTY LARGEST HOLDERS OF ORDINARY SHARES

Registered Holder	Number of Shares	Percentage of Total
RISCO ENERGY UNCONVENTIONAL PTE LTD	90,249,643	43.51%
KL TRIO PTE LTD	26,317,057	12.69%
PT SENADA NUSANTARA\C	11,257,143	5.43%
MR ROBERT FRANCIS DAVIES + MRS YRONNE ELIZABETH DAVIES <THE DAVIES MINYAMA S/F A/C>	6,404,441	3.09%
W & N MORRISON INVESTMENTS PTY LTD <THE MORRISON FAMILY A/C>	6,301,151	3.04%
TRANSFORM EXPLORATION PTY LTD	5,857,143	2.82%
KKSH HOLDINGS LTD	5,519,835	2.66%
TOWER ENERGY INDONESIA LIMITED	4,775,012	2.30%
POUVOIR PTY LTD <BRIMAGE SUPER FUND A/C>	3,003,100	1.45%
TINTERN (VIC) PTY LTD <A & P MILLER FAMILY A/C>	2,842,857	1.37%
INTERNATIONAL ENERGY GROUP LIMITED	2,592,857	1.25%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,533,993	1.22%
MR JOHN JANSEN + MRS DALE JANSEN <JJ RETIRE A/C>	2,242,208	1.08%
POUVOIR PTY LTD <BRIMAGE SUPER FUND A/C>	2,051,737	0.99%
KA SPENCER PTY LTD <KA SPENCER SUPER A/C>	1,968,746	0.95%
TOWER ENERGY INDONESIA LTD	1,532,785	0.74%
MR RICHARD CHARLES GRIGG	1,500,695	0.72%
MR GERARD MASTERS + MRS SHARYN MASTERS <MASTERS SUPER FUND A/C>	1,185,000	0.57%
MS NADA SAADE	1,067,503	0.51%
DR ALICE MAY WHYTE	1,006,566	0.49%
ALL OTHER SHAREHOLDERS	27,192,318	13.11%
Total	207,401,790	100.00%

SUBSTANTIAL SHAREHOLDERS

Date Announced	Name	Number of Shares
22/2/2018	Risco Energy Unconventional Pte Ltd	90,249,643
13/12/2018	KL Trio Pte Ltd	26,317,057

OIL & GAS TENEMENTS

Tenement or licence area	Lion interest	Comments
Indonesia		
Seram (Non-Bula) Production Sharing Contract	2.5%	Interest held through Lion's wholly owned subsidiary Lion International Investment Ltd.
East Seram PSC	100%	Interest held through Lion's wholly owned subsidiary Balam Energy Pte Ltd.

CORPORATE GOVERNANCE STATEMENT

The directors of Lion Energy support and adhere to the principles of corporate governance, recognising the need for the highest standard of corporate behaviour and accountability. Please refer to the corporate governance statement and the appendix 4G released to ASX and posted on the Company website at www.lionenergy.com.au.

The directors are focused on fulfilling their responsibilities individually, and as a Board, for the benefit of all the Company's stakeholders. That involves recognition of, and a need to adopt, principles of good corporate governance. The Board supports the guidelines on the "Principles of Good Corporate Governance and Recommendations – 3rd Edition" established by the ASX Corporate Governance Council.

Given the size and structure of the Company, the nature of its business activities, the stage of its development and the cost of strict and detailed compliance with all of the recommendations, it has adopted a range of modified systems, procedures and practices which enables it to meet the principles of good corporate governance.

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