31 January 2018

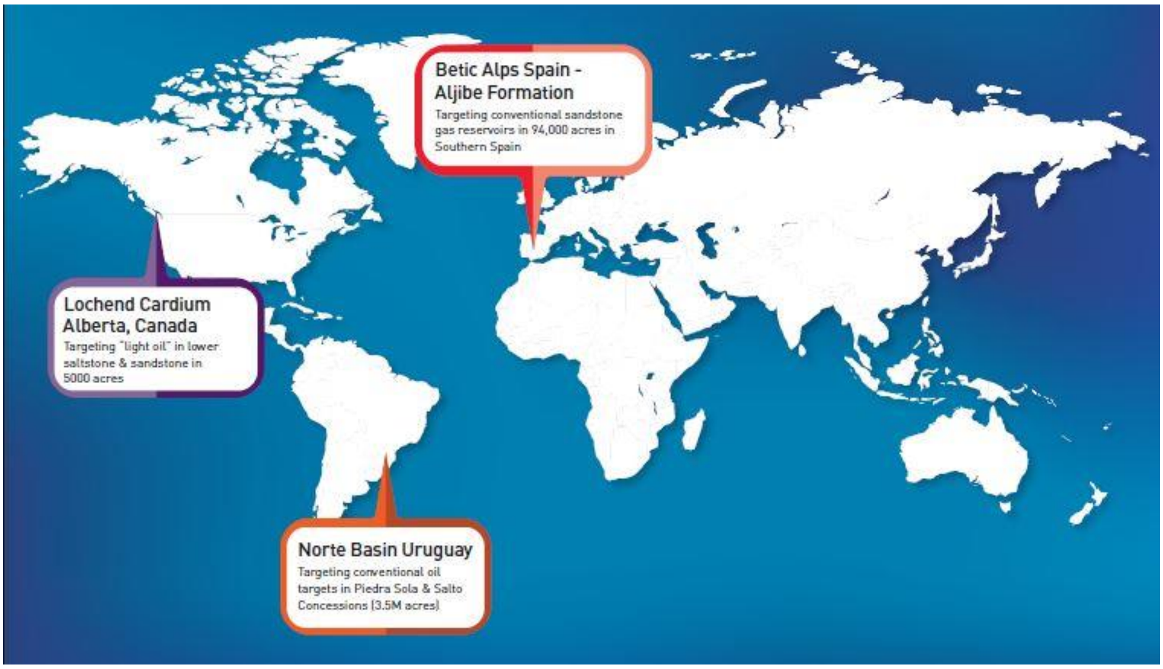
PETREL ENERGY LIMITED

ACTIVITIES REPORT

FOR THE QUARTER ENDED 31 DECEMBER 2017

HIGHLIGHTS

- **Cerro Padilla-1 recovers first oil in Uruguay:**
  - Drilled to 845m TD with subsequent log analysis confirming 2m of oil saturated sand at 793m and fluorescence (oil shows)
  - Production testing recovers a small amount of oil to surface
- **Cerro de Chaga-1, the second exploration well commences mid-November**
- **Rights issue oversubscribed securing $4.57m funding for current drilling programme**
- **Interests in both Uruguay and Spain projects increase from 51% to 62.7% when partner fails to fund Uruguay project**
- **Partner found for appraisal of large gas discovery in southern Spain**
  - SEI to sell up to 49.9% of Tesorillo project in southern Spain
  - Defined work programme costing ~€3.8m includes MT and 1 well
  - Sale proceeds totaling ~€2m will fund SEI's share of work programme



URUGUAY OPERATIONS

Targeting conventional oil/gas targets in Piedra Sola and Salto Concessions (3.5 million acres)

Operator Schuepbach Energy International LLC (SEI) (PRL 62.7%) finalised the drilling contract with New Force Energy Services Inc. in December 2016 with the rig mobilised to site in May with Cerro Padilla-1 spudding in early June 2017. After the setting of surface casing and installing the BOP operational approvals were received from the relevant authorities for drilling by mid-August.

On 28 August with only 10m of basalt remaining and 3-5 days of drilling ahead before setting casing, the drill string parted and drilling was again temporality suspended. Initial fishing operations were partially successful with additional equipment ordered from the US to complete fishing operations. These delays in the field incurred rig rates at stand-down, standby or full drilling rates along with operational and general overhead leading to further funds being required.

A number of these challenges could have and should have been better managed, and it was decided to undertake an independent review of drilling operations and management processes. This was undertaken by international experts New Tech Global Ventures (NTG), headquartered in Houston, who then went on to manage the successful fishing operation. Soon after NTG were retained by the Operator to manage all onsite operations.

With management changes made operations recommenced and the Cerro Padilla-1 well was successfully drilled to a Total depth (TD) of 845m and became the first well onshore Uruguay to discover hydrocarbons by identifying a 2m oil saturated Permian sand. The well was successfully completed with production testing recovering a small amount of oil to surface.

Project risk is now much better understood having gone through these processes, and notwithstanding the early success in the first well, the overall objectives of the drilling programme remain largely unchanged as follows:

- confirm source rock maturity, quality and extent
- confirm conventional reservoir quality and extent - Darcy permeability (>1000md) already measured in core samples 30km apart
- confirm migration and potential trap integrity - while not the primary objective 3 of the 4 wells are also targeting structures for oil and gas trapped in either the same sequence or up-dip of oil shows and/or weeping core samples
- confirm validity of AVO anomalies identified on seismic

Well #1 Cerro Padilla-1

This well was designed to confirm the reservoir potential of the Tres Islas sand and Permian source rock at shallow depth.

Well objectives:

- Drill on same fault block but up dip of Cerro Padilla E-1 corehole which encountered 3m of Tres Islas sandstone with flowing fluorescence to confirm potential oil charge
- Permian source rock quality
- Permian Tres Islas OOIP P90 = 21MMB

Results:

The well was successfully drilled to a Total Depth (TD) of 845m and encountered significant oil shows with logging confirming 2m of oil saturated sand at 793m.

Although only a modest discovery in its own right, as the first ever of hydrocarbons in Uruguay, and the first well of a 4 well programme, it represented a quantum first step in redefining the oil, and potentially gas, prospectivity of the Notre Basin going forward.

Photos - New Force rig at Cerro Padilla-1

Preparations for production testing

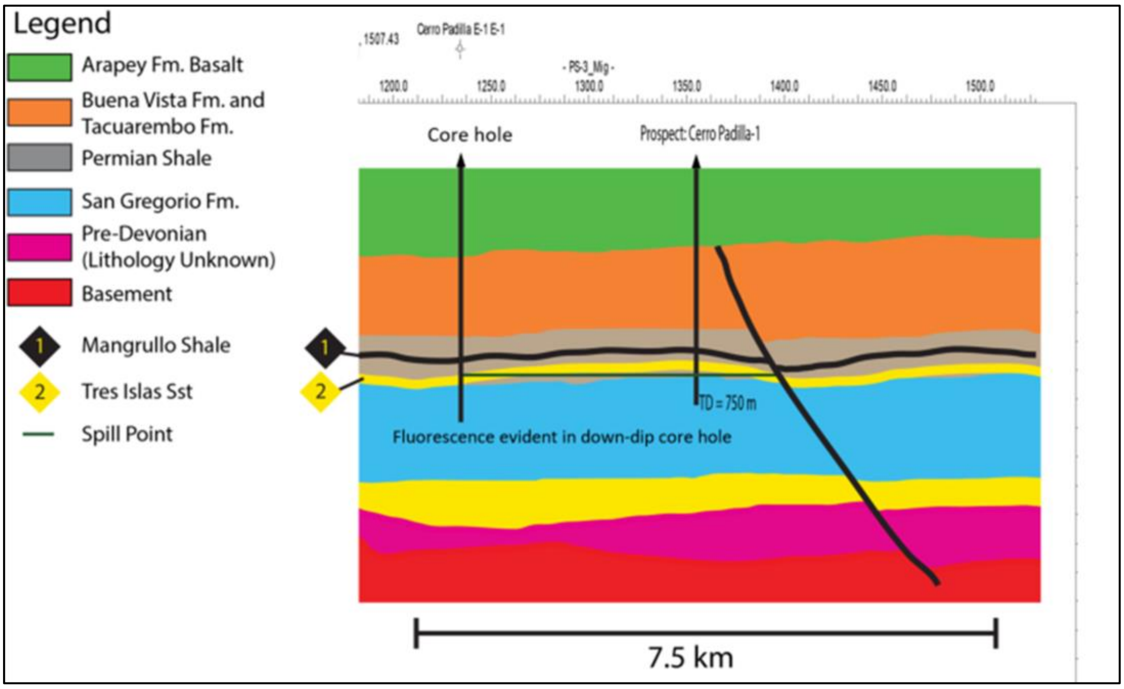


Figure 1 Cerro Padilla-1 well general schematic cross section

Well #2 Cerro de Chaga-1 well (Panizza-1)

The Cerro de Chaga-1 well (TD 1,450m), in the Salto permit, is not only situated over a very large structure with considerable oil and gas potential across multiple zones, but also has an extensive and very thick, Devonian or older section beneath what could be a very thick sealing source rock.

The objective of the conventional Cerro de Chaga-1 well is to:

- Test largest regional high with 4-way dip closure
- Confirm extent, quality and maturity of Devonian source and reservoir rock
- Test quality and maturity of secondary Permian source rock - Mangrullo Shale
- Confirm existence of deeper sedimentary sequence

At present the well is currently suspended after encountering hole stability issues when a fault was intersected at the base of the basalt. While the faulted zone was successfully cemented it was decided to temporarily suspend operations to allow for necessary repairs and to undertake a review of operations and strategy over the holiday period.

This review will not only consider the drilling challenges in the current well, but also operational issues more broadly, as the very good progress drilling the basalt before encountering the fault, and successful recovery of oil at Cerro Padilla-1, needs to be considered in the context of drilling in a frontier basin.

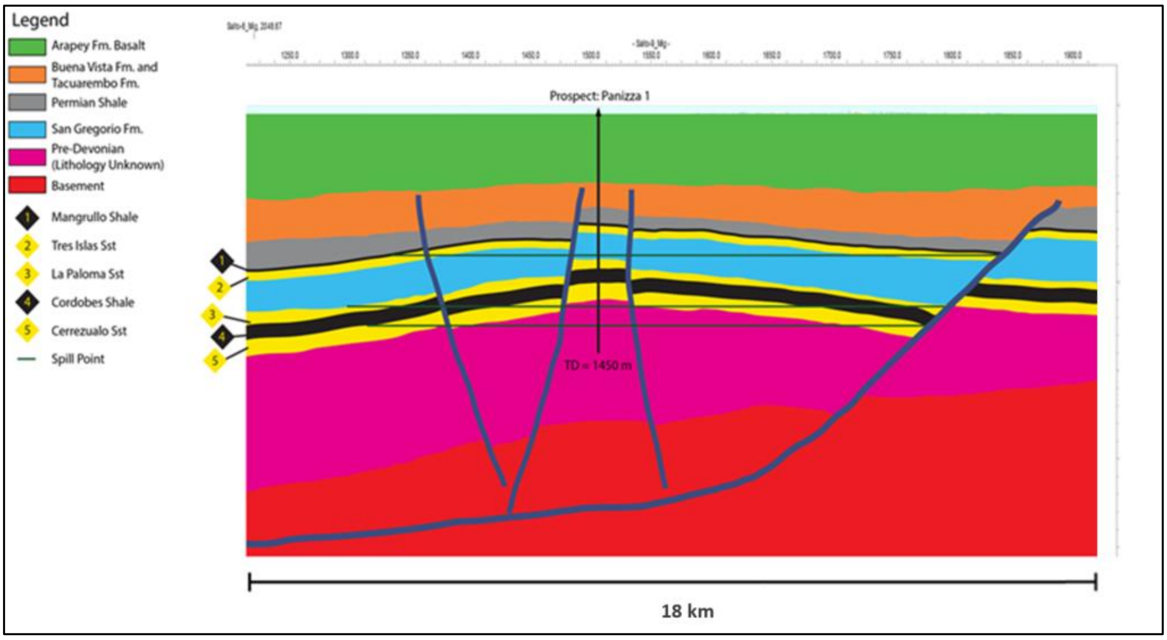


Figure 2 Cerro de Chaga-1 well (Panizza-1) general schematic cross section

Seismic

The 4 well programme and supporting geological model has been developed from the ongoing reinterpretation of the 597 kilometre 2D seismic programme successfully completed in late 2014. While initial interpretation of the seismic data completed in early 2015 revealed obvious geological structuring resulting in identification of an initial 20 conventional structural targets, and many at relatively shallow depths, it also enabled Netherland Sewell and Associates (“NSAI”) to independently certify an unrisked gross Prospective Resource in the Salto and Piedra Sola concessions of up to 910 MMBBL oil and 3,105 BCF gas (up to 570 MMBBL oil and 1,947 BCF gas * to Petrel’s net 62.7% interest) as outlined below.

Salto & Piedra Sola Concessions **62.7%** Net to Petrel (Conventional only)				
	Prospective Resource		**Original Oil & Gas In Place**	
	Oil (MMBBL)	**Gas (BCF)**	**Oil (MMBBL)**	**Gas (BCF)**
Low Estimate (P90) *	**93**	**360**	**350**	**561**
Best Estimate (P50)	**254**	**923**	**884**	**1428**
High Estimate (P10)*	**570**	**1947**	**1814**	**2965**
The estimates of net volumes provided in this statement were derived from estimates of gross volumes for each prospect and lead determined by Mr Phil Hodgson, a full time employee of Netherland, Sewell and Associates Inc., Dallas, Texas, USA, on 14 May 2015, in accordance with Petroleum Resources Management System guidelines. Mr Phil Hodgson is a Licensed Petroleum Geologist in the State of Texas, a qualified person as defined under the ASX Listing Rule 5.41 and has consented to the inclusion of this information in the form and context in which it appears.				

SPANISH OPERATIONS

Targeting conventional sandstone gas reservoirs in 94,000 acres in Southern Spain
Tesorillo Project, Cadiz, Spain (62.7%)

The Almarchal-1 well drilled in 1956 is the discovery well of what is very likely a large by-passed gas field. It was drilled by the Spanish firm Valdebro and intersected a thick section of possible gas pay which upon testing flowed gas to surface. The well is located 3km from the North African Maghreb gas trunkline providing ready access to high priced European gas markets.

Schuepbach Energy International LLC ("SEI") (Petrel 62.7%) entered into a Share Purchase Agreement ("SPA") in mid-December 2017 to sell up to a 49.9% of its wholly owned subsidiary Schuepbach Energy Espania S.L.U. ("SEE") to AIM listed Prospex Oil and Gas Plc ("Prospex") for up to €2,053,750. SEE owns the Tesorillo project in southern Spain.

Under the SPA, SEI can sell up to 49.9% of the ordinary shares in SEE to Prospex in three tranches. An initial consideration of €48,250 is payable at first closing. A further €280,000 is payable at second closing, subject to, amongst other conditions, the result of a trial magnetotelluric programme, by 31 December 2018.

A final consideration of €1,725,000 is payable at the final closing, subject to, amongst other conditions, the completion of a full magnetotelluric programme and the approval of an appraisal Tesorillo well for drilling within the 6-year licence period.

Sale proceeds of €2,053,750 will be used by SEI to fund its share of an agreed Tesorillo work programme (estimated at €3,823,000) which includes a trial magnetotelluric programme, followed by a full magnetotelluric programme and if successful, a well to target the Almarchal-1 discovery drilled in 1956.

Netherland Sewell and Associates ("NSAI") have independently certified an unrisked Prospective Resource of up to 2,289 BCF* (2.3 TCF) (1,435 BCF net to Petrel) for the Tesorillo Project as outlined below.

Tesorillo	Prospective Resource BCF		Original Gas In Place BCF	
Net to Petrel^	62.7%	31.4%	62.7%	31.4%
Low Estimate (P90)	138	69	460	231
Best (Median) Estimate (P50)	520	261	1,041	522
High Estimate (P10)	1,435	719	2,050	1,027

^ Current 62.7% working interest will reduce to 31.4% upon completion of the 3 stage Prospex Share Purchase Agreement. Proceeds of €2.05m (100%) will be used by SEI to fund its share of an agreed Tesorillo work programme (estimated at €3.82m) which includes two magnetotelluric programmes and if successful, a well to target the Almarchal-1 discovery drilled in 1956. The estimates of net volumes provided in this statement were derived from estimates of gross volumes for each prospect determined by Mr Dan Walker, a full-time employee of Netherland, Sewell and Associates Inc., Dallas, Texas, USA, on 5 May 2015, in accordance with Petroleum Resources Management System guidelines. Mr Dan Walker is a Licensed Petroleum Geologist, a qualified person as defined under the ASX Listing Rule 5.41 and has consented to the inclusion of this information in the form and context in which it appears.

FINANCIAL

Consolidated cash at 31 December 2017 was $831,000.

A partially underwritten Non-Renounceable rights issue of shares to raise a total of up to $4.57m announced on 28 September 2017 closed on 31 October 2017, made on the basis of one fully paid ordinary share in Petrel for every three shares held at an issue price of $0.011 per share and one free listed option for every new share subscribed for exercisable at 4¢ with a 1-year expiry. Eligible shareholders subscribed for 76% of the shares and options offered, the remaining 24% were oversubscribed under the Shareholder Shortfall Offer.

In early December Petrel announced that its Uruguay partners did not fund the most recent Schuepbach Energy International LLC ("SEI") funding requirement allowing Petrel to increase its interests in both its Uruguay and Spain projects from 51% to 62.7% (relative increase of 22.9%).

While Petrel continues to discuss forward funding with its partner in SEI, who retain the option to fund 37.3% share of all future SEI capital requirements, Petrel's strategy, as with its recent Spanish asset transaction, has always been to share the risk on this frontier project. As a consequence, it has commenced a dialogue with a number of potential new partners to fund a majority share of the remaining current programme. With its increased 62.7% holding in SEI there is scope to introduce a new 20% partner whilst Petrel retains more than 50% of the project.

A summary of Petrel's cash flow for the Quarter and year to date is contained in the attached Appendix 5B statement.

For further information contact:

David Casey
Managing Director
Phone +61 2 9254 9000

Petrel
ENERGY LIMITED

Tenement Listing

Tenement reference	Location	Nature of interest	Interest at 31 December 2017		Interest at 30 Sept. 2017	
				Gross Acres		Gross Acres
Piedra Sola	Norte Basin, Uruguay	Held via 62.7%	62.7%	2,525,000	51%	2,525,000
Salto	Norte Basin, Uruguay	interest in	62.7%	925,000	51%	925,000
Tesorillo^	Cadiz, Spain	Schuepbach Energy	62.7%	68,800	51%	68,800
Ruedalabola^	Cadiz, Spain	International LLC	62.7%	10,200	51%	10,200
				Gross Acres		Gross Acres
SNE27-24-3W5M	Cardium, Alberta, Canada	Direct JV interest			40%	480
30-24-3W5M	Cardium, Alberta, Canada	Direct JV interest			40%	639
S31-24-3W5M	Cardium, Alberta, Canada	Direct JV interest	40%	320	40%	320
SW32-24-3W5M	Cardium, Alberta, Canada	Direct JV interest			40%	160
33-24-3W5M	Cardium, Alberta, Canada	Direct JV interest			40%	640
N36-24-4W5M	Cardium, Alberta, Canada	Direct JV interest			40%	320
19-25-3W5M	Cardium, Alberta, Canada	Direct JV interest	40%	640	40%	640
SNW31-25-3W5M	Cardium, Alberta, Canada	Direct JV interest			40%	480
32-25-4W5M	Cardium, Alberta, Canada	Direct JV interest	40%	640	40%	640
6-26-4W5M	Cardium, Alberta, Canada	Direct JV interest	40%	640	40%	640
				2240		4959

Note: Petrel does not have any interest in any farm-in or farm-out agreements.

^ Current 62.7% working interest will reduce to 31.4% upon completion of the 3 stage Prospex Share Purchase Agreement. Proceeds of €2.05m (100%) will be used by SEI to fund its share of an agreed Tesorillo work programme (estimated at €3.82m) which includes two magnetotelluric programmes and if successful, a well to target the Almarchal-1 discovery drilled in 1956.

+Rule 5.5

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

PETREL ENERGY LIMITED

ABN	Quarter ended ("current quarter")
82 125 394 667	31 December 2017

	Consolidated statement of cash flows	Current quarter $A'000	Year to date (6 months) $A'000
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	-	-
1.2	Payments for		
	(a) exploration & evaluation	(4,994)	(9,181)
	(b) development	-	-
	(c) production	-	-
	(d) staff costs	(245)	(273)
	(e) administration and corporate costs	(160)	(232)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	3	3
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Research and development refunds	-	-
1.8	Other (provide details if material)		
	➢ Refund of security deposit paid on Letter of credit of USD1,000,000 under a drilling contract in Uruguay	-	1,276
1.9	**Net cash from / (used in) operating activities**	**(5,396)**	**(8,407)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) property, plant and equipment	-	(2)
	(b) tenements (see item 10)	-	-

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (6 months) $A'000**
	(c) investments	-	-
	(d) other non-current assets	-	-
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	**Net cash from / (used in) investing activities**	**-**	**(2)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of shares		
	- Petrel Energy Ltd (parent)	5,508	5,534
	- SEI (3rd party equity)	503	503
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(398)	(398)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	**Net cash from / (used in) financing activities**	**5,613**	**5,639**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	592	3,579
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(5,396)	(8,407)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	(2)

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (6 months) $A'000**
4.4	Net cash from / (used in) financing activities (item 3.10 above)	5,613	5,639
4.5	Effect of movement in exchange rates on cash held	22	22
4.6	**Cash and cash equivalents at end of period**	**831**	**831**

5.	**Reconciliation of cash and cash equivalents** at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	**Current quarter $A'000**	**Previous quarter $A'000**
5.1	Bank balances	831	592
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**831**	**592**

6.	Payments to directors of the entity and their associates	Current quarter $A'000
6.1	Aggregate amount of payments to these parties included in item 1.2	116
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Directors and MD/Chief Executive Officer salaries/fees

7.	Payments to related entities of the entity and their associates	Current quarter $A'000
7.1	Aggregate amount of payments to these parties included in item 1.2	-
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-

7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

8.	**Financing facilities available** *Add notes as necessary for an understanding of the position*	Total facility amount at quarter end $A'000	Amount drawn at quarter end $A'000
8.1	Loan facilities	-	-
8.2	Credit standby arrangements	-	-
8.3	Other (please specify)	-	-

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

9.	**Estimated cash outflows for next quarter**	**$A'000**
9.1	Exploration and evaluation	2,900*
9.2	Development	-
9.3	Production	-
9.4	Staff costs	90
9.5	Administration and corporate costs	210
9.6	Other (provide details if material)	-
9.7	**Total estimated cash outflows**	**3,200**

* Includes 100% of Uruguay operator Schuepbach Energy International LLC (SEI) expenditure and assumes that drilling resumes in early March 2018. Petrel's current interest in SEI is 62.7% however it may have to fund all expenditure, if its existing partner chooses not to fund its share, in return for an increased interest in SEI. Petrel is currently pursuing farmin opportunities which could bring in a new partner to fund the majority of the remaining exploration programme.

10.	**Changes in tenements (items 2.1(b) and 2.2(b) above)**	**Tenement reference and location**	**Nature of interest**	**Interest at beginning of quarter**	**Interest at end of quarter**
10.1	Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced		See table above		
10.2	Interests in mining tenements and petroleum tenements acquired or increased		See table above		

Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Sign here: I Kirkham (Director/Company secretary) Date: 31 January 2018

Print name: Ian Kirkham

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.