Petsec Energy Ltd

September 2018 Quarter Results

Financials

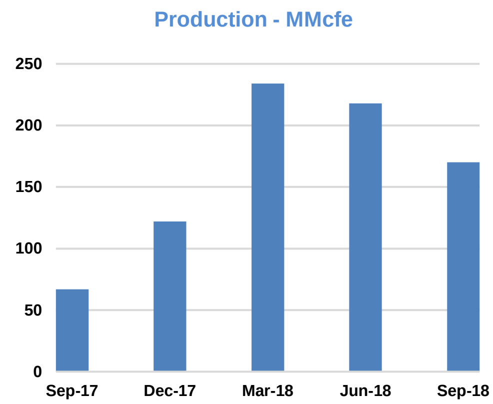
Comparative Performance		Current Quarter Sep 2018	Previous Quarter Jun 2018	% Change	Corresponding Quarter Sep 2017	% Change
Net production	MMcfe	**170**	**218**	(22%)	67	154%
Average sales price	US$/Mcfe	**3.65**	**4.01**	(9%)	3.72	(2%)
Net revenue	US$000	**622**	**875**	(29%)	251	148%
EBITDAX [1]	US$000	**(828)**	**(697)**	n/a	(1,380)	n/a
Cash [2]	US$000	**3,017**	**3,445**	(12%)	6,927	(56%)
Debt (convertible note) [3]	US$000	**7,645**	**8,600**	(11%)	5,393	42%
AE&D expenditure [4]	US$000	**997**	**226**	341%	630	58%
US$/A$ closing exchange rate		**0.7224**	**0.7405**	(2%)	0.7835	(8%)

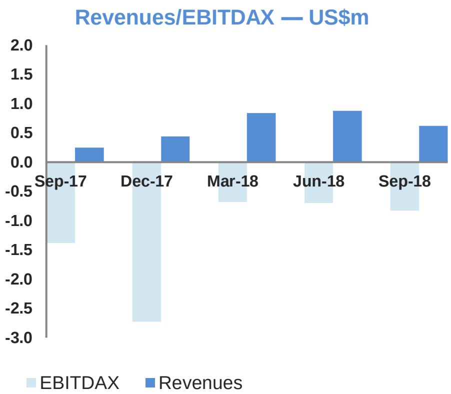
1 Earnings before interest, income tax, depreciation, depletion and amortisation, and exploration (including dry hole, impairment and abandonment expense, seismic and work-over expense). EBITDAX is a non IFRS number and is unaudited.

2 September 2018 cash includes restricted cash amounts of US$1.9 million (Jun 2018: US$1.9 million and Sep 2017: US$3.2 million).

3. Represents the fair value of the convertible note debt (US$5.4 million) and the associated foreign exchange derivative liability (US$2.2 million) recognised on the balance sheet as at 30 September 2018.

4 Acquisition, exploration and development expenditure (accrual-based amounts).





Key Points

Operations

- **Net production from USA operations for the September 2018 quarter**: 170 MMcfe (154 MMcf of gas and 2,752 barrels of oil/condensate) was lower than the previous quarter due to interruptions caused by drilling of the B-2 well.
- **USA: Main Pass Blocks 270/273/274, Hummer Project:** The Main Pass Block 273 B-2 appraisal/development well was spud on the 19 August 2018. On 22 October 2018, the well had reached 8,744 feet measured depth and was in the process of setting casing prior to drilling ahead. The well has planned measured depth (MD) of 18,559 feet with a true vertical depth (TVD) of 16,624 feet and is targeting six oil/gas reservoirs, five of which were penetrated by the B-1 discovery well, 6,000 feet to the West of the B-2 well.
- **YEMEN: Damis (Block S-1):** Operations at the An Nagyah Oilfield remain suspended while the Company seeks to secure Yemen Government consent to initiate production through trucking oil to the West Ayad Oilfield facilities located approximately 70 km to the East at the head of the neighbouring Block 4 pipeline operated by YICOM (Yemen Company for Investment in Oil & Minerals, a Yemen Government owned company), and South through that pipeline to the export terminal at Bir Ali on the Arabian Sea Coast.

  Documentation supporting the Company's technical and financial capabilities to restart production at the An Nagyah Oilfield was supplied to the Minister of Oil and Minerals during the Quarter for his review and approval. The Company continues regular communication with the Ministry of Oil and Minerals (MOM), seeking the required consents to begin a trucking operation.

Financials

- **Net oil and gas revenues for the September 2018 quarter:** US$622,000.
- **Convertible note facility as at 30 September 2018:** US$6 million drawn for the development of the Hummer offshore production platform and the drilling of the B-2 well.
- **Cash balance as at 30 September 2018:** US$3.0 million (including US$1.9 million of restricted deposits).

Petsec Energy

Petsec Energy Ltd

ASX: PSA
OTC ADR: PSJEY

Petsec Energy is an independent oil and gas exploration and production company listed on the Australian Stock Exchange with operations in the shallow waters of the Gulf of Mexico and onshore Louisiana, USA, and the Republic of Yemen.

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Terrence Fern

Non-executive Directors
David Mortimer
Alan Baden

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Terrence Fern – Managing Director
Paul Gahdmar – Company Secretary & Group Financial Controller
Manny Anton – Head of Investor Relations & Corporate Development

US Executive – Petsec Energy Inc.
Ross Keogh – President/Group CFO

MENA Executives – Petsec Energy (Middle Eastern) Limited
Maki Petkovski – CEO
John Rees – VP Technical
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Financial

Production

Net production for the September 2018 quarter was 170 MMcfe (154 MMcf of gas and 2,752 barrels of oil/condensate), 48 MMcfe or 22% lower than the 218 MMcfe achieved in the June 2018 quarter as a result of the Main Pass Block 270 B-1 well being shut-in at certain times due to the drilling of the Main Pass Block 273 B-2 well and recent hurricanes in the Gulf of Mexico.

Refer to table below and "*Operations*" section for further details on production from the various fields.

Net production (in MMcfe)	Sep 2018 Quarter	Jun 2018 Quarter	% Increase/ Decrease
Jeanerette Field – ASF No.4	-	-	
Mystic Bayou Field – Williams No.2	45	40	13%
Hummer Field – Main Pass Block 270 B-1	125	178	(30%)
Total	**170**	**218**	**(22%)**

Revenues and Cashflow

Petsec Energy generated net oil and gas revenues of US$622,000 for the September 2018 quarter. This was $253,000 or 29% lower than that achieved in the June 2018 quarter of US$875,000 due to the lower production volumes from the Main Pass Block 270 B-1 well.

The Company realised an average gas equivalent sales price of US$3.65/Mcfe in the September 2018 quarter – receiving US$73.04/bbl and US$2.73/Mcf for its oil/condensate and natural gas production, respectively. This was 9% lower than the average gas equivalent sales price received in the June 2018 quarter of US$4.01/Mcfe (US$66.66/bbl and US$3.17/Mcf for its oil/condensate and natural gas production, respectively).

The Company reported negative EBITDAX of US$0.8 million for the current quarter (previous quarter: negative US$0.7 million).

A "*Financial Summary and Production Data*" table is provided on page 4 of this report.

Secured Convertible Note Facility

At 30 September 2018, the Company had drawn down US$6 million under Tranches 1 and 3 of the secured convertible note facility, with Tranche 1 having been fully drawn in March 2017 and US$1 million of Tranche 3 having been drawn in July 2018. A further US$1 million was drawn under Tranche 3 in October 2018 to meet drilling costs of the Hummer B-2 well.

On 26 September 2018, the Company was granted a waiver from ASX Listing Rule 7.3.2 to the extent necessary to permit the Notice of Meeting seeking shareholder approval for the issue and allotment of Convertible Notes under the Facility Agreement (including any of the debt securities issued as at the date of the resolution), and to issue and allot up to 140 million Shares in aggregate upon the conversion of the Convertible Notes at any time up to 23 January 2020, not to state that the Convertible Notes and Shares will be issued no later than 3 months after the date of the meeting on the following conditions:

1.1 The Notice of Meeting contains a summary of the material terms of the Facility Agreement, including the milestones which must be satisfied prior to the issue of the Convertible Notes.

1.2. The Notice seeks approval for a stated maximum number of shares that will be issued on conversion of the Convertible Notes and the issue of Shares.

1.3. The milestones which must be satisfied for the issue or conversion of the Convertible Notes are not varied.

1.4. The Convertible Notes and Shares will be issued during the term of the Facility Agreement, and in any event no later than 23 January 2020.

1.5. If the Company releases its annual report during a period in which the Convertible Notes and Shares are issued or remain to be issued, the annual report discloses details of the Convertible Notes and Shares that have been issued, the interest payable on the Convertible Notes and the terms of the Facility Agreement.

1.6. The Company includes the terms of the waiver in the Notice of Meeting.

As announced to the ASX on 5 October 2018, the Company will hold the General Meeting on 7 November 2018.

Cash Position

At 30 September 2018, the Company held cash deposits of US$3.0 million (A$4.2 million). The cash deposits which are predominantly held in US dollars included secured deposits of US$1.9 million.

U.S. Oil and Natural Gas Prices

WTI crude oil prices traded in a narrow range between US$65.01/bbl and US$74.14/bbl during the September 2018 quarter. On 14 October 2018, the NYMEX 12 month and 36 month forward strip prices for WTI crude oil were trading higher at approximately US$71.52/bbl and US$67.67/bbl, respectively. This compares to US$64.61/bbl and US$60.83/bbl, respectively on 16 July 2018.

U.S. natural gas spot prices remained relatively flat during the quarter, trading in a range between US$2.72 and US$3.06/MMBtu. NYMEX futures contracts for delivery in November 2018 were trading higher at approximately US$3.21/MMBtu on 14 October 2018, mainly due to storage being lower than prior period averages and expected increases in heating demand.

The NYMEX 12 month and 36 month forward strip prices for U.S. natural gas traded higher at approximately US$2.95/MMBtu and US$2.76/MMBtu, respectively on 14 October 2018. This compares to US$2.77/MMBtu and US$2.69/MMBtu, respectively on 16 July 2018.

According to U.S. Energy Information Administration estimates, working natural gas in storage at 10 October 2018 was 2,956 Bcf. This was 627 Bcf or 17.5% lower than the 3,583 Bcf reported at the same time last year and 607 Bcf or 17.0% lower than the 5-year average of 3,563 Bcf.

Operations

Production

USA

At 1 January 2018, reserve auditors Cawley, Gillespie & Associates estimated the Company's U.S. reserves were 15.9 Bcf of gas and 1.137 million barrels of oil holding an NPV_{10} value of US$34.8 million (equivalent to 15 cents per Petsec share).

Adeline Sugar Factory ("ASF") No. 4 Well – Jeanerette Field

Petsec: 12.5% working interest (9.2% net revenue interest)

The ASF No. 4 well located in St. Mary Parish, Louisiana was drilled and brought into production in June 2014.

In mid-November 2015, the ASF No. 4 well was shut-in due to high water production and a restriction in the tubing due to salt build-up. The well has produced on an intermittent basis since that time, and it's the operator's intention to continue in that manner for the near-term.

16,700 RA SUA; Williams No.2 Well – Mystic Bayou Field

Petsec: 25% working interest (18.50% net revenue interest)

The 16,700 RA SUA; Williams No.2 gas/condensate discovery well on the Mystic Bayou Field in St. Martin Parish, Louisiana was drilled and brought into production on 31 August 2015.

The well averaged gross daily production rates of approximately 2.4 MMcfpd and 33 bcpd for the September 2018 quarter.

Main Pass Block 270 B-1 well – Hummer Gas/Oil Field (Main Pass 270/273/274)

Petsec: 12.5% working interest (10.26354% net revenue interest) + 0.441% ORRI

The Main Pass Block 270 B-1 well on the Hummer exploration prospect in 215 feet of water, offshore Louisiana (federal waters) was drilled during the second half of 2015 and brought into production on 21 November 2017.

The well was shut-in for approximately 24 days during the quarter due to drilling operations and hurricanes in the Gulf of Mexico which lowered the average daily production rate for the quarter.

Development

USA

Main Pass Block 270 B-1 well – Hummer Project

Petsec: 12.5% working interest (10.70454% net revenue interest)

The Hummer Gas/Oil Field extends over Main Pass Blocks 270,273 and 274, in the Gulf of Mexico, offshore Louisiana, USA. The Hummer Field structure extends over a strike of five miles within the Main Pass Block 270, 273 and 274 leases which cover 15,000 acres, in some 200 feet of water.

The Hummer Project discovery well, Main Pass 270 B-1, was drilled, logged and temporarily suspended in late 2015. In early November 2017, the Main Pass 270 "B" Platform deck facilities and pipelines were installed and the B-1 well was brought into production on 21 November 2017.

The Main Pass 270 "B" platform facilities were designed to accommodate the production from the B-1 well. The "B" platform has space available on the deck to expand production capacity and accommodate increased production from additional wells expected to be drilled from the "B" platform and any proximal well head platforms.

On 10 May 2018, the Company announced that the Main Pass Block 273 B-2 appraisal/development well would be drilled from the Main Pass Block 270 "B" Production Platform. The B-2 well was spud on the 19th August 2018.

The B-2 well has a planned bottom hole location some 6,000 feet to the east of the B-1 discovery well. The B-2 well is planned to drill to a measured depth (MD) of 18,559 feet with a true vertical depth (TVD) of 16,624 feet. This is the first of potentially 3 to 8 appraisal/development wells required to develop the field.

The well is designed to test, at an optimum structural position, six oil and gas reservoirs, these being the five oil and gas reservoirs intersected in the B-1 well and a deeper horizon not tested by the B-1 well, but productive in the area. Should the six reservoirs be successful as mapped the B-2 well could deliver value of NPV_{10} of US$36 million (equivalent to 15 cents per Petsec share).

The primary objectives of the B-2 well are two sand reservoirs with proven oil and gas reserves determined from the B-1 well (Cawley, Gillespie & Associates, independent reserve engineers), one of which is categorised as Proved Developed Producing (PDP) the other Proved Undeveloped (PUD). These reservoirs are also productive in similar nearby fields (Main Pass 280/283 Field Complex).

On 22 October 2018, the B-2 well had reached 8,744 feet measured depth and was in the process of setting casing prior to drilling ahead.In order to test the deeper horizon, the well was designed with a larger diameter surface hole and wellbore. While it was anticipated that the well would take approximately 80 days to drill and reach total depth, the larger hole size has resulted in mechanical difficulties which required controlled drilling that slowed the rate of penetration. In addition, recent weather events in the Gulf of Mexico (Tropical Storm Gordon and Hurricane

Michael) caused evacuations which shut down drilling. Including the delays to date it is now estimated that it will take a total of 120 days from spud to reach total depth.

After reaching total depth completion of the well for production is estimated at two weeks and commencement of production is anticipated within 4 to 6 weeks of well completion. Production is now estimated to begin in February 2019.

The net cost to the Company to drill the well was originally estimated at US$2.6 million, however as a result of the drilling delays, the net drilling cost has been revised upward to approximately US$3.25 million. The estimated cost to complete the well and upgrade production facilities is US$1 – 1.2 million.

The Company has US$5 million in Tranche 3 of its Convertible Note Facility with which to fund the well. US$2 million has been drawn to-date.

The Company anticipates additional appraisal and development drilling in 2019.

MENA

YEMEN

The Company holds a 100% working interest in two blocks in Yemen, 80 km apart in the Marib Basin - Damis Block S-1 Production Licence and Block 7 Exploration Licence.

The Damis Block S-1 contains five oil and gas fields with target resources in excess of 54 million barrels of oil and 550 Bcf of natural gas. The An Nagyah Oilfield is developed with 32 wells and has associated production facilities capable of producing 20,000 barrels of oil per day, connected by an 80,000 bopd pipeline to the Marib Pipeline which terminates at the Ras Isa Oil Export Terminal on the Red Sea to the West.

Block 7 holds the Al Meashar Oilfield with target resources of 11 to 50 million barrels of recoverable oil, plus eight prospects and leads with potential ranging from 2 to 900 million barrels of oil.

Operations at the Company's An Nagyah Oilfield in Block S-1 continue to be shut-in while the Company continues efforts to secure government approvals to truck oil and access Yemen Government owned pipeline, storage and export shipping facilities in neighboring Block 4, in order to allow the re-start of oil production and export of oil through these facilities.

The operating environment in the Shabwa Governorate, within which both Block S-1 and Block 7 are located, continues to improve with publicly listed Austrian oil company OMV in neighboring Block S-2 maintaining steady production from its Habban Oilfield (350 million barrels, 70 km North East of An Nagyah Oilfield and 14 km West of the Al Meashar Oilfield in Block 7). OMV continue to truck oil south to the West Ayad Oilfield facilities at the head of the Block 4 export pipeline, and then lifting crude from the Bir Ali on the Gulf of Ayden coast. There have been two crude liftings from the Bir Ali over the last quarter.

OMV announced in early April 2018 the restart of oil production from the Habban Oilfield where production had been suspended since March 2015. OMV is the first foreign oil company to restart production in Yemen since the industry wide shut-in of March 2015.

Petsec Energy is pleased with OMV's continuing operations. It bodes well for the restart of the Yemen oil industry, and for Petsec Energy's restart of the An Nagyah Oilfield once sanctions are received from the Yemen Government.

Block 7, Al Barqa Permit, Yemen

Petsec: 100% working interest (85% participating interest)

Petsec Energy acquired its interest in the period 2014-2017.

Block 7 is an onshore exploration permit covering an area of 5,000 square kilometres (1,235,527 acres) located approximately 340 kilometres east of Sana'a. The block contains the Al Meashar oil discovery as well as an inventory of leads and prospects defined by 2D and 3D seismic surveys with significant oil potential.

The Company has operatorship and holds a 75% working interest in Block 7 (63.75% participating interest) in the Al Barqa (Block 7) Joint Venture and has an agreement with Kufpec to acquire their 25% working interest in Block 7. The Kufpec transaction brings the Company's potential interest in the block to 100% pending customary approvals from the Government.

Block 7 contains two suspended discovery wells in the Al Meashar Oilfield (target resource of 11 MMbbl to 50 MMbbl) which is located 14 km East of OMV's Habban Oilfield which holds ultimate recoverable reserves of 350 million barrels of oil, in the same reservoir rocks as Al Meashar.

In 2010-11, short-term testing of the two Al Meashar wells delivered flow rates ranging from 200 to 1,000 bopd.

The block also contains eight potential prospect/lead targets ranging in size from 2 to 900 MMbbl oil gross. The top four prospects hold potential in excess of 1 billion barrels of recoverable oil.

Damis (Block S-1), Production Licence, Yemen

Petsec: 100% working interest (82.5% participating interest)

Petsec Energy acquired 100% of the block in early 2016.

Damis (Block S-1) is located approximately 80 kilometres to the southwest of Block 7 and holds five sizeable oil and gas discoveries – the developed and productive (until suspended in 2014), An Nagyah Oilfield, and a further four undeveloped oil and gas fields – Osaylan, An Naeem, Wadi Bayhan, and Harmel.

The developed An Nagyah Oilfield holds 19.8 million barrels of remaining recoverable reserves (8.8 million barrels net to Petsec) having commenced production in 2004 with initial recoverable reserves of 50 million barrels of oil. At the current Brent price of US$80/bbl, production of 10,000 bopd and OPEX of US$15/bbl the NPV_{10} of the remaining reserves is US$320 million. Annual net cashflow to Petsec Energy would be in the order of US$116.5 million.

The four undeveloped fields hold substantial oil and gas resources in excess of 34 MMbbl of oil and 550 Bcf of gas [1] representing substantial potential future growth of reserves and production for the Company. The net to Petsec NPV_{10} of the 34 million barrels using a low case of US$45/bbl is in excess of US$500 million.

During the quarter, the Company's plans for the restart of production at the An Nagyah Oilfield were refined with a focus on a trucking operation that transports oil 70 km East to the head of the Block 4 pipeline which runs 204 km South to storage and export shipping facilities at Bir Ali. Estimated OPEX for this route is US$15/bbl.

OMV's successful use of the Bir Ali pipeline and export liftings from Bir Ali and continuous operations since April 2018 confirm the viability of this export route.

The Company has been seeking, since early 2017, the necessary government support and formal approvals for a trucking operation to access government oil export facilities in order to restart oil production at the An Nagyah Oilfield until such times as the Ras Isa oil export terminal at the port of Hodeidah resumes operations and the Marib pipeline is again operational.

We have engaged with the Oil Minister, His Excellency Aws Al-Aud, since his appointment in January 2018, seeking his support for the restart of production at the An Nagyah Oilfield by way of trucking to Yemen Government owned pipeline transport and export facilities.

Documentation supporting the Company's technical and financial capabilities to restart production at the An Nagyah Oilfield was supplied to the Minister of Oil and Minerals during the Quarter for his review and approval.

1 *Source: Wood Mackenzie Asia Pacific Pty Ltd*

Proposed Activities – December 2018 Quarter

USA

Management will be focused on successfully completing the Hummer B-2 well and bringing the well into production, and reviewing locations of the further 3 to 8 appraisal/development wells required to develop the Hummer Gas/Oil Field.

MENA – Yemen

Management will continue the Company's engagement with the Yemen Oil Ministry to secure the approvals required to truck oil to Block 4 and access Yemen Government facilities so as to restart oil production from the An Nagyah Oilfield at the earliest opportunity.

Financial Summary and Production Data

Unaudited preliminary financial data			Sep 2018 Quarter	Jun 2018 Quarter	% Increase/ (decrease)	Nine months to Sep 2018	Nine months to Sep 2017	% Increase/ (decrease)
Financials								
Net revenue		US$000	**622**	875	(29%)	**2,377**	877	166%
Other revenue/(expense)		US$000	**-**	15		**33**	2	
Lease operating expenses		US$000	**(177)**	(204)		**(514)**	942	
Geological, geophysical & administrative expenses (GG&A)		US$000	**(1,273)**	(1,383)		**(4,060)**	(5,872)	
EBITDAX		US$000	**(828)**	(697)	n/a	**(2,204)**	(4,051)	n/a
Cash		US$000	**3,017**	3,445	(12%)	**3,017**	6,927	(56%)
Debt (convertible note facility) [1]		US$000	**7,645**	8,600	(11%)	**7,645**	5,393	42%
Acquisition, exploration & development expenditure								
Acquisition		US$000	**-**	19		**214**	138	
Exploration		US$000	**-**	-		**-**	-	
Development		US$000	**997**	207		**1,407**	4,611	
Total		US$000	**997**	226	341%	**1,622**	4,749	(66%)
Production (MMcfe)	**W.I.**	**N.R.I**						
USA								
Offshore Gulf of Mexico								
Main Pass Block 270 (Hummer)	12.5%	10.70454% [2]	**125**	178		**492**	-	
Onshore Louisiana								
Mystic Bayou Field	25%	18.5%	**45**	40		**130**	225	
Jeanerette Field	12.5%	9.0%	**-**	-		**-**	-	
Total		MMcfe	**170**	218	(22%)	**622**	225	176%
Unit revenue/cost analysis per Mcfe (US$)								
Oil/Condensate per barrel		US$	**73.04**	66.66	10%	**67.13**	48.05	40%
Gas per Mcf		US$	**2.73**	3.17	(14%)	**2.90**	3.32	(13%)
Average sales price per Mcfe		US$	**3.65**	4.01	(9%)	**3.76**	3.90	(4%)
Other revenue/(expense) per Mcfe		US$	**-**	0.07		**0.05**	0.01	
Lease operating expense per Mcfe		US$	**(1.04)**	(0.94)		**(0.83)**	4.19	
GG&A expense per Mcfe		US$	**(7.49)**	(6.34)		**(6.53)**	(26.10)	
EBITDAX per Mcfe		US$	**(4.88)**	(3.20)	n/a	**(3.55)**	(18.00)	n/a

1 *Represents liability recognised on the balance sheet at period end in respect of the convertible note debt and the associated foreign exchange derivative liability.*
2 *Comprises N.R.I.:10.26354% and ORRI: 0.441%.*

Glossary

Bcfe = billion cubic feet of gas equivalent
BOPD = barrels of oil per day
Mcfe = thousand cubic feet of gas equivalent
MMcfe = million cubic feet of gas equivalent
TVD = True Vertical Depth
bcpd = barrels of condensate per day
bwpd = barrels of water per day
MD = Measured Depth
MMcpd = million cubic feet of gas per day
boe = barrels of oil equivalent
Mcf = thousand cubic feet of gas
MMbbl = million barrels
TD = Total Depth

Company Reserve Assessments

The Company's reserves assessment follows guidelines set forth by the Society of Petroleum Engineers – Petroleum Resource Management System (SPE-PRMS). The USA and Yemen reserve estimates provided within this announcement are based on information contained within the announcement to the ASX on 22 February 2018 and the 2017 Annual Report.

The Company confirms that it is not aware of any new information or data that materially affects the information included within that announcement, and that all the material assumptions and technical parameters underpinning the estimates therein continue to apply and have not materially changed.

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