Petsec Energy Ltd

September 2019 Quarter Results

Financials

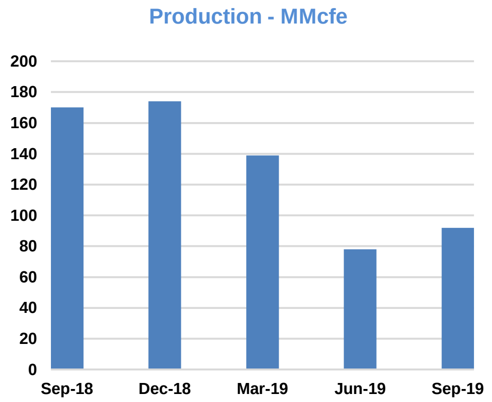
Comparative Performance		Current Quarter Sep 2019	Previous Quarter Jun 2019	% Change	Corresponding Quarter Sep 2018	% Change
Net production	MMcfe	**92**	**78**	18%	170	(46%)
Average sales price	US$/Mcfe	**2.52**	**3.12**	(19%)	3.65	(31%)
Net revenue	US$000	**232**	**242**	(4%)	622	(63%)
EBITDAX [1]	US$000	**(1,065)**	**(1,129)**	n/a	(828)	n/a
Cash [2]	US$000	**2,506**	**3,224**	(22%)	3,017	(17%)
Debt (convertible note) [3]	US$000	**14,976**	**14,197**	5%	7,645	96%
AE&D expenditure [4]	US$000	**(52)**	**347**	n/a	997	n/a
Closing exchange rate	USD/AUD	**0.6746**	**0.7023**	(4%)	0.7224	(7%)

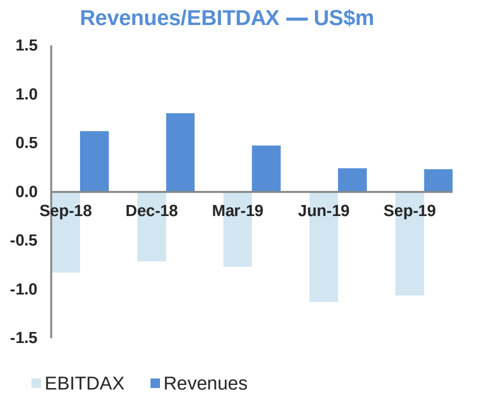
1 Earnings before interest, income tax, depreciation, depletion and amortisation, and exploration (including dry hole, impairment and abandonment expense, seismic and work-over expense). EBITDAX is a non IFRS number and is unaudited.

2 September 2019 cash includes restricted cash amounts of US$1.9 million (Jun 2019: US$1.9 million and Sep 2018: US$1.9 million).

3. Represents the fair value of the convertible note debt (US$14.5 million) and the associated foreign exchange derivative liability (US$0.5 million) recognised on the balance sheet as at 30 September 2019.

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





Key Points

Corporate

- Closure of the Lafayette office in the USA.
- Relocation of the Group Chief Financial Officer and President of Petsec Energy Inc., Ross Keogh, to the Dubai office to work alongside Managing Director, Syed Bokhari.

Operations

- **Net production from USA operations for the September 2019 quarter**: 92 MMcfe (84 MMcf of gas and 1,322 barrels of oil/condensate).
- **YEMEN: Damis (Block S-1):** Restart of oil production operations at the An Nagyah Oilfield progressed following successful meetings with the Yemen Minister of Oil & Minerals, his encouragement to secure joint venture partners to co-invest in the development of Block S-1, the Company's subsequent field inspection to determine the state of the oilfield infrastructure, preparation of a final restart plan and engagement with a number of potential joint venture partners.

Financials

- **Net oil and gas revenues for the September 2019 quarter:** US$232,000.
- **US$15 million convertible note facility as at 30 September 2019:** US$13 million drawn.
- **Cash balance as at 30 September 2019:** US$2.5 million (including US$1.9 million of restricted deposits).

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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Managing Director
Syed Bokhari

Non-executive Directors
David Mortimer
Alan Baden

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Ross Keogh – Group CFO
Paul Gahdmar – Company Secretary & Group Financial Controller

Petsec Energy Inc.
Ross Keogh – President & CFO

Petsec Energy (Middle Eastern) Ltd
John Rees – VP Technical
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Financial

Production

Net production for the September 2019 quarter was 92 MMcfe (84 MMcf of gas and 1,322 barrels of oil/condensate). This was 18% higher than the 78 MMcfe (69 MMcf of gas and 1,448 barrels of oil/condensate) achieved in the June 2019.

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

Net production (in MMcfe)	Sep 2019 Quarter	Jun 2019 Quarter	% Increase/ Decrease
Jeanerette Field – ASF No.4	-	-	-
Mystic Bayou Field – Williams No.2	13	19	(32%)
Hummer Field – Main Pass Block 270 B-1	79	59	34%
Total	**92**	**78**	**18%**

Revenues and Cashflow

Petsec Energy generated net oil and gas revenues for the September 2019 quarter of US$232,000. This was 4% lower than that achieved in the June 2019 quarter of US$242,000 with the effect of higher production volumes being offset by the lower sales prices received for the current quarter.

The Company realised an average gas equivalent sales price of US$2.52/Mcfe in the September 2019 quarter (US$55.98/bbl and US$1.88/Mcf for its oil/condensate and natural gas production, respectively). This was 19% lower than the average gas equivalent sales price received in the June 2019 quarter of US$3.12Mcfe (US$66.30/bbl and US$2.12/Mcf for its oil/condensate and natural gas production, respectively).

The Company reported negative EBITDAX of US$1.1 million for the current quarter (previous quarter: negative US$1.1 million).

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

Secured Convertible Note Facility

The Company has a US$15 million secured convertible note facility agreement with Sing Rim Pte Ltd with a redemption date of 23 January 2021.

At 30 September 2019, the Company had drawn US$13.0 million under the facility, with Tranches 1 and 3 having been fully drawn in March 2017 and January 2019, respectively, and US$3 million under Tranche 2, largely to meet the completion and platform production facilities development of the Hummer B-1 well, and the drilling costs of the Hummer B-2 well in the USA. A further US$0.5 million was drawn under Tranche 2 in October 2019 to meet operational costs.

Cash Position

At 30 September 2019, the Company held cash deposits of US$2.5 million (A$3.7 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 trended lower during the September 2019 quarter as concerns over the effect of the trade war between the US and China weighed on oil demand growth. WTI crude oil prices traded in a range between US$51.09/bbl and US$62.90/bbl, closing the current period at US$54.07/bbl.

On 21 October 2019, the NYMEX 12 month and 36 month forward strip prices for WTI crude oil were trading at approximately US$52.70/bbl and US$51.38/bbl, respectively. This compares to US$56.28/bbl and US$54.24/bbl, respectively on 17 July 2019.

Rising U.S. natural gas production contributed to record injections during the September 2019 quarter, maintaining downward pressure overall on U.S. natural gas spot prices which traded in a range between US$2.07/MMBtu and US$2.68/MMBtu.

The NYMEX 12 month and 36 month forward strip prices for U.S. natural gas were trading at approximately US$2.37MMBtu and US$2.42/MMBtu, respectively on 21 October 2019. This compares to US$2.46/MMBtu and US$2.54/MMBtu, respectively on 17 July 2019.

According to U.S. Energy Information Administration estimates, working natural gas in storage at 11 October 2019 was 3,519 Bcf. This was 494 Bcf or 16.3% higher than the 3,025 Bcf reported a year ago and 14 Bcf and generally in line with the 5-year average of 3,505 Bcf.

Corporate

During the quarter, the Company implemented further cost cutting initiatives aimed at rationalising operations and minimising general and administrative costs further, across all geographical segments. Consequently, the Company closed its Lafayette office on 30 September 2019, with the Houston office being retained as the Company's operational office in the USA.

The Company's Group Chief Financial Officer, Ross Keogh, has been relocated to the Dubai office alongside Managing Director, Syed Bokhari, where both will spend the majority of their time. Their main objectives will be to secure Government consents and to restart commercial oil production from the An Nagyah Oilfield in Block S-1, Yemen.

Further cost-cutting measures are expected to be undertaken during the December 2019 quarter, including the relocation of the corporate office premises.

Operations

Production

USA

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 0.8 MMcfpd and 13 bcpd for the September 2019 quarter. Subsequent to the end of the quarter, the well was producing in October at 1.1 MMcfpd and 15 bcpd.

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 averaged gross daily production rates of approximately 6.8 MMcfpd and 121 bcpd during the September 2019 quarter.

MENA

YEMEN

The Company holds a 100% working interest in two blocks in Yemen, 80 kilometres apart in the Marib Basin - Damis Block S-1 Production Licence and Al Barqa, 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 bopd, 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. The Marib Pipeline and Ras Isa Oil Export Terminal have been shut since March 2015 due to the Saudi Coalition embargo on oil lifting from the Port of Hodeidah because of the Rebels' control of Hodeidah.

Block 7 holds the Al Meashar Oilfield with target resources of 11 to 50 million barrels of 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 seeks to secure government approvals to allow the Company to truck oil and access Yemen Government owned pipeline, storage and oil export shipping facilities in neighboring Block 4.

The operating environment in the Shabwah Governorate, within which both Block S-1 and Block 7 are located, continues to improve, allowing the publicly listed Austrian oil company, OMV, to recommence oil production in April 2018. OMV is the first foreign oil company to restart production in Yemen since the industry wide shut-in of March 2015.

OMV has maintained oil production of the order of 16,000 bopd since April 2018 in the neighboring Block S-2 from its Habban Oilfield (350 million barrels), 70 km North East of An Nagyah Oilfield and 14 kilometres West of the Al Meashar Oilfield in Block 7. Habban oil is transported by truck South to the Main Oil Pumping Station (MOPS) near the West Ayad Oilfield at the head of the Block 4 export pipeline, then piped some 200 kilometres South to the Bir Ali Oil Terminal on the coast of the Gulf of Aden. Shipments of some 600,000 barrels of oil are made each 1 to 2 months.

Construction of a 16 inch oil transport pipeline connecting Block 5 (to which Block S-1 is connected) and the oil export pipeline of Block 4 is progressing well and over 50% of the work has been completed. The Yemen Oil Ministry expects it to be operational by year end 2019.

A ceasefire has taken effect and is largely holding. Shabwah region is generally stable under the control of international recognised Yemen government with support from locals as well as Saudi and UAE forces.

Post 30 September 2019, government run Safer Exploration Production Oil Company (SEPOC) has started production of 5,000 bopd from Block 18 and is trucking it South to Rudum terminal at Bir Ali. This is a significant development as Block 18 is a major oil producer for the country. The ongoing construction of pipeline from Block 4 to Block 5 and start of production from Block 18, demonstrate governments desire to bring all fields in the region back on production.

Al Barqa, (Block 7) 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 (63.75% participating interest) in the Al Barqa (Block 7) Joint Venture. It also has an agreement with KUFPEC to acquire their 25% working interest in Block 7 which 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 kilometres East of OMV's Habban Oilfield which holds ultimate 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 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 has produced around 25 million barrels of oil since start of production in 2004 out of the original recoverable reserves of 50 million barrels of oil.

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.

OMV's continuous operations to produce Habban oil at an average rate of 14,000 bopd since April 2018, and successful use of the Block 4 pipeline and oil export lifting from the Bir Ali Oil Export Terminal confirms the viability of this export route for the Company and its An Nagyah Oilfield.

The Company's plans for the restart of production at the An Nagyah Oilfield have been focused on pumping oil to Block 5 through the existing infrastructure (10 inch pipeline) and then down to the Main Oil Pumping Station (MOPS) in Block 4 through the currently under construction 16 inch pipeline. From MOPS, oil will be pumped 204 kilometres South to Rudum Terminal at Bir Ali. Alternately, the Company is considering a trucking operation that transports oil 70 kilometres East to MOPS from where it will be pumped to Rudum Terminal.

The Company's engineers estimate the cost to restart oil production at An Nagyah at a rate of 10,000 bopd will be under US$5 million, and would take between 6 and 12 months from the time of receipt of Yemen Government approvals to access Block 4 oil export facilities.

The Company has been seeking, since early 2017, the necessary government support and formal approvals to transport oil to Rudum Terminal at Bir Ali through YICOM facilities at Block 4 and Rudum Terminal. Access to these facilities are part of the Contractor's rights contained within the Block S-1 Production Sharing Agreement. Delays have been due to limited and changing Yemen administration capabilities, political changes, and security conditions.

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. 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 September 2019 quarter for his review and approval.

Petsec Energy's Chairman and Managing Director met with the Yemen Minister of Oil & Minerals in May 2019 to share the Company's restart plans for the An Nagyah Oilfield with supporting technical and financial capabilities. The Minister showed considerable interest in the restart plan, expressing a desire to have the field in production within 6 months to coincide with the expected completion of a 16 inch oil pipeline connecting Block 5 (to which Block S-1 is connected) to the Block 4 export pipeline. He also encouraged Petsec to seek joint venture partners to co-invest in the development of Block S-1 which holds four undeveloped fields in addition to the developed An Nagyah Oilfield.

Subsequent to the meeting with the Minister, Petsec sent a team of oil field production experts in June 2019 to the An Nagyah Oilfield in the Shabwah Province of Yemen to evaluate the condition of the facilities and prepare final production start-up plans. The evaluation team consisted of an international production facilities expert, four Yemeni oil field professionals, Petsec Energy staff, and a representative of the Yemen Ministry of Oil & Minerals.

The team found the facilities to be in good condition allowing for an early production start-up. Local staff and contractors were keen to see an early restart of production.

Final plans are nearly complete for the production start-up that include all technical work and equipment/services required, contract support and manpower ramp up, transport and access to export facilities, and export sales agreements, OCMs and government approved restart budgets. It is expected this plan will be concluded within a month of receipt of the Yemen governments consents allowing for an immediate restart of onsite operations.

In response to the Minister's wish that Petsec Energy seeks further investors in the development of Yemen oil resources, Petsec has engaged with several E&P companies interested in a joint venture partnership with Petsec Energy in Block S-1 which includes the An Nagyah Oilfield. These discussions have been encouraging.

1 Source: Wood Mackenzie Asia Pacific Pty Ltd

Proposed Activities – December 2019 Quarter

USA

No exploration or development work is anticipated. The Company continues to evaluate its strategy and look at alternatives for its assets in the U.S.

MENA – Yemen

Completion of the final restart plan for the An Nagyah Oilfield to enable immediate restart on receipt of the requisite Yemen administrative consents.

Continuing engagement with interested potential joint venture partners in Block S-1 in the expectation of closure late in the quarter.

Financial Summary and Production Data

Unaudited preliminary financial data			Sep 2019 Quarter	Jun 2019 Quarter	% Increase/ (decrease)	Nine months to Sep 2019	Nine months to Sep 2018	% Increase/ (decrease)
Financials								
Net revenue		US$000	**232**	242	(4%)	**947**	2,377	(59%)
Other revenue/(expense)		US$000	**1**	4		**-**	33	
Lease operating expenses		US$000	**(481)**	(309)		**(1,200)**	(514)	
Geological, geophysical & administrative expenses (GG&A)		US$000	**(817)**	(1,066)		**(2,709)**	(4,060)	
EBITDAX		US$000	**(1,065)**	(1,129)	n/a	**(2,962)**	(2,204)	n/a
Cash		US$000	**2,506**	3,224	(22%)	**2,506**	3,017	(17%)
Debt (convertible note facility) [1]		US$000	**14,976**	14,197	5%	**14,976**	7,645	96%
Acquisition, exploration & development expenditure								
Acquisition		US$000	**-**	-		**-**	214	
Exploration		US$000	**-**	-		**-**	-	
Development		US$000	**(52)**	347		**2,600**	1,407	
Total		US$000	**(52)**	347	n/a	**2,600**	1,622	60%
Production (MMcfe)	**W.I.**	**N.R.I**						
USA								
Offshore Gulf of Mexico								
Main Pass Block 270 (Hummer)	12.5%	10.70454% [2]	**79**	59		**254**	492	
Onshore Louisiana								
Mystic Bayou Field	25%	18.5%	**13**	19		**55**	130	
Jeanerette Field	12.5%	9.0%	**-**	-		**-**	-	
Total		MMcfe	**92**	78	18%	**309**	622	(50%)
Unit revenue/cost analysis per Mcfe (US$)								
Oil/Condensate per barrel		US$	**55.98**	66.30	(16%)	**58.97**	67.13	(12%)
Gas per Mcf		US$	**1.88**	2.12	(11%)	**2.32**	2.90	(20%)
Average sales price per Mcfe		US$	**2.52**	3.12	(19%)	**3.06**	3.76	(18%)
Other revenue/(expense) per Mcfe		US$	**0.01**	0.05		**-**	0.05	
Lease operating expense per Mcfe		US$	**(5.23)**	(3.96)		**(3.88)**	4.19	
GG&A expense per Mcfe		US$	**(8.88)**	(13.67)		**(8.77)**	(26.10)	
EBITDAX per Mcfe		US$	**(11.58)**	(14.46)	n/a	**(9.59)**	(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

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