

Petsec Energy Ltd

September 2020 Quarter Results



Financials

Comparative Performance		Current Quarter Sep 2020	Previous Quarter Jun 2020	% Change	Corresponding Quarter Sep 2019	% Change
Net production	MMcfe	7	52	(87%)	92	(92%)
Average sales price	US\$/Mcf	2.24	1.37	64%	2.52	(11%)
Net revenue	US\$000	15	72	(79%)	232	(94%)
EBITDAX ¹	US\$000	(254)	(409)	n/a	(1,065)	n/a
Cash ²	US\$000	354	378	(6%)	2,506	(86%)
Debt (convertible note) ³	US\$000	19,159	18,137	6%	14,976	28%
AE&D expenditure ⁴	US\$000	-	-	-	(52)	n/a
Closing exchange rate	USD/AUD	0.7161	0.6890	4%	0.6746	6%

- 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.
- September 2020 cash includes restricted cash amounts of US\$0.1 million (June 2020: US\$0.1 million and September 2019: US\$1.9 million).
- Represents the fair value amount of the convertible note debt and the associated foreign exchange derivative liability recognised on the balance sheet as at 30 September 2020.
- Acquisition, exploration and development expenditure (accrual-based amounts).

Key Points

Corporate

- Appointment of Messrs. Barry Dawes and Francis Douglas QC as Non-executive Directors to the Petsec Energy Ltd Board, effective 30 September 2020.
- Corporate office and registered business address relocated to Level 7, Macquarie Business Centre, 167 Macquarie Street, Sydney NSW 2000.
- YEMEN: Al Barqa Block 7:** Following the injunction granted in June against Arab Bank, Amman, Jordan, the legal process to recover US\$2.73 million cash supporting Block 7 LoC's, wrongfully transferred from QNB and CBA banks to Arab Bank, is progressing well.

Financials

- US\$15 million convertible note facility as at 30 September 2020:** US\$14.0 million drawn.
- Cash balance as at 30 September 2020:** US\$354,000 (including US\$47,000 of restricted deposits).

Operations

- YEMEN: Damis (Block S-1):** While the Company awaits Yemen government (Aden) permits for access to government owned export pipelines, in order to restart oil production from the An Nagyah Oilfield, as is the Company's right according to the Damis (Block S-1) PSA, good progress has been made to secure a joint venture partner.

Subsequent Events

- Appointment of Mr. Brent Emmett as Technical Director to the Petsec Energy Ltd Board, effective 13 November 2020.
- USA Assets:** Completion of the sale of the Company's U.S. oil and gas interests with an effective date of 1 July 2020, and subsequent initiation of the windup of the US subsidiaries.

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 onshore in the Republic of Yemen.

Registered Business Office

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Board of Directors

Executive Chairman
Terrence Fern

Executive Technical Director
Brent Emmett

Non-executive Directors
Barry Dawes
Francis Douglas QC

Management

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

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Corporate

Voluntary Suspension

The shares of Petsec Energy Ltd (ASX Ticker: PSA) remained in voluntary suspension on the ASX throughout the September 2020 quarter.

The Company's shares were initially placed in voluntary suspension on 3 April 2020, following the Board's consideration of the confluence of events at that time which affected the Company, particularly the effects of the Coronavirus COVID-19 pandemic which resulted in an unprecedented collapse in oil and gas prices and a lockdown of government administrative processes around the World.

The voluntary suspension provided an opportunity for the Company to resolve its cost structure, financing, and business plan to weather the current economic storm, and to protect shareholder value.

The Company has been engaged in ongoing negotiations with its Convertible Noteholders ("Noteholders") with regard to a plan of action which has to-date resulted in the implementation of a number of measures which have helped to significantly reduce the cost structure of the business, and improved the probability of exacting value for the Company from the current assets, including:

- Closure of the Dubai Office and release of staff.
- Closure of the Sana'a Office with existing staff retained on reduced hours.
- Divestment of the U.S. assets and the commencement of the wind up of the U.S. business.
- Cessation of remuneration to all members of the Petsec Energy Ltd Board effective 31 March 2020, and reduction of staff remuneration.
- Conclusion of the 12-month engagement of the Managing Director of PEL, Syed Bokhari at the end of April 2020.
- Relocation of the Sydney corporate office and registered business address to the Macquarie Business Centre at Level 7, 167 Macquarie Street, Sydney NSW 2000.
- Effecting an injunction and legal suit for the recovery of US\$2.73 million supporting Block 7 LoCs, wrongfully transferred to Arab Bank, Jordan.

The Company's shares are expected to remain in voluntary suspension on the ASX pending finalisation of negotiations with the Noteholders in relation to the convertible note debt which matures in late January 2021.

Application for relisting will be preceded by the convening of the Company's Annual General Meeting, which is anticipated in early second quarter of 2021.

Appointment of Non-executive Directors

As announced to the ASX on 30 September 2020, the Company appointed Mr. Barry Dawes and Mr. Francis Douglas QC, as non-executive directors to the Board of Petsec Energy Ltd.

Mr. Dawes is a graduate of Sydney University in Geology with studies in Economics and Geography at ANU and has over 40 years' experience in the resources investment sector in funds management, investment banking and stockbroking.

Mr. Douglas is a graduate of the University of Queensland and the University of Cambridge in Law. He has been a member of the NSW Bar since 1975 and a Q.C. since 1988. He has extensive experience in the oil and gas industry.

Further details are available in the announcement made to the ASX on the 30 September 2020 and the Company website at: www.petsec.com.au.

Relocation of Corporate Office

In early August 2020, the Company relocated its corporate office and registered business address to the Macquarie Business Centre located at Level 7, 167 Macquarie Street, Sydney NSW 2000. The Company's telephone, facsimile and P.O. Box numbers remain unchanged.

Yemen: Block 7: Recovery of US\$2.73 million in Letter of Credit Funds

As announced to the ASX on 19 February 2020, a claim was made by the illegitimate rebel Houthi Minister for Oil and Minerals on the Letter of Credit issued under the Production Sharing Agreement of the Al Barqa, Block 7 Exploration Permit. In Petsec's opinion the claim is fraudulent. Despite concerted efforts by Petsec to prevent any action on the claim, the Qatar National Bank released the US\$1.68 million of restricted cash that was on deposit as collateral to support the Company's share of the Letter of Credit.

The Company was also advised by Mitsui that the Commonwealth Bank of Australia had also released US\$1.05 million of AWE/Mitsui's funds in response to a similar claim, despite Petsec's prior warning the claim was illegal and fraudulent. Mitsui is seeking to recover these funds from Petsec. The Company has sought further information from AWE/Mitsui and will defend any action to recover the funds.

Arab Bank, Amman, Jordan holds US\$2.73 million of Petsec and Mitsui funds which were transferred by the QNB and CBA banks, fraudulently, in our view.

The Company has initiated a lawsuit against Arab Bank to recover those funds. An injunction against Arab Bank, Jordan, to prevent our funds from being transferred to the Houthis, was granted by the Jordanian courts. The lawsuit against Arab Bank for the recovery of our funds, continues.

Kuwait National Bank has not released the US\$1.05 million LoC funds to Arab Bank on behalf of KUFPEC, a 25% working interest holder of Block 7, acting on advice that the claim was fraudulent, supported by advice from the legitimate Minister of Oil in Aden that there was no claim on the LoC.

Subsequent Events

Appointment of Technical Director

On 13 November 2020, the Company appointed Mr. Brent Emmett as Technical Director to the Board of Petsec Energy Ltd.

Mr. Emmett has over 40 years' experience in petroleum exploration, exploration and production management and investment banking. He holds a Bachelor of Science First Class Honours degree in physics and geophysics from Adelaide University. He has extensive international experience in oil exploration and production in senior management roles including being a long term CEO of a mid-sized E&P company.

Further details are available in the announcement made to the ASX on the 13 November 2020 and the Company website at: www.petsec.com.au.

Completion of Sale of U.S. Production Assets

In October 2020, the Company completed the sale of all of its U.S. production assets to a privately held U.S. exploration and production company based in Houston.

The sale comprised the Company's interests in the Hummer, Mystic Bayou and Jeanerette Fields and had an effective date of 1 July 2020.

The Company's U.S. subsidiaries are in the process of being wound up, which should be achieved by year end.

Financial

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 2020, the Company had drawn US\$14 million under the facility.

Cash Position

At 30 September 2020, the Company held cash deposits of US\$354,000 (A\$494,000), including secured deposits of US\$47,000.

Production

The Company reported net production of 7 MMcf (5 MMcf of gas and 283 barrels of oil/condensate) for the current period, reflecting production adjustments relating to the previous period, prior to the sale of the U.S. production assets, effective 1 July 2020.

Refer to table below for details of production from the various fields.

Net production (in MMcf)	Sep 2020 Quarter	Jun 2020 Quarter	% Increase/Decrease
Jeanerette Field – ASF No.4	-	-	-
Mystic Bayou Field – Williams No.2	1	10	(90%)
Hummer Field – Main Pass Block 270 B-1	6	42	(86%)
Total	7	52	(87%)

Operations

MENA

YEMEN

The Company holds rights to a 100% and 75% 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, respectively.

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 oil discovery with target resources of 11 to 50 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 access the Block 5 to Block 4 Pipeline completed in early 2020 but not as yet operational, or to truck oil and access Yemen Government owned pipeline, storage and oil export shipping facilities in neighboring Block 4.

Al Barqa, (Block 7) Permit, Yemen

Petsec: 75% working interest (63.75% 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.

Block 7 contains two suspended discovery wells in the Al Meashar oil discovery (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.

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 gas¹ representing substantial potential future growth of reserves and production for the Company.

The Company's plans for the restart of production at the An Nagyah Oilfield have been focused on pumping oil 27 kilometres NW to Block 5 through the existing Block S-1 10 inch pipeline and then to the Main Oil Pumping Station (MOPS) in Block 4 through the newly constructed 80 kilometre, 16 inch Block 5 to Block 4 pipeline. From MOPS, oil will be pumped 204 kilometres South to Rudum Terminal at Bir Ali.

The Company awaits Yemen government (Aden) permits for access to government owned export pipelines, in order to restart oil production from the An Nagyah Oilfield.

Petsec Energy had been seeking a joint venture partner for Block S-1 vigorously from June 2019 following a meeting with the Yemen Oil Minister in Cairo in May 2019, where the Minister wished that the Company secure a financially strong joint venture partner with oil production operating experience in the region.

Proposed Activities – December 2020 Quarter

SYDNEY

Continue to seek cash flow positive production assets.

USA

Closure of the Houston office and windup of the U.S. subsidiary companies.

MENA – Yemen

Damis (Block S-1): Continue to seek Yemen Government approvals to access government oil export transport facilities in Block 4 to Rudum Terminal at Bir Ali, in order to restart oil production from the An Nagyah Oilfield and further development of Damis (Block S-1).

Al Barqa, (Block 7): Continue the legal process to recover US\$2.73 million cash supporting Block 7 LoC's, from Arab Bank, Amman, Jordan, wrongfully transferred from QNB and CBA banks to Arab Bank.

¹ Source: Wood Mackenzie Asia Pacific Pty Ltd

Financial Summary and Production Data

Unaudited preliminary financial data		Sep 2020 Quarter	Jun 2020 Quarter	% Increase/ (decrease)	Nine months to Sep 2020	Nine months to Sep 2019	% Increase/ (decrease)
Financials							
Net revenue	US\$000	15	72	(79%)	201	947	(79%)
Other revenue/(expense)	US\$000	4	(8)		2	-	
Lease operating expenses	US\$000	(200)	(257)		(744)	(1,200)	
Geological, geophysical & administrative expenses (GG&A)	US\$000	(73)	(216)		(1,048)	(2,709)	
EBITDAX	US\$000	(254)	(409)	n/a	(1,589)	(2,962)	n/a
Cash	US\$000	354	378	(6%)	354	2,506	(86%)
Debt (convertible note facility) ¹	US\$000	19,159	18,137	6%	19,159	14,976	28%
Acquisition, exploration & development expenditure							
Acquisition	US\$000	-	-		-	-	
Exploration	US\$000	-	-		-	-	
Development	US\$000	-	-		-	2,600	
Total	US\$000	-	-	-	-	2,600	(100%)
Production (MMcfe)							
		W.I.	N.R.I				
USA							
Offshore Gulf of Mexico							
Main Pass Block 270 (Hummer) ²		12.5%	10.70454% ³		6	42	
						90	254
Onshore Louisiana							
Mystic Bayou Field ²		25%	18.5%		1	10	
						21	55
Jeanerette Field ²		12.5%	9.0%		-	-	
						-	-
Total			MMcfe		7	52	(87%)
					111	309	(64%)
Unit revenue/cost analysis per Mcfe (US\$)							
Oil/Condensate per barrel	US\$	42.40	20.73	105%	39.31	58.97	(33%)
Gas per Mcf	US\$	0.60	1.17	(49%)	1.24	2.32	(46%)
Average sales price per Mcfe	US\$	2.24	1.37	64%	1.81	3.06	(41%)
Other revenue/(expense) per Mcfe	US\$	0.57	(0.15)		0.02	-	
Lease operating expense per Mcfe	US\$	(28.57)	(4.94)		(6.70)	(3.88)	
GG&A expense per Mcfe	US\$	(10.43)	(4.15)		(9.44)	(8.77)	
EBITDAX per Mcfe	US\$	(36.19)	(7.87)	n/a	(14.31)	(9.59)	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 The Company's U.S. oil and gas interests were sold with an effective date of 1 July 2020.

³ 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

bcfd = barrels of condensate per day
 bwpd = barrels of water per day
 MD = Measured Depth
 MMcfd = million cubic feet of gas per day

boe = barrels of oil equivalent
 Mcf = thousand cubic feet of gas
 MMbbl = million barrels
 TD = Total Depth

For further information, please contact:

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Certain statements in this report regarding future expectations and plans of the Company may be regarded as "forward-looking statements". Although the Company believes that its expectations and plans are based upon reasonable assumptions, it can give no assurance that its goals will be met. Actual results may vary significantly from those anticipated due to many factors, including oil and gas prices, operating hazards, drilling risks, environmental risks and uncertainties in interpreting engineering and other data relating to oil and gas reservoirs, as well as other risks.