Petsec Energy Ltd

March 2021 Quarter Results

Financials

Comparative Performance		Current Quarter Mar 2021	Previous Quarter Dec 2020	% Change	Corresponding Quarter Mar 2020	% Change
Net production	MMcfe	**-**	**-**	-	52	(100%)
Average sales price	US$/Mcfe	**-**	**-**	-	2.21	(100%)
Net revenue	US$000	**-**	**-**	-	114	(100%)
EBITDAX [1]	US$000	**(240)**	**687**	n/a	(926)	n/a
Cash [2]	US$000	**766**	**912**	(16%)	401	91%
Debt (convertible note) [3]	US$000	**20,944**	**20,238**	3%	17,528	19%
AE&D expenditure [4]	US$000	**-**	**-**	-	-	-
Closing exchange rate	USD/AUD	**0.7613**	**0.7708**	(1%)	0.6140	24%

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 March 2021 cash includes restricted cash amounts of US$0.1 million (December 2020: US$0.1 million and March 2020: US$0.1 million).

3. Represents the fair value amount of the convertible note debt and the associated foreign exchange derivative liability recognised on the balance sheet as at 31 March 2021.

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

Key Points

Corporate

- **Extension and variation of the terms of Convertible Note Facility ("Facility")** – key variations include extension of the redemption date for a 3-year period from 23 January 2021 to 23 January 2024 and reduction of the interest rate from 15% to 10% per annum.

- **YEMEN: Damis (Block S-1):** The Company has secured a financially strong and Yemen experienced oil producer, acceptable to the Yemen Minister for Oil and Minerals, to be operator of Block S- 1, so as to access government owned export transport facilities which would allow restart of oil production from the An Nagyah Oilfield in Block S-1.

  All of the shares of Yemen (Block S-1), the designated operator of Block S-1 and owner of a 75% working interest, were acquired by Yung Holdings Limited, a subsidiary of Octavia Energy Corporation, a UK company focused on oil and gas exploration and production in the MENA region, and active in Yemen since 2016. Octavia Energy Corporation has demonstrated the financial capacity and technical capabilities required to manage the resumption of oil production from Block S-1 through its extensive operating experience in the MENA region where its current production is in excess of 6,500 bopd.

- **YEMEN: Al Barqa Block 7:** On 17 February 2021, the Court of First Instance in Jordan determined that the Houthi claim against the Block 7 LoC was illegal and counterparty LoC funds received by Arab Bank could not be transferred to the Houthi. The Company is pursuing further legal action against Arab Bank in Jordan to recover the US$2.73 million in counterparty LoC funds claimed and transferred to Arab Bank on the basis of the illegal claim by the Houthi to Arab Bank, by Qatar National Bank (QNB) acting for the Company and Commonwealth Bank of Australia (CBA) acting for Mitsui.

Financials

- **US$15 million convertible note facility as at 31 December 2020:** US$14.0 million drawn.

- **Cash balance as at 31 March 2021:** US$766,000 (comprising unrestricted cash deposits of US$717,000 and restricted cash deposits of US$49,000).

Operations

- **YEMEN: Damis (Block S-1):** Preparations are progressing to restart oil production from the An Nagyah Oilfield, hopefully by mid-year 2021. Initially up to 5,000 bopd from some four wells to be trucked to the Block 4 pipeline and thence to Bir Ali for export and sale, then when the Block 5 to Block 4 pipeline is commissioned, expected in the fourth quarter of 2021, to increase production.

Petsec Energy

Petsec Energy Ltd

ASX: PSA

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.

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Corporate

Voluntary Suspension

The shares of Petsec Energy Ltd (ASX Ticker: PSA) remained in voluntary suspension on the ASX during the December 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 the time to allow the Company to effectively resolve its cost structure, financing, and business plan to protect and enhance shareholder value during the period of the pandemic.

The Company had the support of its Noteholders such that it achieved:

- Closure of the Dubai, Sana'a, Houston and Sydney offices and release of staff.
- Divestment of the U.S. assets, extinguishing obligations and the wind up of the U.S. and Canadian business.
- An injunction to prevent Arab Bank from transferring Block 7 LoC funds to the Houthi and a court determination that the Houthi claim against the Block 7 Letter of Credit (total of US$4.2 million), was illegal and counterparty LoC funds received by Arab Bank could not be transferred to the Houthi. The Company is pursuing a legal suit against Arab Bank for the recovery of US$2.73 million of the Company and Mitsui's funds supporting counterparty LoCs wrongfully transferred to Arab Bank, Amman, Jordan.
- The securing of a financially strong and Yemen experienced oil producer in October 2020, satisfactory to the Yemen Minister for Oil and Minerals, to be operator of Block S- 1, so as to gain access to government owned export transportation facilities to allow restart of oil production from the An Nagyah Oilfield in Block S-1, through the sale of Yemen (BlockS-1) Inc. the operator and a 75% interest holder in the Damis (Block S-1) Production Licence in consideration of receiving a payment of US$2 million and a carry of all future operating and development costs in Block S-1 of the Company's wholly owned subsidiary, West Yemen Oil (Block S-1) Inc., which holds a 25% working interest in Block S-1.
- A variation of the terms of the Convertible Note Facility with the Redemption Date extended by three years to 23 January 2024 and interest reduced from 15% to 10% per annum.

The Company proposes to apply to regain ASX listing pending the lodgement of its 2020 half-year and full-year financial reports and the convening of the Company's Annual General Meeting planned for 28 May 2021.

Sale of Yemen (Block S-1), Inc.

In October 2020, the Company secured a financially strong and Yemen experienced oil producer, acceptable to the Yemen Minister for Oil and Minerals, to be operator of Block S-1, so as to access government owned export transport facilities which would allow restart of oil production from the An Nagyah Oilfield in Block S-1.

To secure such an operator, the Company sold all of the shares of Yemen (Block S-1) Inc., the designated operator of Block S-1 and owner of a 75% working interest, to Yung Holdings Limited, a subsidiary of Octavia Energy Corporation, a UK company focused on oil and gas exploration and production in the MENA region, and active in Yemen since 2016. Octavia Energy Corporation has demonstrated the financial capacity and technical capabilities required to manage the resumption of oil production from Block S-1 through its extensive operating experience in the MENA region where its operated current production is in excess of 6,500 bopd.

The consideration for the acquisition of Yemen (Block S-1) Inc. was a payment of US$2 million and carry of all future operating and development costs in Block S-1 of the Company's wholly owned subsidiary, West Yemen Oil (Block S-1) Inc., which holds a 25% working interest in Block S-1.

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

As announced to the ASX on 19 February 2020, an illegitimate claim was made on the Letter of Credit (LoC) in November 2019, issued under the Production Sharing Agreement on the Al Barqa, Block 7 Exploration Permit. The Block 7 LoC's totalling US$4.2 million were established between the Block 7 joint venture partners and the Arab Bank on behalf of the Yemen Ministry of Oil and Minerals and guaranteed the remaining minimum expenditure requirements on the block, which has been in Force Majeure since 2011. No claim can be made against the LoC while the licence is in Force Majeure.

Arab Bank acted on the Houthi claim and called on the counterparty LoCs held on behalf of the Company by Qatar National Bank (QNB) and Mitsui by Commonwealth Bank of Australia (CBA). Despite concerted efforts by Petsec to prevent any action on the claim, warning the claim was illegal and fraudulent, the banks responded to the Houthi and Arab Bank's illegitimate claim such that US$2.73 million of the Company and Mitsui's funds were transferred to Arab Bank, Amman, Jordan. Kuwait National Bank has not released the US$1.05 million counterparty 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.

The Company has initiated legal suits against the Arab Bank, Jordan to recover those funds illegally transferred to Arab Bank. To date, the Jordan Court has granted an injunction against Arab Bank to prevent transfer of the funds to the Houthi, and has determined that the Houthi claim against the Block 7 LoC was illegal and counterparty LoC funds received by Arab Bank could not be transferred to the Houthi. The Company is seeking a return of the US$2.73 million from Arab Bank, through the Courts in Jordan.

Financial

Secured Convertible Note Facility

The Company has a US$15 million secured convertible note facility agreement with Sing Rim Pte Ltd.

Effective 31 December 2020, the Company concluded negotiations with the Convertible Noteholders and agreed the following variations to the terms of the Convertible Note Facility:

- **Redemption Date**: Extended for a three-year period from 23 January 2021 to 23 January 2024.
- **Interest Rate**: Reduced from the current 15% per annum to 10% per annum monthly compounding for the period commencing 23 January 2021.
- **Convertible Note Conversion Price and Limit**: Conversion price is 2 cents per share and conversion of debt is limited to 170 million shares as approved by shareholders at the AGM held on 2 May 2019.
- **Dedication of Income/Cash to Debt Repayment**: 80% of all income/cash generated from operations or transactions of the assets to be used to repay debt unless otherwise directed by the Noteholders.
- **Approval of Expenditure**: Material expenditures to be under the control of the Noteholders directed through the Chairman.
- **Penalty Terms**: If by 23 January 2023 less than 50% of the Convertible Note debt (i.e. principal and interest) has been paid to the Noteholders, the debt will increase by US$1 million. If by 23 January 2024 less than 80% of the debt (i.e. principal and interest) has been paid, the debt will increase by a further US$1.5 million.
- **Consent Terms**: 40 million fully paid ordinary shares in Petsec Energy Ltd to be granted to the Noteholders as a facility variation fee subject to shareholder approval at the next General Meeting.

At 31 March 2021, the Company had drawn US$14 million under the facility. The total fair value amount of the convertible note debt (i.e. principal and interest) and the associated foreign exchange derivative liability recognised on the balance sheet was US$20.9 million.

Cash Position

At 31 March 2021, the Company held cash deposits of US$766,000 (A$1,006,000), comprising unrestricted cash deposits of US$717,000 and restricted cash deposits of US$49,000.

Operations

MENA – Yemen

The Company holds rights to working interests 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 Production Licence in the Shabwah Governate contains five oil and gas fields, with target resources in excess of 54 million barrels of oil and 550 Bcf of natural gas. One field, 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 Block 5 and 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. In 2020, a pipeline between Block 5 and Block 4 was completed which when commissioned once Block 5 restarts production, expected in the fourth quarter of 2021, will allow An Nagyah oil to flow to Block 5 thence South through the Block 4 pipeline to the Rudum Export Terminal at Bir Ali, for export and sale.

Al Barqa, Block 7 Exploration Licence is a 5,000 square kilometre (1,235,527 acres) area in the Shabwah Governate, which holds the undeveloped Al Meashar Oilfield discovery with target resources of 11 to 110 million barrels of oil and four prospects which range between 174 and 439 MMbbls potential.

Al Barqa, (Block 7) Exploration Licence Yemen

Petsec Energy acquired its interest over the period 2014-2017 from AWE, Mitsui and Oil Search Ltd. The Company has operatorship of the block through its wholly owned subsidiary Oil Search (ROY) Limited, and holds a 75% working interest (63.75% participating interest) in the Al Barqa (Block 7) Joint Venture.

Block 7 is an onshore exploration permit covering an area of 5,000 square kilometres (1,235,527 acres) in the Shabwah Basin, located approximately 340 kilometres East of Sana'a, and 14 kilometres East of OMV's Habban Oilfield in Block S-2 which holds ultimate recoverable reserves of 350 million barrels of oil.

Block 7 contains the undeveloped Al Meashar Oilfield discovered in 2010 by Oil Search Ltd, and eight prospects and leads each holding significant oil potential identified by 2D and 3D seismic surveys. The four largest prospects range in target size from 174 MMbbl to 439 MMbbl.

The two discovery wells of the Al Meashar Oilfield (target resource of 11 MMbbl to 110 MMbbl) in 2010 and 2011, are suspended for future production. In 2010/2011, short-term testing of the two Al Meashar wells delivered flow rates ranging from 200 to 1,000 bopd. The wells intersected an 800 metre oil column in the Kuhlan and Basement formations, the same formations and oil as OMV's Habban Oilfield, which has an oil column of 945 metres and is located 14 kilometres to the West.

The Habban Oilfield holds ultimate recoverable reserves of 350 million barrels of oil, and is producing oil at a rate of 14,000 bopd into the Block 4 export pipeline to the export port of Bir Ali to the South. Prior to March 2015 when all Yemen oilfields were shut-in because of the civil war, OMV was producing 30,000 bopd, trucked to Block 18 for pipeline transport West to Ras Isa on the Red Sea.

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

Petsec Energy acquired 100% of the block late 2015/early 2016 from wholly owned subsidiaries of Occidental Petroleum Corporation and TransGlobe Energy Corporation.

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. [1]

The four undeveloped fields hold substantial oil and gas resources in excess of 34 MMbbl of oil and 550 Bcf of gas [2] representing substantial potential future growth of reserves and production for the Company.

The Company has been seeking, since 2017, government approvals to access government owned export transport facilities. In late 2019 the Yemen Oil Minister indicated that those approvals were predicated on the Company securing a financially strong and experienced Yemen oil producer to operate Block S-1.

Late in 2020, the Company secured a financially strong and experienced Yemen oil producer to operate Block S-1 as required by the legitimate Yemen Minister for Oil, in order to receive government approvals to access export transport facilities which would permit the restart of oil production from the An Nagyah Oilfield in Block S-1.

All of the shares of Yemen (Block S-1), the designated operator of Block S-1 and owner of a 75% working interest, were acquired by Yung Holdings Limited, a subsidiary of the Octavia Energy Corporation, a UK company focused on oil and gas exploration and production in the MENA region, and active in Yemen since 2016. Octavia Energy Corporation has demonstrated the financial capacity and technical capabilities required to manage the resumption of oil production from Block S-1 through its extensive operating experience in the MENA region where its current production is in excess of 6,500 bopd.

Yemen (Block S-1) Inc., the operator of Damis Block S-1, has been renamed Octavia Yemen (Block S-1) Inc. and has recently established its' Block S-1 operations offices in Cairo. Preparations are progressing to restart oil production from the An Nagyah Oilfield in 2021, hopefully by mid-year. Initially up to 5,000 bopd from some four wells to be trucked to the Block 4 pipeline and thence to Bir Ali for export and sale, then when the Block 5 to Block 4 pipeline is commissioned, expected in the fourth quarter of 2021, to increase production. Currently OMV (Block S-2), Safer (Block 18), and Calvalley (Block 9) are utilising the Block 4 sales export facilities, soon to be joined by Octavia (Block S-1) and Jana Hunt (Block 5).

Since concluding the agreement in October with Octavia, Petsec has been engaged with Octavia's technical and operations team in providing all of our technical and restart documentation in order to hasten the restart of production at Block S-1.

We have found the team at Octavia to be highly experienced oil production professionals with wide production experience in Yemen and the broader MENA area. They are committed to restart operations in Block S-1 at the earliest, and we have every confidence in their capacity and engagement.

1. *Based on estimates by previous operator and DeGolyer and McNaughton Canada Limited. The Company intends to commission a new reserves report after the resumption of production.*
2. *Source: Wood Mackenzie Asia Pacific Pty Ltd*

Proposed Activities – June 2021 Quarter

Corporate

Continue to review other oil and gas production opportunities, as they become available.

MENA – Yemen

Damis (Block S-1): Support Octavia Yemen (Block S-1), the operator of the Damis (Block S-1) Production Licence, towards the restart and optimisation of 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.

Financial Summary and Production Data

Unaudited preliminary financial data			Mar 2021 Quarter	Dec 2020 Quarter	% Increase/ (decrease)	Three months to Mar 2021	Three months to Mar 2020	% Increase/ (decrease)
Financials								
Net revenue		US$000	**-**	-	-	**-**	114	(100%)
Other revenue/(expense)		US$000	**(18)**	711		**(18)**	6	
Lease operating expenses		US$000	**(9)**	334		**(9)**	(287)	
Geological, geophysical & administrative expenses (GG&A)		US$000	**(213)**	(358)		**(213)**	(759)	
EBITDAX		US$000	**(240)**	687	n/a	**(240)**	(926)	n/a
Cash		US$000	**766**	912	(16%)	**766**	401	91%
Debt (convertible note facility) [1]		US$000	**20,944**	20,238	3%	**20,944**	17,528	19%
Acquisition, exploration & development expenditure								
Acquisition		US$000	**-**	-		**-**	-	
Exploration		US$000	**-**	-		**-**	-	
Development		US$000	**-**	-		**-**	-	
Total		US$000	**-**	-	-	**-**	-	-
Production (MMcfe)	**W.I.**	**N.R.I**						
USA								
Offshore Gulf of Mexico								
Main Pass Block 270 (Hummer) [3]	12.5%	10.70454% [2]	**-**	-		**-**	42	
Onshore Louisiana								
Mystic Bayou Field [3]	25%	18.5%	**-**	-		**-**	10	
Total		MMcfe	**-**	-	-	**-**	52	(100%)
Unit revenue/cost analysis per Mcfe (US$)								
Oil/Condensate per barrel		US$	**-**	-	-	**-**	53.82	(100%)
Gas per Mcf		US$	**-**	-	-	**-**	1.39	(100%)
Average sales price per Mcfe		US$	**-**	-	-	**-**	2.21	(100%)
Other revenue/(expense) per Mcfe		US$	**-**	-		**-**	0.12	
Lease operating expense per Mcfe		US$	**-**	-		**-**	(5.52)	
GG&A expense per Mcfe		US$	**-**	-		**-**	(14.60)	
EBITDAX per Mcfe		US$	**-**	-	-	**-**	(17.79)	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%.*
3 *The Company's U.S. oil and gas interests were sold effective 1 July 2020.*

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
MMcfgpd = 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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