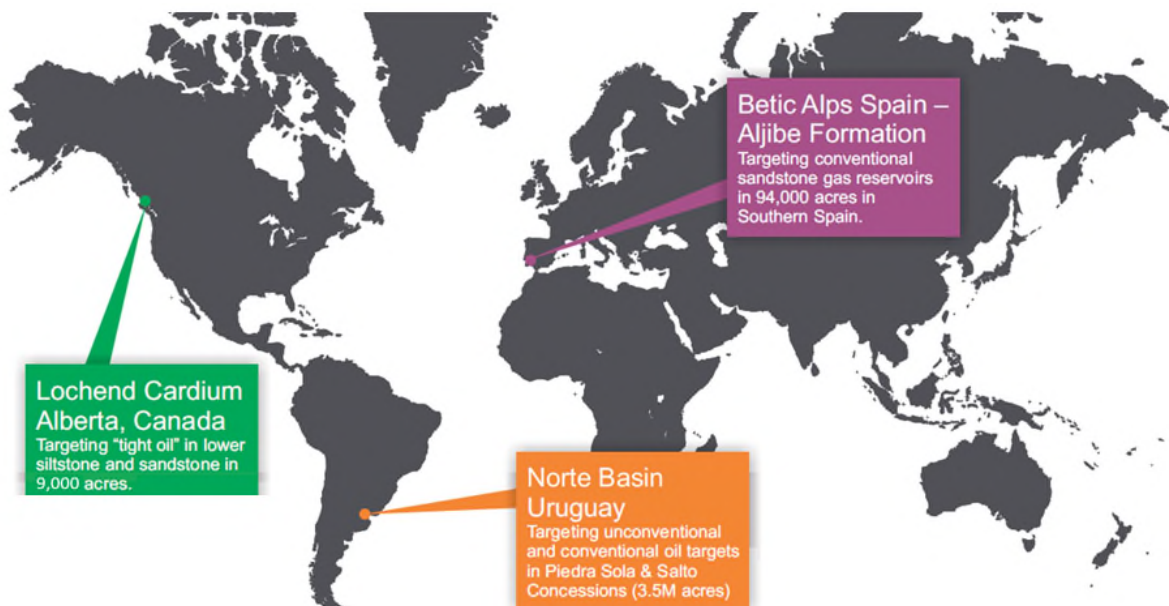


**PETREL ENERGY LIMITED
ACTIVITIES REPORT
FOR THE QUARTER ENDED 31 DECEMBER 2016**

HIGHLIGHTS

- **Rig contract signed for 4 well programme in Uruguay**
- **Initial mobilisation commenced with Mud pump on the water**
- **Recent financing success**
 - **4 wells to be funded 51% Petrel and 49% Others**
 - **Rights issue and shortfall raised \$5.25m by 30 Nov.**
- **Drilling rig final fit out near complete with mobilisation by end of February**
- **Low cost exploration programme commencing in April 2017 will:**
 - **Confirm source rock maturity, quality & extent**
 - **Confirm conventional reservoir quality & extent – Darcy permeability (1000+md) already measured in core samples 30km apart**
 - **While not the primary objective, 3 of 4 wells are also targeting structures for oil and gas trapped in either the same sequence or up-dip of (fluorescence) oil shows and/or oil weeping from core samples**
 - **Fourth well to test large AVO gas target with more than 30 additional AVO's already identified**
 - **Address key questions of maturity and source rock quality and extent raised by “Majors” in farm out process**
- **Petrel Managing Director David Casey has assumed role of Chairman of Petrel's 51% subsidiary and Uruguayan Operator SEI**





URUGUAY OPERATIONS

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

Schuepbach Energy International LLC (SEI) (PRL 51%) finalised and signed its drilling contract with New Force Energy Services Inc. for the 4 well programme in Uruguay in late-December 2017. The drilling contract was more complex than anticipated due to the specifics of Uruguay taxation and labour laws, and had to take account of the fitout of a new rig and transportation from Colorado.

Mobilisation of the mud pump sled and ancillary equipment has commenced with shipment from the port of Houston over the weekend. The rig itself is undergoing final fitout and sub-frame construction (photos below), and is itself, along with any remaining equipment, expected to follow by the end of February. A benefit of two shipments is that it will allow us to use the first as a “shakedown” to ascertain and identify if there are any bottlenecks or unforeseen issues that we need to address. This will enable us to streamline and avoid issues with the main shipment. Regular updates will be provided from initial shipping through to site preparations and spudding of the first well.

In light of the significant increase in activity and operations in Uruguay, Mr David Casey has also assumed the role of Chairman of SEI’s 51% subsidiary and Uruguayan Operator SEI.

The major objective of the drilling programme, which remains unchanged, is to address technical questions raised by various counterparties during the farmout process, such as source rock extent and development, maturation and reservoir quality. However as each well is associated with local or regional structural highs with potential closure, there is additional scope to confirm hydrocarbon migration and trapping mechanisms. One of the Salto wells will target a shallow AVO gas anomaly with a certified prospective P50 resource of 240BCF.

The other well in the Salto permit, Panizza-1 (Figure 1) is not only targeting a very large structure with considerable oil and gas potential across multiple zones, but also has an extensive thick possibly complete Devonian section with potentially ideal shale and reservoir rock development.



Final fitout and customisation of drilling rig and drilling platform

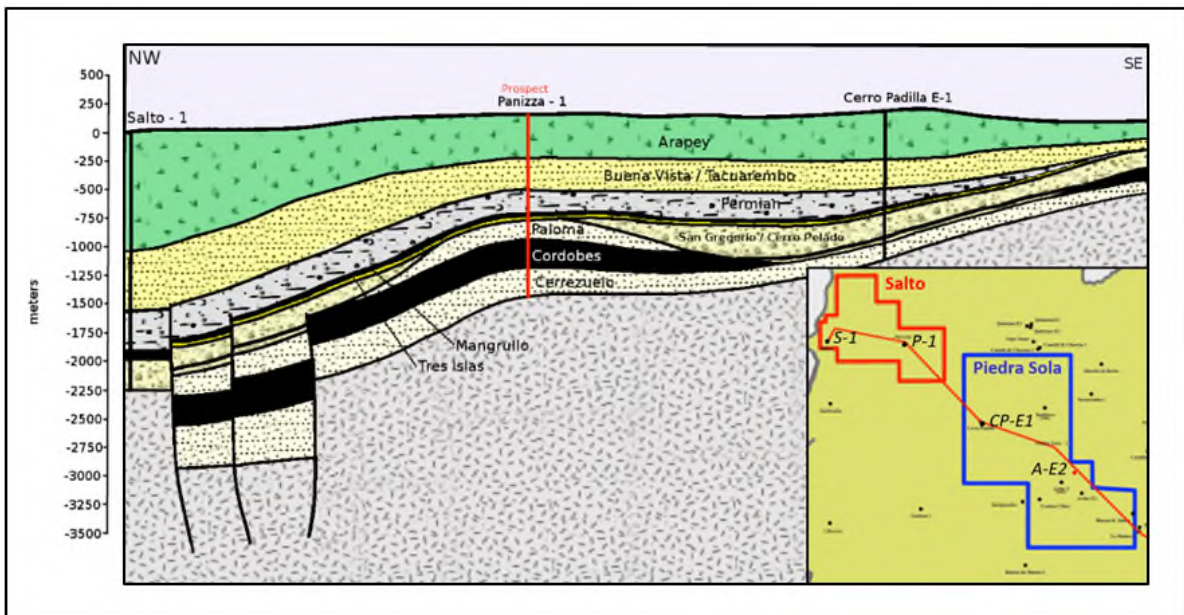


Figure 1. Idealised cross section along basin axis

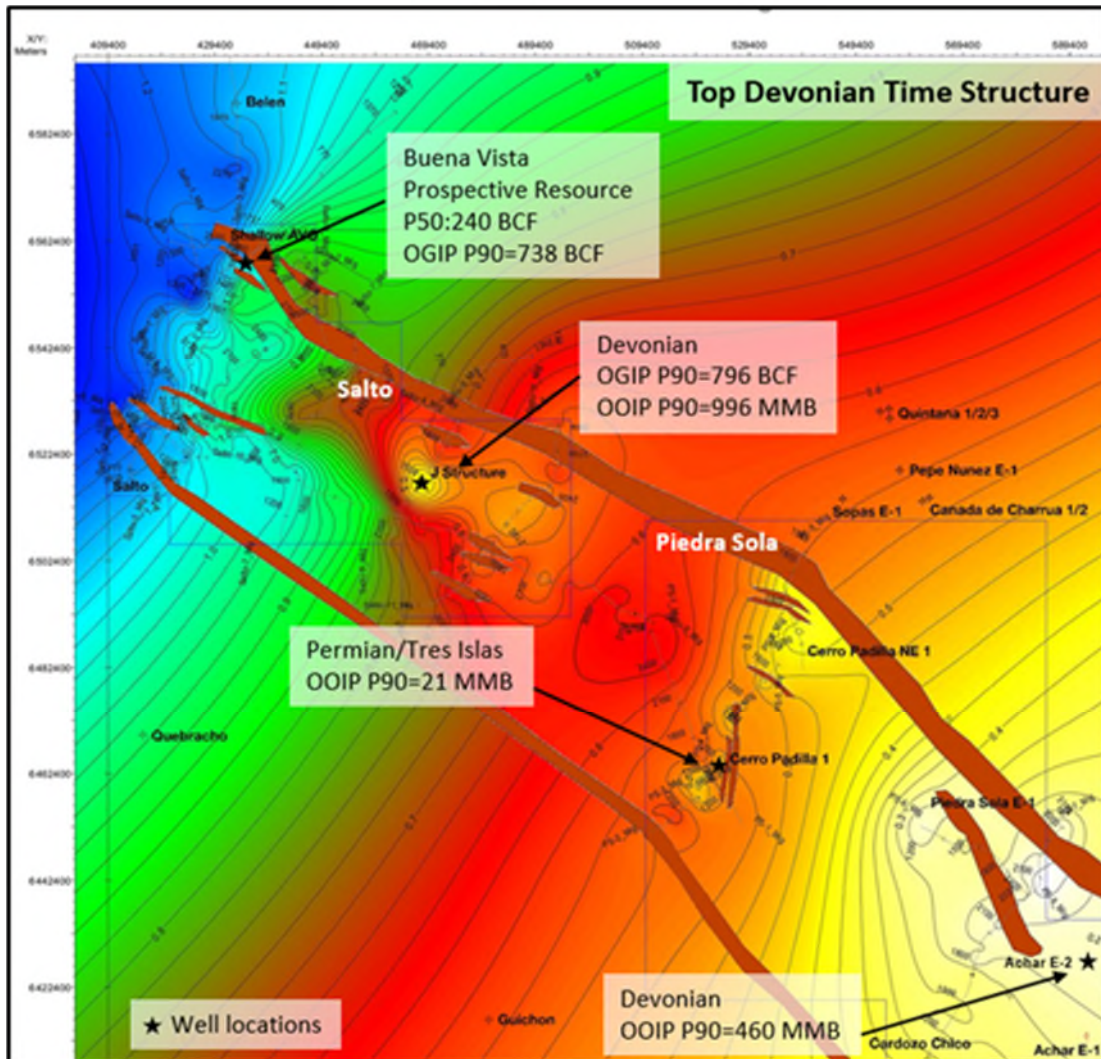


Figure 2. Four exploration wells extend across majority of permit area

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 was also able to confirm the existence of a deeper sedimentary sequence in the Salto concession (Figure 1) which remains an attractive and very large target in its own right.

On the back of this work Netherland Sewell and Associates (“NSAI”) was able to independently certify an unrisks gross Prospective Resource in the Salto and Piedra Sola concessions of up to 910 MMBBL oil and 3,105 BCF gas (up to 464 MMBBL oil and 1,583 BCF gas * to Petrel’s net 51% interest) as outlined below.



Salto & Piedra Sola Concessions

51% Net to Petrel (Conventional only)

	Prospective Resource		Original Oil & Gas In Place	
	Oil (MMBBL)	Gas (BCF)	Oil (MMBBL)	Gas (BCF)
Low Estimate (P90) *	75	293	285	456
Best Estimate (P50)	206	751	719	1161
High Estimate (P10)*	464	1583	1475	2412

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 (51%)*

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 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.

The objective is to effectively twin the Almarchal-1 with Tesorillo-1 using modern drilling techniques. Approvals to drill Tesorillo-1 were submitted over 3 years ago and there is still no clear approvals process, although recent government changes would suggest a more favourable outcome is likely in the near future. In light of these delays the Joint Venture submitted yet further documentation to the relevant authorities to suspend all activities until complete approval is granted for Tesorillo-1.

Netherland Sewell and Associates (“NSAI”) have independently certified an unrisksed Prospective Resource of up to 2,289 BCF* (2.3 TCF) (1,116 BCF net to Petrel) for the Tesorillo Project as outlined below.

Tesorillo 51% Net to Petrel	Prospective Resource BCF	Original Gas In Place BCF
Low Estimate (P90)	112	374
Best (Median) Estimate (P50)	414	828
High Estimate (P10)	1,116	1,595

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.



CANADIAN OPERATIONS

Lochend Cardium Project, Alberta (40%-60% working interest)

Targeting "tight oil" in lower siltstone and sandstone in 5,439 acres

Exploration activities at Petrel's Lochend Cardium project remain on hold. Having unsuccessfully sought expressions of interest for its interest in the Lochend Cardium joint venture in 2014/15 and given the current oil price Petrel continues to review its sale options on these assets. An impairment charge was recognised against Cardium oil assets in the 2015 financial statements writing the book value down to nil.

The Lochend 16-19-25-3W5M well which came on line in late March 2013 yielding a 30 day initial production rate (IP30) of around 150 bopd averaged 9.0 bopd during the quarter.

FINANCIAL

Consolidated cash at 31 December 2016 was \$5,039,000. The most significant expenditure during the quarter was corporate costs of \$366,000 which included costs associated with the placement of the shortfall and SEI exploration expenditure of \$346,000 which was primarily related to approvals and prospect analysis in Uruguay.

On 2 September 2016 Petrel raised \$3.0 million from a partially underwritten renounceable rights issue of shares (Rights Issue) at an issue price of 1c per share with one free listed attaching option for every two rights shares subscribed for exercisable at 4¢ with a 1-year expiry.

A \$2.3 million shortfall was realised from the Rights Issue with 98% of this amount or, \$2,266,000, being placed in 3 tranches by 30 November 2016.

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



Tenement Listing

Tenement reference	Location	Nature of interest	Interest at 30 Sept. 2016		Interest at 31 Dec. 2016	
				<u>Gross Acres</u>		<u>Gross Acres</u>
Piedra Sola	Norte Basin, Uruguay	} Held via 51% interest in Schuepbach Energy International LLC	51%	2,525,000	51%	2,525,000
Salto	Norte Basin, Uruguay		51%	925,000	51%	925,000
Tesorillo	Cadiz, Spain		51%	68,800	51%	68,800
Ruedalabola	Cadiz, Spain		51%	10,200	51%	10,200
				<u>Gross Acres</u>		<u>Gross Acres</u>
SNE27-24-3W5M	Cardium, Alberta, Canada	Direct JV interest	40%	480	40%	480
30-24-3W5M	Cardium, Alberta, Canada	Direct JV interest	40%	639.15	40%	639.15
S31-24-3W5M	Cardium, Alberta, Canada	Direct JV interest	40%	320	40%	320
SW32-24-3W5M	Cardium, Alberta, Canada	Direct JV interest	40%	160	40%	160
33-24-3W5M	Cardium, Alberta, Canada	Direct JV interest	40%	640	40%	640
N36-24-4W5M	Cardium, Alberta, Canada	Direct JV interest	40%	320	40%	320
W3-25-3W5M	Cardium, Alberta, Canada	Direct JV interest	40%	320	40%	320
19-25-3W5M	Cardium, Alberta, Canada	Direct JV interest	40%	640	40%	640
NW28-25-3W5M	Cardium, Alberta, Canada	Direct JV interest	40%	159.89	40%	159.89
SNW31-25-3W5M	Cardium, Alberta, Canada	Direct JV interest	40%	480	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
				5439		5439

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

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

82 125 394 667

Quarter ended ("current quarter")

31 December 2016

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	(346)	(615)
(b) development	-	-
(c) production	-	-
(d) staff costs	(205)	(410)
(e) administration and corporate costs	(366)	(498)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	5	6
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)	-	-
1.9 Net cash from / (used in) operating activities	(912)	(1,517)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
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	-	-

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares		
	- Petrel Energy Ltd (parent)	1,965	5,266
	- SEI (3 rd party equity)	1,178	1,217
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	(153)	(415)
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	2,990	6,068

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,952	479
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(912)	(1,517)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,990	6,068

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	9	9
4.6	Cash and cash equivalents at end of period	5,039	5,039

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	1,196	263
5.2	Call deposits	3,843	2,689
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)	5,039	2,952

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 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

**Current quarter
\$A'000**

110

-

Directors and MD/Chief Executive Officer salaries/fees

7. Payments to related entities of the entity and their associates

- 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

**Current quarter
\$A'000**

-

-

Mining exploration entity and oil and gas exploration entity quarterly report

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	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.		

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9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	1,500
9.2 Development	-
9.3 Production	-
9.4 Staff costs	200
9.5 Administration and corporate costs	320
9.6 Other (provide details if material)	-
9.7 Total estimated cash outflows	2,020

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				
10.2 Interests in mining tenements and petroleum tenements acquired or increased				

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:
(Company secretary)

Date: 31 January 2017

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.