Petsec Energy Ltd

September 2014 Quarter Results

Financials

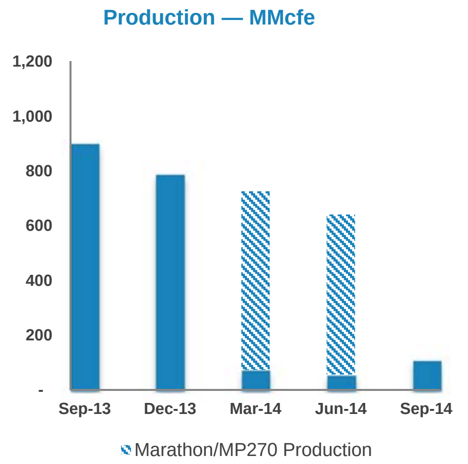
Comparative Performance		Current Quarter Sep 14	Previous Quarter Jun 14	% Change	Corresponding Quarter Sep 13	% Change
Net production	MMcfe	**103**	641	(84%)	900	(89%)
Average sales price[1]	US$/Mcfe	**5.56**	4.95	12%	4.47	24%
Net revenue	US$m	**0.6**	3.2	(82%)	4.0	(86%)
EBITDAX [2]	US$m	**1.4**	1.5	(6%)	2.6	(44%)
Cash [3]	US$m	**36.2**	28.2	28%	25.1	44%
AE&D expenditure [4]	US$m	**0.9**	2.7	(66%)	1.6	(43%)
US$/A$ closing exchange rate		**0.8732**	0.9426	(7%)	0.9343	(7%)

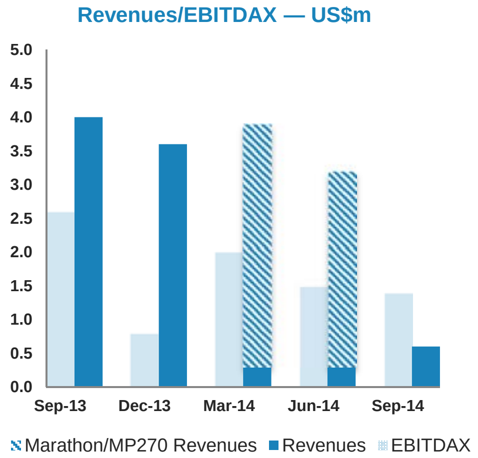
1 September 2014 quarter average sales price includes impact of adjustments to production/revenue estimates previously reported in June quarter (average sales price realised on production from Main Pass 19 and Jeanerette Fields was US$4.15/Mcfe).

2 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.

3 September 2014 cash includes restricted cash amounts of US$5.3 million (June 2014: US$5.3 million; September 2013: US$5.3 million) used to guarantee certain future rehabilitation obligations.

4 Acquisition, exploration and development expenditure.





i. The above graphs highlight the contributions that were made by the Marathon and Main Pass 270 fields to production and revenues during the period from 1 January through 14 July 2014 - these amounts formed part of the Purchase Price Adjustment on the close of the sale of these assets (see Asset Divesture section below for further details).

Highlights

Asset Divestiture

- Completed the sale of Marathon and Main Pass 270 interests in July 2014 for cash consideration of US$17 million plus the right of participation in four of the Purchaser's high potential exploration prospects – effective transaction date of 1 January 2014

  Net cash received on completion of the transaction totalled US$11.6 million

Operations

- Net production of 103 MMcfe for the September 2014 quarter
- Adeline Sugar Factory No. 4 well brought into production on 30 June 2014 – current gross production rate of approximately 10.2 MMcfpd and 62 bopd
- Decommissioning of Chandeleur Area 31/32 platforms and facilities completed in August 2014

Financials

- Net oil and gas revenues of US$0.6 million
- Profit on sale of Marathon and Main Pass 270 interests of US$2.2 million
- Cash of US$36.2 million and no debt

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 Texas and Louisiana, USA, and the Republic of Yemen.

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Marathon, Main Pass 270 Production Divestiture

In July 2014, the Company announced to the ASX that it had sold all of its working interests in the Marathon and Main Pass 270 producing fields, together with certain associated exploration interests, to a privately held U.S. exploration and production company ("Purchaser").

The transaction which had an effective date of 1 January 2014 was completed on 14 July 2014, delivering US$17 million in cash to Petsec Energy and the right of participation in four of the Purchaser's high potential South Louisiana exploration prospects. The first of these prospects, the Adeline Sugar Factory ("ASF") No. 4, was drilled, a gas and condensate discovery made and was brought into production on 30 June 2014.

The assets sold by the Company pursuant to the transaction were:

- All of Petsec's production and exploration rights in the Marathon field
- All of Petsec's interests in the Main Pass 270 producing wells
- Assignment of partial workings interests in the exploration rights on Main Pass 270, Main Pass 273 and Main Pass 274

As a result of the transaction, Petsec retained a 12.5% working interest in the exploration rights in Main Pass 270, 273 and 274.

The Company's received its share of production, revenues and lifting costs, in respect of the Marathon and Main Pass 270 fields from 1 January 2014 through to the closing date, and these were adjusted against the US$17 million cash consideration amount. As a result the net cash amount received on completion of the transaction was US$11.6 million.

Proceeds from the transaction will be applied towards current and future exploration projects in the onshore and state waters of the Gulf Coast, USA. The Company believes that the application of the capital released from this transaction can achieve a significantly higher rate of return through successful exploration than by producing these fields through depletion and abandonment.

Financial

Production

Net production for the September 2014 quarter was 103 MMcfe – production was received from the Main Pass 19 and the Jeanerette fields.

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

Net production (in MMcfe)	Sep 2014 Quarter	Jun 2014 Quarter	% Increase/ Decrease
Marathon *	(26)	496	n/a
Main Pass 270 *	(3)	89	n/a
Main Pass 19	51	56	(9%)
Jeanerette Field – ASF No.4	81	-	n/a
Total	**103**	**641**	**(84%)**

* In July 2014, the Company sold all of its working interests in these fields with an effective date of 1 January 2014. Current quarter movement reflects pipeline adjustments to production estimates previously reported in the June quarter.

The Company intends to replace the reserves sold at Marathon and Main Pass 270 and grow its reserve and production base through the execution of its previously stated business strategy which will:

- Concentrate on large, high impact conventional exploration, mainly Gulf Coast onshore and shallow Gulf of Mexico, USA, and
- Pursue onshore lease acquisitions with producing reserves, or near term development reserves, with significant exploitation and exploration potential

Revenues and Cashflow

The Company realised an average gas equivalent sales price of US$5.56/Mcfe (including hedging) for the September 2014 quarter (June 2014 quarter: US$4.95/Mcfe). The higher sales price for the current quarter reflects the impact of adjustments to production/revenue estimates reported in the previous quarter – the average sales price realised on production from the Main Pass 19 and Jeanerette fields was US$4.15/Mcfe. The Company received average sales prices of US$3.87/Mcf and US$101.20/bbl for its natural gas and oil/condensate production, respectively for the September 2014 quarter (June 2014 quarter: US$4.53/Mcf and US$100.80/bbl).

Net oil and gas revenues for the September 2014 quarter of US$0.6 million were significantly lower than the previous quarter, reflecting the sale of the Company's Marathon and Main Pass 270 producing fields (refer to "*Asset Divesture*" section above).

EBITDAX of US$1.4 million was recorded for the September 2014 quarter (June 2014 quarter: US$1.5 million) after recognition of a profit of US$2.2 million on the sale of the Company's Marathon and Main Pass 270 interests.

Unit lease operating expense and geological, geophysical & administrative expense increased to US$2.57/Mcfe and US$10.52/Mcfe, respectively (June 2014 quarter: US$0.77/Mcfe and US$1.67/Mcfe), reflecting the lower production for the quarter.

Acquisition, exploration and development expenditures of US$0.9 million for the September 2014 quarter mainly related to lease costs associated with certain exploration prospects acquired as part of the asset divestiture transaction including the Jeanerette Field, and commitment to participate in the drilling of a well on the SW Holmwood Prospect which is expected to spud in the fourth quarter of 2014.

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

Cash Position

At 30 September 2014, the Company held cash deposits of US$36.2 million (A$41.4 million), up 28% on the 30 June 2014 cash balance of US$28.2 million (A$29.9 million). The cash deposits which are predominantly held in US dollars include US$5.3 million held in an escrow account to secure operator bonds that are on issue to the Bureau of Ocean Energy Management ("BOEM").

Hedging

Following the divesture of its interests in the Marathon and Main Pass 270 producing fields, the Company liquidated its July through December 2014 Natural Gas Futures contracts , realising a net derivative gain of US$140,000.

As a result Petsec Energy currently has no oil or natural gas swap hedge contracts in place.

Natural Gas Market

U.S. natural gas prices were slightly lower in the September 2014 quarter, compared to the previous quarter.

The NYMEX 12 month and 36 month forward strip prices for natural gas were US$3.90/MMBtu and US$4.01/MMBtu, respectively on 9 October 2014, compared to US$4.09/MMBtu and US$4.14/MMBtu, respectively, recorded on 16 July 2014.

As of 3 October 2014, the U.S. Energy Information Administration estimate of working natural gas in storage was 3,205 Bcf, which was 359 Bcf or 10.1% lower than the 3,564 Bcf reported last year at the same time and 378 Bcf or 10.5% below the 5-year average.

Operations

Production

Adeline Sugar Factory No. 4 Well – Jeanerette Field

Petsec: 12.5% working interest (9% net revenue interest)

During the previous quarter, the Company participated in the drilling of the Adeline Sugar Factory ("ASF") No. 4 well for a 12.5% working interest. The ASF No. 4 well is an onshore exploration well located in Jeanerette Field in St. Mary Parish, Louisiana.

The well reached a total depth of 15,300 feet (4,663 metres) in early May 2014 and a gas/condensate discovery was made in the primary objective lower Miocene sands.

The well was tested in June 2014 at a peak flow rate of 15.8 MMcfpd and 105 bcpd through a 16/64th choke, with a flowing tubing pressure of 7,890 pounds per square inch.

The well commenced production on 30 June 2014. Average gross rates for the September 2014 quarter were approximately 9.3 MMcfpd and 58 bopd.

The well is currently producing at a gross rate of approximately 10.2 MMcfpd and 62 bopd.

Main Pass 18/19

Petsec: 100% / 55% working interest (83.333% / 45.833% net revenue interest)

The Main Pass 18/19 fields are located in the Gulf of Mexico, USA, and were discovered in 2005 and 2006. The Company drilled a total of seven wells on the fields over that period of which two are currently producing.

Average gross daily production from the Main Pass 19 field over the September 2014 quarter was approximately 1.2 MMcf of gas and 0 bbls of oil/condensate.

Chandeleur 31/32

Petsec: 100% working interest (81.833% net revenue interest)

In May 2014, the Company commenced decommissioning operations on the Chandeleur 31/32 field, which had reached the end of its productive life in August 2013.

The work was completed in August 2014 at an estimated cost to the Company of US$3.1 million.

Exploration/Development

USA

The Company's strategy to grow reserves is to focus on high impact conventional exploration, in mainly gas/condensate and oil rich areas onshore Gulf Coast (Louisiana and Texas) and shallow Gulf of Mexico, USA, and to acquire onshore leases with producing reserves, or near term development reserves, with significant exploitation and exploration potential.

In the past three quarters of 2014, the Company has been actively identifying exploration prospects in which to participate.

Since the sale of the Marathon and Main Pass Block 270 fields in July, the Company has approved participation in 5 new projects in which exploratory drilling is expected to commence in the fourth quarter of 2014 and into the first and second quarters of 2015. The target prospect sizes in the current portfolio range from some 17 to 66 Bcfe, all with significant associated oil or condensate potential.

The first of these prospects to be drilled is the SW Holmwood Prospect, onshore, South Louisiana, where the well is expected to spud in late November 2014.

Block 7, Al Barqa Permit, Republic of Yemen

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 capital of Yemen. The block is operated by Australia's Oil Search Limited and contains the Al Meashar oil discovery as well as an inventory of leads and prospects defined by 2D and 3D seismic surveys, which hold significant oil potential.

The Company announced in March 2014 that it had executed an agreement with a wholly owned subsidiary of AWE Limited to acquire its 21.25% Participating Interest in the Block 7, Al Barqa Permit, in the Republic of Yemen. The terms of the transaction include a cash consideration of US$1.0 million, the replacement of AWE's existing Letter of Credit with the Arab Bank, and working capital adjustments on completion.

The Company further announced in May 2014, following the agreement executed with AWE, that it had executed an agreement with Mitsui E&P Middle East B.V. to acquire its 8.5% Participating Interest in the Block 7, Al Barqa Permit, in the Republic of Yemen, thereby increasing Petsec Energy's total interest in Block 7 to 29.75%. The terms of the transaction include a cash consideration of US$0.4 million, the replacement of Mitsui E&P Middle East B.V.'s existing Letter of Credit with the Arab Bank, and working capital adjustments on completion.

Completion of both the AWE and Mitsui transactions is subject to customary approvals from the Joint Venture Partners, the Yemen government and the state owned Yemen Oil and Gas Company.

In the quarter, preparations continued for production testing of the Al Meashar oil discovery, and the 250km 2D seismic survey to be conducted immediately East of the Al Meashar oil discovery.

The airborne gravity and magnetics survey over the entire block has been delayed and is now expected to begin in late 2014/early 2015.

Proposed Activities – December 2014 Quarter

USA

The Company has approved participation in 5 new prospects in the September quarter. Exploration wells on these 5 prospect areas are expected to spud between November 2014 and mid-2015.

In the December quarter, the Company will continue to seek exploration drilling prospects for near term drilling as well as prepare the existing portfolio of prospects for drilling, and expects to spud a well in November 2014 on the SW Holmwood Prospect (gas/condensate target) in South Louisiana. Petsec has agreed to participate for a 37.5% working interest in the exploratory well.

Yemen

Airborne gravity and magnetics data acquisition covering the entire permit for structural geology and basement studies.

Facilities design and preparation for long term testing of the Al Meashar oil discovery.

Preparation to shoot a 250 line km 2D seismic survey to the East of the Al Meashar oil discovery.

Financial Summary and Production Data

Unaudited preliminary financial data			Sep 14 Quarter	Jun 14 Quarter	% Increase/ (decrease)	Nine months to Sep 14	Nine months to Sep 13	% Increase/ (decrease)
Financials								
Net revenue		US$000	**563**	3,176	(82%)	**7,681**	12,842	(40%)
Other revenue/(expense)		US$000	**2,233**	(74)		**1,982**	680	
Lease operating expenses		US$000	**(265)**	(495)		**(1,545)**	(2,533)	
Geological, geophysical & administrative expenses (GG&A)		US$000	**(1,084)**	(1,071)		**(3,150)**	(3,557)	
EBITDAX		US$000	**1,447**	1,536	(6%)	**4,968**	7,432	(33%)
Cash [1]			**36,177**	28,212	28%	**36,177**	25,062	44%
Acquisition, exploration & development expenditure								
Acquisition		US$000	**811**	7		**818**	-	
Exploration		US$000	**54**	22		**86**	2,851	
Development		US$000	**51**	2,643		**2,714**	3,358	
Total		US$000	**916**	2,672	(66%)	**3,618**	6,209	(42%)
Production (MMcfe)	**W.I.**	**N.R.I**						
Offshore Gulf of Mexico								
Main Pass 18/19 [2]	100%/55%	83.33%/45.83%	**51**	56		**180**	465	
Main Pass 270 [3]	22.5%	18.75%	**(3)**	89		**191**	553	
Chandeleur 31/32 [4]	100%	81.83%	**-**	-		**-**	111	
Onshore/Coastal Louisiana								
Atchafalaya Bay [3]	8%	5.84%	**(26)**	496		**1,099**	1,728	
Jeanerette Field	12.5%	9%	**81**	-		**-**	-	
Total		MMcfe	**103**	641	(84%)	**1,470**	2,857	(49%)
Unit revenue/cost analysis per Mcfe (US$)								
Oil/Condensate per barrel		US$	**101.20**	100.80		102.60	108.24	
Gas per Mcf		US$	**3.87**	4.53		4.81	3.92	
Average sales price per Mcfe [5]		US$	**5.56**	4.95	12%	5.23	4.49	16%
Other revenue/(expense) per Mcfe		US$	**21.68**	(0.12)		1.35	0.24	
Lease operating expense per Mcfe		US$	**(2.57)**	(0.77)		(1.05)	(0.89)	
GG&A expense per Mcfe		US$	**(10.52)**	(1.67)		(2.14)	(1.25)	
EBITDAX per Mcfe		US$	**14.15**	2.39		3.39	2.59	31%

1 *September 2014 cash includes restricted cash deposits of US$5.3 million used to guarantee certain future rehabilitation obligations (June 2014: US$5.3 million; September 2013: US$5.3 million)*

2 *Operated by Petsec Energy*

3 *Marathon and Main Pass 270 interests were sold effective 1 January 2014 – production amounts through to the close of the transaction formed part of the purchase price adjustment*

4 *Chandeleur 31/32 field reached the end of its productive life in August 2013 – permanent plug and abandonment operations were completed in early August 2014.*

5 *September 2014 quarter average sales price per Mcfe includes impact of adjustments to production/revenue estimates previously reported in June quarter (average sales price realised on production from Main Pass 19 and Jeanerette Fields was US$4.15/Mcfe).*

Glossary

Bcfe = billion cubic feet of gas equivalent
Mcf = thousand cubic feet of gas
MMcfe = million cubic feet of gas equivalent
Bcpd = barrels of condensate per day
Mcfe = thousand cubic feet of gas equivalent
MMcpd = million cubic feet of gas per day
Bopd = barrels of oil per day
MMbbl = million barrels

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