# Petsec Energy Ltd

## June 2015 Quarter Results

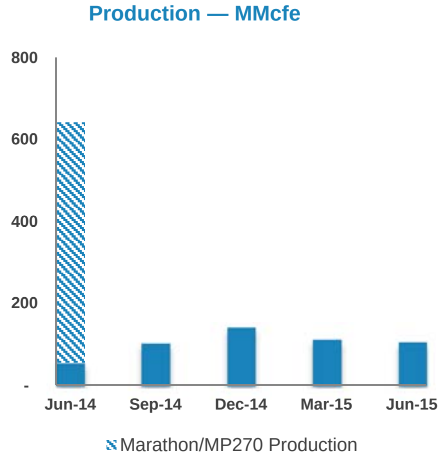
## Financials

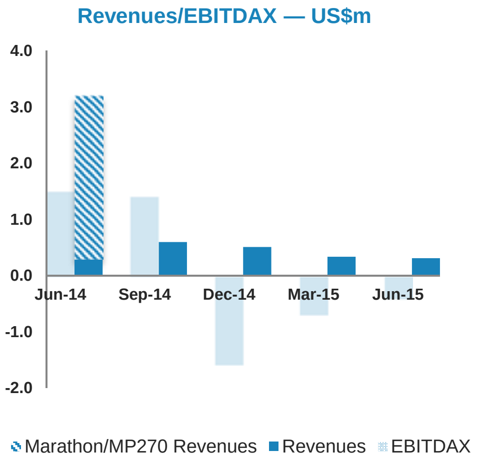
| Comparative Performance | | Current Quarter Jun 15 | Previous Quarter Mar 15 | % Change | Corresponding Quarter Jun 14 | % Change |
|---|---|---|---|---|---|---|
| Net production | MMcfe | **106** | 112 | (5%) | 641 | (83%) |
| Average sales price | US$/Mcfe | **2.93** | 3.00 | (2%) | 4.96 | (41%) |
| Net revenue | US$m | **0.311** | 0.336 | (7%) | 3.176 | (90%) |
| EBITDAX [1] | US$m | **(0.4)** | (0.7) | n/a | 1.5 | n/a |
| Cash [2] | US$m | **24.0** | 28.9 | 17% | 28.2 | (15%) |
| AE&D expenditure [3] | US$m | **3.9** | 0.6 | 501% | 2.7 | 44% |
| US$/A$ closing exchange rate | | **0.7701** | 0.7625 | 1% | 0.9426 | (18%) |

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 June 2015 cash includes restricted cash amounts of US$5.3 million (March 2015: US$5.3 million; June 2014: US$5.3 million) used to guarantee certain future rehabilitation obligations.

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




i. The above graphs indicate the contributions that were made by the Marathon and Main Pass 270 fields to production and revenues in the June 2014 quarter - these amounts formed part of the Purchase Price Adjustment on the close of the sale of these assets in July 2014.

## Highlights

### Corporate

- Appointment of Maki Petkovski as Chief Executive Officer of Petsec Energy (Middle Eastern) Limited.
- Acquisition Agreement signed with Oil Search Ltd – Petsec Energy to increase its participating interest in Block 7, Al Barqa Permit, in the Republic of Yemen to 63.75% and assume operatorship of the block.
- Establishment of new MENA office in Dubai, United Arab Emirates.

### Operations

- Net production of 106 MMcfe for the June 2015 quarter.
- 13,000’ RA SUA; Holcombe No. 1 well was drilled on the English Bayou Deep prospect – the well was plugged and abandoned after it failed to encounter commercial reserves.
- 16,700’ RA SUA; Williams #2 alternate well, drilled on the Mystic Bayou prospect, intersected the target pay sands as expected. Production casing has been set for production testing in early August.

### Financials

- Net oil and gas revenues of US$0.3 million.
- Cash balance of US$24.0 million (including US$5.3 million of restricted deposits) and no debt.

### Subsequent events

- Drilling operations commenced on the Main Pass Block 270 #3 well (Hummer exploration prospect) and on the 21210 II RA SUA; Exxon Mobil Corp. No. 001 well (Bayou Saint Charles prospect) in mid-July.

### 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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Terrence Fern

**Non-executive Directors**
David Mortimer
Alan Baden
Mark Lober

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Paul Gahdmar – Company Secretary

**US Executives – Petsec Energy Inc.**
Richard Smith - CEO
Ross Keogh – President/Group CFO
Ron Krenzke – EVP Exploration

**MENA Executive – Petsec Energy (Middle Eastern) Limited**
Maki Petkovski – CEO

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# Financial

## Production

Petsec Energy produced 102 million cubic feet of gas and 636 barrels of oil/condensate (equivalent to 106 MMcfe) for the June 2015 quarter. This was 5% lower than the 112 MMcfe achieved in the March 2015 quarter due to production interruptions at Main Pass Block 19, which has reached the end of its commercial life.

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

| Net production (in MMcfe) | Jun 2015 Quarter | Mar 2015 Quarter | % Increase/ Decrease |
|---|---|---|---|
| Main Pass Block 19 | 23 | 34 | (32%) |
| Jeanerette Field – ASF No.4 | 83 | 78 | 6% |
| **Total** | **106** | **112** | **(5%)** |

## Revenues and Cashflow

The Company generated net oil and gas revenues of US$311,000 for the June 2015 quarter (March 2015 quarter: US$336,000), from production of 106 MMcfe at an average realised gas equivalent sales price of US$2.93/Mcfe (March 2015 quarter: US$3.00/Mcfe).

Petsec received an average sales price of US$2.70/Mcf and US$55.82/bbl for its natural gas and oil/condensate production, respectively for the current quarter. This compares to US$2.87/Mcf and US$51.09/bbl achieved in the previous quarter. The effect of the lower comparative natural gas sales price was tempered by the higher oil price received for the current period.

Lease operating expense of US$149,000 was generally in line with that of the previous quarter. On a unit-basis, lease operating expense was US$1.41/Mcfe (previous quarter: US$1.31/Mcfe), 7% higher than the previous quarter due to lower production volumes.

Geological, geophysical & administrative ("GG&A") expense of US$958,000 or US$9.04/Mcfe was lower in the current period (March 2015 quarter: US$1,036,000 or US$9.25/Mcfe).

Petsec recorded negative EBITDAX of US$0.4 million for the June 2015 quarter (March 2015 quarter: negative EBITDAX of US$0.7 million).

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

## Cash Position

At 30 June 2015, the Company had no debt and held cash deposits of US$24.0 million, being equivalent to A$31.2 million at the period end closing rate of 0.7701 (31 March 2015: US$28.9 million or A$37.9 million at the period end closing rate of 0.7625). 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").

On 2 July 2015, the Company recovered US$1.7 million of the US$5.3 million held in escrow, which represented the guarantee for the plug and abandonment obligations of the Chandeleur Area 31/32 field.

# Hedging

The Company currently has no oil or natural gas swap hedge contracts in place.

# U.S. Oil and Natural Gas Prices

U.S. WTI crude oil prices trended higher for most of the June 2015 quarter, trading in a range between US$49.14 and US$61.43/bbl. The August 2015 WTI crude oil price is currently trading lower at approximately US$52/bbl, due to recent increases in crude stockpiles.

The NYMEX 12 month and 36 month forward strip prices for WTI crude oil were trading at US$53.92/bbl and US$57.40/bbl on 15 July 2015. This compares to US$59/bbl and US$61/bbl, respectively on 17 April 2015.

U.S. natural gas prices fluctuated between $2.61 and $3.02/MMBtu during the June 2015 quarter – rising inventory estimates were countered by warmer weather forecasts. The August 2015 NYMEX U.S. natural gas spot price is currently trading at approximately US$2.92/MMBtu.

The NYMEX 12 month and 36 month forward strip prices for U.S. natural gas were trading higher at US$3.11/MMBtu and US$3.27/MMBtu, respectively on 15 July 2015. This compares to US$2.80/MMBtu and US$3.00/MMBtu, respectively, on 17 April 2015.

The U.S. Energy Information Administration estimates working natural gas in storage for the week ending 10 July 2015 at 2,767 Bcf. This is 653 Bcf or 30.9% higher than the level a year ago and 73 Bcf or 2.7% higher than the 5-year average.

# Operations


## Production

### *Adeline Sugar Factory No. 4 Well – Jeanerette Field*

*Petsec: 12.5% working interest (9.2% net revenue interest)*

The Adeline Sugar Factory ("ASF") No. 4 well located in St. Mary Parish, Louisiana was drilled and brought into production in June 2014.

Average gross daily production rates for the field were approximately 9.8 MMcfpd and 60 bopd for the June 2015 quarter.

### *Main Pass 19*

*Petsec: 55% working interest (45.833% net revenue interest)*

The Main Pass Block 19 Field, located in the Gulf of Mexico, USA, was discovered in 2005. The Company drilled six wells on the block during the period 2005 to 2006.

Production from the field averaged a gross daily production rate of 0.5 MMcfpd of gas for the quarter. The field had become uneconomic in the June 2015 quarter and was permanently shut-in in mid-June. The field is required to be plugged and abandoned within 12 months of ceasing production – this work is expected to be undertaken in early 2016 at an estimated cost to the Company of US$2.6 million.

## 2015 Exploration Programme

### USA

Petsec Energy's exploration strategy 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.

The objective is to participate in the drilling of approximately 10 prospects per year.

In the quarter, the Company acquired participating interests in the Bayou Saint Charles and Bayou Saint John prospects which increased the number of committed wells to nine for the USA in 2015.

The English Bayou Deep (April/May; plugged and abandoned) and Mystic Bayou (May/June; cased for production) prospects were drilled in the quarter.

The Mystic Bayou well and the remaining six undrilled prospects have in total an estimated target size of 14.4 Bcf of gas and 0.8 MMbbl of oil/condensate net to the Company, at an estimated net risk cost of US$7.9 million.

### *Holcombe #1 well – English Bayou Deep Prospect*

*Petsec: 27.5% working interest*

The 13,000 RA SUA; Holcombe #1 well which spud on 24 April 2015 to test the English Bayou Deep exploratory prospect in Calcasieu Parish, onshore Louisiana reached its planned true vertical depth ("TVD") of 13,000 feet on 13 May 2015.

The well intersected the target reservoirs as anticipated and well logs indicated that two intervals were hydrocarbon bearing. However, multiple formation tests were unable to recover fluid samples or were inconclusive. In addition, side-wall core samples and analysis indicated low permeability within the intervals. Consequently, the zones were deemed too "tight" to produce at commercial rates and the well was plugged and abandoned. The up-front and drilling costs net to the Company of approximately US$1.7 million has been expensed.

### *16,700 RA SUA; Williams #2 well – Mystic Bayou Prospect*

*Petsec: 25% working interest (18.75% net revenue interest)*

The 16,700 RA SUA; Williams #2 alternate well spud on 4 May 2015 to test the Mystic Bayou exploitation prospect, located in St. Martin Parish, onshore Louisiana, reached its planned TVD in mid-June.

The well was directionally drilled utilising a barge drilling rig to a TVD of 16,873 feet (17,266 feet MD) to test the oil and gas potential of the Lower Miocene Planulina sands in a fault closure up-dip from production in Mystic Bayou Field. The well was drilled as an alternate unit well structurally up-dip in the same unit as the Williams #1 well (cumulative production: 17.8 BCFG, 1.5 MMBO, and 7.5 MMBW). The well intersected the target oil and gas pay sands as expected, and was cased for production. Flow testing will be undertaken in early August to determine commerciality of flow rates and tie into existing production facilities.

### *Main Pass Block 270 #3 well – Hummer Prospect*

*Petsec: 12.5% working interest (10.24% net revenue interest)*

On 16 July 2015, the Company announced the commencement of drilling on the Hummer exploration prospect in Main Pass Block 270. . The exploration well is being drilled offshore Louisiana (federal waters), USA in approximately 215 feet of water. Castex Offshore, Inc. is designated operator of the well.

The Main Pass Block 270 #3 well is being drilled to a TVD of 16,000 feet to test Miocene age sand objectives. The well is expected to take approximately 60 days to reach total depth.

Petsec has a 12.5% non-operating working interest (10.24% net revenue interest) in the well. The Company's share of drilling costs is estimated to be US$2 million net.

Further information on the well is contained within the media release to the ASX on 16 July 2015 and is also available on the Company website at www.petsec.com.au.

### *21210 II RA SUA; Exxon Mobil Corporation 001 well – Bayou Saint Charles Prospect*

*Petsec: 15% working interest BPO/12.32% APO (10.5 net revenue interest BPO/8.626% APO)*

On 19 July 2015, drilling commenced on the 21210 II RA SUA; Exxon Mobil Corporation 001 well on the recently acquired Bayou Saint Charles prospect. The well is located in Terrebonne Parish, approximately 40 miles ESE of Morgan city, Louisiana. . BTA Oil Producers, LLC is the designated operator. The well is being drilled directionally to a TVD of 14,000 feet (14,534 feet MD) to test Miocene age Tex (W) sand reservoirs with associated amplitude anomalies identified on 3D seismic.

Petsec has a 15% non-operating working interest in the well before pay-out (BPO) with a 10.5% net revenue interest. After pay-out (APO) of the well Petsec will have a 12.32% working interest (8.626% net revenue interest). The Company's total share of exploration and development costs is estimated to be US$1.68 million net.

Further information on the well is contained within the media release to the ASX on 21 July 2015 and is also available on the Company website at www.petsec.com.au.

### MENA

The Company decided in 2014 that it required exposure to substantial oil reserves to augment the exploration strategy in the U.S., and that Yemen provided substantial oil potential at moderate entry prices.

The Company's operational expansion into Yemen and generally the Middle Eastern and North African (MENA) region is led by Mr. Maki Petkovski (ex Oil Search) who was appointed Chief Executive Officer of Petsec Energy (Middle Eastern) Limited in April 2015.

The 2015 MENA programme is focussed on bringing the Al Meashar oil discovery in Block 7 into production late in 2015 and to secure additional leases containing both producing and undeveloped oil reserves.

### *Establishment of new branch office in Dubai, UAE*

The Company has established an office in Dubai, United Arab Emirates, located at 2908 Indigo Icon Tower, Jumeirah Lakes Towers. This office will be the central business hub for the Company's MENA operations

### *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. In March 2014 and May 2014, the Company executed separate agreements with a wholly owned subsidiary of AWE Limited (21.25%) and Mitsui E&P Middle East B.V. (8.5%) to acquire their respective participating interests in the Block 7.

In April 2015, Petsec Energy announced that it had executed an agreement with Oil Search Limited (ASX: OSH) to acquire all the shares of its subsidiary Oil Search (ROY) Limited which holds a 34% participating interest in Block 7. The acquisition increases Petsec Energy's overall participating interest in the block to 63.75%. On completion of the transaction Petsec Energy will assume operatorship of the block. The Company anticipates completion of these transactions will occur in 2015.

The immediate objective of the Company is to bring the two suspended discovery wells (2010/2011) of the Al Meashar Oilfield into production. Short term testing of the wells in 2011 delivered flow rates ranging from 200 -1,000 bopd.

The Al Meashar oil discovery is similar in geology and structure to the Habban Oilfield, located 14km to the West of Al Meashar, operated by OMV. The field has of recent times been producing at rates of 23,000 barrels of oil per day. The planning of the re-entry and testing programme for Al Meashar has been completed and tendering for equipment and surface facilities will be undertaken during the next quarter with a recommendation to be presented to the Yemen authorities for their approval.

Subject to Yemen government approval exploration and long-term testing of the Al Meashar oil discovery is anticipated to begin late in 2015 at an estimated cost of US$3.0 million to the Company.

## Proposed Activities – September 2015 Quarter

### USA

Petsec expects to drill four to five exploration wells during the September 2015 quarter on the Hummer Prospect (Main Pass Block 270), offshore Gulf of Mexico (spud 15 July), the Bayou St. Charles Prospect (spud 19 July) and on the Northeast Starks, North Cossinade and Bayou St. John prospects, onshore Gulf Coast of South Louisiana.

### Yemen

The Company will seek Yemen Government approvals for the long term production testing of the Al Meashar oil discovery on Block 7, and will prepare for the execution of that production testing.

The Company will also commence preparations for the 2016 Work Program & Budget which will focus on the re-entry and production testing of the Al Meashar #1 and #2 wells and the possible drilling of a third development well on the Al Meashar field. The drilling of an exploration well on the large "Omega" oil prospect – one of the many large prospects and leads on the block which hold significant oil potential of greater than 100 million barrels of oil, is also being planned for 2016.

# Financial Summary and Production Data

| Unaudited preliminary financial data | | | Jun 15 Quarter | Mar 15 Quarter | % Increase/ (decrease) | Six months to Jun 15 | Six months to Jun 14 | % Increase/ (decrease) |
|---|---|---|---|---|---|---|---|---|
| **Financials** | | | | | | | | |
| Net revenue | | US$000 | **311** | 336 | (7%) | **647** | 7,118 | (91%) |
| Other revenue/(expense) | | US$000 | **387** | 155 | | **542** | (251) | |
| Lease operating expenses | | US$000 | **(149)** | (147) | | **(296)** | (1,443) | |
| Geological, geophysical & administrative expenses (GG&A) | | US$000 | **(959)** | (1,036) | | **(1,995)** | (2,066) | |
| **EBITDAX** | | US$000 | **(410)** | (692) | n/a | **(1,102)** | 3,358 | n/a |
| **Cash** [1] | | | **23,956** | 28,873 | (17%) | **23,956** | 28,212 | (15%) |
| **Acquisition, exploration & development expenditure** | | | | | | | | |
| Acquisition | | US$000 | **134** | 579 | | **713** | 7 | |
| Exploration | | US$000 | **3,768** | 63 | | **3,831** | 1,542 | |
| Development | | US$000 | **(3)** | 7 | | **4** | 1,153 | |
| **Total** | | US$000 | **3,899** | 649 | 501% | **4,548** | 2,702 | 68% |
| **Production (MMcfe)** | **W.I.** | **N.R.I** | | | | | | |
| **Offshore Gulf of Mexico** | | | | | | | | |
| Main Pass 18/19 [2] | 100%/55% | 83.33%/45.83% | **23** | 34 | | **57** | 129 | |
| Main Pass 270 [3] | 22.5% | 18.75% | **-** | - | | **-** | 194 | |
| **Onshore/Coastal Louisiana** | | | | | | | | |
| Atchafalaya Bay [3] | 8% | 5.84% | **-** | - | | **-** | 1,044 | |
| Jeanerette Field | 12.5% | 9% | **83** | 78 | | **161** | - | |
| **Total** | | MMcfe | **106** | 112 | (5%) | **218** | 1,367 | (84%) |
| **Unit revenue/cost analysis per Mcfe (US$)** | | | | | | | | |
| Oil/Condensate per barrel | | US$ | **55.82** | 51.09 | 9% | **53.83** | 102.84 | (48%) |
| Gas per Mcf | | US$ | **2.70** | 2.87 | (6%) | **2.79** | 4.76 | (41%) |
| Average sales price per Mcfe | | US$ | **2.93** | 3.00 | (2%) | **2.97** | 5.21 | (43%) |
| Other revenue/(expense) per Mcfe | | US$ | **3.65** | 1.38 | | **2.49** | (0.18) | |
| Lease operating expense per Mcfe | | US$ | **(1.41)** | (1.31) | | **(1.36)** | (0.94) | |
| GG&A expense per Mcfe | | US$ | **(9.04)** | (9.25) | | **(9.15)** | (1.51) | |
| **EBITDAX per Mcfe** | | US$ | **(3.87)** | (6.18) | (37%) | **(5.05)** | 2.58 | n/a |

1 *June 2015 cash includes restricted cash deposits of US$5.3 million used to guarantee certain future rehabilitation obligations (March 2015: US$5.3 million; June 2014: US$5.3 million)*
2 *Operated by Petsec Energy*
3 *Main Pass 270 and Atchafalaya Bay (Marathon) interests were sold effective 1 January 2014 – production amounts through to the close of the transaction formed part of the purchase price adjustment*

**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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