

Petsec Energy Ltd

December 2020 Quarter Results



Financials

Comparative Performance		Current Quarter Dec 2020	Previous Quarter Sep 2020	% Change	Corresponding Quarter Dec 2019	% Change
Net production	MMcfe	-	7	(100%)	59	(100%)
Average sales price	US\$/Mcf	-	2.24	(100%)	2.39	(100%)
Net revenue	US\$000	-	15	(100%)	141	(100%)
EBITDAX ¹	US\$000	679	(254)	n/a	(672)	n/a
Cash ²	US\$000	912	354	158%	2,371	(62%)
Debt (convertible note) ³	US\$000	20,238	19,159	6%	16,104	26%
AE&D expenditure ⁴	US\$000	-	-	-	9	n/a
Closing exchange rate	USD/AUD	0.7708	0.7161	8%	0.7030	10%

- 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.
- December 2020 cash includes restricted cash amounts of US\$0.1 million (September 2020: US\$0.1 million and December 2019: US\$1.7 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 31 December 2020.
- Acquisition, exploration and development expenditure (accrual-based amounts).

Key Points

Corporate

- Appointment of Mr. Brent Emmett as Technical Director to the Petsec Energy Ltd Board, effective 13 November 2020.**

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.

- YEMEN: Al Barqa Block 7:** Following the injunction granted in June 2020 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 31 December 2020:** US\$14.0 million drawn.
- Cash balance as at 31 December 2020:** US\$912,000 (including US\$50,000 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

- Renegotiation of the terms of the Convertible Note Facility ("Facility")** – key variations include extension of the redemption date for a three-year period from 23 January 2021 to 23 January 2024 and reduction of the interest rate from 15% to 10%.
- Resignation of Mr. Ross Keogh as Group Chief Financial Officer of Petsec Energy Ltd following closure of the Company's U.S. business.
- Initiation of process to terminate the existing Petsec Energy Ltd American Depositary Receipts ("ADRs") facility through The Bank of New York Mellon.

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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Board of Directors

Executive Chairman
Terrence Fern

Executive Technical Director
Brent Emmett

Non-executive Directors
Barry Dawes
Francis Douglas QC

Management

Petsec Energy Ltd
Paul Gahdmar – Company Secretary & CFO

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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 has provided the 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 since 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.
- Divestment of the U.S. assets and 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.
- **Variation of the terms of the Convertible Note Facility with the Redemption Date extended to 23 January 2024.**

The Company expects that its shares will remain in voluntary suspension on the ASX pending the lodgement of its 2020 half-year and full-year financial reports and the convening of the Company's Annual General Meeting, which is planned for May 2021.

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 ("LoC").

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

Secured Convertible Note Facility

Subsequent to the end of the December 2020 quarter, 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.

Resignation of Group Chief Financial Officer

Following the Company's divestment of its U.S. assets and the closure of its U.S. and Canadian businesses, Mr. Ross Keogh has stepped down from his position of Group Chief Financial Officer of Petsec Energy Ltd. Ross will continue to oversee the finalisation of the wind up of the U.S. businesses.

The Board would like to take this opportunity to thank Ross for his service and contribution over the past 31 years, particularly through the challenges of 2020 and wish him well for the future.

Mr. Paul Gahdmar will take on the position as Chief Financial Officer in addition to his current role of Company Secretary.

American Depositary Receipts Facility

On 4 January 2021, the Company in conjunction with The Bank of New York Mellon issued a notice to holders of American Depositary Receipts ("ADRs") announcing that the existing ADR facility will be terminated effective at 5.00 p.m. (Eastern Time) on Wednesday, 3 March 2021.

The termination of the ADR facility is largely due to the ongoing cost to maintain the facility, the small amount of ADRs that were on issue (less than 1 million), and the closure of the Company's USA business.

Further instructions and details on the termination of the ADR facility are provided at the following link:

<https://www.adrbnymellon.com/files/ad910939.pdf>

Financial

Secured Convertible Note Facility

The Company has a US\$15 million secured convertible note facility agreement with Sing Rim Pte Ltd. In January 2021, the redemption date of the facility was extended for three years from 23 January 2021 to 23 January 2024. Refer above to the "Subsequent Events – Secured Convertible Note Facility" section for further details.

At 31 December 2020, the Company had drawn US\$14 million under the facility. The total principal and interest accrued under the facility was \$20.2 million.

Cash Position

At 31 December 2020, the Company held cash deposits of US\$912,000 (A\$1,183,000), including secured deposits of US\$50,000.

Operations

Production

No production was reported for the December 2020 quarter following the sale of its U.S. production assets, effective 1 July 2020.

Planning and preparations for the restart of production from the An Nagyah Oilfield, Yemen is in progress.

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, 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 Energy acquired a 75% working 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 Energy acquired a 100% working interest in 2015/2016.

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 gas ¹ 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.

¹ Source: Wood Mackenzie Asia Pacific Pty Ltd

Proposed Activities – March 2021 Quarter

Corporate

Continue to seek cash flow positive production assets.

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.

Financial Summary and Production Data

Unaudited preliminary financial data			Dec 2020 Quarter	Sep 2020 Quarter	% Increase/ (decrease)	Twelve months to Dec 2020	Twelve months to Dec 2019	% Increase/ (decrease)
Financials								
Net revenue	US\$000	-	15	(100%)	201	1,088	(82%)	
Other revenue/(expense)	US\$000	703	4		705	(175)		
Lease operating expenses	US\$000	334	(200)		(410)	(1,101)		
Geological, geophysical & administrative expenses (GG&A)	US\$000	(358)	(73)		(1,406)	(3,446)		
EBITDAX	US\$000	679	(254)	n/a	(910)	(3,634)	n/a	
Cash	US\$000	912	354	158%	912	2,371	(62%)	
Debt (convertible note facility) ¹	US\$000	20,238	19,159	6%	20,238	16,104	26%	
Acquisition, exploration & development expenditure								
Acquisition	US\$000	-	-		-	-		
Exploration	US\$000	-	-		-	-		
Development	US\$000	-	-		-	2,609		
Total	US\$000	-	-	-	-	2,609	(100%)	
Production (MMcfe)								
		W.I.	N.R.I.					
USA								
Offshore Gulf of Mexico								
Main Pass Block 270 (Hummer) ³		12.5%	10.70454% ²	-	6	90	299	
Onshore Louisiana								
Mystic Bayou Field ³		25%	18.5%	-	1	21	69	
Jeanerette Field ³		12.5%	9.0%	-	-	-	-	
Total			MMcfe	-	7	(100%)	111	368 (70%)
Unit revenue/cost analysis per Mcfe (US\$)								
Oil/Condensate per barrel	US\$	n/a	42.40	n/a	39.31	58.87	(33%)	
Gas per Mcf	US\$	n/a	0.60	n/a	1.24	2.22	(44%)	
Average sales price per Mcfe	US\$	n/a	2.24	n/a	1.81	2.96	(39%)	
Other revenue/(expense) per Mcfe	US\$	n/a	0.57		6.35	(0.48)		
Lease operating expense per Mcfe	US\$	n/a	(28.57)		(3.69)	(2.99)		
GG&A expense per Mcfe	US\$	n/a	(10.43)		(12.67)	(9.37)		
EBITDAX per Mcfe	US\$	n/a	(36.19)	n/a	(8.20)	(9.88)	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 with an effective date of 1 July 2020.

Glossary

bcf = 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
 MMcfcpd = 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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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.