Petsec Energy Ltd

June 2018 Quarter Results

Financials

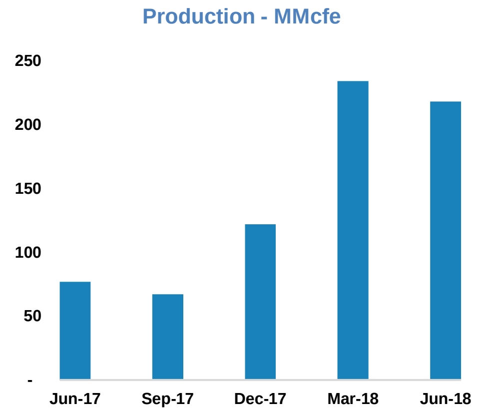
Comparative Performance		Current Quarter Jun 2018	Previous Quarter Mar 2018	% Change	Corresponding Quarter Jun 2017	% Change
Net production	MMcfe	**218**	**234**	(7%)	77	183%
Average sales price	US$/Mcfe	**4.01**	**3.59**	12%	4.06	(1%)
Net revenue	US$000	**875**	**840**	4%	313	180%
EBITDAX [1]	US$000	**(697)**	**(679)**	n/a	(204)	n/a
Cash [2]	US$000	**3,445**	**3,884**	(11%)	9,239	(63%)
Debt (convertible note) [3]	US$000	**8,510**	**5,998**	42%	4,869	75%
AE&D expenditure [4]	US$000	**226**	**399**	(43%)	2,137	(89%)
US$/A$ closing exchange rate		**0.7405**	**0.7681**	(4%)	0.7676	(4%)

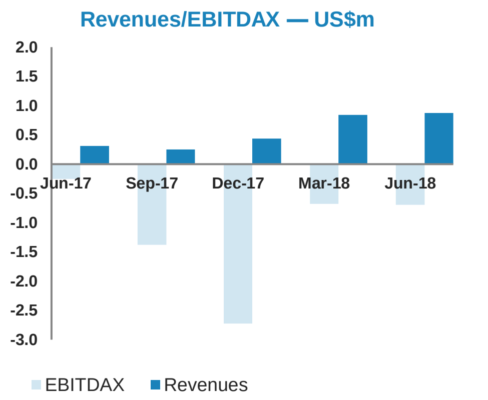
1 Earnings before interest, income tax, depreciation, depletion and amortisation, and exploration (including dry hole, impairment and abandonment expense, seismic and work-over expense). EBITDAX is a non IFRS number and is unaudited.

2 June 2018 cash includes restricted cash amounts of US$1.9 million (Mar 2018: US$1.9 million and June 2017: US$3.2 million).

3. Represents liability recognised on the balance sheet at period end in respect of the convertible note debt (US$5.2 million) and the associated foreign exchange derivative liability (US$3.4 million).

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





Key Points

Operations

- **Net production from USA operations June 2018 quarter**: 218 MMcfe (195 MMcf of gas and 3,838 barrels of oil/condensate).

  USA: Main Pass Blocks 270/273/274, Hummer Project: Announcement of proposed second well on the Hummer Gas/Oil Field, Main Pass Blocks 270/273/274, Offshore Louisiana Federal Waters, USA. The Main Pass Block 270 B-2 appraisal/development well will be drilled from the Main Pass Block 270 "B" Production Platform, situated in the North West corner of the Hummer Field in Main Pass Block 270, and is scheduled to spud in mid-August 2018, targeting six oil/gas reservoirs.

- **YEMEN: Damis (Block S-1):** Operations at the An Nagyah Oilfield remain suspended, awaiting Yemen Government consent to initiate production through trucking oil to the East to the Masila Pipeline or South to export facilities while waiting for the Marib Pipeline to be opened for the export of crude to the Ras Isa Export Terminal on the Red Sea coast.

  Since April, the Ministry of Oil and Minerals (MOM) of the Hadi Yemen Government administration in Aden has been in regular communication with the Company in order to process the requisite approvals required to restart An Nagyah production. Part of this process is a review of the Company's capacity to be an operator in Yemen and capacity to restart production at the An Nagyah Oilfield. Documentation supporting the Company's application was supplied to the Ministry in July.

Financials

- **Net oil and gas revenues for the June 2018 quarter:** US$875,000.
- **Convertible Note Facility:** Of the US$15 million facility established to develop the Hummer Gas/Oil Field in the USA, and the restart of oil production of the An Nagyah Oilfield in Block S-1, Yemen, US$6 million has been drawn for the development of the Hummer offshore production platform and the drilling of the B-2 well, which is expected to spud in mid-August.
- **Cash balance:** US$3.4 million (including US$1.9 million of restricted deposits).

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 Louisiana, USA, and the Republic of Yemen.

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Financial

Production

Net production for the June 2018 quarter was 218 MMcfe (195 MMcf of gas and 3,838 barrels of oil/condensate), 16 MMcfe or 7% lower than the 234 MMcfe achieved in the March 2018 quarter.

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

Net production (in MMcfe)	Jun 2018 Quarter	Mar 2018 Quarter	% Increase/ Decrease
Jeanerette Field – ASF No.4	-	-	
Mystic Bayou Field – Williams No.2	40	45	
Hummer Field – Main Pass Block 270 B-1	178	189	
Total	**218**	**234**	**(7%)**

Revenues and Cashflow

The Company generated net oil and gas revenues of US$875,000 for the June 2018 quarter. This was $35,000 or 4% higher than that achieved in the March 2018 quarter of US$840,000 due to the higher prices realised in the current period.

The Company realised an average gas equivalent sales price of US$4.01/Mcfe in the June 2018 quarter – receiving US$66.66/bbl and US$3.17/Mcf for its oil/condensate and natural gas production, respectively. This was 12% higher than the average gas equivalent sales price received in the March 2018 quarter of US$3.59/Mcfe (US$63.64/bbl and US$2.76/Mcf for its oil/condensate and natural gas production, respectively).

Negative EBITDAX of US$0.7 million for the current quarter was in line with that recorded in the previous quarter.

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

Secured Convertible Note Facility

At 30 June 2018, the Company had drawn down US$5 million under its secured convertible note facility.

On 10 May 2018, the Company announced to the ASX the reestablishment of Tranche 3 under its convertible note facility. Tranche 3 of the facility, which had previously expired on 5 January 2018, will provide the Company with access to a further US$5 million to fund the Company's share of drilling and completion costs associated with the proposed Hummer B-2 appraisal/development well offshore Louisiana, USA. US $1 million was drawn in July to meet drilling costs of the Hummer B-2 well.

On 15 June 2018, the Company was granted a waiver from ASX Listing Rule 7.3.2 to the extent necessary to permit the notice of meeting seeking shareholder approval for the issue of up to US$5 million worth of convertible notes pursuant to Tranche 3 of the convertible note facility agreement with Sing Rim Pte. Ltd and the payment of interest under the convertible notes through the issue of shares, which in aggregate are convertible into 30 million ordinary shares, not to state that the convertible notes and interest shares will be issued no later than 3 months after the date of the meeting on the following conditions:

1.1 The Notice contains a summary of the material terms of the Facility Agreement, including the milestones which must be satisfied prior to the issue of the Convertible Notes.

1.2. The Notice seeks approval for a stated maximum number of shares that will be issued on conversion of the Convertible Notes and the issue of the Interest Shares.

1.3. The milestones which must be satisfied for the issue or conversion of the Convertible Notes are not varied.

1.4. The Convertible Notes and Interest Shares will be issued during the term of the Facility Agreement, and in any event no later than 23 January 2020.

1.5. If the Company releases its annual report during a period in which the Convertible Notes, and Interest Shares are issued or remain to be issued, the annual report discloses details of the Convertible Notes and Interest Shares that have been issued, the interest payable on the Convertible Notes and the terms of the Facility Agreement.

1.6. The Company includes the terms of the waiver in the Notice.

The Company will seek shareholder approval at an EGM, which is likely to be convened in the fourth quarter 2018, for the purposes of Listing Rule 7.1 and for all other purposes, for the issue and allotment of up to 30 million shares should there be conversion of the convertible notes under Tranche 3 at any time up to 23 January 2020.

Cash Position

At 30 June 2018, the Company held cash deposits of US$3.4 million (A$4.6 million). The cash deposits which are predominantly held in US dollars included secured deposits of US$1.9 million.

U.S. Oil and Natural Gas Prices

WTI crude oil prices trended higher during the June 2018 quarter on lower U.S. crude inventories, with prices trading in a range between US$62.06/bbl and US$74.15/bbl. On 16 July 2018, the NYMEX 12 month and 36 month forward strip prices for WTI crude oil were trading at approximately US$64.61/bbl and US$60.83/bbl, respectively. This compares to US$64.62/bbl and US$59.46/bbl, respectively on 17 April 2018.

U.S. natural gas spot prices remained relatively flat during the quarter, trading in a narrow range between US$2.66 and US$3.02/MMBtu. NYMEX futures contracts for delivery in August 2018 were trading at approximately US$2.75/MMBtu on 16 July 2018.

The NYMEX 12 month and 36 month forward strip prices for U.S. natural gas traded at approximately US$2.77/MMBtu and US$2.69/MMBtu, respectively on 16 July 2018. This compares to US$2.88/MMBtu and US$2.81/MMBtu, respectively on 17 April 2018.

According to U.S. Energy Information Administration estimates, working natural gas in storage at 20 July 2018 was 2,273 Bcf. This was 705 Bcf or 23.7% lower than the 2,978 Bcf reported at the same time last year and 557 Bcf or 19.7% lower than the 5-year average of 2,830 Bcf.

Operations

Production

USA

Adeline Sugar Factory ("ASF") No. 4 Well – Jeanerette Field

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

The ASF No. 4 well located in St. Mary Parish, Louisiana was drilled and brought into production in June 2014.

In mid-November 2015, the ASF No. 4 well was shut-in due to high water production and a restriction in the tubing due to salt build-up. The well has produced on an intermittent basis since that time, and it's the operator's intention to continue in that manner for the near-term.

16,700 RA SUA; Williams No.2 Well – Mystic Bayou Field

Petsec: 25% working interest (18.50% net revenue interest)

The 16,700 RA SUA; Williams No.2 gas/condensate discovery well on the Mystic Bayou Field in St. Martin Parish, Louisiana was drilled and brought into production on 31 August 2015.

The well averaged gross daily production rates of approximately 2.4 MMcfpd and 37 bcpd for the June 2018 quarter.

Main Pass Block 270 B-1 well – Hummer Gas/Oil Field (Main Pass 270/273/274)

Petsec: 12.5% working interest (10.26354% net revenue interest) + 0.441% ORRI

The Main Pass Block 270 B-1 well on the Hummer exploration prospect in 215 feet of water, offshore Louisiana (federal waters) was drilled during the second half of 2015 and brought into production on 21 November 2017.

The well averaged gross daily production rates of approximately 16.5 MMcfpd and 336 bcpd for the June 2018 quarter.

Development

USA

Main Pass Block 270 B-1 well – Hummer Project

Petsec: 12.5% working interest (10.70454% net revenue interest)

The Hummer Gas/Oil Field extends over Main Pass Blocks 270,273 and 274, in the Gulf of Mexico, offshore Louisiana, USA. The Hummer Field structure extends over a strike of five miles within the Main Pass Block 270, 273 and 274 leases which cover 15,000 acres, in some 200 feet of water.

The Hummer Project discovery well, Main Pass 270 B-1, was drilled, logged and temporarily suspended in late 2015. In early November 2017, the Main Pass 270 "B" Platform deck facilities and pipelines were successfully installed and the B-1 well was brought into production on 21 November 2017.

The initial design capacity of the "B" platform facilities is for production rates of up to 50 MMcfpd plus 1,000 bopd which will accommodate the discovery well, Main Pass 270 B-1. The facilities were designed with space available on the deck to expand production capacity and accommodate increased production from additional wells expected to be drilled from the "B" platform and any proximal well head platforms.

On 10 May 2018, the Company announced that the Main Pass Block 270 B-2 appraisal/development well will be drilled. The well is scheduled to spud in mid-August 2018 and will be drilled from the Main Pass Block 270 "B" Production Platform, situated in the North West corner of the Hummer Field in Main Pass Block 270, offshore Louisiana Federal Waters, USA.

The B-2 appraisal/development well will be drilled from the Main Pass Block 270 "B" Production Platform, with a planned bottom hole location some 6,000 feet to the East of the B-1 discovery well. This is the first of potentially 3 to 8 appraisal/development wells required to develop the field.

The well is designed to test, at an optimum structural position, six oil and gas reservoirs, these being the five oil and gas reservoirs intersected in the B-1 well and a deeper horizon not tested by the B-1 well, but productive in the area.

The primary objectives of the B-2 well are two sand reservoirs with proven oil and gas reserves determined from the B-1 well (Cawley, Gillespie & Associates, independent reserve engineers), one of which is categorised as Proved Developed

Producing (PDP) the other Proved Undeveloped (PUD). These reservoirs are also productive in similar nearby fields (Main Pass 280/283 Field Complex).

The B-2 well is planned to drill to a measured depth (MD) of 18,559 feet with a true vertical depth (TVD) of 16,624 feet. The well is anticipated to take approximately 80 days to drill and reach total depth, with an expected spud date in mid-August 2018. Completion of the well for production is estimated at two weeks and production is anticipated within 4 to 6 weeks of well completion. Production is estimated to begin in mid-December 2018.

The estimated net cost to the Company to drill the well is approximately US$2.6 million, and US$1 million for well completion and production facilities.

The Company has US$5 million in Tranche 3 of its Convertible Note Facility with which to fund the well. US$1 million was drawn in July.

The Company anticipates additional appraisal and development drilling in 2019.

MENA

YEMEN

The Company holds a 100% working interest in two blocks in Yemen, 80 km apart in the Marib Basin - Damis Block S-1 Production Licence and Block 7 Exploration Licence.

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 barrels of oil per day, 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.

Block 7 holds the Al Meashar Oilfield with target resources of 11-50 million barrels of recoverable oil, plus eight prospects and leads with potential ranging from 2 to 900 million barrels of oil.

The Company has concentrated its efforts since early 2017 on securing government approvals to access Yemen Government owned pipe line, storage and export shipping facilities in order to allow the re-start of oil production from the Company's An Nagyah Oilfield by trucking oil to Yemen Government owned facilities to the East and South of the oilfield, until such times as the Marib Pipeline to the Red Sea terminal becomes available when the current GCC embargo initiated in April 2015, is lifted.

Block 7, Al Barqa Permit, Yemen

Petsec: 100% working interest (85% participating interest)

Petsec Energy acquired its 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 holds an operating 75% working interest in Block 7 (63.75% participating interest) in the Al Barqa (Block 7) Joint Venture and has an agreement with Kufpec to acquire their 25% working interest in Block 7. The Kufpec transaction brings the Company's potential interest in the block to 100% pending customary approvals from the Government.

Block 7 contains two suspended discovery wells of the Al Meashar Oilfield (target resource of 11 MMbbl to 50 MMbbl [1]) which is located 14 km East of OMV's Habban Oilfield which holds ultimate recoverable 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 ranging in size from 2 to 900 MMbbl oil gross.

1 *Source: Oil Search Limited*

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

Petsec: 100% working interest (82.5% participating interest)

Petsec Energy acquired 100% of the block in early 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 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 block contains significant existing infrastructure, including the An Nagyah Oilfield facilities which were shut-in at the end of February 2014 following the declaration of Force Majeure by the previous operator due to the political situation in Yemen and the resulting inability to ship An Nagyah oil from the export pipeline terminus on the West coast of Yemen. The field was brought into production in 2004 with recoverable oil of 50 MMbbl of which about 50% remains to be recovered, and produced at a peak rate of 12,000 bopd. The An Nagyah production facilities have been well maintained during the shut-in period and remain in good condition.

While the crude oil export terminal at Ras Isa remains closed, due to rebel control of the port of Hodeidah, the Company continues to pursue other oil transport and export options. These include oil production to be trucked 530 km East to the Masila Basin Pipeline Hub, and thence by pipeline South to the export oil terminus of Ash Shihr near Mukalla, or oil trucked 70 km East to the head of the Block 4 pipeline which runs 204 km South to storage and export shipping facilities at Bir Ali, or trucking oil 300 km South West to the refinery at Aden.

The GCC Coalition supporting the Hadi Government launched a military campaign in early July to liberate the port of Hodeidah thereby restoring the oil export terminus of Ras Isa and the restart of operations of the Marib Oil Pipeline which transports oil for all Marib/Shabwah Basin oil producers, including the Company's An Nagyah Oilfield.

The Company has been seeking, since early 2017, the necessary government support and formal approvals to access the above mentioned government oil export facilities to allow trucking of oil, in order to restart oil production at the An Nagyah Oilfield, until such times as the Marib Pipeline is back in operation.

At such time as the government delivers the necessary approvals to support Marib/Shabwah oil production and delivery to Yemen Government owned facilities, the operations to restart oil production at the An Nagyah Oilfield by trucking can commence.

A new Oil Minister, His Excellency Aws Al Oud, was installed in December 2017 and has taken an active roll in encouraging the restart of Yemen oil production following the industry wide shut-in in March 2015.

In April, the Ministry of Oil and Minerals (MOM) of the Hadi Yemen Government administration in Aden wrote to all operators offering all support of the Ministry and requesting them to restart operations as soon as they could. Since April, the Ministry has been in regular communication with the Company in order to process the requisite approvals required to restart An Nagyah production.

Part of this process is a review of the Company's capacity to be an operator in Yemen and capacity and schedule to restart production at the An Nagyah Oilfield. The Ministry has requested documentation supporting the Company's application for approvals be completed by the end of October.

Documentation supporting the Company's application was supplied to the Ministry in late July, including commitments to meet Block S-1 obligations, to rehiring the field operating staff of the operator, Yemen Block S-1 Inc., and to the operator's subcontractors. These documents are under current review by the Ministry.

The Company has provided the Ministry a restart schedule for 2018/2019 for the An Nagyah Oilfield that proposes initial production of 5,000 bopd within the first three months of restart of production with the aim of increasing production within 12 months to 10,000 bopd, from currently suspended wells.

Based on production of 5,000 bopd and current Brent Oil prices of US$70/bbl, the An Nagyah Oilfield would generate revenues of US$130 million per annum of which 72.5% (US$94 million) is to the benefit of the local staff and contractors, people of the Shabwah Province and the Yemen Government.

The publicly listed Austrian oil company, OMV, announced in early April 2018, the restart of oil production from the Habban Oilfield (350 million barrels, 70 km North East of An Nagyah Oilfield and14 km West of the Al Meashar Oilfield in Block 7), where production had been suspended since March 2015 because of the Saudi Coalition embargo of oil transport from the Red Sea, Ras Isa Oil Export Terminal. OMV is the first foreign oil company to restart production in Yemen since the industry wide shut-in of March 2015.

The 350 million barrel Habban Oilfield was producing 23,000 bopd at the time of suspension. OMV has stated that "The oil is being trucked (30 km) to the facilities in the near-by Block 4, operated by YICOM (Yemen Company for Investment in Oil & Minerals) and further pumped via a 204 km pipeline to YICOM's Al Nushaima (Bir Ali) Terminal where it can be lifted by vessel. The first 500,000 barrel oil shipment was made in late July.

The An Nagyah Oilfield is 70 km by road from the Block 4 pipeline facilities which represent the least cost oil transport option other than using the Marib Pipeline.

Petsec Energy is pleased with OMV's continuing operations in the Shabwa Basin. It bodes well for the restart of the Yemen oil industry, and for Petsec Energy approvals allowing restart of the An Nagyah Oilfield.

1 *Source: Wood Mackenzie Asia Pacific Pty Ltd*

Proposed Activities – September 2018 Quarter

USA

Management will be focussed on expanding oil and gas reserves in the Gulf Coast region, and on preparations for further development and appraisal drilling of the Hummer Gas/Oil Field, anticipated to begin in mid-August 2018.

MENA – Yemen

Management will continue to engage with the Yemen Oil Ministry to secure the approvals required to access Yemen Government facilities so as to restart oil production from the An Nagyah Oilfield at the earliest opportunity for the benefit of Yemen and it's people.

Financial Summary and Production Data

Unaudited preliminary financial data			Jun 2018 Quarter	Mar 2018 Quarter	% Increase/ (decrease)	Six months to Jun 2018	Six months to Jun 2017	% Increase/ (decrease)
Financials								
Net revenue		US$000	**875**	840	4%	**1,715**	626	174%
Other revenue/(expense)		US$000	**15**	18		**33**	11	
Lease operating expenses		US$000	**(204)**	(133)		**(337)**	1,081	
Geological, geophysical & administrative expenses (GG&A)		US$000	**(1,383)**	(1,404)		**(2,787)**	(4,339)	
EBITDAX		US$000	**(697)**	(679)	n/a	**(1,376)**	(2,621)	n/a
Cash		US$000	**3,445**	3,884	(11%)	**3,445**	9,239	(63%)
Debt (convertible note facility) [1]		US$000	**8,510**	5,998	42%	**8,510**	4,869	75%
Acquisition, exploration & development expenditure								
Acquisition		US$000	**19**	195		**214**	121	
Exploration		US$000	**-**	-		**-**	-	
Development		US$000	**207**	204		**411**	3,998	
Total		US$000	**226**	399	(43%)	**625**	4,119	(85%)
Production (MMcfe)	**W.I.**	**N.R.I**						
USA								
Offshore Gulf of Mexico								
Main Pass Block 270 (Hummer)	12.5%	10.70454% [2]	**178**	189		**367**	-	
Onshore Louisiana								
Mystic Bayou Field	25%	18.5%	**40**	45		**85**	158	
Jeanerette Field	12.5%	9.0%		-		**-**	-	
Total		MMcfe	**218**	234	(7%)	**452**	158	186%
Unit revenue/cost analysis per Mcfe (US$)								
Oil/Condensate per barrel		US$	**66.66**	63.63	5%	**65.10**	48.87	33%
Gas per Mcf		US$	**3.17**	2.76	15%	**2.96**	3.32	(11%)
Average sales price per Mcfe		US$	**4.01**	3.59	12%	**3.79**	3.96	(4%)
Other revenue/(expense) per Mcfe		US$	**0.07**	0.08		**0.07**	0.07	
Lease operating expense per Mcfe		US$	**(0.94)**	(0.57)		**(0.75)**	6.84	
GG&A expense per Mcfe		US$	**(6.34)**	(6.00)		**(6.16)**	(27.46)	
EBITDAX per Mcfe		US$	**(3.20)**	(2.90)	n/a	**(3.05)**	(16.59)	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%.*

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
MMcpd = 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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