# Petsec Energy Ltd

## September 2016 Quarter Results

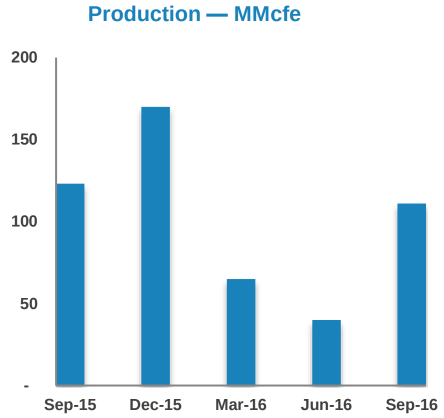
## Financials

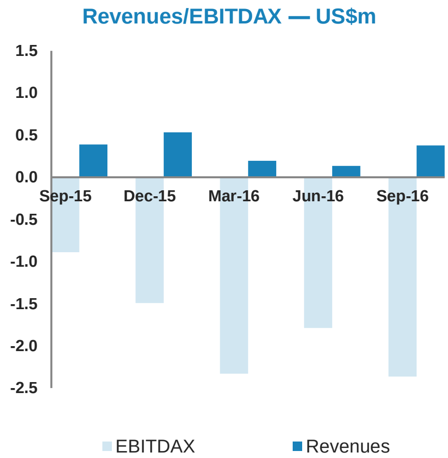
| Comparative Performance | | Current Quarter Sep 2016 | Previous Quarter Jun 2016 | % Change | Corresponding Quarter Sep 2015 | % Change |
|---|---|---|---|---|---|---|
| Net production | MMcfe | **111** | 40 | 178% | 123 | (10%) |
| Average sales price | US$/Mcfe | **3.40** | 3.38 | 1% | 3.16 | 8% |
| Net revenue | US$000 | **377** | 135 | 179% | 389 | (3%) |
| EBITDAX [1] | US$000 | **(2,364)** | (1,786) | n/a | (888) | n/a |
| Cash [2] | US$000 | **6,201** | 9,161 | (32%) | 22,674 | (73%) |
| AE&D expenditure [3] | US$000 | **26** | 1,477 | n/a | 6,437 | (100%) |
| US$/A$ closing exchange rate | | **0.7666** | 0.7444 | 3% | 0.7022 | 9% |

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 September 2016 cash includes restricted cash amounts of US$3.7 million (June 2016: US$3.7 million; September 2015: US$3.7 million) used to guarantee certain future rehabilitation obligations.

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




# Key Points

## Corporate

- Establishment of US$15 million secured convertible note facility.
- Opened office in Sana'a, Yemen.

## Operations

- Net production from USA operations of 111 MMcfe (91 MMcf of gas and 3,124 barrels of oil/condensate) for the September 2016 quarter.
- Main Pass Block 270 #3 BP 1 discovery well (Hummer Project) – platform jacket load out and installation completed. Well to be completed and production tested in late October/early November 2016.
- Preparation for the re-start of production at the An Nagyah Oilfield continued with plans currently underway for engineering crew to inspect the Central Processing Facility (CPF) and evaluate for re-start in the first quarter 2017.

## Financials

- Net oil and gas revenues of US$0.4 million.
- Cash balance of US$6.2 million (including US$3.7 million of restricted deposits).
- Amount available under convertible note facility as at 30 September 2016: US$15 million.

### 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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Terrence Fern

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

### Management

**Australian Executives**
Terrence Fern – Managing Director
Paul Gahdmar – Company Secretary & Group Financial Controller
Manny Anton – Head of Investor Relations & Corporate Development

**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
Murray Hawkes – COO and Yemen General Manager


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# Financial

## Production

Net production for the September 2016 quarter was 111 MMcfe (91 MMcf of gas and 3,124 barrels of oil/condensate), up 178% on the June 2016 quarter (40 MMcfe) following the return to production of the Williams No.2 Alt. well in the Mystic Bayou Field onshore Louisiana, USA in late May 2016.

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

| Net production (in MMcfe) | Sep 2016 Quarter | Jun 2016 Quarter | % Increase/ Decrease |
|---|---|---|---|
| Jeanerette Field – ASF No.4 | 1 | - | |
| Mystic Bayou Field – Williams No.2 Alt. | 110 | 40 | |
| **Total** | **111** | **40** | **178%** |

## Revenues and Cashflow

Net oil and gas revenues for the September 2016 quarter increased 179% to US$377,000 (June 2016 quarter: US$135,000), reflecting the increase in production.

The Company realised an average gas equivalent sales price of US$3.40/Mcfe for the current quarter – receiving US$37.64/bbl and US$2.86/Mcf for its oil/condensate and natural gas production, respectively. This compares to an average gas equivalent sales price of US$3.38/Mcfe (US$44.74/bbl and US$2.19/Mcf for its oil/condensate and natural gas production, respectively) achieved in the previous quarter.

Petsec reported negative EBITDAX of US$2.4 million for the September 2016 quarter (June 2016 quarter: negative EBITDAX of US$1.8 million) as a result of the Company's lower revenue base and operating costs associated with the An Nagyah Oilfield in Yemen and associated GG&A.

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

## Cash Position

At 30 September 2016, the Company's cash balance of US$6.2 million (A$8.1 million) was US$3.0 million lower than the 30 June 2016 cash balance of US$9.2 million (A$12.3 million). The cash deposits which are predominantly held in US dollars include secured deposits of US$3.7 million primarily held in an escrow account to secure operator bonds that are on issue to the Bureau of Ocean Energy Management ("BOEM").

## Secured Convertible Note Facility

On 23 August 2016, the Company announced the establishment of a US$15 million secured convertible note facility that will provide the Company with financial flexibility to progress its development projects in the USA and Middle East and North Africa ("MENA"), which will provide early cashflow.

The funds will be applied to the appraisal and development of the Hummer gas/oil discovery made in late 2015 in the Gulf of Mexico, USA, the anticipated re-start of oil production from the An Nagyah Oilfield in Yemen, and the Company's further expansion in the MENA region.

The first draw down on the facility was made on 17 October 2016 for an amount of US$1.5 million.

Further information on the secured convertible note facility is contained within the media release and investor presentation issued to the Australian Stock Exchange on 23 August 2016 and is also available on the Company website at www.petsec.com.au.

# U.S. Oil and Natural Gas Prices

U.S. WTI crude oil futures prices were highly volatile during the September 2016 quarter, trading in a range between US$39.51/bbl and US$48.99/bbl, with the futures contracts for delivery in December 2016 trading higher at US$50.54/bbl on 20 October 2016 as a result of lower inventory levels.

The NYMEX 12 month and 36 month forward strip prices for WTI crude oil were trading higher at approximately US$52.66/bbl and US$54.29/bbl, respectively on 20 October 2016. In comparison, the 12 month and 36 month forward strip prices were trading at US$48.16/bbl and US$51.00/bbl, respectively on 13 July 2016.

U.S. natural gas spot prices broke through the $3/MMBtu level in late September 2016 for the first time since May 2015, due to the combined effect of higher demand for natural gas for electricity generation, lower-than-normal inventory builds, and the market's expectation for colder winter temperatures in the U.S. compared with temperatures last winter.

The NYMEX 12 month and 36 month forward strip prices for U.S. natural gas settled at approximately US$3.36/MMBtu and US$3.16/MMBtu, respectively on 20 October 2016. This compares to US$3.05/MMBtu for both forward strip prices on 13 July 2016.

The U.S. Energy Information Administration estimates for working natural gas in storage for the week ending 14 October 2016 was 3,836 Bcf, 46 Bcf or 1.2% higher than the level a year ago and 185 Bcf or 5.1% higher than the 5-year average.

# Operations

## Production

### USA

#### *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.

The ASF No. 4 well was shut-in in mid-November 2015 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 as is for the near-term.

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

*Petsec: 25% working interest (18.75% 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 5.3 MMcfpd and 181 bcpd for the September 2016 quarter.

## Development

### USA

#### *Main Pass Block 270 #3 BP 1 well – Hummer Project*

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

The Main Pass Block 270 #3 BP 1 well on the Hummer exploration prospect in 215 feet of water, offshore Louisiana (federal waters) was drilled during the second half of 2015.

The well encountered the Miocene age sand objectives as anticipated and was mud-line suspended at 14,300 feet TVD/ 14,342 feet MD for future completion and production testing after the fabrication and installation of a platform jacket.

The fabrication and installation of the jacket has now been completed, with the tie-back, well completion, and testing anticipated to be completed in the fourth quarter of 2016. Net cost for completion and testing of the well are anticipated to be approximately US$0.9 million.

***Hummer platform installation***

Following completion and testing of the well, the deck facilities and pipelines will be fabricated and installed. Initial production on the project is anticipated during second quarter 2017.

### MENA

The priority activities for the Company in MENA are focused on preparations for the re-start of production at the An Nagyah Oilfield with the aim of ensuring that the Company is ready for production once the political/logistical situation allows.

The Eastern provinces of Yemen are now back under the control of the internationally recognised Government. As a result, oil production in the Masila Basin has recommenced, crude oil shipments from the Ash Shihr Terminal in the Gulf of Aden have also recommenced with a recent lifting of 3 million barrels of crude, and the 150,000 BOPD Aden Refinery has re-opened.

The company anticipates the restart of oil production in the Shabwah and Marib Basins will follow soon.

A comprehensive cessation of hostilities has recently been announced by the UN, to be followed by the reactivation of the formal UN sponsored Peace Process which stalled in August 2016. It is hoped that the outcome of the new peace negotiations will result in a permanent and lasting end to the conflict across the entire country.

#### *Opening of new branch office in Sana'a, Yemen*

The Company has opened a branch office in Sana'a, the capital of Yemen, on the 6th floor of the Libyan Trade Center Building which is located on Algeria Street in Central Sana'a. The office will provide premises for the expansion of the Company's operational capability in Yemen.

#### *Block 7, Al Barqa Permit, 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.

Petsec currently holds a non-operating 35% working interest (29.75% participating interest) in the Block 7 Joint Venture and has an agreement with Oil Search Limited (ASX: OSH) to acquire its 40% working interest (34% participating interest) in Block 7.

The Company now expects to conclude the acquisition of the Oil Search interest in Block 7 towards the end of 2016 following the announcement of a peace agreement. The acquisition which involves acquiring all the shares of its subsidiary, Oil Search (ROY) Limited, will increase Petsec Energy's overall working interest in the block to 75% (63.75% participating interest). On completion of the transaction Petsec Energy will assume operatorship of the block.

The Company's first objective in this block is to bring the two suspended discovery wells of the Al Meashar Oilfield (target resource of 11 MMbbl [1]) into production. In 2011, short-term testing of the wells delivered flow rates ranging from 200 to 1,000 bopd. Analysis of this data suggests cleanup of the reservoir is likely to result in stabilised production rates over a longer production period.

Well engineering and cost estimates of the re-entry programme for both wells on the Al Meashar Oilfield are complete and will be followed by a tendering process for equipment and services.

1 *Source: Oil Search Limited*

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

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

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 million barrels of oil and 550 Bcf of gas [1] which will be a source of future growth of reserves and production for the Company.

The block contains significant existing infrastructure, including surface facilities with a capacity to process up to 20,000 barrels of oil per day (bopd) and an 80,000 bopd pipeline, which joins the 200,000 BOPD Marib export pipeline to the Ras Isa terminal on the Red Sea Coast.

***Damis (Block S-1): An Nagyah production facilities***

The An Nagyah Oilfield was shut-in at the end of February 2014 following the declaration of Force Majeure by the previous operator due to the political issues in Yemen and the resulting inability to ship oil for the An Nagyah oilfield from the export pipeline terminus on the west coast of Yemen. The field was producing at a rate of over 5,600 bopd prior to its being shut-in.

It is Petsec's intention to restart production as early as the political/logistical situation allows. The production facility has been maintained during the shut-in period and preparations are now underway for the re-start of production with the initiation of maintenance on access roads within the facility.

Plans are also in progress for an engineering team to inspect and survey the An Nagyah Central Processing Facility.

Management are currently in the process of planning the delivery of crude either by pipeline or trucking or a combination of both, as soon as conditions permit.

1 *Source: Wood Mackenzie Asia Pacific Pty Ltd*

## Proposed Activities – December 2016 Quarter

### USA

During the December 2016 quarter, the Company will participate in the tie-back, well completion, and testing of the Main Pass Block 270 #3 BP 1 well. It is anticipated that the production test results will be available at the end of October/early November 2016. The well test will determine reservoir characteristics, including gas and oil flow rates and pressures, in order to appropriately size the production facilities.

### MENA – Yemen

Yemen operations will continue to focus on preparing the An Nagyah Oilfield to recommence production at the earliest possible opportunity, subject to the Yemen political/logistical situation.

Facility maintenance and preparation for the commencement of production will continue during the December quarter 2016, whilst management commence detailed planning for the delivery of crude either by pipeline or trucking or a combination of both.

The Company is hopeful of recommencing production in the first quarter of 2017.

# Financial Summary and Production Data

| Unaudited preliminary financial data | | | Sep 2016 Quarter | Jun 2016 Quarter | % Increase/ (decrease) | Nine months to Sep 2016 | Nine months to Sep 2015 | % Increase/ (decrease) |
|---|---|---|---|---|---|---|---|---|
| **Financials** | | | | | | | | |
| Net revenue | | US$000 | **377** | 135 | 179% | **707** | 1,036 | (32%) |
| Other revenue/(expense) | | US$000 | **22** | 22 | | **192** | 591 | |
| Lease operating expenses | | US$000 | **(860)** | (389) | | **(2,248)** | (427) | |
| Geological, geophysical & administrative expenses (GG&A) | | US$000 | **(1,903)** | (1,554) | | **(5,130)** | (3,190) | |
| **EBITDAX** | | US$000 | **(2,364)** | (1,786) | n/a | **(6,479)** | (1,990) | n/a |
| **Cash [1]** | | | **6,201** | 9,161 | (32%) | **6,201** | 22,674 | (73%) |
| **Acquisition, exploration & development expenditure** | | | | | | | | |
| Acquisition | | US$000 | **4** | 981 | | **2,985** | 1,321 | |
| Exploration | | US$000 | **15** | (3) | | **93** | 9,160 | |
| Development | | US$000 | **7** | 499 | | **885** | 504 | |
| **Total** | | US$000 | **26** | 1,477 | (98%) | **3,963** | 10,985 | (64%) |
| **Production (MMcfe)** | **W.I.** | **N.R.I** | | | | | | |
| **USA** | | | | | | | | |
| ***Offshore Gulf of Mexico*** | | | | | | | | |
| Main Pass 18/19 [2] | 100%/55% | 83.33%/45.83% | | - | | **-** | 57 | |
| ***Onshore Louisiana*** | | | | | | | | |
| Mystic Bayou Field | 25% | 18.5% | **110** | 40 | | **215** | 43 | |
| Jeanerette Field | 12.5% | 9.0% | **1** | - | | **1** | 241 | |
| **Total** | | MMcfe | **111** | 40 | 178% | **216** | 341 | (37%) |
| **Unit revenue/cost analysis per Mcfe (US$)** | | | | | | | | |
| Oil/Condensate per barrel | | US$ | **37.64** | 45.02 | (16%) | **38.17** | 53.83 | (29%) |
| Gas per Mcf | | US$ | **2.86** | 2.19 | 31% | **2.60** | 2.79 | (7%) |
| Average sales price per Mcfe | | US$ | **3.40** | 3.38 | 1% | **3.27** | 3.04 | 8% |
| Other revenue/(expense) per Mcfe | | US$ | **0.20** | 0.55 | | **0.89** | 1.73 | |
| Lease operating expense per Mcfe | | US$ | **(7.75)** | (9.73) | | **(10.41)** | (1.25) | |
| GG&A expense per Mcfe | | US$ | **(17.14)** | (38.85) | | **(23.75)** | (9.35) | |
| **EBITDAX per Mcfe** | | US$ | **(21.29)** | (44.65) | n/a | **(30.00)** | (5.83) | n/a |

1 *September 2016 cash includes restricted cash deposits of US$3.7 million used to guarantee certain future rehabilitation obligations (June 2016: US$3.7 million; September 2015: US$3.7 million)*

2 *Operated by Petsec Energy*

**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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