Petsec Energy Ltd

December 2016 Quarter Results

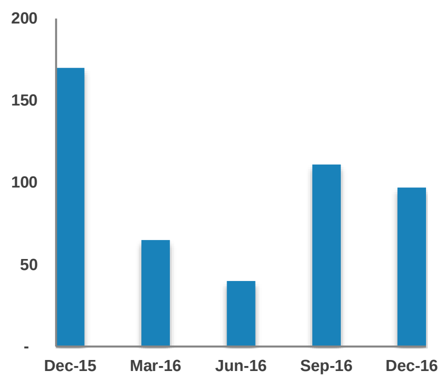
Financials

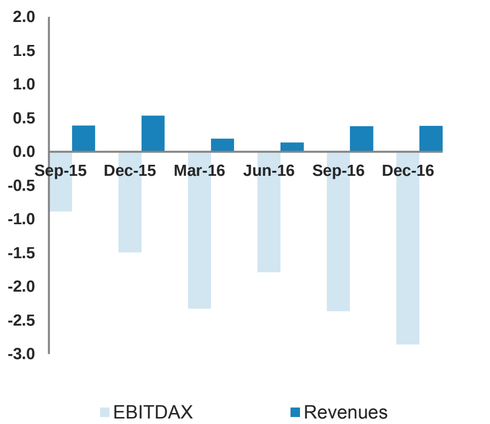
Comparative Performance		Current Quarter Dec 2016	Previous Quarter Sep 2016	% Change	Corresponding Quarter Dec 2015	% Change
Net production	MMcfe	**97**	111	(13%)	170	(43%)
Average sales price	US$/Mcfe	**3.96**	3.40	17%	3.14	26%
Net revenue	US$000	**384**	377	2%	534	(28%)
EBITDAX [1]	US$000	**(2,860)**	(2,364)	n/a	(1,492)	n/a
Cash [2]	US$000	**13,077**	6,201	111%	12,807	2%
AE&D expenditure [3]	US$000	**1,536**	26	5,808%	5,148	(70%)
US$/A$ closing exchange rate		**0.7202**	0.7666	(6%)	0.7294	(1%)

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 December 2016 cash includes restricted cash amounts of US$3.6 million (September 2016: US$3.7 million; December 2015: US$3.7 million) used to guarantee certain future rehabilitation obligations.

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





Key Points

Corporate

- Relocation of Sydney office to Level 27, Governor Macquarie Tower – One Farrer Place, Sydney NSW 2000.
- Fully underwritten non-renounceable entitlement offer raising approximately A$11 million.

Operations

- Net production from USA operations of 97 MMcfe (82 MMcf of gas and 2,658 barrels of oil/condensate) for the December 2016 quarter.
- Successful production test of the Main Pass Block 270 No. 3 BP 1, Hummer discovery well-20 MMcfpd/400 bopd on a 16/64 inch choke.
- Block 7, Yemen – Increased interest to 100% following execution of an Acquisition Agreement with KUFPEC to acquire their 25% working interest in the block.

Financials

- Net oil and gas revenues of US$0.4 million.
- Cash balance of US$13.1 million (including US$3.6 million of restricted deposits).
- US$4.5 million drawn down under US$15 million secured convertible note facility.

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
John Rees – VP Technical

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Financial

Production

Net production for the December 2016 quarter was 97 MMcfe (82 MMcf of gas and 2,658 barrels of oil/condensate), down 13% on the September 2016 quarter (111 MMcfe).

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

Net production (in MMcfe)	Dec 2016 Quarter	Sep 2016 Quarter	% Increase/ Decrease
Jeanerette Field – ASF No.4	-	1	
Mystic Bayou Field – Williams No.2 Alt.	97	110	
Total	**97**	**111**	**(13%)**

Revenues and Cashflow

Net oil and gas revenues for the December 2016 quarter of US$384,000 were 2% higher than that achieved in the previous quarter (US$377,000), mainly attributable to the higher oil prices received.

Petsec Energy realised an average gas equivalent sales price of US$3.96/Mcfe for its production in the December 2016 quarter – receiving US$57.94/bbl and US$2.79/Mcf for its oil/condensate and natural gas production, respectively. This compares to an average gas equivalent sales price of US$3.40/Mcfe (US$37.64/bbl and US$2.86/Mcf for its oil/condensate and natural gas production, respectively) achieved in the September 2016 quarter.

Petsec reported negative EBITDAX of US$2.9 million for the current quarter (previous quarter: negative EBITDAX of US$2.4 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 31 December 2016, the Company's cash balance of US$13.1 million (A$18.2 million) was US$6.9 million higher than the 30 September 2016 cash balance of US$6.2 million (A$8.1 million). The cash deposits which are predominantly held in US dollars include secured deposits of US$3.6 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

The Company established a US$15 million secured convertible note facility in August 2016 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 cash flow.

As at 31 December 2016, the Company had drawn down US$4.5 million on the facility.

Corporate

Non-renounceable Rights Issue

On 24 November 2016, the Company initiated a fully underwritten non-renounceable entitlement offer (or "rights issue") of 1 new share for every 3.2 shares held by eligible shareholders at 15 cents per share to raise approximately A$11 million through the issue of up to 73,900,000 new shares.

The offer closed on 12 December 2016 with 49,705,710 shares representing 67.3% of the 73,900,000 shares offered being taken up. A further 2,906,318 shares were issued on 12 January 2017 in respect of the offer, increasing the total number of shares quoted on the ASX to 290,287,924. The remaining issue of shortfall shares under the underwriting and sub-underwriting arrangements is underway and is expected to be completed in the first quarter 2017.

Proceeds from the offer will be used by the Company to support its participation in the development in the Hummer gas/oil discovery in the Gulf of Mexico, USA, and the expected re-start of oil production from the Company's An Nagyah Oilfield (Damis Block S-1) in the Republic of Yemen.

U.S. Oil and Natural Gas Prices

The NYMEX 12 month and 36 month forward strip prices for WTI crude oil were trading relatively flat with the previous quarter at approximately US$54.05/bbl and US$53.20/bbl, respectively on 19 January 2017. In comparison, the 12 month and 36 month forward strip prices were trading at US$52.66/bbl and US$54.29/bbl, respectively on 20 October 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$3.41/MMBtu and US$3.14/MMBtu, respectively on 19 January 2017. This compares to US$3.36/MMBtu and $3.14/MMBtu, respectively on 20 October 2016.

The U.S. Energy Information Administration estimates for working natural gas in storage for the week ending 13 January 2017 was 2,917 Bcf, 431 Bcf or 12.9% lower than the level a year ago and 77 Bcf or 2.6% lower 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 5.0 MMcfpd and 144 bcpd for the December 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.

The fabrication and installation of the jacket was completed during the quarter. This was followed by the successful flow testing of the well in November. The well was tested on variable choke sizes at restricted rates over a 48 hour flow-back period. During the last 3 hours of the test period, the well flowed at an average rate of 19.88MMcfpd (million cubic feet of gas per day) and 396 bopd (barrels of oil per day) through a 16/64th inch choke with an average flowing WHP of 9,753 psi and no formation water. Production rates continued to rise over the duration of the test with a maximum gas rate of 20.5MMcfpd recorded.

Well logs indicate additional potential reservoirs in the well, but a decision was made not to run additional tests at this time. These untested sands will be targets of future drilling on the Hummer project. Significant production occurs for similar reservoirs along trend with peak production rates from those intervals exceeding 25 MMcfpd and 1,000 bcpd

Hummer platform installation

The well has been temporarily suspended pending the design, fabrication and installation of permanent production facilities and pipelines. The Company estimates first production from the Hummer project to commence in late third quarter 2017.

MENA

The Company has been focused on the re-start of oil production from the An Nagyah Oilfield located within the Company's Damis Block S-1, in Yemen.

The political situation in Yemen is approaching a resolution. More than 80% of the country, including the country's oilfields and the Southern coast of Yemen ,is now under the control of the Gulf Coast Coalition (GCC) backed Government. As a result of the growing stability in Yemen, oil production in the Masila Basin located in the Eastern part of Yemen ,recommenced in Q4'16 and that crude oil is being shipped from the Ash Shihr Terminal on the Gulf of Aden near the city of Mukalla.

Current production from the Masila Basin is of the order of 50,000 bopd and is expected to rise to meet the pre shut-in rate in March 2015 of 75,000 bopd.

Some 6 million barrels of crude oil from the Masila Basin have been shipped from Ash Shihr since the third quarter of 2016. The GCC backed Yemen government is now actively encouraging all oil producers to restart operations and ramp up oil production to optimal levels as soon as is feasible. The Company anticipates the restart of oil production soon in the Shabwah and Marib Basins, located in the middle of the country, which hold Petsec Energy's An Nagyah Oilfield.

The UN continues to actively encourage peace negotiations that will result in a permanent end to the conflict and the formation of a unity government based in the capital Sana'a.

Block 7, Al Barqa Permit, Yemen

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

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.

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 and operatorship.

During the quarter the Company entered into 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 completion of the KUFPEC and Oil Search transactions which are subject to customary approvals from the Government of Yemen and the Ministry of Oil and Minerals.

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-50 MMbbl [1]) into production. In 2010-11, 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 at the appropriate time.

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 300,000 bopd Marib export pipeline to the Ras Isa terminal on the Red Sea Coast.

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 situation 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 restricted rate of over 5,600 bopd prior to its being shut-in.

It is the Company's stated intention to restart production as early as the political/logistical situation allows. With stability now returning to the Eastern half of the country, the re-opening of Southern port facilities and the recommencement of oil production and export, the Company is now actively planning for the restart of production at the An Nagyah Oilfield.

The An Nagyah production facility has been well maintained during the shut-in period and remains in good condition. As the crude oil export terminal at Ras Isa remains closed on the Red Sea at the terminus of the Marib Export Pipeline to which Petsec Energy's An Nagyah Oilfield is connected, the Company is pursuing an alternative transport option which is to truck An Nagyah crude East to the Masila Basin Pipeline Hub.

Crude oil is transported from the hub through the pipeline South to the Ash Shihr Oil Terminal on the Gulf of Aden, near the city of Mukalla, from which crude is shipped for export. Shipping resumed in the third quarter of 2016 and oil liftings are becoming increasingly regular.

Management is currently negotiating trucking, pipeline access, and storage and shipping contracts for An Nagyah oil production.

1 *Source: Wood Mackenzie Asia Pacific Pty Ltd*

Proposed Activities – March 2017 Quarter

USA

In the March 2017 quarter, following the successful well production test on the Hummer Project discovery well, production facilities and pipelines will be fabricated and installed to meet the scheduled commencement of gas/oil production late in third quarter 2017.

MENA – Yemen

The focus of Yemen operations will be the restart of production at the An Nagyah Oilfield, with the objective of achieving production in the second quarter of 2017.

These operations to recommence oil production at An Nagyah include onsite preparations for production and trucking of produced oil, and the negotiation of trucking, pipeline access, storage and shipping contracts for An Nagyah oil production.

Financial Summary and Production Data

Unaudited preliminary financial data			Dec 2016 Quarter	Sep 2016 Quarter	% Increase/ (decrease)	Twelve months to Dec 2016	Twelve months to Dec 2015	% Increase/ (decrease)
Financials								
Net revenue		US$000	**384**	377	2%	**1,091**	1,570	(31%)
Other revenue/(expense)		US$000	**4**	22		**196**	764	
Lease operating expenses		US$000	**(873)**	(860)		**(3,121)**	(643)	
Geological, geophysical & administrative expenses (GG&A)		US$000	**(2,375)**	(1,903)		**(7,505)**	(5,173)	
EBITDAX		US$000	**(2,860)**	(2,364)	n/a	**(9,339)**	(3,482)	n/a
Cash [1]			**13,077**	6,201	111%	**13,077**	12,807	2%
Acquisition, exploration & development expenditure								
Acquisition		US$000	**-**	4		**2,985**	3,399	
Exploration		US$000	**1,255**	15		**1,348**	12,230	
Development		US$000	**281**	7		**1,166**	504	
Total		US$000	**1,536**	26	5,808%	**5,499**	16,133	(66%)
Production (MMcfe)	**W.I.**	**N.R.I**						
USA								
Offshore Gulf of Mexico								
Main Pass 18/19 [2]	100%/55%	83.33%/45.83%	**-**	-		**-**	57	
Onshore Louisiana								
Mystic Bayou Field	25%	18.5%	**97**	110		**312**	197	
Jeanerette Field	12.5%	9.0%	**-**	1		**1**	257	
Total		MMcfe	**97**	111	(13%)	**313**	511	(39%)
Unit revenue/cost analysis per Mcfe (US$)								
Oil/Condensate per barrel		US$	**57.94**	37.64	54%	**43.86**	39.95	10%
Gas per Mcf		US$	**2.79**	2.86	(2%)	**2.66**	2.60	2%
Average sales price per Mcfe		US$	**3.96**	3.40	17%	**3.48**	3.07	13%
Other revenue/(expense) per Mcfe		US$	**0.04**	0.20		**0.63**	1.50	
Lease operating expense per Mcfe		US$	**(9.00)**	(7.75)		**(9.97)**	(1.26)	
GG&A expense per Mcfe		US$	**(24.48)**	(17.14)		**(23.98)**	(10.12)	
EBITDAX per Mcfe		US$	**(29.48)**	(21.29)	n/a	**(29.84)**	(6.81)	n/a

1 *December 2016 cash includes restricted cash deposits of US$3.6 million used to guarantee certain future rehabilitation obligations (September 2016: US$3.7 million; December 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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