Petsec Energy Ltd
December 2019 Quarter Results

Financials

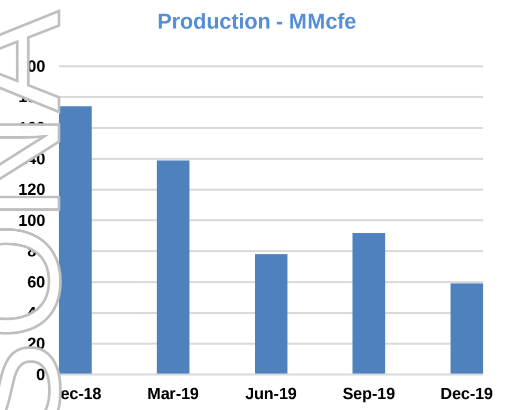
Comparative Performance		Current Quarter Dec 2019	Previous Quarter Sep 2019	% Change	Corresponding Quarter Dec 2018	% Change
Net production	MMcfe	**59**	**92**	(36%)	174	(66%)
Average sales price	US$/Mcfe	**2.39**	**2.52**	(5%)	3.94	(39%)
Net revenue	US$000	**141**	**232**	(39%)	805	(82%)
EBITDAX [1]	US$000	**(1,018)**	**(1,065)**	n/a	(712)	43%
Cash [2]	US$000	**2,371**	**2,506**	(5%)	4,477	(47%)
Debt (convertible note) [3]	US$000	**16,104**	**14,976**	8%	11,465	40%
E&D expenditure [4]	US$000	**9**	**(52)**	n/a	2,598	(100%)
Closing exchange rate	USD/AUD	**0.7030**	**0.6746**	4%	0.7046	-

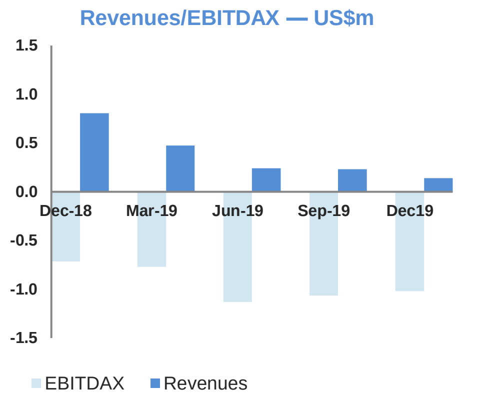
1 Earnings before interest, income tax, depreciation, depletion and amortisation, and exploration (including dry hole, impairment and abandonment expense, seismic and work-over expense). EBITDAX is a non IFRS number and is unaudited.

2 December 2019 cash includes restricted cash amounts of US$1.7 million (Sep 2019: US$1.9 million and Dec 2018: US$1.9 million).

3. Represents the fair value of the convertible note debt (US$15.8 million) and the associated foreign exchange derivative liability (US$0.3 million) recognised on the balance sheet as at 31 December 2019.

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





Key Points

Corporate

- Relocation of corporate registered office to Level 7, BMA House, 135 Macquarie Street Sydney.

Operations

- **Net production from USA operations for the December 2019 quarter**: 59 MMcfe (54 MMcf of gas and 841 barrels of oil/condensate).
- **YEMEN: Damis (Block S-1):** Restart of oil production operations at the An Nagyah Oilfield progressed following successful meetings with the Yemen Minister of Oil & Minerals, his encouragement to secure joint venture partners to co-invest in the development of Block S-1, the Company's subsequent field inspection to determine the state of the oilfield infrastructure, preparation of a final restart plan and engagement with a number of potential joint venture partners.
- The 80 kilometre Block 5 to Block 4 16 inch oil pipeline, which connects Blocks 18, 5 and S-1 (Petsec) to Block 4 export pipeline, is complete and being tested, with the expectation of first oil flow from Block 5 by March 2020.

Financials

- **Net oil and gas revenues for the December 2019 quarter:** US$141,000.
- **US$15 million convertible note facility as at 31 December 2019:** US$13.5 million drawn.
- **Cash balance as at 31 December 2019:** US$2.4 million (including US$1.7 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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Managing Director
Syed Bokhari

Non-executive Directors
David Mortimer
Alan Baden

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Ross Keogh – Group CFO
Paul Gahdmar – Company Secretary & Group Financial Controller

Petsec Energy Inc.
Ross Keogh – President & CFO

Petsec Energy (Middle Eastern) Ltd
John Rees – VP Technical
Ajay Goyal – General Manager Finance

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Financial

Production

The Company reported net production of 59 MMcfe (54 MMcf of gas and 841 barrels of oil/condensate) for the December 2019 quarter. This was 36% lower than the 92 MMcfe (84 MMcf of gas and 1,322 barrels of oil/condensate) achieved in the September 2019 due to well performance from the Main Pass Block 270 B-1 well.

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

Net production (in MMcfe)	Dec 2019 Quarter	Sep 2019 Quarter	% Increase/ Decrease
Jeanerette Field – ASF No.4	-	-	-
Mystic Bayou Field – Williams No.2	14	13	8%
Hummer Field – Main Pass Block 270 B-1	45	79	(43%)
Total	**59**	**92**	**(36%)**

Revenues and Cashflow

Petsec Energy generated net oil and gas revenues for the December 2019 quarter of US$141,000. This was 39% lower than that achieved in the September 2019 quarter of US$232,000 due to the combined effect of lower production volumes and sales prices received for the current quarter.

The Company realised an average gas equivalent sales price of US$2.39/Mcfe in the December 2019 quarter (US$58.26/bbl and US$1.70/Mcf for its oil/condensate and natural gas production, respectively). This was 5% lower than the average gas equivalent sales price received in the September 2019 quarter of US$2.52Mcfe (US$55.98/bbl and US$1.88/Mcf for its oil/condensate and natural gas production, respectively).

The Company reported negative EBITDAX of US$1.1 million for the current quarter (previous quarter: negative US$1.1 million).

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

Secured Convertible Note Facility

The Company has a US$15 million secured convertible note facility agreement with Ping Rim Pte Ltd with a redemption date of 23 January 2021.

At 31 December 2019, the Company had drawn US$13.5 million under the facility, with Tranches 1 and 3 having been fully drawn in March 2017 and January 2019, respectively, and US$3.5 million under Tranche 2, largely to meet the completion and platform production facilities development of the Hummer B-1 well, and the drilling costs of the Hummer B-2 well in the USA.

Cash Position

At 31 December 2019, the Company held cash deposits of US$2.4 million (A$3.4 million). The cash deposits which are predominantly held in US dollars included secured deposits of US$1.7 million.

U.S. Oil and Natural Gas Prices

WTI crude oil prices increased over the December 2019 quarter due to a number of factors including, market expectations of improved global economic conditions in 2020, OPEC and partner countries agreeing to deepen production cuts through March 2020, and the announced first phase of a trade deal between the US and China. WTI crude oil prices traded in a range between US$52.45/bbl and US$61.72/bbl, closing the current period at US$61.06/bbl.

On 23 January 2020, the NYMEX 12 month and 36 month forward strip prices for WTI crude oil were trading at approximately US$54.35/bbl and US$52.02/bbl, respectively. This compares to US$52.70/bbl and US$51.38/bbl, respectively on 21 October 2019.

Strong U.S. natural gas production and mild weather maintained downward pressure overall on U.S. natural gas spot prices which traded in a range between US$2.15/MMBtu and US$2.86/MMBtu during the December 2019 quarter, closing the current period at US$2.19/MMBtu.

The NYMEX 12 month and 36 month forward strip prices for U.S. natural gas were trading at approximately US$2.16MMBtu and US$2.32/MMBtu, respectively on 23 January 2020. This compares to US$2.37/MMBtu and US$2.42/MMBtu, respectively on 21 October 2019.

The U.S. Energy Information Administration estimates for working natural gas in storage for the week ended 17 January 2020 was 2,947 Bcf. This was 554 Bcf or 23.2% higher than the 2,393 Bcf reported a year ago and 251 Bcf or 9.3% higher than the 5-year average of 2,696 Bcf.

Corporate

During the quarter, the Company continued to implement further cost cutting initiatives aimed at rationalising operations and minimising general and administrative costs, across all its geographical segments. The Company relocated its corporate registered office premises to Level 7, BMA House at 135 Macquarie Street, Sydney NSW 2000.

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 0.9 MMcfpd and 15 bcpd for the December 2019 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 4.5 MMcfpd and 77 bcpd during the December 2019 quarter. There was approximately 26 days of downtime during the quarter due to mechanical repairs on the well and facility.

MENA

YEMEN

The Company holds rights to 100% working interest 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.

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 truck oil and access Yemen Government owned pipeline, storage and oil export shipping facilities in neighboring Block 4.

The operating environment in the Shabwah Governorate, within which both Block S-1 and Block 7 are located, continues to improve, allowing the publicly listed Austrian oil company, OMV, to recommence oil production in April 2018. OMV is the first foreign oil company to restart production in Yemen since the industry wide shut-in of March 2015.

OMV has maintained oil production of the order of 16,000 bopd since April 2018 in the neighboring Block S-2 from its Habban Oilfield (350 million barrels), 70 kilometres North East of An Nagyah Oilfield and 14 kilometres West of the Al Meashar oil discovery in Block 7. Habban oil is transported by truck South to the Main Oil Pumping Station (MOPS) near the West Ayad Oilfield at the head of the Block 4 export pipeline, then piped some 200 kilometres South to the Bir Ali Oil Terminal on the coast of the Gulf of Aden. Shipments of some 600,000 barrels of oil is made every 6 to 7 weeks.

Construction of a 16 inch oil transport pipeline connecting Block 5 (to which Block S-1 is connected) to the oil export pipeline of Block 4, has been completed. Pre-startup testing is currently underway. The Yemen Oil Ministry expects it to be operational by March.

The Shabwah Governate, in which Petsec's Blocks S-1 and 7 are located, is under the control of the internationally recognised Yemen Government with support from Saudi and local forces. The security position is generally good allowing for oil production by OMV, trucking oil 20 kilometres, then flowing through the 204 kilometre Block 4 pipeline to Bir Ali export terminal, and the construction of the 80 kilometre Block 5 to Block 4 oil pipeline.

Post 30 September 2019, the government run Safer Exploration Production Oil Company (SEPOC) has started production of 5,000 bopd from Block 18 and is trucking it South to Rudum Terminal at Bir Ali. This is a significant development as Block 18 is a major oil producer for the country, producing on average 35,000 bopd prior to rebel control of the Marib Export Pipeline.

SEPOC's Block 18 and Petsec's Block S-1 are connected by pipeline to Block 5 which is now connected to Block 4 following recent completion of the 80 kilometre, 16 inch pipeline. Completion of this pipeline, restart of production from Block 18, and the recent declaration by the Yemen Oil Minister that Blocks 5 and S-1 will be in production in early 2020, demonstrates the government's desire to bring all fields in the Shabwah region back into production.

Al Barqa, (Block 7) 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 has operatorship and holds a 75% working interest (63.75% participating interest) in the Al Barqa (Block 7) Joint Venture. It also has an agreement with KUFPEC to acquire their 25% working interest in Block 7 which brings the Company's potential interest in the block to 100% pending customary approvals from the Government.

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: 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 developed An Nagyah Oilfield has produced around 25 million barrels of oil since the start of production in 2004 out of the original recoverable reserves of 57 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.

OMV's continuous operations to produce Habban oil at an average rate of 14,000 bopd since April 2018, and successful use of the Block 4 pipeline and oil export lifting from the Bir Ali Oil Export Terminal confirms the viability of this export route for the Company and its An Nagyah Oilfield.

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 80km, 16 inch Block 5 to Block 4pipeline. From MOPS, oil will be pumped 204 kilometres South to Rudum Terminal at Bir Ali.

In a recent press release made to the Yemeni news agency, Saba, the Yemen Oil Minister, Aws Al Awd, and reported widely in the Middle East, stated the legitimate Yemen Government, now located in Aden, is actively engaged in restarting and increasing oil production in the controlled areas of the legitimate Yemen Government. Chief amongst this is the Yemen Government's construction of an 80 kilometre, 16 inch pipeline connecting Jannah Hunt Block 5 to Ghareb Ayad Block 4. This pipeline connects SAFER Block 18 (35,000 bopd) to Jannah Hunt Block 5 (26,000 bopd) and Damis Block S-1 (Petsec Energy, 10,000 – 20,000 bopd) to Block 4 pipeline which runs South to Nushaima Terminal at Bir Ali on the Arab Sea.

Austrian oil company OMV has been producing some 15,000 bopd from Block S-2, into the Block 4 pipeline since April 2018.These four blocks are all of the oil producers in the Marib\Shabwah Basins and represent the largest potential oil production in Yemen.

The Yemen Government is also actively encouraging the restart of the TOTAL operated Bal Haf, 6.7 million tonne per year LNG plant.

The Company's engineers estimate the cost to restart oil production at An Nagyah at a rate of 10,000 bopd will be under US$5 million, and would take between 6 and 12 months from the time of receipt of Yemen Government approvals to access Block 4 oil export facilities.

The Company has been seeking, since early 2017, the necessary government support and formal approvals to transport oil initially by truck to Petro Masila's Block 10 and pipe to Mukalla, then in the past year by truck to Block 4, and now via the Block 5 to Block 4 pipeline to the oil export terminal at Bir Ali through YICOM facilities at Block 4 and its Rudum Terminal. Access to these facilities are part of the Contractor's rights contained within the Block S-1 Production Sharing Agreement. Delays have been due to limited and changing Yemen administration capabilities, political changes, and security conditions.

We have engaged with the Oil Minister, His Excellency Aws Al-Awd, since his appointment in January 2018, seeking his support for the restart of production at the An Nagyah Oilfield. Documentation supporting the Company's technical and financial capabilities to restart production at the An Nagyah Oilfield was supplied to the Minister of Oil and Minerals during the September 2019 quarter for his review and approval.

Petsec Energy's Chairman, Terrence Fern and Managing Director, Syed Bokhari, met with the Yemen Minister of Oil & Minerals, Aws Al Awd, in May 2019 to share the Company's restart plans for the An Nagyah Oilfield with supporting technical and financial capabilities. The Minister showed considerable interest in the restart plan, expressing a desire to have the field in production within 6 months to coincide with the expected completion of a 16 inch oil pipeline connecting Block 5 (to which Block S-1 is already connected) to the Block 4 export pipeline. He also encouraged Petsec to seek joint venture partners to co-invest in the development of Block S-1 which holds four undeveloped fields in addition to the developed An Nagyah Oilfield.

Subsequent to the meeting with the Minister, Petsec sent a team of oil field production experts in June 2019 to the An Nagyah Oilfield in the Shabwah Province of Yemen to evaluate the condition of the facilities and prepare final production start-up plans. The evaluation team consisted of an international production facilities expert, four Yemeni oil field professionals, Petsec Energy staff, and a representative of the Yemen Ministry of Oil & Minerals.

The team found the facilities to be in good condition allowing for an early production start-up. Local staff and contractors were keen to see an early restart of production.

Final plans are nearly complete for the production start-up that include all technical work, equipment/services required, contract support, manpower ramp up, oil transport and access to export facilities. It is expected this plan will be concluded within a month of receipt of the Yemen governments consents allowing for an immediate restart of onsite operations. It is expected that oil production can commence within 3 months of the Company's occupation of Block S-1.

In response to the Minister's wish that Petsec Energy seeks further investors in the development of Yemen oil resources, Petsec has engaged with several E&P companies interested in a joint venture partnership with Petsec Energy in Block S-1 which includes the An Nagyah Oilfield. These discussions have been encouraging.

https://mom-ye.com/site-en/وزير-النفط-ن-الـ-سعي-ذ-ي-فـ-عام-الـ-ي-حال-الـ-يذ-ف-ن-ت-لـ/

https://mom-ye.com/site-en/yemeni-oil-ministry-regains-the-confidence-of-foreign-companies/

1 *Source: Wood Mackenzie Asia Pacific Pty Ltd*

Proposed Activities – March 2020 Quarter

USA

No exploration or development work is anticipated. The Company continues to evaluate its strategy and look at alternatives for its assets in the U.S.

MENA – Yemen

Completion of the final restart plan for the An Nagyah Oilfield to enable immediate restart on receipt of the requisite Yemen administrative consents.

Continuing engagement with interested potential joint venture partners in Block S-1 in the expectation of closure late in the quarter.

Obtaining required government consents to transport oil via Block 4 to Rudum Terminal at Bir Ali.

Rationalisation of MENA operations in preparation for restart, and minimising GG&A costs until such time as government consents are obtained.

Financial Summary and Production Data

Unaudited preliminary financial data			Dec 2019 Quarter	Sep 2019 Quarter	% Increase/ (decrease)	Twelve months to Dec 2019	Twelve months to Dec 2018	% Increase/ (decrease)
Financials								
Net revenue		US$000	**141**	232	(39%)	**1,088**	3,142	(65%)
Other revenue/(expense)		US$000	**11**	1		**11**	28	
Lease operating expenses		US$000	**(426)**	(481)		**(1,626)**	(716)	
Geological, geophysical & administrative expenses (GG&A)		US$000	**(855)**	(817)		**(3,453)**	(5,370)	
EBITDAX		US$000	**(1,018)**	(1,065)	n/a	**(3,980)**	(2,916)	n/a
Cash		US$000	**2,371**	2,506	(5%)	**2,371**	4,477	(47%)
Debt (convertible note facility) [1]		US$000	**16,104**	14,976	8%	**16,104**	11,465	40%
Acquisition, exploration & development expenditure								
Acquisition		US$000	**-**	-		**-**	214	
Exploration		US$000	**-**	-		**-**	-	
Development		US$000	**9**	(52)		**2,609**	4,006	
Total		US$000	**9**	(52)	n/a	**2,609**	4,220	(38%)
Production (MMcfe)	**W.I.**	**N.R.I**						
USA								
Offshore Gulf of Mexico								
Main Pass Block 270 (Hummer)	12.5%	10.70454% [2]	**45**	79		**299**	635	
Onshore Louisiana								
Mystic Bayou Field	25%	18.5%	**14**	13		**69**	161	
Jeanerette Field	12.5%	9.0%	**-**	-		**-**	-	
Total		MMcfe	**59**	92	(36%)	**368**	796	(54%)
Unit revenue/cost analysis per Mcfe (US$)								
Oil/condensate per barrel		US$	**58.29**	55.98	4%	**58.87**	65.89	(11%)
Gas per Mcf		US$	**1.70**	1.88	(9%)	**2.22**	3.12	(29%)
Average sales price per Mcfe		US$	**2.39**	2.52	(5%)	**2.96**	3.95	(25%)
Other revenue/(expense) per Mcfe		US$	**0.19**	0.01		**0.03**	0.04	
Lease operating expense per Mcfe		US$	**(7.22)**	(5.23)		**(4.42)**	(0.90)	
GG&A expense per Mcfe		US$	**(12.61)**	(8.88)		**(9.38)**	(6.75)	
EBITDAX per Mcfe		US$	**(17.25)**	(11.58)	n/a	**(10.81)**	(3.66)	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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