Petsec Energy Ltd

March 2017 Quarter Results

Petsec Energy

Financials

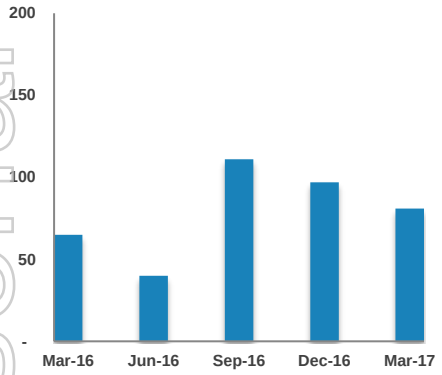
Comparative Performance		Current Quarter Mar 2017	Previous Quarter Dec 2016	% Change	Corresponding Quarter Mar 2016	% Change
Net production	MMcfe	**81**	97	(16%)	65	25%
Average sales price	US$/Mcfe	**3.86**	3.96	(2%)	3.00	29%
Net revenue	US$000	**313**	384	(18%)	195	61%
EBITDAX [1]	US$000	**(2,417)**	(2,860)	n/a	(2,329)	n/a
Cash [2]	US$000	**10,200**	13,077	(22%)	10,893	(6%)
AE&D expenditure [3]	US$000	**1,982**	1,536	29%	660	200%
US$/A$ closing exchange rate		**0.7638**	0.7202	6%	0.7677	(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.

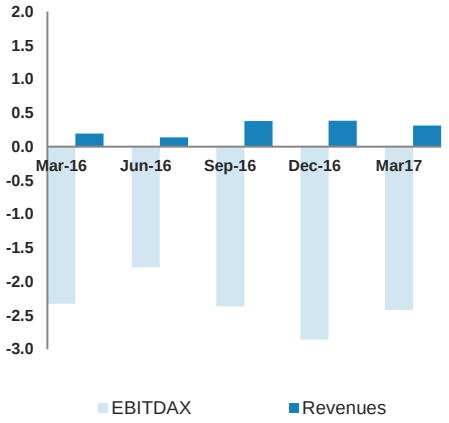
2 March 2017 cash includes restricted cash amounts of US$3.3 million (December 2016: US$3.6 million; March 2016: US$3.7 million) used to guarantee certain future rehabilitation obligations.

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

Production — MMcfe



Revenues/EBITDAX — US$m



Key Points

Operations

- Net production from USA operations of 81 MMcfe (71 MMcf of gas and 1,715 barrels of oil/condensate) for the March 2017 quarter.
- USA: Main Pass 270/273/274 Hummer Project – turnkey contract awarded for design, engineering, modification, and fabrication of production facilities, and installation of the platform deck and for the planning, installation and hook-up of the pipelines connecting the platform to gas and oil sales pipelines.
- YEMEN: Damis (Block S-1) – executed contract for the manufacture and delivery of oil tanker loading equipment to be installed at the An Nagyah Central Processing Facility (CPF).
- Independently assessed net proved and probable (2P) reserves of 9.5 MMboe at 1 January 2017.
- Assessed net present value (NPV[10]) of US$180.4 million or A$0.75/share for the 9.5 MMboe.

Financials

- Net oil and gas revenues of US$0.3 million.
- Cash balance of US$10.2 million (including US$3.3 million of restricted deposits).
- US$5 million drawn down under US$15 million secured convertible note facility.

Subsequent events

- Completion of the non-renounceable rights issue announced on 24 November 2016, raising A$11 million at A$0.15 per share, by the placement of 20 million shortfall shares @ A$0.15 per share pursuant to the underwriting agreement.

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.

Registered Business Office

Level 27,
Governor Macquarie Tower
One Farrer Place
Sydney, NSW 2000
Australia

Telephone: + 61 2 9247 4605
Facsimile: + 61 2 9251 2410
Website: www.petsec.com.au

USA Offices

1201 Louisiana, Suite 520
Houston, Texas 77002 USA

Telephone: + 1 713 457 5800
Facsimile: + 1 713 457 5838

301 E. Kaliste Saloom Road,
Suite 300, Lafayette
Louisiana 70503 USA

Telephone: + 1 337 989 1942
Facsimile: + 1 337 989 7271

Dubai Office

Indigo Icon Tower, Suite 2908
Cluster F, Jumeirah Lakes Towers
Dubai, UAE

Telephone: + 971 4 454 7714
Facsimile: + 971 4 451 8443

Sana'a Office

6th Floor, Libyan Trade Center
Algeria (ST),
Sana'a, Yemen

Telephone: + 967 1 448392
Facsimile: + 967 1 448368

Board of Directors

Chairman & Managing Director
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

Investor & Media Enquiries

Manny Anton
Paul Gahdmar

Telephone: + 61 2 9247 4605

Financial

Production

Net production for the March 2017 quarter of 81 MMcfe (71 MMcf of gas and 1,715 barrels of oil/condensate) was derived from the Williams No. 2 well on the Mystic Bayou Field.

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

Net production (in MMcfe)	Mar 2017 Quarter	Dec 2016 Quarter	% Increase/ Decrease
Jeanerette Field – ASF No.4	-	-	-
Mystic Bayou Field – Williams No.2	81	97	(16%)
Total	**81**	**97**	**(16%)**

Revenues and Cashflow

Petsec Energy generated net oil and gas revenues of US$313,000 for the March 2017 quarter. This was 18% lower than that achieved in the December 2016 quarter (US$384,000) due to lower production coupled with lower oil and natural gas prices received.

The Company realised an average gas equivalent sales price of US$3.86/Mcfe for its production in the current quarter – receiving US$50.15/bbl and US$3.20/Mcf for its oil/condensate and natural gas production, respectively. This compares to an average gas equivalent sales price of US$3.96/Mcfe (US$57.94/bbl and US$2.79/Mcf for its oil/condensate and natural gas production, respectively) achieved in the previous quarter.

The Company recorded negative EBITDAX of US$2.4 million for the March 2017 quarter (December 2016 quarter: negative EBITDAX of US$2.9 million), reflecting 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 March 2017, the Company's cash balance of US$10.2 million (A$13.4 million) was US$2.9 million lower than the 31 December 2016 cash balance of US$13.1 million (A$18.2 million). The cash deposits which are predominantly held in US dollars include secured deposits of US$3.3 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 to 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 March 2017, the Company had drawn down US$5 million on the facility.

Subsequent Events

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 (before costs) in total through the issue of up to 73.9 million new shares.

The offer closed on 12 December 2016 with 49,705,710 shares representing 67.3% of the 73.9 million shares offered being taken up. A further 2,906,318 shares were issued on 12 January 2017 in respect of the offer.

Subsequent to the end of the March 2017 quarter, the Company completed the placement of 20 million shortfall shares under the underwriting and sub-underwriting arrangements, raising a further A$3.0 million (before costs) and increasing the total number of shares quoted on the ASX to 320,287,924.

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 comparatively steady with the previous quarter, trading at approximately US$53.62/bbl and US$53.55/bbl, respectively on 18 April 2017 (US$54.05/bbl and US$53.20/bbl, respectively on 19 January 2017).

U.S. natural gas spot prices trended lower in the March 2017 quarter, trading in a range between US$2.56 and US$3.41/MMBtu. NYMEX futures contracts for delivery in May 2017 were trading at approximately US$3.15/MMBtu.

The NYMEX 12 month and 36 month forward strip prices for U.S. natural gas were relatively flat at approximately US$3.36/MMBtu and US$3.07/MMBtu, respectively on 18 April 2017 (US$3.41/MMBtu and $3.14/MMBtu, respectively on 19 January 2017).

The U.S. Energy Information Administration estimates for working natural gas in storage for the week ending 7 April 2017 was 2,061 Bcf, 416 Bcf or 16.8% lower than the level a year ago and 263 Bcf or 14.6% 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 4.4 MMcfpd and 103 bcpd for the March 2017 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 December 2016 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 20.5 MMcfpd recorded.

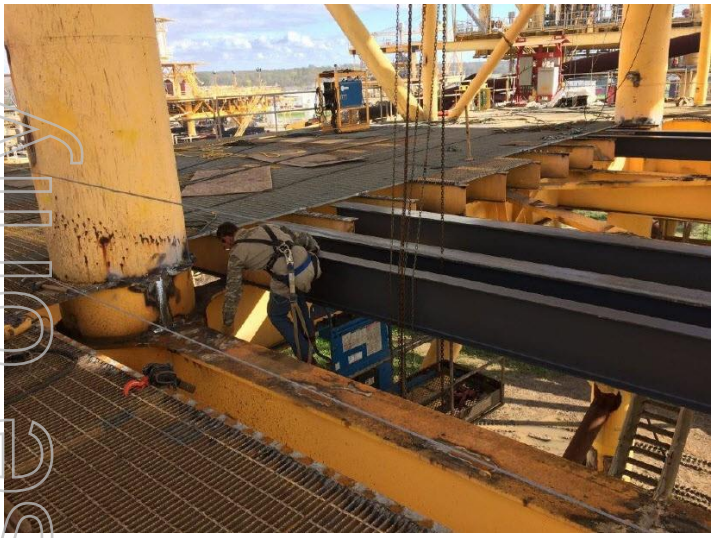
Well logs indicate additional potential reservoirs in the well, but a decision was made not to run additional tests at this time. These untested sands will be targets of future drilling on the Hummer project. Significant production occurs for similar reservoirs along trend with peak production rates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

The well has been temporarily suspended pending the design, fabrication and installation of permanent production facilities and pipelines.

A turnkey contract was awarded in January 2017 for the design, engineering, modification, and fabrication of production facilities, and installation of the platform deck onto the already installed jacket for the Hummer Main Pass Block 270 "B" production platform and for the planning, installation and hook-up of the pipelines connecting the platform to gas and oil sales pipelines.

The initial design capacity of the facilities will be 50 MMcfpd plus 1,000 bopd to accommodate the discovery well, Main Pass 270 No.3 BP1. The facility design allows for production capacity to be expanded to accommodate increased production from additional wells drilled from the "B" platform and proposed proximal well head platforms.

A four pile deck has been acquired and is currently being modified to accommodate the designed facilities and for future expansion of production (see below photograph). Design of the production facilities has been completed and purchase orders for long lead time equipment have been executed. Planning is underway for the installation of pipelines to connect the platform to nearby existing oil and gas sales pipelines.



Main Pass 270/273/274 Hummer Project: Cellar deck structural modifications – Main Pass Block 270 "B" production platform

The Hummer Project is scheduled to commence first production late in the 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 with more than 85% of the country now under the control of the Gulf Coast Coalition (GCC) and internationally backed Government. All key oil fields and production hubs are now back under Government control, including the Masila, Marib and Shabwah Basins. The southern coast and its associated ports and export facilities, including Al Mukalla, Ash Shihr, Bal Haf, Bir Ali and Aden are in the process of resuming normal operations.

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 shipments of crude oil are now taking place with increasing regularity 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 December 2016 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 580 km East to the Masila Basin Pipeline Hub.

Crude oil is transported from the hub through the Masila 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.

Truck loading facilities are being constructed and are expected on site at the An Nagyah Oilfield in the June quarter. Once erected, oil production can commence and the crude transported by truck.

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 – June 2017 Quarter

USA

In the June 2017 quarter, the main activity will be the fabrication and installation of production facilities and pipelines for the Hummer Project to meet the scheduled commencement of gas/oil production late in the third quarter of 2017 from the Hummer discovery well,

MENA – Yemen

The focus of Yemen operations will be the restart of oil production at the An Nagyah Oilfield, with the objective of achieving commercial production in Q3 2017.

In the coming quarter management will be focused on completing negotiations covering trucking, pipeline access, storage and shipping contracts for An Nagyah oil production.

At the oil field preparations will continue for commercial oil production and trucking of produced oil from the An Nagyah CPF including installation of an oil tanker loading facility which is currently being constructed.

Financial Summary and Production Data

Unaudited preliminary financial data			Mar 2017 Quarter	Dec 2016 Quarter	% Increase/ (decrease)	Three months to Mar 2017	Three months to Mar 2016	% Increase/ (decrease)
Financials								
Net revenue		US$000	**313**	384	(18%)	**313**	195	61%
Other revenue/(expense)		US$000	**11**	4		**11**	148	
Lease operating expenses		US$000	**(801)**	(873)		**(801)**	(999)	
Geological, geophysical & administrative expenses (GG&A)		US$000	**(1,940)**	(2,375)		**(1,940)**	(1,673)	
EBITDAX		US$000	**(2,417)**	(2,860)	n/a	**(2,417)**	(2,329)	n/a
Cash [1]			**10,200**	13,077	(22%)	**10,200**	10,893	(6%)
Acquisition, exploration & development expenditure								
Acquisition		US$000	**51**	-		**51**	200	
Exploration		US$000	**-**	1,255		**-**	81	
Development		US$000	**1,931**	281		**1,931**	379	
Total		US$000	**1,982**	1,536	29%	**1,982**	660	200%
Production (MMcfe)	**W.I.**	**N.R.I**						
USA								
Onshore Louisiana								
Mystic Bayou Field	25%	18.5%	**81**	97		**81**	65	
Jeanerette Field	12.5%	9.0%	**-**	-		**-**	-	
Total		MMcfe	**81**	97	(16%)	**81**	65	25%
Unit revenue/cost analysis per Mcfe (US$)								
Oil/Condensate per barrel		US$	**50.15**	57.94	(13%)	**50.15**	34.03	47%
Gas per Mcf		US$	**3.20**	2.79	15%	**3.20**	2.40	33%
Average sales price per Mcfe		US$	**3.86**	3.96	(2%)	**3.86**	3.00	29%
Other revenue/(expense) per Mcfe		US$	**0.14**	0.04		**0.14**	2.28	
Lease operating expense per Mcfe		US$	**(9.89)**	(9.00)		**(9.89)**	(15.37)	
GG&A expense per Mcfe		US$	**(23.95)**	(24.48)		**(23.95)**	(25.74)	
EBITDAX per Mcfe		US$	**(29.84)**	(29.48)	n/a	**(29.84)**	(35.83)	n/a

[1] *March 2017 cash includes restricted cash deposits of US$3.3 million used to guarantee certain future rehabilitation obligations (December 2016: US$3.6 million; March 2016: US$3.7 million).*

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

For further information, please contact:

Paul Gahdmar
Company Secretary & Group Financial Controller
Petsec Energy Ltd
Level 13, 1 Alfred Street
Sydney, NSW 2000
Telephone: + 61 2 9247 4605
Facsimile: + 61 2 9251 2410

Manny Anton
Head of Investor Relations & Corporate Development
Petsec Energy Ltd
Level 13, 1 Alfred Street
Sydney, NSW 2000
Telephone: + 61 2 9247 4605
Facsimile: + 61 2 9251 2410