Petsec Energy Ltd

September 2017 Quarter Results

Petsec Energy

Financials

Comparative Performance		Current Quarter Sep 2017	Previous Quarter Jun 2017	% Change	Corresponding Quarter Sep 2016	% Change
Net production	MMcfe	**67**	77	(13%)	111	(40%)
Average sales price	US$/Mcfe	**3.72**	4.06	(8%)	3.40	9%
Net revenue	US$000	**251**	313	(20%)	377	(33%)
EBITDAX [1]	US$000	**(1,380)**	(254)	n/a	(2,364)	n/a
Cash [2]	US$000	**6,927**	9,239	(25%)	6,201	12%
Debt (convertible note) [3]	US$000	**5,393**	4,493	20%	-	-
AE&D expenditure [4]	US$000	**630**	2,137	(71%)	26	2,323%
US$/A$ closing exchange rate		**0.7835**	0.7676	2%	0.7666	2%

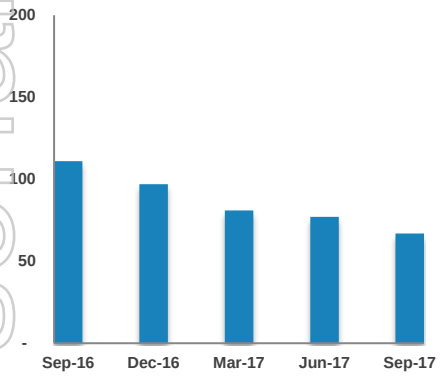
1 Earnings before interest, income tax, depreciation, depletion and amortisation, and exploration (including dry hole, impairment and abandonment expense, seismic and work-over expense). EBITDAX is a non IFRS number and is unaudited.

2 September 2017 cash includes restricted cash amounts of US$3.2 million (June 2017: US$3.2 million; September 2016: US$3.7 million) mainly used to guarantee certain future rehabilitation obligations.

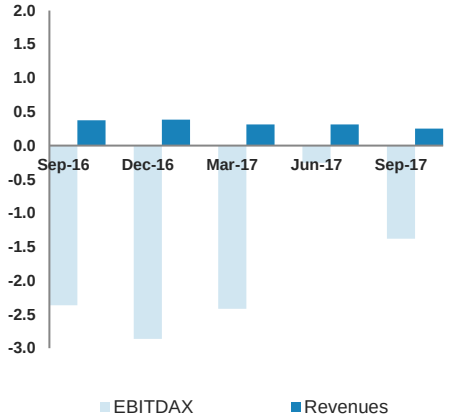
3. Represents liability recognised on the balance sheet at period end.

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

Production — MMcfe



Revenues/EBITDAX — US$m



Key Points

Operations

- Net production from USA operations of 67 MMcfe (61 MMcf of gas and 1,080 barrels of oil/condensate) for the September 2017 quarter.
- USA: Main Pass 270/273/274 Hummer Project – Completion of the modifications to the four pile deck and preparations for loadout expected by mid-October, with first production targeted for mid to late November 2017.
- YEMEN: Damis (Block S-1) – An Nagyah Oilfield restart of production operations remain suspended, awaiting Yemen Government approvals required to recommence production via the trucking of oil.

Financials

- Net oil and gas revenues of US$0.251 million.
- Cash balance of US$6.9 million (including US$3.2 million of restricted deposits).
- US$15 million secured convertible note facility – Redemption date extended to 23 January 2019.

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 Executive – Petsec Energy Inc.
Ross Keogh – President/Group CFO

MENA Executives – 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 September 2017 quarter of 67 MMcfe (61 MMcf of gas and 1,080 barrels of oil/condensate) was derived from the Williams No. 2 well on the Mystic Bayou Field. The Adeline Sugar Factory ("ASF") No. 4 well on the Jeanerette Field remains shut-in.

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

Net production (in MMcfe)	Sep 2017 Quarter	Jun 2017 Quarter	% Increase/ Decrease
Jeanerette Field – ASF No.4	-	-	-
Mystic Bayou Field – Williams No.2	67	77	(13%)
Total	**67**	**77**	**(13%)**

Revenues and Cashflow

Net oil and gas revenues for the September 2017 quarter were US$251,000. This was 20% lower than that achieved in the June 2017 quarter of US$313,000 due to the combination of lower production volumes and lower oil and natural gas prices received.

The Company realised an average gas equivalent sales price of US$3.72/Mcfe for its production in the September 2017 quarter – receiving US$45.37/bbl and US$3.31/Mcf for its oil/condensate and natural gas production, respectively. This compares to an average gas equivalent sales price of US$4.06/Mcfe (US$47.65/bbl and US$3.45/Mcf for its oil/condensate and natural gas production, respectively) achieved in the June 2017 quarter.

The Company recorded negative EBITDAX of US$1.4 million for the current quarter (previous quarter: negative EBITDAX of US$0.3 million). The previous quarter EBITDAX benefited from a US$1.7 million reversal of previously recorded liabilities for lease operating costs associated with the Company's Damis (Block S-1) Production Licence in Yemen.

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

Cash Position

At 30 September 2017, the Company's cash balance of US$6.9 million (A$8.8 million) was US$2.3 million lower than the 30 June 2017 cash balance of US$9.2 million (A$12.0 million). The cash deposits which are predominantly held in US dollars included secured deposits of US$3.2 million primarily held in an escrow account to secure operator bonds that are on issue to the Bureau of Ocean Energy Management ("BOEM").

In late September 2017, the BOEM released an Area Wide bond of US$3 million following the fulfilment by the Company of its remaining plug & abandonment obligations in the Gulf of Mexico. The cash security supporting the bond was released in early October.

Secured Convertible Note Facility

As at 30 September 2017, the Company had drawn down US$5 million on the US$15 million facility.

On 17 August 2017, the Company entered into an agreement with the Registrar (Sing Rim Pte Ltd) of the secured convertible note facility to amend the terms of the facility. The key terms of the variation agreement include:

1. Redemption date amended from 5 July 2018 to 23 January 2019;
2. Interest rate of 12.5% per annum for the period 1 January 2018 to 5 July 2018 extended to 23 January 2019. Interest is capitalised monthly into the note;
3. A note extension facility fee of 5 million fully paid shares in Petsec Energy Ltd (shares have been issued as per Appendix 3B dated 4 September 2017);
4. The expiry date of the 10 million unlisted options previously issued to Sing Rim Pte Ltd, for underwriting the Petsec Energy Ltd rights issue in November 2016, to be extended from 5 July 2018 to 23 January 2019.

On 18 October 2017, the Company was granted a waiver from ASX Listing Rule 6.23.3 to the extent necessary to permit the Company to amend the terms of 10 million options expiring on 5 July 2018 (refer item 4 above), on condition the Company obtains shareholder approval to amend the expiry date of the options to 23 January 2019. The Company intends to seek this approval at the May 2018 Annual General Meeting.

A waiver from ASX Listing Rule 7.3.2 was granted to the Company on 21 October 2016 to allow the Company to issue the convertible notes under the convertible note facility and for their conversion into ordinary shares, at any time up to 31 December 2017. Due to the variation of the terms of the convertible note facility since 28 December 2016, the Company can no longer rely upon the shareholder approval that was obtained at the Extraordinary General Meeting held on 1 December 2016 under ASX Listing Rule 7.1 for the issue and subsequent conversion of the convertible notes into fully paid ordinary shares, at any time up to 31 December 2017.

The Company is therefore required to seek shareholder approval under Listing Rule 7.1 for the conversion of the convertible notes, that have been issued under Tranche 1 of the facility, into ordinary shares, and intends to seek this approval also at the May 2018 Annual General Meeting.

The Company anticipates that Tranches 2 and 3 will not be drawn down and will be allowed to lapse at the expiry date of 5 January 2018.

U.S. Oil and Natural Gas Prices

The NYMEX 12 month and 36 month forward strip prices for WTI crude oil were trading higher at approximately US$52.36/bbl and US$51.37/bbl, respectively on 16 October 2017. This compares to US$48.91/bbl and US$49.65/bbl, respectively on 25 July 2017.

U.S. natural gas spot prices were relatively flat in the September 2017 quarter, trading in a narrow range between US$2.77 and US$3.15/MMBtu. NYMEX futures contracts for delivery in November 2017 were trading at approximately US$2.96/MMBtu.

The NYMEX 12 month and 36 month forward strip prices for U.S. natural gas were trading at approximately US$3.05/MMBtu and US$2.95/MMBtu, respectively on 25 July 2017 (US$3.03/MMBtu and $2.88/MMBtu, respectively on 25 July 2017).

According to U.S. Energy Information Administration estimates, working natural gas in storage as of 6 October 2017 was 3,595 Bcf. This was 153 Bcf or 4.1% lower than the 3,748 Bcf reported last year at the same time and generally in line with the 5-year average.

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.

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 (18.50% 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 3.7 MMcfpd and 65 bcpd for the September 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 19.88 MMcfpd (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 the 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.

Following the production test the well was suspended pending installation of the deck, 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 installation and hook-up of the pipelines connecting the platform to gas and oil sales pipelines. A four pile deck (see photo below) was acquired for this purpose and has been modified to accommodate the designed facilities and future expansion.

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.

The estimated date to complete construction and modifications and be ready for loadout is mid-October 2017, with first production targeted for mid to late November 2017.

Main Pass 270/273/274 Hummer Project: MP 270 "B" deck

MENA

The Company has been focused on securing government approvals to allow the re-start of oil production from the An Nagyah Oilfield located within the Company's Damis Block S-1, in Yemen, which the Company acquired in the first quarter of 2016. The Marib Export Pipeline which transported all Marib Basin oil production, has not been in operation since 2015 due to the GCC led embargo on oil liftings from the Red Sea terminal of Ras Isa, as it has been under control of the Houthi rebel movement. This has forced the Company to look at alternative transport options including trucking to the Masila Basin Pipeline Hub to the east of our blocks and export via the Ash Shihr Terminal on the Gulf of Aden coastline.

The internationally recognised Yemen Government led by President Hadi has requested that oil producers in southern Yemen restart production as soon as possible.

The Company has been planning to respond to the Hadi government's call to truck oil to the Masila Basin, and since the beginning of 2017 has been seeking government consent to modify the Company's currently approved development plan to use the Marib Pipeline, to allow trucking of crude oil to the Masila Basin facilities as an alternative. The Company has actively worked towards preparing the An Nagyah oil field for the restart and ramp up of production and the delivery of crude oil by trucking to the now operating Masila Basin production hub. On-site operating staff, qualified trucking contractor, and accommodation in the Petro Masila facilities, are all available. However contracts and restart of production cannot be concluded until the receipt of Hadi Government approval to truck to the Masila Basin facilities, in that it effects cost recovery for the Company and access to Yemen government owned facilities.

As a result and until such time as the government delivers those approvals to support Marib production and delivery to the Masila Basin facilities, the operations to restart oil production at the An Nagyah Oilfield remain suspended.

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 government approved 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 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]). 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. 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)

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 that will be developed by the Company, 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 the An Nagyah Oilfield which 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. The An Nagyah Oilfield at the time of initial production some 10 years ago had some 50 MMbbl of recoverable oil of which about 50% remains to be recovered.

The audited reserves, which can be recovered at an initial restart production rate of 5,000 bopd in the remaining period of the production licence, are assessed to be 12.8 MMbbl (2P) gross of which the financial net to Petsec Energy is 5.6 MMbbl of oil, having an NPV10 value of US$155 million at 1 January 2017. The Company is planning to commence production at 5,000 bopd and within 12 months increase production to 10,000 bopd, from currently suspended wells.

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, the Company has been pursuing an alternative transport option which would allow An Nagyah oil production to be trucked 530 km East to the Masila Basin Pipeline Hub.

As part of the trucking strategy the Company contracted with leading U.S. engineering firm S&S Technical Inc. for the manufacture of a 5,000 bopd oil tanker loading equipment to be installed at the An Nagyah CPF. The manufacture and assembly testing of the equipment was completed in the second quarter 2017.The truck loading equipment is disassembled and packed for shipping. Timing of shipment is predicated on receipt of the Hadi government approvals to truck to the Masila Basin facilities.

The successful restart of oil production from An Nagyah and transport of crude oil by way of truck to the Masila Basin oil loading facilities remains subject to the receipt of Hadi Government and Ministerial approvals to use the Masila Basin facilities which include truck unloading, pipeline, storage/shipment of crude oil from the Southern Port of Ash Shihr, near the city of Al Mukalla.

Restart operations will remain suspended until receipt of the required Hadi Government approvals which have been pending since early 2017.

On receipt of those approvals it is possible that a restart of production can occur within four months of the recommencement of ramp up operations.

1 Source: Wood Mackenzie Asia Pacific Pty Ltd

Proposed Activities – December 2017 Quarter

USA

In the December 2017 quarter, the main activity will be completion of the fabrication and installation of production facilities for the Hummer Project to meet the scheduled commencement of gas/oil production mid to late November 2017 from the Hummer discovery well.

MENA – Yemen

In the December quarter, management will continue to focus on securing the necessary Government and Ministerial approvals to allow the completion of negotiations covering trucking, pipeline access, storage, and shipping contracts to allow An Nagyah oil production to restart.

Financial Summary and Production Data

Unaudited preliminary financial data			Sep 2017 Quarter	Jun 2017 Quarter	% Increase/ (decrease)	Nine months to Sep 2017	Nine months to Sep 2016	% Increase/ (decrease)
Financials								
Net revenue		US$000	**251**	313	(20%)	**877**	707	24%
Other revenue/(expense)		US$000	**(9)**	-		**2**	192	
Lease operating expenses		US$000	**(139)**	1,882		**942**	(2,248)	
Geological, geophysical & administrative expenses (GG&A)		US$000	**(1,483)**	(2,449)		**(5,872)**	(5,130)	
EBITDAX		US$000	**(1,380)**	(254)	n/a	**(4,051)**	(6,479)	n/a
Cash [1]		US$000	**6,927**	9,239	(25%)	**6,927**	6,201	12%
Debt (convertible note facility) [2]		US$000	**5,393**	4,493	20%	**5,393**	-	n/a
Acquisition, exploration & development expenditure								
Acquisition		US$000	**17**	70		**138**	2,985	
Exploration		US$000	**-**	-		**-**	93	
Development		US$000	**613**	2,067		**4,611**	885	
Total		US$000	**630**	2,137	(71%)	**4,749**	3,963	20%
Production (MMcfe)	**W.I.**	**N.R.I**						
USA								
Onshore Louisiana								
Mystic Bayou Field	25%	18.5%	**67**	77		**225**	215	
Jeanerette Field	12.5%	9.0%	**-**	-		**-**	1	
Total		MMcfe	**67**	77	(13%)	**225**	216	4%
Unit revenue/cost analysis per Mcfe (US$)								
Oil/Condensate per barrel		US$	**45.37**	47.65	(5%)	**48.05**	38.17	26%
Gas per Mcf		US$	**3.31**	3.45	(4%)	**3.32**	2.60	28%
Average sales price per Mcfe		US$	**3.72**	4.06	(8%)	**3.90**	3.27	19%
Other revenue/(expense) per Mcfe		US$	**(0.13)**	-		**0.01**	0.89	
Lease operating expense per Mcfe		US$	**(2.07)**	24.44		**4.19**	(10.41)	
GG&A expense per Mcfe		US$	**(22.13)**	(31.81)		**(26.10)**	(23.75)	
EBITDAX per Mcfe		US$	**(20.61)**	(3.31)	n/a	**(18.00)**	(30.00)	n/a

1 *Sep 2017 cash includes restricted cash deposits of US$3.2 million mainly used to guarantee certain future rehabilitation obligations (Jun 2017: US$3.2 million; Sep 2016: US$3.7 million).*

2 *Represents liability recognised on the balance sheet at period end.*

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

Company Reserve Assessments

The Company's An Nagyah oil reserve assessments provided within this report are based on the information contained with the announcements released to the ASX on 24 February 2017 and reproduced in the 2016 Annual Report.

The Company confirms that it is not aware of any new information or data that materially affects the information included within that announcement, and that all the material assumptions and technical parameters underpinning the estimates therein continue to apply and have not materially changed.

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