

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\$/Mcf	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%
AE&D expenditure ⁴	US\$000	9	(52)	n/a	2,598	(100%)
Closing exchange rate	USD/AUD	0.7030	0.6746	4%	0.7046	-

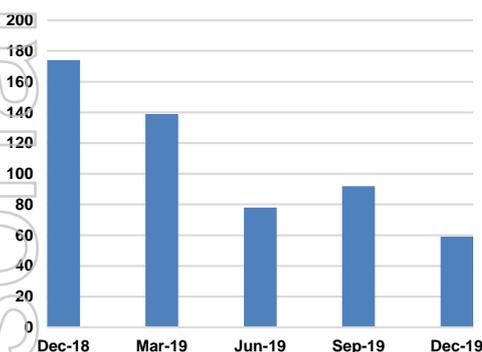
1 Earnings before interest, income tax, depreciation, depletion and amortisation, and exploration (including dry hole, impairment and abandonment expense, seismic and work-over expense). EBITDAX is a non IFRS number and is unaudited.

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).

Production - MMcfe



Revenues/EBITDAX — US\$m



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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Executive Chairman
Terrence Fern

Managing Director
Syed Bokhari

Non-executive Directors
David Mortimer
Alan Baden

Management

Petsec Energy Ltd
Syed Bokhari – Managing Director
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
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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\$2.52/Mcfe (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 Sing 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\$2.16/MMBtu 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 bcopd 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 bcopd 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.

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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Certain statements in this report regarding future expectations and plans of the Company may be regarded as "forward-looking statements". Although the Company believes that its expectations and plans are based upon reasonable assumptions, it can give no assurance that its goals will be met. Actual results may vary significantly from those anticipated due to many factors, including oil and gas prices, operating hazards, drilling risks, environmental risks and uncertainties in interpreting engineering and other data relating to oil and gas reservoirs, as well as other risks.