

Petsec Energy Ltd

June 2014 Quarter Results



Financials

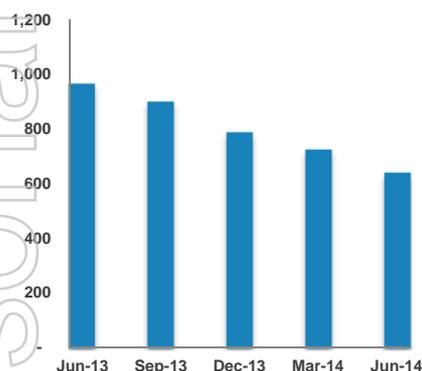
Comparative Performance		Current Quarter Jun 14	Previous Quarter Mar 14	% Change	Corresponding Quarter Jun 13	% Change
Net production	MMcfe	641	726	(12%)	966	(34%)
Average sales price	US\$/Mcf	4.95	5.43	(9%)	4.74	5%
Net revenue	US\$m	3.2	3.9	(19%)	4.6	(31%)
EBITDAX ¹	US\$m	1.4	2.0	(31%)	2.7	(49%)
Cash ²	US\$m	28.2	27.3	3%	24.2	17%
AE&D expenditure ³	US\$m	2.7	0.03	n/a	1.8	46%
US\$/A\$ closing exchange rate		0.9426	0.9274	2%	0.9142	3%

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.

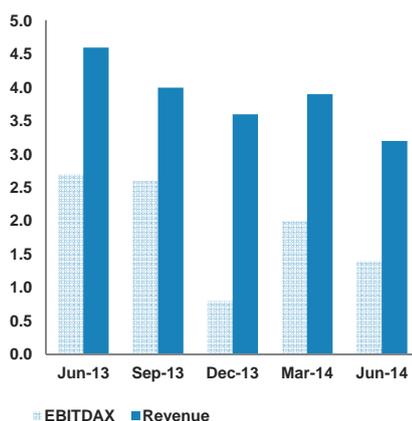
² Jun 2014 cash includes restricted cash amounts of US\$5.3 million (Mar 2014: US\$5.3 million; Jun 2013: US\$5.3 million) used to guarantee certain future rehabilitation obligations.

³ Acquisition, exploration and development expenditure.

Production — MMcfe



EBITDAX/Revenues — US\$m



Highlights

Operations

- Adeline Sugar Factory ("ASF") No. 4 prospect – successfully drilled and brought into production on 30 June 2014
- Block 7, Al Barqa Permit, in the Republic of Yemen – Petsec Energy Participating Interest increased to 29.75% following the execution of an agreement with Mitsui E&P Middle B.V. to acquire its 8.5% Participating Interest in the block
- Commencement of plug and abandonment of wells and facilities on the Chandeleur Area 31/32 leases

Financial

- Net production of 641 MMcfe for the June 2014 quarter
- Net oil and gas revenues of US\$3.2 million – average natural gas equivalent sales price received of US\$4.95/Mcfe
- Cash of US\$28.2 million and no debt

Subsequent Events

Marathon and Main Pass 270 interests sold for US\$17 million cash plus the right of participation in four of the Purchaser's high potential exploration prospects

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 Texas and Louisiana, USA, and Yemen.

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Financial

Production, Revenues and Cashflow

Net production during the June 2014 quarter of 618 million cubic feet of gas and 3,760 barrels of oil/condensate (equivalent to 641 MMcfe), from Petsec Energy's producing fields located in the Louisiana Gulf Coast and the Gulf of Mexico, USA. Refer to table below and "Operations" section for further details on production from the various fields.

	Jun 2014 Quarter	Mar 2014 Quarter	% Increase/ Decrease
Net production (in MMcfe)			
Marathon	496	548	(9%)
Main Pass 270	89	105	(15%)
Main Pass 18/19	56	73	(23%)
Total	641	726	(12%)

An average gas equivalent sales price of US\$4.95/Mcfe (including hedging) was realised for the June 2014 quarter, 9% lower than the US\$5.43/Mcfe achieved by the Company for the March 2014 quarter. The Company received average sales prices of US\$4.53/Mcf and US\$100.80/bbl for its natural gas and oil/condensate production, respectively for the June 2014 quarter (March 2014 quarter: US\$4.96/Mcf and US\$104.52/bbl).

The Company had hedged approximately 36% of its natural gas production volumes for the quarter at an average sales price of approximately US\$4.18/Mcf. The Company received an average sales price of US\$4.73/Mcf for its unhedged natural gas production.

Net oil and gas revenues for the June 2014 quarter of US\$3.2 million were 19% lower than the previous quarter, reflecting the combined effect of the lower production and sales prices. Similarly, EBITDAX decreased to US\$1.4 million (March 2014 quarter: US\$2.0 million) and the EBITDAX margin decreased to US\$2.13/Mcfe (March 2014 quarter: US\$2.74/Mcfe).

Unit lease operating expense was slightly lower at US\$1.03/Mcfe (March 2014 quarter: US\$1.08/Mcfe). Geological, geophysical & administrative expense increased to US\$1.67/Mcfe (March 2014 quarter: US\$1.37/Mcfe), mainly reflecting an increase in labour/service costs coupled with the lower production for the quarter.

June 2014 quarter capital expenditures totalled US\$2.8 million and mainly related to the drilling and completion cost of the Adeline Sugar Factory No. 4 well, and the recompletion cost of the Main Pass G-6 well.

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

Cash Position

The Company's cash position at 30 June 2014 was US\$28.2 million (A\$29.9 million), up 3% on the 31 March 2014 cash balance of US\$27.3 million (A\$29.4 million). The cash deposits which are predominantly held in US dollars include US\$5.3 million held in an escrow account to secure operator bonds that are on issue to the Bureau of Ocean Energy Management ("BOEM").

Hedging

From time to time, the Company utilises certain hedging instruments to manage a portion of its oil and gas sales price risks.

At 30 June 2014, the following natural gas swap hedge contracts were in place:

Production period	Hedge types	Total MMBtu volume	Weighted average US\$ Price/MMBtu
July – December 2014	Swaps	460,000	\$4.19

Natural Gas Market

U.S. natural gas prices trended lower during the June 2014 quarter due to the mild summer weather and strong gas production, which has led to large levels of injections of gas into storage over recent weeks.

The NYMEX 12 month and 36 month forward strip prices for natural gas traded lower at US\$4.09/MMBtu and US\$4.14/MMBtu, respectively on 16 July 2014. This compares to the relative forward strip prices traded of US\$4.69/MMBtu and US\$4.40/MMBtu, respectively on 10 April 2014.

As of 4 July 2014, the U.S. Energy Information Administration estimate of working natural gas in storage was 2,022 Bcf – 653 Bcf or 24.4% lower than the 2,675 Bcf reported last year at the same time and 769 Bcf or 27.6% below the 5-year average.

Operations

Production

Marathon Gas/Condensate Field – Atchafalaya Bay
Petsec: 8% working interest (5.84% net revenue interest)

The Marathon gas/condensate field located in the Atchafalaya Bay on the Louisiana Gulf Coast, USA was discovered in October 2010 and commenced production in December 2010. The field has been fully developed with a total of five wells, all of which are in production. Average gross daily production from the field over the June 2014 quarter was approximately 92.4 MMcf of gas and 311 bbls of oil/condensate.

Main Pass 270
Petsec: 22.5% working interest (18.75% net revenue interest)

The Company's interest in the Main Pass 270 gas/condensate field, located in the Gulf of Mexico, USA, was acquired in November 2007. The field was discovered in 2003 and currently has three producing wells.

Average gross daily production from the field over the June 2014 quarter was approximately 4.72 MMcf of gas and 126 bbls of oil/condensate.

Main Pass 18/19
Petsec: 100% / 55% working interest (83.333% / 45.833% net revenue interest)

The Main Pass 18/19 fields are located in the Gulf of Mexico, USA, and were discovered in 2005 and 2006. The Company drilled a total of seven wells on the fields over that period – two wells are producing.

In March 2014, the Main Pass 18 G-6 well was shut-in due to sand production. The well was recompleted in June 2014 at a cost of US\$1.1 million and was returned to production for a few

days before loading up with fluid and ceasing production. Efforts to restore the well to production are ongoing.

Average gross daily production from the Main Pass 18/19 fields over the June 2014 quarter was approximately 1.36 MMcf of gas and 0 bbls of oil/condensate.

Exploration/Development

Adeline Sugar Factory No. 4 Well – Jeanerette Field Petsec: 12.5% working interest (9% net revenue interest)

During the June 2014 quarter, the Company participated in the drilling of the Adeline Sugar Factory (“ASF”) No. 4 well for a 12.5% working interest. The ASF No. 4 is an onshore exploration well located in Jeanerette Field in St. Mary Parish, Louisiana which was spud on 12th March 2014.

The ASF No. 4 well reached a total depth of 15,300 feet (4,663 metres) in early May 2014 with wireline logging indicating a gas/condensate discovery in the primary objective lower Miocene sands.

The well was tested at a peak flow rate of 15.8 MMcfpd and 105 bcpd through a 16/64th choke, at a flowing tubing pressure of 7,890 pounds per square inch in June 2014.

The well commenced production on 30 June 2014 and is currently producing at a rate of approximately 8.0 MMcfpd and 50 bcpd on an 11/64th inch choke.

Acquisition

Block 7, Al Barqa Permit, Republic of Yemen



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 capital of Yemen. The block is operated by Australia's Oil Search Limited and contains the Al Meashar oil discovery as well as an inventory of leads and prospects defined by 2D and 3D seismic surveys, which hold significant oil potential.

On 30 May 2014, the Company announced that it had executed an agreement with Mitsui E&P Middle East B.V. to acquire its 8.5% Participating Interest in the Block 7, Al Barqa Permit, in the Republic of Yemen. The Mitsui agreement follows the agreement executed with AWE Limited announced in the previous quarter, to acquire AWE's Participating Interest of 21.25% in Block 7.

The terms of the transaction include a cash consideration of US\$0.4 million, the replacement of Mitsui E&P Middle East B.V.'s existing Letter of Credit with the Arab Bank, and working capital adjustments on completion. Completion of the transaction is subject to customary approvals from the Joint Venture Partners, the Yemen government and the state owned Yemen Oil and Gas Company. Both the Mitsui and the AWE agreements will be presented together to the Yemen government for approval.

Subsequent Event – Asset Divesture

On 7 July 2014, Petsec Energy announced that it had agreed to sell its working interests in the Marathon and Main Pass 270 fields, together with certain associated exploration interests, to a privately held U.S. exploration and production company (“Purchaser”).

The transaction which has an effective date of 1 January 2014 was completed on 14 July 2014, delivering US\$17 million in cash to Petsec Energy and the right of participation in four of the Purchaser's high potential South Louisiana exploration prospects, including the Adeline Sugar Factory (“ASF”) No. 4 prospect, successfully drilled and brought into production in June 2014 – see “Exploration/Development” section for further details.

The assets sold by the Company pursuant to the transaction are:

- All of Petsec's production and exploration rights in the Marathon field
- All of Petsec's interests in the Main Pass 270 producing wells
- Assignment of working interests in the exploration rights on Main Pass 270, Main Pass 273 and Main Pass 274
- Petsec shall retain a 12.5% working interest in the exploration rights in Main Pass 270, 273 and 274

The Company's share of revenues derived and lifting costs incurred, in respect of the Marathon and Main Pass 270 fields, from 1 January 2014 through to the closing date of the transaction, will be reported in the financial statements and adjusted against the US\$17 million cash consideration amount. Proceeds from the transaction will fund future exploration projects in the onshore and state waters of the Gulf Coast.

Further details on the sale transaction are contained within the announcements made to the ASX on 7 July and 16 July 2014.

Proposed Activities – September 2014 Quarter USA

Decommission Chandeleur Area 31/32 platform and facilities.

Progress existing drilling opportunities and review other exploration opportunities for participation in subsequent quarters.

Yemen

Airborne gravity and magnetics data acquisition covering the entire permit for structural geology and basement studies.

Facilities design and preparation for long term testing of the Al Meashar oil discovery.

Preparation to shoot a 250 line km 2D seismic survey to the East of the Al Meashar oil discovery.

Financial Summary and Production Data

Unaudited preliminary financial data		Jun 14 Quarter	Mar 14 Quarter	% Increase/ (decrease)	Six months to Jun 14	Six months to Jun 13	% Increase/ (decrease)
Financials							
Net revenue	US\$000	3,176	3,942	(19%)	7,118	8,817	(19%)
Other revenue/(expense)	US\$000	(74)	(177)		(251)	82	
Lease operating expenses	US\$000	(658)	(785)		(1,443)	(1,642)	
Geological, geophysical & administrative expenses (GG&A)	US\$000	(1,071)	(995)		(2,066)	(2,416)	
EBITDAX	US\$000	1,373	1,985	(31%)	3,358	4,841	(31%)
Cash ¹		28,212	27,276	3%	28,212	24,185	17%
Acquisition, exploration & development expenditure							
Acquisition	US\$000	7	-		7	-	
Exploration	US\$000	22	10		32	2,582	
Development	US\$000	2,643	20		2,663	2,032	
Total	US\$000	2,672	30	n/a	2,702	4,614	(41%)
Production (MMcfe)							
		W.I.	N.R.I.				
Offshore Gulf of Mexico							
Main Pass 18/19 ²	100%/55%	83.33%/45.83%	56	73	129	308	
Main Pass 270 ³	22.5%	18.75%	89	105	194	367	
Chandeleur 31/32 ⁴	100%	81.83%	-	-	-	100	
Onshore/Coastal Louisiana ³	8%-12.5%	5.84% - 9%	496	548	1,044	1,182	
Total		MMcfe	641	726	1,367	1,957	(30%)
Unit revenue/cost analysis per Mcfe (US\$)							
Oil/Condensate per barrel	US\$	100.80	104.52		102.84	107.89	
Gas per Mcf	US\$	4.53	4.96		4.76	3.94	
Average sales price per Mcfe	US\$	4.95	5.43	(9%)	5.21	4.51	16%
Other revenue/(expense) per Mcfe	US\$	(0.12)	(0.24)		(0.18)	0.04	
Lease operating expense per Mcfe	US\$	(1.03)	(1.08)		(1.06)	(0.84)	
GG&A expense per Mcfe	US\$	(1.67)	(1.37)		(1.51)	(1.23)	
EBITDAX per Mcfe	US\$	2.13	2.74	(22%)	2.46	2.48	(1%)

¹ Jun 2014 cash includes restricted cash deposits of US\$5.3 million used to guarantee certain future rehabilitation obligations (Mar 2014: US\$5.3 million; Jun 2013: US\$5.3 million)

² Operated by Petsec Energy

³ Working interests sold effective 1 January 2014 – production amounts to-date will form part of the purchase price adjustment at the close of the sale transaction on 14 July 2014

⁴ Chandeleur 31/32 field reached the end of its productive life in August 2013 and is currently undergoing permanent plug and abandonment operations.

Glossary

Bcfe = billion cubic feet of gas equivalent
 Bcpd = barrels of condensate per day
 Mcf = thousand cubic feet of gas
 Mcfe = thousand cubic feet of gas equivalent
 MMbbl = million barrels
 MMcfe = million cubic feet of gas equivalent
 MMcpd = million cubic feet of gas per day

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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.