

**PETREL ENERGY LIMITED  
ACTIVITIES REPORT  
FOR THE QUARTER ENDED 31 MARCH 2018**

**HIGHLIGHTS**

- Petrel increases interest in Spain to 97.5% in exchange for transferring a controlling interest in its Uruguay Project to current partner SIH (PRL 49% : SIH 51%)
- SIH to immediately fund Uruguay with up to US\$500k in return for a further 8% interest in Uruguay Project (PRL 41% : SIH 59%)
- Positive engagement with a number of counterparties in data room
- Importantly partner process continues with five weeks to introduce a new funding partner into the Uruguay Project on equal terms to both Petrel and SIH
- Additional opportunity for SIH to fund up to another US\$1.5m in coming months in return for a further 9.5% interest in Uruguay Project (PRL 31.5% : SEI 68.5%)
- Rights issue completed





## **URUGUAY OPERATIONS**

*Targeting conventional oil/gas targets in Piedra Sola and Salto Concessions (3.5 million acres)*

### **Funding**

With a significant shortfall in its recent Rights Issue to fund its Uruguay asset going forward, Petrel has been able to agree an interim funding strategy with its current partner.

On 27 April 2018 shareholders of Schuepbach Energy International LLC ("SEI") agreed that Petrel would transfer 13.7% of its 62.7% interest in Schuepbach International Holdings ("SIH") in return for Petrel receiving all interests in the Tessorillo Project, being shares in Schuepbach Energy Espania S.L.U. ("SEE"). As a result, Petrel's interest in the Tessorillo Project increases from 62.7% to 97.5% and its interest in Uruguay reduces from 62.7% to 49%.

The effect of this transaction is to eliminate further investment in Petrel's Uruguayan asset in the short term and increase Petrel's interest in its Spanish asset.

After having to increase its interest to cover previous funding shortfalls in December 2018, Petrel's reduced interest in its Uruguayan asset is now more in line with the level of risk and exposure acceptable in, notwithstanding the very exciting results to date, what is still a frontier basin.

Funding in Spain will be minimal as Petrel's 97.5% interest in SEE / Tessorillo Project will reduce to 50.1% upon completion of Prospex Share Purchase Agreement ("PSPA") which will see two magnetotelluric programmes (MT) and if successful a well targeting the Almarchal-1 discovery drilled in 1956.

SIH will have the option to immediately invest up to \$500,000, as preferred capital convertible to repay outstanding liabilities in return for a further 8% interest in SEI. SIH may elect to convert this preferred capital no later than 28 September 2018.

Importantly Petrel still has five weeks to complete its partner process, which is ongoing with active groups in the data room, and negotiate a Letter of Intent for a new funding partner for the Uruguay Project. Any transaction will require ANCAP approval and dilution will be proportionate to SEI unit holdings at the time the transaction is completed.

If Petrel fails to negotiate a Letter of Intent with a new funding partner for the Uruguay Project, then a new Joint Venture Agreement will be agreed allowing SEI unitholders to hold their interests directly in the Uruguay Project assets. SIH will have the right to exclusively fund the new Joint Venture (JV) for \$1,500,000 which could increase its interests 9.5% to 68.5% if all contributions above had been made.



## **Operations**

### *Background*

Operator Schuepbach Energy International LLC (SEI) (PRL 49%) finalised the drilling contract with New Force Energy Services Inc. in December 2016 with the rig mobilised to site in May with Cerro Padilla-1 spudding in early June 2017. After the setting of surface casing and installing the BOP operational approvals were received from the relevant authorities for drilling by mid-August.

On 28 August with only 10m of basalt remaining and 3-5 days of drilling ahead before setting casing, the drill string parted and drilling was again temporality suspended. Initial fishing operations were partially successful with additional equipment ordered from the US to complete fishing operations. These delays in the field incurred rig rates at stand-down, standby or full drilling rates along with operational and general overhead leading to further funds being required.

A number of these challenges could have and should have been better managed, and it was decided to undertake an independent review of drilling operations and management processes. This was undertaken by international experts New Tech Global Ventures (NTG), headquartered in Houston, who then went on to manage the successful fishing operation. Soon after NTG were retained by the Operator to manage all onsite operations.

With management changes made operations recommenced and the Cerro Padilla-1 well was successfully drilled to a Total depth (TD) of 845m and became the first well onshore Uruguay to discover hydrocarbons by identifying a 2m oil saturated Permian sand. The well was successfully completed with production testing recovering a small amount of oil to surface.

Project risk is now much better understood having gone through these processes, and notwithstanding the early success in the first well, the overall objectives of the drilling programme remain largely unchanged as follows:

- confirm source rock maturity, quality and extent
- confirm conventional reservoir quality and extent - Darcy permeability (>1000md) already measured in core samples 30km apart
- confirm migration and potential trap integrity - while not the primary objective 3 of the 4 wells are also targeting structures for oil and gas trapped in either the same sequence or up-dip of oil shows and/or weeping core samples
- confirm validity of AVO anomalies identified on seismic

### *Results*

#### Well #1 Cerro Padilla-1

This well was designed to confirm the reservoir potential of the Tres Islas sand and Permian source rock at shallow depth.

Well objectives:

- Drill on same fault block but up dip of Cerro Padilla E-1 corehole which encountered 3m of Tres Islas sandstone with flowing fluorescence to confirm potential oil charge
- Permian source rock quality
- Permian Tres Islas OOIP P90 = 21MMB

The well was successfully drilled to a Total Depth (TD) of 845m and encountered significant oil shows with logging confirming 2m of oil saturated sand at 793m.

Although only a modest discovery in its own right, as the first ever of hydrocarbons in Uruguay, and the first well of a 4 well programme, it represented a quantum first step in redefining the oil, and potentially gas, prospectivity of the Notre Basin going forward.



Photos - New Force rig at Cerro Padilla-1



Preparations for production testing

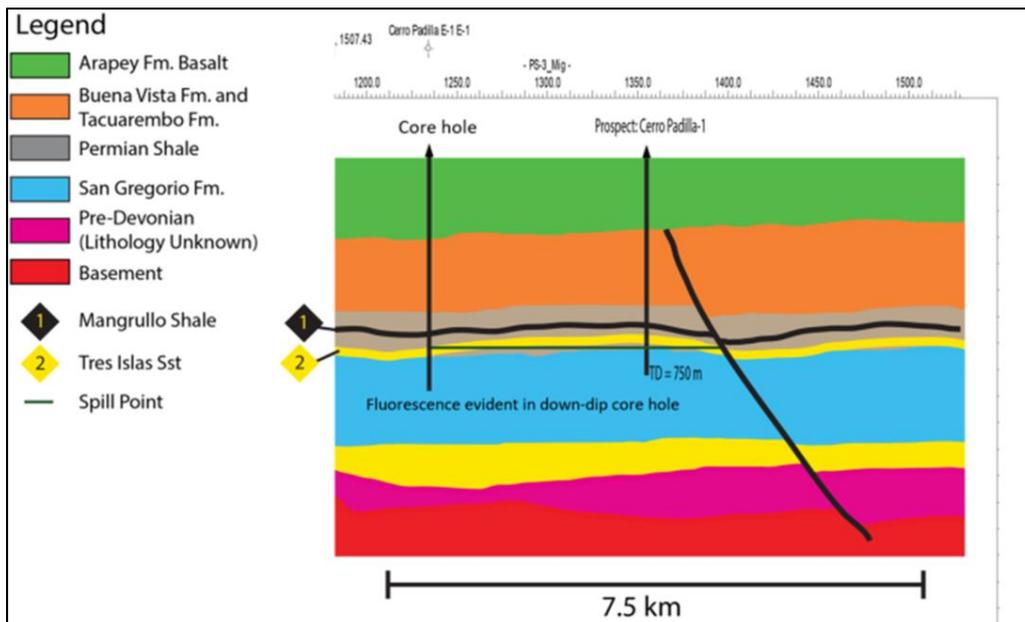


Figure 1 Cerro Padilla-1 well general schematic cross section

## Well #2 Cerro de Chaga-1 well (Panizza-1)

The Cerro de Chaga-1 well (TD 1,450m), in the Salto permit, is not only situated over a very large structure with considerable oil and gas potential across multiple zones, but also has an extensive and very thick, Devonian or older section beneath what could be a very thick sealing source rock.

The objective of the conventional Cerro de Chaga-1 well is to:

- Test largest regional high with 4-way dip closure
- Confirm extent, quality and maturity of Devonian source and reservoir rock
- Test quality and maturity of secondary Permian source rock - Mangrullo Shale
- Confirm existence of deeper sedimentary sequence

At present the well is currently suspended after encountering hole stability issues when a fault was intersected at the base of the basalt. While the faulted zone was successfully cemented it was decided at the time to temporarily suspend operations to allow for necessary repairs and to undertake a review of operations and strategy.

Disappointingly on the back of very good progress drilling the basalt before encountering the fault, and successful recovery of oil at Cerro Padilla-1, this well remains suspended, but it does highlight the challenges of drilling in a frontier basin.

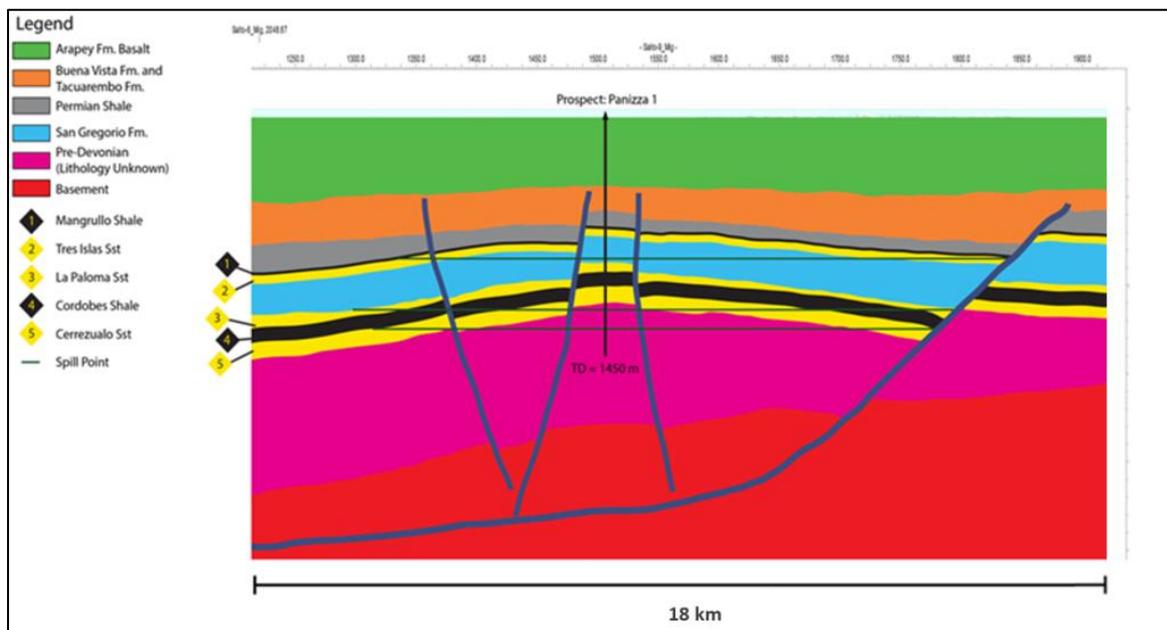


Figure 2 Cerro de Chaga-1 well (Panizza-1) general schematic cross section



## Seismic

The 4 well programme and supporting geological model was developed from the ongoing reinterpretation of the 597 kilometre 2D seismic programme successfully completed in late 2014. While initial interpretation of the seismic data completed in early 2015 revealed obvious geological structuring resulting in identification of an initial 20 conventional structural targets, and many at relatively shallow depths, it also enabled Netherland Sewell and Associates (“NSAI”) to independently certify an unrisked gross Prospective Resource in the Salto and Piedra Sola concessions of up to 910 MMBBL oil and 3,105 BCF gas (up to 446 MMBBL oil and 1,521 BCF gas \* to Petrel’s net 49% interest) as outlined below.

<b>Salto &amp; Piedra Sola Concessions</b>				
49% Net to Petrel (Conventional only)				
	Prospective Resource		Original Oil & Gas In Place	
	Oil (MMBBL)	Gas (BCF)	Oil (MMBBL)	Gas (BCF)
<b>Low Estimate (P90) *</b>	<b>72</b>	<b>282</b>	<b>273</b>	<b>439</b>
<b>Best Estimate (P50)</b>	<b>198</b>	<b>721</b>	<b>691</b>	<b>1,116</b>
<b>High Estimate (P10)*</b>	<b>446</b>	<b>1,521</b>	<b>1,418</b>	<b>2,317</b>

The estimates of net volumes provided in this statement were derived from estimates of gross volumes for each prospect and lead determined by Mr Phil Hodgson, a full time employee of Netherland, Sewell and Associates Inc., Dallas, Texas, USA, on 14 May 2015, in accordance with Petroleum Resources Management System guidelines. Mr Phil Hodgson is a Licensed Petroleum Geologist in the State of Texas, a qualified person as defined under the ASX Listing Rule 5.41 and has consented to the inclusion of this information in the form and context in which it appears.

## TESORILLO PROJECT

*Targeting conventional sandstone gas reservoirs in 94,000 acres in Southern Spain  
Tesorillo Project, Cadiz, Spain (97.5%)*

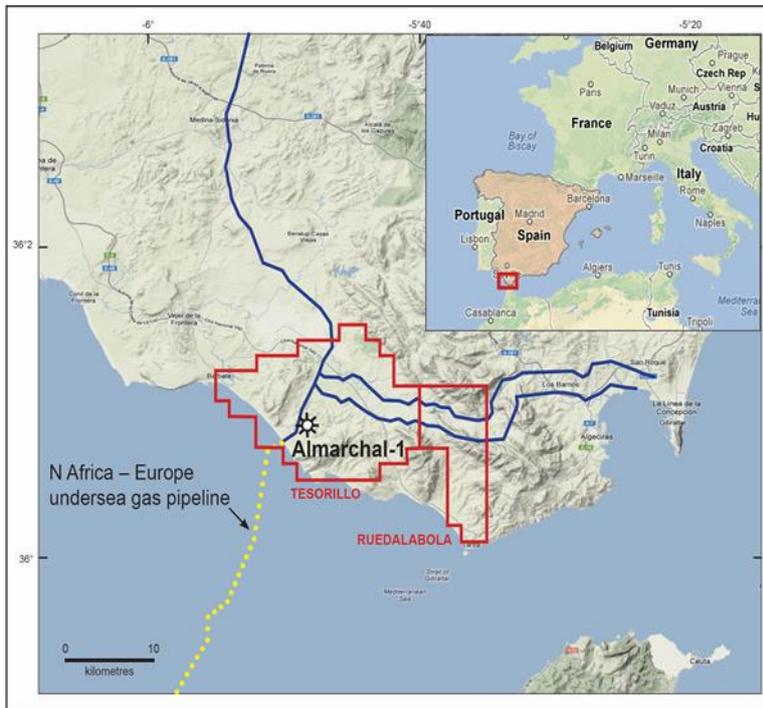
### Interest Transfer

On 27 April 2018 shareholders of SEI agreed that all its interests in the Tessorillo Project, being shares in Schuepbach Energy Espania S.L.U. (“SEE”), will be transferred to Petrel in return for Petrel transferring a 13.7% interest in SEI to SIH. As a result, Petrel’s interest in the Tessorillo Project increases from 62.7% to 97.5% and its interest in Uruguay reduces from 62.7% to 49%. This 97.5% interest in SEE / Tesorillo Project will reduce to 50.1% upon completion of Prospex Share Purchase Agreement (“PSPA”).

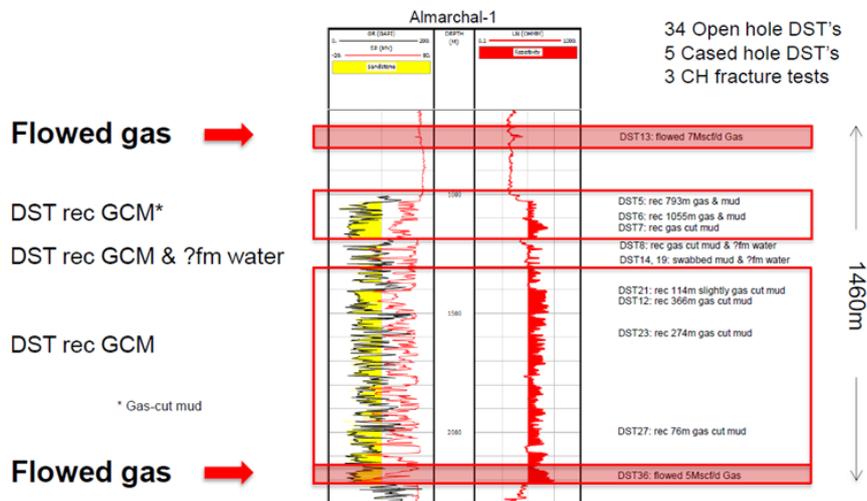
The PSPA signed in mid-December 2017 is an agreement to sell up to a 49.9% of SEE / Tesorillo Project to AIM listed Prospex Oil and Gas Plc (“Prospex”). Sale proceeds of €2,053,750 will be used by SEI to fund its share of an agreed Tesorillo work programme (estimated at €3,823,000) which includes a trial magnetotelluric programme (MT), followed by a full magnetotelluric programme and if successful, a well to target the Almarchal-1 discovery drilled in 1956. Subject to results this sees Petrel predominately funded through to drilling of one well in Spain while still retaining in excess of 50% due to its recent agreement to swap equity in its Uruguay project for Spain.

## Background

The Almarchal-1 well drilled in 1956 is the discovery well of what is very likely a large by-passed gas field. It was drilled by the Spanish firm Valdebro and intersected a thick section of possible gas pay which upon testing flowed gas to surface. The well is located 3km from the North African Maghreb gas trunkline providing ready access to high priced European gas markets.



Latest technical reviews indicate the DSTs and SP/GR logs were not properly evaluated and cored in the past and carry significant potential.





Netherland Sewell and Associates (“NSAI”) have independently certified an unrisked Prospective Resource of up to 2,289 BCF\* (2.3TCF) (2,232 BCF 97.5% net to Petrel reducing to 1,147 BCF 50.1% net to Petrel upon completion of Prospex Share Purchase Agreement) for the Tesorillo Project as outlined below.

Tesorillo	Prospective Resource BCF		Original Gas In Place BCF	
	97.5%	50.1%	97.5%	50.1%
<b>Net to Petrel<sup>^</sup></b>	<b>97.5%</b>	<b>50.1%</b>	<b>97.5%</b>	<b>50.1%</b>
<b>Low Estimate (P90)</b>	<b>215</b>	<b>110</b>	<b>716</b>	<b>368</b>
<b>Best (Median) Estimate (P50)</b>	<b>809</b>	<b>416</b>	<b>1,619</b>	<b>832</b>
<b>High Estimate (P10)</b>	<b>2,232</b>	<b>1,147</b>	<b>3,188</b>	<b>1,638</b>

<sup>^</sup> Current working interest is 97.5% but will reduce to 50.1% upon completion of Prospex Share Purchase Agreement transaction. The estimates of net volumes provided in this statement were derived from estimates of gross volumes for each prospect determined by Mr Dan Walker, a full-time employee of Netherland, Sewell and Associates Inc., Dallas, Texas, USA, on 5 May 2015, in accordance with Petroleum Resources Management System guidelines. Mr Dan Walker is a Licensed Petroleum Geologist, a qualified person as defined under the ASX Listing Rule 5.41.

## Operations

With the completion of the first tranche of the sale to Prospex Oil and Gas finalised during the last quarter the project has now been revitalised with the support and guidance of the Prospex team, who are successful European gas explorers with recent success in similar plays in Romania and the Po Valley in Italy. Importantly the project is now being managed day to day by a European located team that is proficient technically with few cultural or language barriers.

The Prospex team have now re-engaged with Spain’s three layers of government, being the central, regional and local administrations, and other stake holders in the country’s permitting and approvals process. The team report the reengagement has been received well with broad and general support.

Having reengaged with government, the team, with potential contractors, have returned to the field, in preparation for the planned magnetotelluric survey and the drilling of a well. Along with our contractors we are hoping the MT survey can be undertaken in June being immediately after the local grain harvest if field conditions allow. A key component of the well permitting and approvals process is an environment impact assessment. The scope of the EIA is being finalised with a well-recognised environment consultancy group. Finally, early stage discussions with potential drilling contractors are up and running.



## **FINANCIAL**

Consolidated cash at 31 March 2018 was \$175,000.

A non-renounceable rights issue of shares to raise a total of up to \$4.5m was announced on 1 March 2018 and closed on 12 April 2018, made on the basis of two fully paid ordinary shares in Petrel for every three shares held at an issue price of \$0.004 per share. Eligible shareholders subscribed for a total of 61,862,755 fully paid ordinary for a total subscription amount received of \$247,451.

With such modest Rights Issue proceeds Petrel will now focus on a non-funding position in the Uruguay assets or potential sale of its project assets to cover unpaid liabilities. Significant value has been identified in the Uruguayan asset, which can potentially be realised through our ongoing partner discussions with a number of interested parties including our current minority partner Schuepbach International Holding LLC.

To reduce liabilities and enhance the balance sheet for the rights issue Schuepbach Energy Uruguay (SEU) agreed with project drillers New Force Energy to settle \$1.66m of outstanding drilling invoices in return for a 2% overriding royalty interest (ORRI) in the project. SEU has the option to buy back the ORRI for a 50% premium (i.e. \$2.49m) within 12 months. If the buyback option is not exercised New Force Energy has the option to exchange the ORRI for a 10% working interest in the Uruguay project.

A summary of Petrel's cash flow for the Quarter and year to date is contained in the attached Appendix 5B statement.

### **For further information contact:**

**David Casey**  
**Managing Director**  
**Phone +61 2 9254 9000**



### Tenement Listing

Tenement reference	Location	Nature of interest	Interest at 31 March 2018		Interest at 31 December 2017	
				<u>Gross Acres</u>		<u>Gross Acres</u>
Piedra Sola Salto Tesorillo^ Ruedalabola^	Norte Basin, Uruguay Norte Basin, Uruguay	} Held via 62.7% interest in	62.7%	2,525,000	62.7%	2,525,000
			62.7%	925,000	62.7%	925,000
	Cadiz, Spain Cadiz, Spain	} Schuepbach Energy International LLC	62.7%	68,800	62.7%	68,800
			62.7%	10,200	62.7%	10,200
S31-24-3W5M 19-25-3W5M 32-25-4W5M 6-26-4W5M	Cardium, Alberta, Canada Cardium, Alberta, Canada Cardium, Alberta, Canada Cardium, Alberta, Canada	Direct JV interest Direct JV interest Direct JV interest Direct JV interest		<u>Gross Acres</u>		<u>Gross Acres</u>
					40%	320
			40%	640	40%	640
					40%	640
				640		2240

Note: Petrel does not have any interest in any farm-in or farm-out agreements.

^ 31 March 2018 62.7% working interest increased to a 97.5% on 27 April 2018 and will reduce to 51.1% upon completion of the 3 stage Prospex Share Purchase Agreement. Proceeds of €2.05m (100%) will be used by SEI to fund its share of an agreed Tesorillo work programme (estimated at €3.82m) which includes two magnetotelluric programmes and if successful, a well to target the Almarchal-1 discovery drilled in 1956.

## Appendix 5B

# Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

### Name of entity

PETREL ENERGY LIMITED

### ABN

82 125 394 667

### Quarter ended ("current quarter")

31 March 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(494)	(9,675)
(b) development	-	-
(c) production	-	-
(d) staff costs	(27)	(300)
(e) administration and corporate costs	(113)	(345)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	3
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (provide details if material)		
➤ Refund of security deposit paid on Letter of credit of USD1,000,000 under a drilling contract in Uruguay	-	1,276
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(634)</b>	<b>(9,041)</b>

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	(2)
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-
2.2 Proceeds from the disposal of:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
<b>2.6 Net cash from / (used in) investing activities</b>	<b>-</b>	<b>(2)</b>

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of shares		
- Petrel Energy Ltd (parent)	-	5,534
- SEI (3 <sup>rd</sup> party equity)	-	503
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	(15)	(413)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
<b>3.10 Net cash from / (used in) financing activities</b>	<b>(15)</b>	<b>5,624</b>

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	831	3,579
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(634)	(9,041)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	(2)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(15)	5,624
4.5	Effect of movement in exchange rates on cash held	(7)	15
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>175</b>	<b>175</b>

<b>5. Reconciliation of cash and cash equivalents</b>		<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts			
5.1	Bank balances	175	831
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>175</b>	<b>831</b>

<b>6. Payments to directors of the entity and their associates</b>	<b>Current quarter \$A'000</b>
6.1 Aggregate amount of payments to these parties included in item 1.2	-
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

Directors and MD/Chief Executive Officer salaries/fees

<b>7. Payments to related entities of the entity and their associates</b>	<b>Current quarter \$A'000</b>
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

<b>8. Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

<b>9. Estimated cash outflows for next quarter</b>	<b>\$A'000</b>
9.1 Exploration and evaluation	(80)
9.2 Development	-
9.3 Production	-
9.4 Staff costs	(40)
9.5 Administration and corporate costs	(140)
9.6 Other (provide details if material)	-
<b>9.7 Total estimated cash outflows</b>	<b>(260)</b>

10.	Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1	Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced				
10.2	Interests in mining tenements and petroleum tenements acquired or increased				

### Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here: .....  
(Director/Company secretary)

Date: 30 April 2018

Print name: Ian Kirkham

### Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.