

**PETREL ENERGY LIMITED  
ACTIVITIES REPORT  
FOR THE QUARTER ENDED 30 JUNE 2018**

**HIGHLIGHTS**

- Tesorillo MT survey contracts let, preparatory work completed with work to commence after final harvesting and final approval
- 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 funds Uruguay with US\$500k in return for a further 8% interest in Uruguay Project (PRL 41% : SIH 59%)
- 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%)
- Placement completed for \$735k





## **PROJECT FUNDING**

With a significant shortfall in the March-April Rights Issue to fund its Uruguay asset going forward, Petrel was able to agree an interim funding strategy with its current partner. The effect of this transaction is to eliminate further short term investment in Petrel's Uruguayan asset (reducing 62.7% interest to 41%) in return for all the shares in the Spanish asset (increasing 62.7% interest to 97.5%).

The Spanish asset will be funded under a staged share purchase agreement with Aim listed Prospex Oil & Gas. In return for a 49.9% interest, sale proceeds of €2m will be used by Petrel to fund its share of an agreed Tessorillo work programme (estimated at €3.8m) which includes a magnetotelluric programme (MT) and the drilling a well to target the Almarchal-1 discovery drilled in 1956.

## **SEI Transaction Detail**

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 Tarba Energia (previously called Schuepbach Energy Espania) ("Tarba"). 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%.

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.

SIH have exercised their 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 can elect to convert this preferred capital no later than 28 September 2018.

Petrel sought a new funding partner during the quarter for Uruguay but couldn't negotiate a Letter of Intent in the allotted time. Whilst this process will continue 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.

## **TESORILLO PROJECT**

*Targeting conventional sandstone gas reservoirs in 94,000 acres in Southern Spain Tessorillo 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 Tarba Energia (previously called Schuepbach Energy Espania) ("Tarba"),

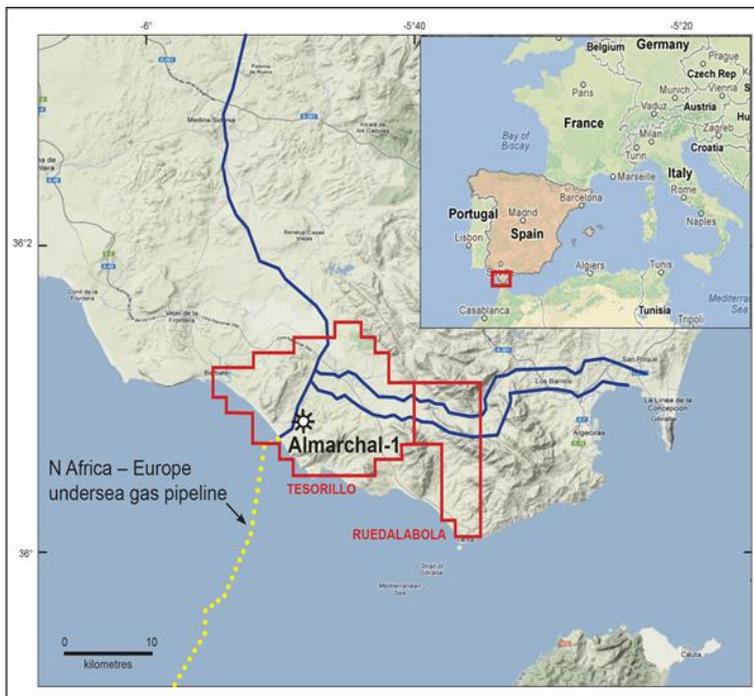


will be transferred to Petrel in return for Petrel transferring a 13.7% interest in SEI to SIH. As a result, Petrel's interest in the Tessorillo Project increases from 62.7% to 97.5% and its interest in Uruguay reduces from 62.7% to 49%. This 97.5% interest in Tarba / Tessorillo Project will reduce to 50.1% upon completion of Prospex Share Purchase Agreement ("PSPA").

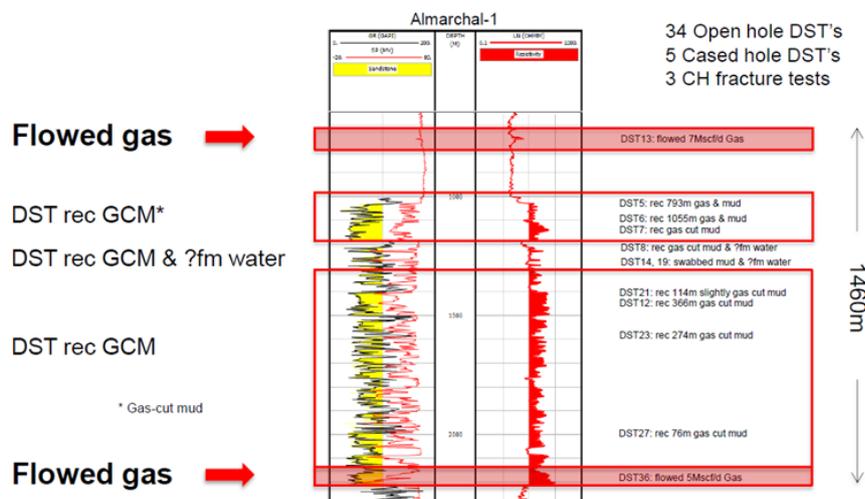
The PSPA signed in mid-December 2017 is an agreement to sell up to a 49.9% of Tarba / Tessorillo Project to AIM listed Prospex Oil and Gas Plc ("Prospex"). Sale proceeds of €2,053,750 will be used by SEI to fund its share of an agreed Tessorillo work programme (estimated at €3,823,000) which includes 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 unrisksed 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%
Net to Petrel <sup>^</sup>	97.5%	50.1%	97.5%	50.1%
Low Estimate (P90)	215	110	716	368
Best (Median) Estimate (P50)	809	416	1,619	832
High Estimate (P10)	2,232	1,147	3,188	1,638

<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.

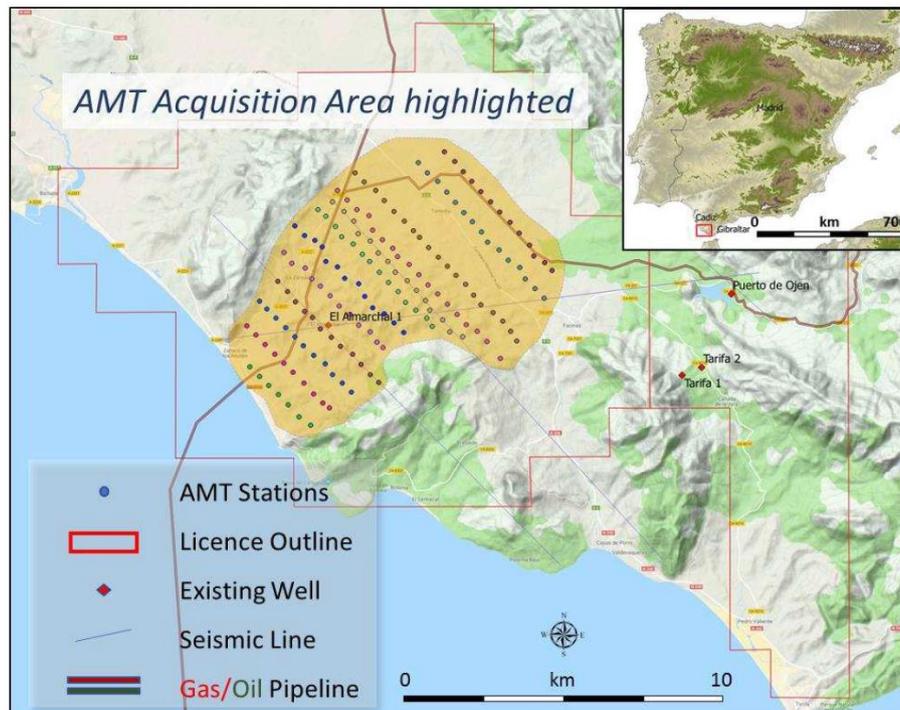
Tarba has signed the relevant contracts to carry out a passive Magnetotelluric ('MT') survey with GeoProSys and GeoGnosia. With all preparatory work nearing completion the Tesorillo 2018 MT survey has been delayed to September due to this year's exceptionally late harvesting season and therefore final permitting.

In addition to historic seismic survey data, the MT survey will help evaluate the subsurface geology of the permit area and test for resistivity as a further indication of the presence of hydrocarbons. It is expected that after MT data acquisition is completed, subsequent processing and interpretation phases will follow, with final results expected late 2018.

In tandem with the MT survey, structural fieldwork mapping and analysis will be shortly initiated with the support of the University of Granada. This applied geoscience analysis will be complementary to the subsurface knowledge gained via the MT survey. In addition, technical discussions with potential drilling and completion contractors are at an advanced stage as part of the ongoing well permitting and approvals process initiated at Ministry level.

Following receipt of the required approvals and support from the local authorities, an environment impact assessment (EIA) has been commissioned. As part of this process, relevant surveys over the Tesorillo permit are currently being carried out by a well recognised environment consultancy group from Seville.

The MT programme represents a significant turning point for the Tesorillo project and particularly the start of processes and approvals to see a well drilled in 2019.



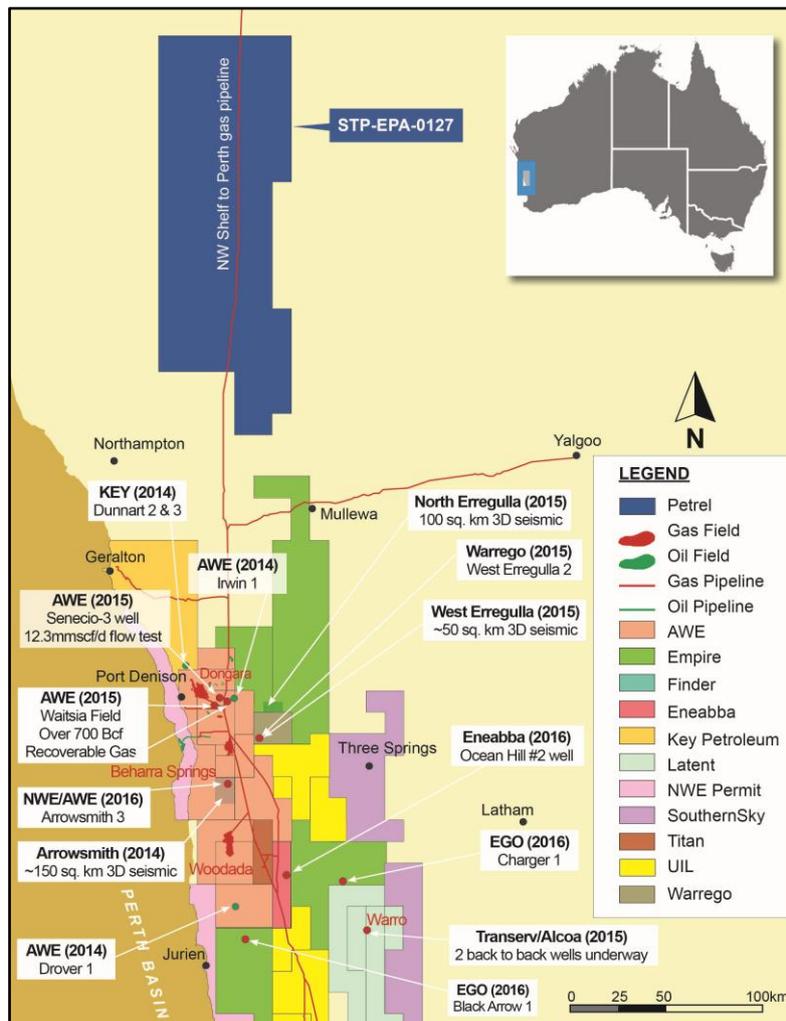
## NORTH PERTH BASIN PROJECT

Call option over STP-EPA-0127 application Coolcalalaya Western Australia targeting conventional and unconventional (2.2 million acres)

### Background

Petrel entered into a Call Option Deed in April 2016 which provided a call option over all the shares in Palatine Energy Limited (Palatine) for \$200,000 in cash or Petrel ASX listed ordinary shares with a further \$100,000 of shares payable once approvals are in place and a work programme has commenced in the northern Perth Basin Permit.

The initial Call Option Deed was subject to progress on Native Title Agreements with 3 native title parties which were in the early stages of negotiations. With the substantive terms of the three Native Title Agreements almost finalised and about to be lodged with the WA Department of Mines, Industry Regulation and Safety, Petrel is hopeful of the Exploration Permit National Native Title Tribunal Petrel is hopeful of the permits being granted and has elected to extend for a further year for \$10,000 to allow this process to be completed. Petrel will meet all reasonable costs in relation to the native title negotiations during this period.





## **STP-EPA-0127**

STP-EPA-0127 which on final grant will be 2.2m acres (8,700 square kms) will be the largest of the exploration permits in the Perth Basin. It is 130 km north of the AWE - Beach Perth Basin Waitsia play which has re-invigorated Perth Basin exploration and development, and is the largest onshore conventional gas discovery in Australia for the last 40 years. AWE Limited recently recommended a takeover from Mitsui & Co valuing AWE at \$602m based largely on its 50% interest in the Waitsia gas project in the Perth Basin.

Palatine also holds a 50% interest in both STP-EPA-0071 and STP-EPA-0118 in the Western Officer Basin, Western Australia however both these EPA's are the subject of a sale agreement which will complete once the relevant Exploration Permits are granted. Total proceeds from the sale will be \$50,000 and a 1% well-head Royalty. A Palatine application in the Arauco Basin, Central Chile is not included in Call Option Deed.

While the newly discovered adjacent conventional Waitsia type potential is an encouraging recent development, an additional attractive feature of this opportunity is the significant Permian and Devonian unconventional potential as well as additional conventional targets.

## **URUGUAY PROJECT**

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

### ***Background***

Petrel acquired a 51% interest in a large petroleum project in Uruguay from Schuepbach Energy International LLC ("SEI") in 2 stages during 2012-13. The project comprises two concessions, Piedra Sola and Salto, covering 14,000 sq km (3.5 million acres) which are held under separate production sharing contracts. Early exploration activities included a magnetotelluric (MT) survey across the Piedra Sola and Salto followed by an initial corehole programme which confirmed the existence of an active hydrocarbon system with multiple source rocks and potentially widespread, very high permeability, conventional reservoir sands. Success with the Cardozo Chico E-1 and Achar E-1 coreholes some 30km apart confirmed the existence of free oil in different formations over much of the Piedra Sola block. These findings provided sufficient evidence to pursue a 597 kilometre 2D seismic programme which was successfully completed in Uruguay in 2014.

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.

### Salto & Piedra Sola Concessions

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.

### 2017 Drilling Programme

SEI undertook a four-well drilling programme in 2017 designed to unlock the significant geological potential within the Company's 3.5m acres in Uruguay. Forecast expenditure was contingent on forecast drilling days being accurate in the field, dry hole completions only (i.e. no completion / testing) and partner participation in both budgeted and overrun expenditure. The success of the Cerro Padilla-1 well with oil shows in 2m of oil saturated sand at 793m necessitated completion and testing of the well. The subsequent testing of sample oil represented a quantum first step in redefining the oil, and potentially gas, prospectivity of the Notre Basin Uruguay. The well was slightly off structure with follow up seismic and drilling now the likely next step in Piedra Sola. This testing programme added 20 days to the drilling forecast and effectively cost the programme a well.

The second Cerro de Chaga-1 well, in the Salto permit, situated over a very large structure with considerable oil and gas potential was commenced in mid-November 2017. Despite making good early progress a fault was unexpectedly encountered drilling towards the base of the basalt, which resulted in hole stability issues ultimately requiring this zone to be cemented and the hole suspended.

### Funding

During the drilling of the second well, in December 2017, Petrel's Uruguay partners failed to meet their share of a US\$4m Schuepbach Energy International LLC ("SEI") funding requiring Petrel to increase its interests in both its Uruguay and Spain projects from 51% to 62.7% for a US\$3m outlay.

Petrel unsuccessfully sought \$4.5m from shareholders in March-April 2018 under a rights issue for further drilling of Cerro de Chaga-1 to target depth, or if the fault could not be cleared, drilling of Canada de Fea -1 well. With no funding available for Uruguay operations Petrel undertook the SEI Transaction outlined above on page 2.

Petrel's 59% partner is currently funding SEI and the project whilst determining the next stage of exploration.



## **FINANCIAL**

Consolidated cash at 30 June 2018 was \$44,000 with \$735,000 placement completed on 4 July 2018.

A non-renounceable rights issue of shares 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. Eligible shareholders subscribed for a total of 61,862,755 fully paid ordinary for a total subscription amount received of \$247,451.

A share Placement, after the end of the quarter, on 4 July 2018 raised a total of \$735,000. Of the total 350,000,000 shares issued under the placement 177,904,762 were settled and allotted immediately under ASX Listing Rule 7.1. capacity. The remaining shares subscribed for will require shareholder approval at the Extraordinary General Meeting to be on 8 August 2018. An associated Share Purchase Plan to raise up to \$1 million will also offer existing eligible shareholders the opportunity to increase their shareholding.

Proceeds from the Placement and SPP will primarily be used as working capital to give PRL the scope and capacity to restructure both the company and its portfolio to give shareholders better access to a more diversified range of assets at varying stages of development. While this will entail refocusing on its near fully funded Spanish asset and finalising permitting on its North Perth Basin option, efforts will also go into progressing other strategic asset and corporate opportunities.

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 30 June 2018		Interest at 31 March 2018	
				<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	41.0%	2,525,000	62.7%	2,525,000
			41.0%	925,000	62.7%	925,000
	Cadiz, Spain Cadiz, Spain	} Schuepbach Energy International LLC	97.5%	68,800	62.7%	68,800
			97.5%	10,200	62.7%	10,200
19-25-3W5M	Cardium, Alberta, Canada	Direct JV interest	40%	<u>Gross Acres</u> 640	40%	<u>Gross Acres</u> 640
				640		640

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")

30 June 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(182)	(9.857)
(b) development	-	-
(c) production	-	-
(d) staff costs	(28)	(380)
(e) administration and corporate costs	(182)	(475)
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
➤ Security deposit to the Department of Mining in Spain	(48)	(48)
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(440)</b>	<b>(9.481)</b>

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 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	75	75
(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>75</b>	<b>73</b>

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of shares		
- Petrel Energy Ltd (parent)	247	5,781
- 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	(21)	(434)
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>226</b>	<b>5,850</b>

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
<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	175	3,579
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(440)	(9,481)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	75	73
4.4	Net cash from / (used in) financing activities (item 3.10 above)	226	5,850
4.5	Effect of movement in exchange rates on cash held	8	23
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>44<sup>^</sup></b>	<b>44<sup>^</sup></b>

<sup>^</sup>\$735,000 placement completed on 4 July 2018

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts		Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	44	175
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>44</b>	<b>175</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	(110)
9.2 Development	-
9.3 Production	-
9.4 Staff costs	(90)
9.5 Administration and corporate costs	(110)
9.6 Other	(80)
<b>9.7 Total estimated cash outflows</b>	<b>390</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		See above		
10.2	Interests in mining tenements and petroleum tenements acquired or increased		See above		

**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: 31 July 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.