Petsec Energy Ltd

Results for announcement to market
For the six months ended 30 June 2018

Key Points

- Net loss after tax for the six months to 30 June 2018 was US$5.8 million.
- Net oil and gas revenues (after royalties) of US$1.7 million generated from production of 452 MMcfe at an average gas equivalent sales price of US$3.79/Mcfe.
- USA: Main Pass 270/273/274 Hummer Project – The Main Pass Block 273 B-2 appraisal/development well on the Hummer Gas/Oil Field, Main Pass Blocks 270/273/274, Offshore Louisiana Federal Waters, USA, was spud on 19 August 2018. The well is being drilled from the Main Pass Block 270 "B" Production Platform, situated in the North West corner of the Hummer Field in Main Pass Block 270, and is targeting six oil/gas reservoirs.
- YEMEN: Block 7 – Completion of the acquisition of Oil Search (ROY) Limited which holds a 40% working interest in the Al Barqa (Block 7) licence and operatorship.
- YEMEN: Damis (Block S-1) – Operations at the An Nagyah Oilfield remain suspended, awaiting Yemen Government consent to initiate production through trucking oil to the East to the Masila Pipeline or South to export facilities while waiting for the Marib Pipeline to be opened for the export of crude to the Ras Isa Export Terminal on the Red Sea coast.

  Since April, the Ministry of Oil and Minerals (MOM) of the Hadi Yemen Government administration in Aden has been in regular communication with the Company in order to process the requisite approvals required to restart An Nagyah production. Part of this process is a review of the Company's capacity to be an operator in Yemen and capacity to restart production at the An Nagyah Oilfield. Documentation supporting the Company's application was supplied to the Ministry in July 2018.
- Independently assessed net proven and probable (2P) oil and gas reserves of 9.4 MMboe at 1 January 2018 with an estimated net present value (NPV10) of US$189.8 million.
- At 30 June 2018, the Group held total cash deposits of US$3.4 million (including US$1.9 million of restricted deposits).

Key data – Six months ended 30 June 2018 compared to the six months ended 30 June 2017

	Six Months to 30 June 2018	Six Months to 30 June 2017	% Increase/ (Decrease)
Key Operating/Financial Data			
Net production (MMcfe [1])	**452**	158	186%
Net revenues after royalties (US$m)	**1.7**	0.6	183%
Net profit/(loss) after tax (US$m)	**(5.8)**	(2.1)	n/a
Add: Depreciation, depletion and amortisation expense (US$m)	**0.6**	0.5	20%
Add: Dry hole, impairment, and abandonment (gain)/expense (US$m)	**0.5**	(0.5)	n/a
Add: Net financial (income)/expense (US$m)	**3.3**	(0.5)	n/a
Less: Income tax benefit	**-**	-	
EBITDAX (US$m) [2]	**(1.4)**	(2.6)	n/a
Key Performance Indicators			
Average net sales price/Mcfe [3] (US$)	**3.79**	3.96	(4%)
Add: Other revenue/(expense)/Mcfe (US$)	**0.07**	0.07	-
Less: Operating costs/Mcfe (US$) [4]	**(6.91)**	(20.62)	n/a
EBITDAX/Mcfe (US$)	**(3.05)**	(16.59)	n/a
Gross margin [5]	**n/a**	n/a	
DD&A/Mcfe (US$)	**1.37**	2.87	(52%)
Other Financial Data			
Acquisition, exploration and development expenditure (US$m)	**0.2**	4.1	(95%)
USD/AUD average exchange rate	**0.7698**	0.7530	2%

1 MMcfe = million cubic feet of gas equivalent (conversion ratio: 1 barrel of oil = 6 Mcf of gas).
2 Earnings before interest (financial income and expense), income tax, depreciation, depletion, and amortisation and exploration (including dry hole and impairment expense). EBITDAX is a non-IFRS number and is unaudited.
3 Mcfe = thousand cubic feet of gas equivalent
4 Operating costs comprise lease operating expense plus geological, geophysical and administration expenses ("GG&A").
5 Gross margin is EBITDAX as a percentage of sales.

Company Reserve Assessments

The Company's reserves assessment follows guidelines set forth by the Society of Petroleum Engineers – Petroleum Resource Management System (SPE-PRMS). The USA and Yemen reserve estimates provided within this announcement are based on information contained within the announcement to the ASX on 22 February 2018 and the 2017 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.

Commentary on results

General

The Appendix 4D results and the accompanying condensed consolidated interim final financial statements are prepared in accordance with Australian Accounting Standards (AASBs) and International Financial Reporting Standards (IFRS) and are presented in United States dollars.

Current period: Six months ended 30 June 2018; Previous corresponding period: Six months ended 30 June 2017.

Key Operating/Financial Data

- The Group achieved net production of 452 MMcfe (404 MMcf of gas and 7,989 barrels of oil/condensate) for the six months ended 30 June 2018. This was 186% higher than the previous corresponding period, reflecting the contribution to production from the Main Pass Block 270 B-1 well on the Hummer Gas/Oil Field in the shallow waters in the Gulf of Mexico, USA, which was brought into production on 21 November 2017.
- Net oil and gas revenues (after royalties) derived for the six months ended 30 June 2018 were US$1.7 million, 183% higher than the US$0.6 million achieved for the previous corresponding period, due to the higher production volumes in the current period.
- The Group reported negative EBITDAX of US$1.4 million (previous corresponding period: negative EBITDAX of US$2.6 million).
- The Group incurred a net loss after tax of US$5.8 million (previous corresponding period: net loss after tax of US$2.1 million) after recognition of financial expense of US$3.3 million, DD&A expense of US$0.6 million and impairment expense of US$0.5 million. Financial expense of US$3.3 million comprised facility fees incurred in connection with the convertible note facility coupled with the fair value movement of the financial derivative portion of the convertible note.

Key Performance Indicators

- The average net gas equivalent sales price realised for the current period of US$3.79/Mcfe was 4% lower than the US$3.96/Mcfe achieved for the previous corresponding period. The Group received an average sales price of US$2.96/Mcf and US$65.10/bbl for its natural gas and oil/condensate production, respectively. This compares to US$3.32/Mcf and US$48.87/bbl in the previous corresponding period.
- After unit operating costs of US$6.91/Mcfe (previous corresponding period: US$20.62/Mcfe) the EBITDAX margin was negative US$3.05/Mcfe (previous corresponding period: negative US$16.59/Mcfe).
- Unit DD&A expense was US$1.37/Mcfe (previous corresponding period: US$2.87/Mcfe.

Other Financial Data

- Acquisition, exploration and development expenditures for the six months ended 30 June 2018 of US$0.2 million comprised costs associated with the acquisition of Oil Search (ROY) Limited.

Dividend

Petsec Energy Ltd does not propose the payment of a dividend in respect of the six months ended 30 June 2018.

Net Tangible Asset Backing

The Group's net tangible asset backing per ordinary security for the current period was US$0.01 (previous corresponding period: US$0.05).

Directors’ Report and Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

Contents	Page

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2017 and any public announcements made by Petsec Energy Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Directors' Report

For the six months ended 30 June 2018

The directors present their report together with the consolidated financial report for the six months ended 30 June 2018 and the independent auditor's review report thereon.

1. Directors

The directors of the Company at any time during or since the six months ended 30 June 2018 are:

Name	Period of directorship
Non-executive	
Mr David A. Mortimer AO	Appointed in 1985
Mr Alan P. Baden	Appointed in 2013
Executive	
Mr Terrence N. Fern	Appointed as Director and Chief Executive Officer in 1987 Appointed Chairman in 1999

2. Operating results

The Group incurred a net loss after tax for the six months ended 30 June 2018 of US$5.8 million (previous corresponding period: net loss after tax of US$2.1 million) after the recognition of financial expense of US$3.3 million, DD&A expense of US$0.6 million and impairment expense of US$0.5 million. The financial expense of US$3.3 million comprised facility fees incurred in connection with the convertible note facility coupled with the fair value movement of the financial derivative portion of the convertible note.

Net oil and gas revenues of US$1.7 million were generated for the current period, from production of 452 million cubic feet of gas equivalent ("MMcfe") at an average natural gas equivalent sales price of US$3.79/Mcfe. This was 183% higher than the net oil and gas revenues achieved in the previous corresponding period of US$0.6 million due to higher production volumes.

Net production of 452 MMcfe in the current period was derived from the Main Pass Block 270 B-1 well on the Hummer Gas/Oil Field in the shallow waters in the Gulf of Mexico, USA, and the Williams No. 2 well on the Mystic Bayou Field, onshore Louisiana, USA. This was 186% higher than the previous corresponding period, reflecting the contribution to production from the Main Pass Block 270 B-1 well which commenced production on 21 November 2017.

The Group realised an average net gas equivalent sales price of US$3.79/Mcfe in the current period. This was 4% lower than the US$3.96/Mcfe achieved for the previous corresponding period – the benefit of higher oil prices being tempered by relatively weaker natural gas prices in the USA. The Group received average sales prices of US$2.96/Mcf and US$65.10/bbl for its natural gas and oil/condensate production, respectively. This compares to US$3.32/Mcf and US$48.87/bbl in the previous corresponding period.

Lease operating expense of US$0.3 million (previous corresponding period: US$0.6 million) and geological, geophysical and administrative ("GG&A") expense of US$2.8 million (previous corresponding period: US$4.4 million) were lower in the current period, reflecting the reduced level of activities in the MENA region and the benefit of various cost cutting initiatives which were implemented during the second half of 2017.

The Group recorded negative earnings before interest, income tax, depreciation, depletion and amortisation, and exploration expense ("EBITDAX") of US$1.4 million for the current period (previous corresponding period: negative EBITDAX of US$2.6 million).

Depreciation, depletion and amortisation ("DD&A") expense was US$0.6 million in the current period (previous corresponding period: US$0.5 million).

3. Financial position

At 30 June 2018, the Company's cash deposits were US$3.4 million (31 December 2017: US$3.5 million). The cash deposits at 30 June 2018 are predominantly held in US dollars and include restricted cash amounts of US$1.9 million (US$ 0.2m restricted cash at 30 December 2017).

As at 30 June 2018, the Company had drawn down US$5 million under its US$15 million Secured Unlisted Convertible Note Facility Agreement. A further US$1 million was drawn in July 2018 to meet drilling costs of the Main Pass Block 273 B-2 well.

4. Review of operations

Petsec Energy Ltd (the "Company") is an independent oil and gas exploration and production company listed on the Australian Stock Exchange (ASX Ticker: PSA) and traded over the counter in the USA in the form of American Depositary Receipts (OTC ADR Ticker: PSJEY). The Company has operations in the shallow waters of the Gulf of Mexico and onshore Louisiana, USA, and in the Republic of Yemen.

4. Review of operations (continued)

USA

Production

Petsec Energy holds an interest in three producing fields – the Jeanerette and Mystic Bayou Fields, onshore Louisiana, and the Hummer Gas/Oil Field offshore Gulf of Mexico, USA. The Company produced 404 million cubic feet of gas and 7,989 barrels of oil/condensate (equivalent to 452 MMcfe) net to its revenue interest in the six months to 30 June 2018. Production was derived from the Williams Alt #2 well on the Mystic Bayou Field and the Main Pass Block 270 B-1 well on the Hummer Field.

Adeline Sugar Factory No. 4 Well – Jeanerette Field

Petsec: 12.5% working interest (9.2% net revenue interest)

The Adeline Sugar Factory ("ASF") No. 4 well located in St. Mary Parish, Louisiana was drilled and brought into production in June 2014. The 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 with intermittent production for the near-term.

Williams Alt No.2 well – Mystic Bayou Field

Petsec: 25% working interest (18.5% net revenue interest)

The Williams Alt 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 contributed 85 MMcfe to production for the current period.

Main Pass Block 270 B-1 well – Hummer Gas/Oil Field (Main Pass Blocks 270/273/274)

Petsec: 12.5% working interest (10.26354% net revenue interest) + 0.441% overriding royalty interest

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 contributed 367 MMcfe to production for the current period.

Development

Main Pass Block 273 B-2 well – Hummer Gas/Oil Field (Main Pass Blocks 270/273/274)

Petsec: 12.5% working interest (10.26354% net revenue interest) + 0.441% overriding royalty interest

The Hummer Gas/Oil Field extends over Main Pass Blocks 270, 273 and 274, in the Gulf of Mexico, offshore Louisiana, USA. The Hummer Field structure extends over a strike of five miles within the Main Pass Block 270, 273 and 274 leases which cover 15,000 acres, in some 200 feet of water.

The Hummer Project discovery well, Main Pass 270 B-1, was drilled, logged and temporarily suspended in late 2015. In early November 2017, the Main Pass 270 "B" Platform deck facilities and pipelines were successfully installed and the B-1 well was brought into production on 21 November 2017.

The facilities were designed with space available on the deck to expand production capacity and accommodate increased production from additional wells expected to be drilled from the "B" platform and any proximal well head platforms.

The Main Pass Block 273 B-2 appraisal/development well was spud on 19 August 2018. The well is being drilled from the Main Pass Block 270 "B" Production Platform, to a bottom hole location some 6,000 feet to the East of the B-1 discovery well. This is the first of potentially 3 to 8 appraisal/development wells required to develop the field.

The well is designed to test, in a structurally advantageous position, six oil and gas reservoirs, these being the five oil and gas reservoirs intersected in the B-1 well and a deeper horizon not tested by the B-1 well, but productive in the area.

The primary objectives of the B-2 well are two sand reservoirs with proven oil and gas reserves discovered in the B-1 well (Cawley, Gillespie & Associates, independent reserve engineers), one of which is categorised as Proved Developed Producing (PDP) the other Proved Undeveloped (PUD). These reservoirs are also productive in similar nearby fields (Main Pass 280/283 Field Complex). The B-2 well is planned to drill to a measured depth (MD) of 18,559 feet with a true vertical depth (TVD) of 16,624 feet. The well is anticipated to take approximately 80 days to drill and reach total depth. Contingent on the results of the well the production facility will be expanded and the well completed for production with production estimated to begin in mid-December 2018.The estimated net cost to the Company to drill the well is approximately US$2.6 million, and US$1.0 million to US$1.2 million for well completion and additional production facilities.

4. Review of operations (continued)

The Company has US$5 million in Tranche 3 of its Convertible Note Facility with which to fund the well of which US$1 million was drawn down in July 2018.

MENA

Yemen

The Company holds a 100% working interest in two blocks in Yemen, 80 kilometres apart in the Marib Basin - Damis Block S-1 Production Licence and 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 barrels of oil per day, 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.

Block 7 holds the Al Meashar Oilfield with target resources of 11-50 million barrels of recoverable oil, plus eight prospects and leads with potential ranging from 2 to 900 million barrels of oil.

The Company has concentrated its efforts since early 2017 on securing government approvals, to access the Yemen Government owned pipeline, storage and export shipping facilities in order to allow the re-start of oil production from the Company's An Nagyah Oilfield. Upon approval oil will be trucked to Yemen Government owned facilities to the East and South of the oilfield, until such times as the Marib Pipeline to the Red Sea terminal becomes available when the current Gulf Coast Coalition ("GCC") embargo initiated in April 2015, is lifted.

Block 7, Al Barqa Permit, Republic of Yemen

Petsec: 75% working interest (63.75% participating interest)

Petsec Energy acquired its interest in the period 2014-2017.

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.

The Company holds an operating 75% working interest in Block 7 (63.75% participating interest) in the Al Barqa (Block 7) Joint Venture and has an agreement with Kufpec to acquire their 25% working interest in Block 7. The Kufpec transaction brings the Company's potential 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]) which is located 14 kilometres East of OMV's Habban Oilfield which holds ultimate recoverable reserves of 350 million barrels of oil, in the same reservoir rocks as Al Meashar. In 2010-11, short-term testing of the two Al Meashar wells delivered flow rates ranging from 200 to 1,000 bopd.

Damis (Block S-1) Production Licence, Republic of Yemen

Petsec: 100% working interest (82.5% participating interest)

The Company acquired a 100% working interest (82.5% participating interest) in the block in early 2016.

The Damis (Block S-1) Production Licence which covers an area of 1,152 square kilometres (284,665 acres) 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 defined by nine wells and 3D seismic hold substantial oil and gas resources in excess of 34 million barrels of oil and 550 Bcf of gas [2] representing substantial potential future growth of reserves and production for the Company.

The block contains significant existing infrastructure, including the An Nagyah Oilfield facilities which were 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 An Nagyah oil from the export pipeline terminus on the West coast of Yemen. The field was brought into production in 2004 with recoverable oil of 50 MMbbl of which about 50% remains to be recovered, and produced at a peak rate of 12,000 bopd. The An Nagyah production facilities have been well maintained during the shut-in period and remain in good condition.

1 *Source: Oil Search Limited*

2 *Source: Wood Mackenzie Asia Pacific Pty Ltd (November 2015)*

4. Review of operations (continued)

While the crude oil export terminal at Ras Isa remains closed, due to rebel control of the port of Hodeidah, the Company continues to pursue other oil transport and export options. These include oil production to be trucked 530 kilometres East to the Masila Basin Pipeline Hub, and thence by pipeline South to the export oil terminus of Ash Shihr near Mukalla, or oil trucked 70 kilometres East to the head of the Block 4 pipeline which runs 204 kilometres South to storage and export shipping facilities at Bir Ali, or trucking oil 300 kilometres South West to the refinery at Aden.

The GCC Coalition supporting the Hadi Government launched a military campaign in early July 2018 to liberate the port of Hodeidah thereby restoring the oil export terminus of Ras Isa and the restart of operations of the Marib Oil Pipeline which transports oil for all Marib/Shabwah Basin oil producers, including the Company's An Nagyah Oilfield.

The Company has been seeking, since early 2017, the necessary government support and formal approvals to access the above mentioned government oil export facilities to allow trucking of oil, in order to restart oil production at the An Nagyah Oilfield, until such times as the Marib Pipeline is back in operation.

At such time as the government delivers the necessary approvals to support Marib/Shabwah oil production and delivery to Yemen Government owned facilities, the operations to restart oil production at the An Nagyah Oilfield by trucking can commence.

A new Oil Minister, His Excellency Aws Al Oud, was installed in December 2017 and has taken an active role in encouraging the restart of Yemen oil production following the industry wide shut-in in March 2015.

In April 2018, the Ministry of Oil and Minerals (MOM) of the Hadi Yemen Government administration in Aden wrote to all operators offering all support of the Ministry and requesting them to restart operations as soon as they could. Since April, the Ministry has been in regular communication with the Company in order to process the requisite approvals required to restart An Nagyah production.

Part of this process is a review of the Company's capacity to be an operator in Yemen and capacity and schedule to restart production at the An Nagyah Oilfield. The Ministry has requested documentation supporting the Company's application for approvals be completed by the end of October 2018.

Documentation supporting the Company's application was supplied to the Ministry in late July, including commitments to meet Block S-1 obligations, to rehiring the field operating staff of the operator, Yemen Block S-1 Inc., and to the operator's subcontractors. These documents are under current review by the Ministry.

The Company has provided the Ministry a restart schedule for 2018/2019 for the An Nagyah Oilfield that proposes initial production of 5,000 bopd within the first three months of restart of production with the aim of increasing production within 12 months to 10,000 bopd, from currently suspended wells.

Based on production of 5,000 bopd and current Brent Oil prices of US$70/bbl, the An Nagyah Oilfield would generate revenues of US$130 million per annum of which 72.5% (US$94 million) is to the benefit of the local staff and contractors, people of the Shabwah Province and the Yemen Government.

The publicly listed Austrian oil company, OMV, announced in early April 2018, the restart of oil production from the Habban Oilfield (350 million barrels, 70 kilometres North East of An Nagyah Oilfield and 14 kilometres West of the Al Meashar Oilfield in Block 7), where production had been suspended since March 2015 because of the Saudi Coalition embargo of oil transport from the Red Sea, Ras Isa Oil Export Terminal. OMV is the first foreign oil company to restart production in Yemen since the industry wide shut-in of March 2015.

The 350 million barrel Habban Oilfield was producing 23,000 bopd at the time of suspension. OMV has stated that "The oil is being trucked (30 kilometres) to the facilities in the near-by Block 4, operated by YICOM (Yemen Company for Investment in Oil & Minerals) and further pumped via a 204 kilometres pipeline to YICOM's Al Nushaima (Bir Ali) Terminal where it can be lifted by vessel. The first 500,000 barrel oil shipment was made in late July 2018.

The An Nagyah Oilfield is 70 kilometres by road from the Block 4 pipeline facilities which represent the least cost oil transport option other than using the Marib Pipeline.

Petsec Energy is pleased with OMV's continuing operations in the Shabwa Basin. It bodes well for the restart of the Yemen oil industry, and for Petsec Energy approvals allowing restart of the An Nagyah Oilfield.

5. Events subsequent to balance date

On 19 July 2018, US$1 million was drawn down under Tranche 3 of the Company's convertible note facility which provides access to US$5 million to fund the Company's share of drilling and completion costs associated with the Main Pass Block 273 B-2 well.

On 20 August 2018, the Company entered into an agreement with the Registrar of the secured convertible note facility to amend the terms of the facility. The key terms of the variation agreement which covers Tranches 1, 2 and 3 include:

1. Redemption date amended from 23 July 2019 to 23 January 2020.
2. Interest rate of 12.5% per annum monthly compounding to the 23 January 2019 will increase to 15% per annum monthly compounding from 23 January 2019.
3. Conversion price of 12.5 cents per share or reducing to a 10% premium over the net issue price of stock by the Company in the period to redemption, should that price be less than 12.5 cents per share.

Other than any matter disclosed, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future years.

6. Lead auditor's independence declaration

The Lead Auditor's Independence Declaration is set out on page 9 and forms part of the Directors' Report for the six months ended 30 June 2018.

7. Rounding off

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and in accordance with that Class Order, amounts in the Financial Report and Directors' Report have been rounded off to the nearest one thousand dollars, unless otherwise stated.

This report is made with a resolution of the directors:

Terrence N. Fern
Director
Sydney, 28 August 2018

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors Petsec Energy Ltd

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 30 June 2018 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review ; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review .

KPMG

KPMG

Daniel Camilleri
Partner

Sydney

28 August 2018

Consolidated interim statement of profit and loss and other comprehensive income

For the six months ended 30 June 2018

	Note	Six months to 30 June 2018 US$'000	30 June 2017 US$'000
Revenues from sale of oil & gas		**1,715**	626
Net revenues after royalties		**1,715**	626
Other income		**33**	11
Lease operating expenses		**(337)**	(572)
Lease operating adjustment		**-**	1,653
Geological, geophysical and administrative expenses		**(2,787)**	(4,389)
Depreciation, depletion and amortisation		**(620)**	(454)
Dry hole, impairment and abandonment (expense)/ reversal	5	**(469)**	543
Financial income		**5**	460
Financial expenses		**(3,336)**	(4)
Net financial (expense)/income		**(3,331)**	456
Loss before income tax		**(5,796)**	(2,126)
Income tax benefit/(expense)	6	**-**	-
Loss from continuing operations		**(5,796)**	(2,126)
Loss for the period		**(5,796)**	(2,126)
Other comprehensive loss			
Foreign exchange translation differences		**59**	500
Total comprehensive loss for the period		**(5,737)**	(1,626)
		US$	US$
Loss per share			
Basic and diluted loss per share	7	**(0.018)**	(0.007)

The consolidated interim statement of comprehensive income is to be read in conjunction with the notes to the consolidated financial statements set out on pages 14 to 26.

Petsec Energy

Consolidated interim statement of changes in equity

For the six months ended 30 June 2018

In thousands of USD	Share capital US$'000	Translation reserve US$'000	Share-based Compensation US$'000	Option Reserve US$'000	Accumulated losses US$'000	Total Equity US$'000
Balance at 1 January 2017	193,733	1,109	31	416	(177,188)	18,101
Total comprehensive income/(loss) for the period						
Loss for the period	-	-	-	-	(2,126)	(2,126)
Other comprehensive income						
Foreign exchange translation differences	-	500	-	-	-	500
Total other comprehensive income/(loss)	-	500	-	-	-	500
Total comprehensive income/(loss) for the period	-	500	-	-	(2,126)	(1,626)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners		-			-	
Shares cancelled including cancellation costs	(149)	-	-	-	-	(149)
Vesting of share options	10	-	(10)	-	-	-
Option issues	-	-	-	28	-	28
Share-based payments expense	-	-	11	-	-	11
Total transactions with owners	(139)	-	1	28-	-	(110)
Balance at 30 June 2017	193,594	1,609	32	444	(179,314)	16,365
Balance at 1 January 2018	**193,991**	**1,656**	**39**	**451**	**(189,152)**	**6,985**
Total comprehensive income/(loss) for the period						
Loss for the period	**-**	**-**	**-**	**-**	**(5,796)**	**(5,796)**
Other comprehensive income/(loss)						
Foreign exchange translation differences	**-**	**83**	**-**	**(24)**	**-**	**59**
Total other comprehensive income/(loss)	**-**	**83**	**-**	**(24)**	**-**	**59**
Total comprehensive income/(loss) for the period	**-**	**83**	**-**	**(24)**	**(5,796)**	**(5,737)**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Shares issued, including share issue costs	**760**	-	-	-	-	**760**
Vesting of share options	**58**	**-**	**(58)**	**-**	**-**	**-**
Share-based payments expense	**-**	**-**	**80**	**-**	**-**	**80**
Total transactions with owners	**818**	**-**	**22**	**-**	**-**	**840**
Balance at 30 June 2018	**194,809**	**1,739**	**61**	**427**	**(194,948)**	**2,088**

The consolidated interim statement of changes in equity is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 14 to 26.

Consolidated interim balance sheet

As at 30 June 2018

	Note	30 June 2018 US$'000	31 December 2017 US$'000
ASSETS			
Current assets			
Cash and cash equivalents		**1,554**	3,264
Trade and other receivables		**885**	524
Prepayments		**555**	324
Total current assets		**2,994**	4,112
Non-current assets			
Restricted deposits		**1,891**	222
Property, plant and equipment		**131**	152
Oil and gas properties	13	**15,131**	15,679
Exploration and evaluation properties	13	**-**	-
Total non-current assets		**17,153**	16,053
Total assets		**20,147**	20,165
LIABILITIES			
Current liabilities			
Trade and other payables		**1,883**	3,162
Employee benefits provisions		**188**	192
Total current liabilities		**2,071**	3,354
Non-current liabilities			
Trade and other payables		**-**	3,699
Provisions	16	**7,194**	179
Secured borrowings	9	**5,284**	5,568
Fair value of derivative instruments	10	**3,316**	178
Employee benefits provisions		**194**	202
Total non-current liabilities		**15,988**	9,826
Total liabilities		**18,059**	13,180
Net assets		**2,088**	6,985
EQUITY			
Issued capital		**194,809**	193,991
Reserves		**2,227**	2,146
Accumulated losses		**(194,948)**	(189,152)
Total equity		**2,088**	6,985

The consolidated interim balance sheet is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 14 to 26.

Consolidated interim statement of cashflows

For the six months ended 30 June 2018

	Note	30 June 2018 US$'000	30 June 2017 US$'000
Cashflows from operating activities			
Cash receipts from customers		**1,415**	744
Cash payments to suppliers and employees		**(2,617)**	(4,610)
Interest received		**5**	28
Restricted deposits		**(1,680)**	369
Net cash used in operating activities		**(2,877)**	(3,469)
Cashflows from investing activities			
Payments for property, plant and equipment		**-**	(54)
Payments for oil and gas, exploration and evaluation properties		**(124)**	(2,798)
Aggregate cashflows from acquisition of subsidiary		**1,327**	-
Net cash from/(used in) investing activities		**1,203**	(2,852)
Cashflows from financing activities			
Proceeds from shares issued – net of transaction costs		**-**	1,976
Proceeds from drawdown of convertible note facility		**-**	492
Net cash from investing activities		**-**	2,468
Net decrease in cash and cash equivalents		**(1,674)**	(3,853)
Cash and cash equivalents at 1 January		**3,264**	9,504
Effects of exchange rate changes on cash held		**(36)**	366
Cash and cash equivalents at 30 June		**1,554**	6,017

The consolidated interim statement of cashflows is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 14 to 26.

Condensed notes to the consolidated interim financial statements

For the six months ended 30 June 2018

1. Reporting entity

Petsec Energy Ltd (the "Company") is a company domiciled in Australia. These condensed consolidated interim financial statements ("interim financial statements") as at and for the six months ended 30 June 2018 comprise the Company and its subsidiaries (together referred to as the "Group").

The consolidated annual financial report of the Group for the year ended 31 December 2017 is available upon request from the Company's registered office at Level 27, Governor Macquarie Tower, One Farrer Place, Sydney NSW 2000 or at http://www.petsec.com.au.

The interim financial statements are presented in United States dollars which is the Group's choice of presentation currency.

2. Basis of preparation

These interim financial statements have been prepared in accordance with AASB 134 Interim Financial Reporting and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2017 ("last annual financial statements"). They do not include all of the information required for a complete set of AASB financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

This is the first set of the Group's financial statements where AASB 15 and AASB 9 have been applied.

These interim financial statements were approved by the Company's Board of Directors on 28 August 2018.

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and in accordance with the Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Use of estimates and judgements

In preparing these interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2017.

Going concern basis of preparation

The interim financial statements of the Group have been prepared on the basis of a going concern. The going concern basis of preparation assumes that an entity will realise its assets and discharge its liabilities in the normal course of business.

The directors have approved cash flow projections which support the going concern basis of preparation. The preparation of these projections incorporate a number of assumptions and judgements about US operating conditions and prevailing market commodity prices, Main Pass Block 273 B-2 well production commencing mid-December 2018, cash savings initiatives previously adopted across the Group and the extension of the convertible note facility to 23 January 2020, as discussed in Note 20. The Directors have concluded that the range of possible outcomes considered in preparing the cashflow projections do not give rise to a material uncertainty casting significant doubt on the Group's ability to continue as a going concern.

The cash flow projections do not include the income and expenditure associated with the restart of production from the An Nagyah Oilfield in Yemen.

3. Changes in significant accounting policies

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2017.

(i) AASB 9 Financial Instruments

AASB 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces AASB 139 Financial Instruments: Recognition and Measurement.

The Group has initially adopted AASB 9 from 1 January 2018 and assessed that there is no material effect on the Group's financial statements.

3. Changes in significant accounting policies (continued)

(ii) AASB 15 Revenue from Contracts with Customers

Under AASB 15 Revenue from Contracts with Customers, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Group has initially adopted AASB 15 from 1 January 2018 and assessed that there is no material effect on the Group's financial statements.

(iii) AASB 16 Leases

AASB 16 Leases amends the accounting for leases. Lessees will be required to bring all leases on Balance Sheet as the distinction between operating and financing leases has been eliminated. Lessor accounting remains largely unchanged.

AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019.

The Group will continue to assess the potential impact on its consolidated financial statements resulting from the application of AASB 16.

4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. The Group has applied fair value methodologies which approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Derivative instruments

The fair values of derivative instruments are initially recognised at fair value on the date at which the derivative contracts are entered into and subsequently remeasured to fair value. On subsequent revaluation the derivatives are carried as assets when their fair value is positive and liabilities when their fair value is negative.

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including discounted cash flow models. The input to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

Equity securities

The fair value of equity securities (level 3 category instruments) is determined using an option pricing model – the Black-Scholes-Merton formula – in arriving at an expected present value for options held by the Group at period end. Measurement inputs include observable inputs, such as the share price on the measurement date, the exercise price of the instrument, and the risk-free interest rate (based on government bonds), as well as unobservable inputs, such as expected volatility, expected term of the instruments, and expected dividends which represent management's best estimates at period end.

5. Dry hole, impairment and abandonment expense

The estimated recoverable amount of oil and gas assets is based on discounted cash flow projections which are based on a range of estimates and assumptions that are subject to change. Key assumptions include the ultimate prices realised on the sale of oil and gas and the reserves ultimately recovered. A sustained deterioration in prices or reduction in reserves may result in further future asset impairments.

During the current period, the Group recognised an impairment expense of US$469,000 against its Block 7, Yemen assets due to the ongoing conflict.

In the previous corresponding period, the Group recognised an abandonment gain of US$543,000, reflecting the reversal of an abandonment provision in respect of a previously owned offshore Gulf of Mexico lease that had been confirmed as surplus.

6. Income tax expense

Under Australian Accounting Standards, the Group is required to assess at each reporting period, the extent to which deferred tax assets in respect of the carry-forward of unused tax losses and temporary differences qualify for recognition on the balance sheet based on current facts and circumstances, including projected future taxable profits.

6. Income tax expense (continued)

Historically, no deferred tax assets have been recognised in relation to the Group's operations as they do not qualify for recognition of deferred tax assets until such time that it is probable that future taxable profits will be available against which unused tax losses and temporary differences in the relevant tax jurisdictions can be utilised.

No tax expense/(benefit) was recognised for the current period (previous corresponding period: Nil).

The deductible temporary differences and tax losses in Australia do not expire under current tax legislation though these losses are subject to testing under loss recoupment rules, in order for them to be utilised. USA and Canada loss carry forwards begin to expire in 2021 and later.

7. Earnings per share

The Company has only one type of security, being ordinary shares, included in the basic earnings per share calculation.

In addition to the ordinary shares, the Company has 22,800,000 options outstanding comprising 10,000,000 options issued to Sing Rim Pte Ltd and 12,800,000 options issued under the Employee Option Plan. In determining potential ordinary shares, none of the options are dilutive for the six months to 30 June 2018.

During the current period, a further 11,800,000 options were granted to employees and consultants, and no options were forfeited. No options were exercised and converted to ordinary shares.

Basic loss per share

The calculation of basic loss per share at 30 June 2018 was based on the loss attributable to ordinary shareholders of US$5,796,000 (Six months to 30 June 2017: Loss of US$2,126,000) and a weighted average number of ordinary shares outstanding during the six months ended 30 June 2018 of 321,164,786 (Six months ended 30 June 2017: 309,866,444), calculated as follows:

	Six months to	
Loss attributable to ordinary shareholders	**30 June 2018**	30 June 2017
	US$'000	US$'000
Loss for the period	**(5,796)**	(2,126)

	As at	
Share capital		
In thousands of shares	**2018**	2017
On issue at 1 January	**322,288**	287,382
Shares issued	**10,000**	32,906
Shares cancelled	**(3,700)**	-
On issue at 30 June	**328,588**	320,288

	Six months to	
Weighted average number of shares (basic)		
In thousands of shares	**30 June 2018**	30 June 2017
Issued ordinary shares at 1 January	**322,288**	287,382
Effect of shares issued and cancelled in 2018 and 2017, respectively	**(1,123)**	22,484
Weighted average number of ordinary shares at 30 June	**321,165**	309,866

	As at	
Weighted average number of shares (basic and diluted)		
In thousands of shares	**30 June 2018**	30 June 2017
Weighted average number of ordinary shares (basic and diluted)	**321,165**	309,866

	Six months to	
Earnings per share		
In USD dollars	**30 June 2018**	30 June 2017
Basic and diluted loss per share	**(0.018)**	(0.007)

8. Share-based payment arrangements

The Employee Share and Employee Option Plans, established by shareholder resolutions on 29 November 1994, provide for employees, executives and directors to be granted ordinary shares or options over ordinary shares at the discretion of the Nomination and Remuneration Committee. The terms and conditions of the share and option programmes are disclosed in the consolidated financial report as at and for the year ended 31 December 2017.

Employee Share Plan

No share grants were made to key management personnel under the Employee Share Plan ("ESP") during the six months ended 30 June 2018 (2017: nil).

Employee Option Plan

During the six months ended 30 June 2018, option grants of 10,200,000 were made to key management personnel under the Employee Option Plan (2017: Nil).

Share and option grants to key management personnel

The following table summarises the fair value assumptions of shares granted to key management personnel during the six months ended 30 June 2018 and 2017.

	Six months to	
	30 June 2018	30 June 2017
Weighted average fair value at measurement date	**A$0.007**	-
Weighted average share price	**A$0.106**	-
Weighted average exercise price	**A$0.20**	-
Expected volatility (expressed as weighted average used in the modelling under Black-Scholes model)	**82.82%**	-
Expected option life (expressed as weighted average used in the modelling under Black-Scholes model)	**2.9 years**	-
Expected dividends	**-**	-
Risk-free interest rate (based on national government bonds)	**2.165%**	-

The expected volatility is based on historic volatility (calculated based on the weighted average remaining life of the shares and options), adjusted for any expected changes to future volatility due to publicly available information.

Shares and options are granted under a service condition and minimum share price hurdles. Such conditions are not taken into account in the grant date fair value measurement of the services received, however, are considered in assumptions about the number of shares and options that are expected to become exercisable.

9. Secured borrowings

	30 June 2018	31 Dec 2017
Non-current		
Secured borrowings – convertible notes	**5,284**	5,568

Convertible note facility

Secured borrowings represent the outstanding balance at 30 June 2018 under a convertible note facility with Republic Investment Management and associates in Singapore, managed through the registrar Sing Rim Pte Ltd of Singapore. The Group entered into a US$15 million facility in August 2016.

The key terms and conditions of the convertible note facility are disclosed in the consolidated financial report as at and for the year ended 31 December 2017.

9. Secured borrowings (continued)

On 18 February 2018, the Group announced an extension of the redemption date of the US$5 million drawn down under Tranche 1 of the convertible note facility from 23 January 2019 to 23 July 2019 and the reestablishment of Tranche 2 (US$5 million) under the facility, which expired undrawn on 5 January 2018.

The US$5 million drawn down under Tranche 1 of the facility were applied to fund the development of the Hummer gas/oil discovery in the USA, including the construction and installation of a 4 pile jacket, completion and testing of the initial well, and construction of the production facilities on the Main Pass Block 270 Field.

The Group has re-established Tranche 2 of the facility to provide funding flexibility for costs associated with the re-start of production at the An Nagyah Oilfield, and a further four undeveloped oil and gas fields – Osaylan, An Naeem, Wadi Bayhan, and Harmel.

The key terms and conditions for Tranche 1 following the variation of terms include:

- Facility amount: Total of US$5 million – fully drawn down.
- Facility term: Extended from 23 January 2019 to 23 July 2019.
- Coupon: 12.5% p.a. compounding monthly for the period of 1 January 2018 to the 23 January 2019, and thereafter increasing to 15% p.a. compounding monthly from 23 January 2019.
- Conversion price: To be reduced from 15 cents per share to 12.5 cents per share.

The key terms and conditions for the reestablishment of Tranche 2 of the facility include:

- Facility amount: Total of US$5 million.
- Facility term: 23 July 2019.
- Drawdown: Expires on 23 January 2019.
- Coupon: 12.5% p.a. compounded monthly.
- Conversion price: 12.5 cents per share.
- Conversion: Maximum of 100% of the interest owing on the notes from Tranche 2 and 50% of the advance made under Tranche 2.
- Facility drawdown: Available at the discretion of the Registrar and is subject to the following conditions:
  a) US$2 million of Tranche 2 available subject to clear indication based upon publicly available information that crude oil has commenced to flow freely with the Republic of Yemen and crude oil has been shipped and sold in material amounts from that country;
  b) US$500,000 for each 100,000 barrels of crude oil net to the Group which has been produced in the Republic of Yemen and transported and stored at the shipping terminal ready for sale; up to a total of US$2 million of Tranche 2, and
  c) US$500,000 for every 100,000 barrels of crude oil shipped and sold by the Group from the Republic of Yemen, up to a total of US$1 million.

On 26 March 2018, the maximum number of shares that could be issued on conversion under Tranches 1 and 2 was amended by a Deed of Variation to 80 million shares.

9. Secured borrowings (continued)

On 9 May 2018, the Group re-established Tranche 3 under its convertible note facility, which expired on 5 January 2018, which will provide the Company with access to a further US$5 million to fund the Group's share of drilling and completion costs associated with the Main Pass Block 273 B-2 appraisal/development well, offshore Louisiana, USA.

The key terms and conditions for the reestablishment of Tranche 3 of the facility include:

- Facility amount: Total of US$5 million.
- Facility term: 23 July 2019 plus a free option to extend to 23 January 2020 subject to well performance.
- Coupon: 12.5% p.a. compounded monthly from drawdown to 23 January 2019, thereafter 15% p.a. monthly compounding.
- Conversion price: 12.5 cents per share or reducing to a 10% premium over the net issue price of stock by the Company in the period to redemption, should that price be less than 12.5 cents per share.
- Conversion: Maximum of 100% of the interest owing on the notes from Tranche 3 and 50% of the advance made under Tranche 3.
- Facility drawdown: Available subject to the following conditions:
  a) First drawdown prior to 1 September 2018, or the facility expires, and minimum drawdown of US$1.5 million.
  b) Last drawdown prior to 1 November 2018, after which no further drawdown is permitted.
- Monthly repayment: 75% of the revenue of the B-2 well (or associated well other than the B-1 well) less well operating expenses and non-specific lease operating expenses of the platform and facilities allocated on the basis of production.

On 19 July 2018, US$1 million was drawn down under the terms of Tranche 3.

The Company has issued the following shares to the Registrar as facility fees for variations (18 February 2018 and 9 May 2018) of the facility:

- 5 million shares at A$0.10/share on 5 March 2018.
- 5 million shares at A$0.10/share on 21 May 2018.

The Deed of Variation dated 13 September 2016 amends terms to ensure compliance of the facility with ASX listing rules.

On 15 June 2018, the Company was granted a waiver from ASX Listing Rule 7.3.2 to the extent necessary to permit the notice of meeting seeking shareholder approval for the issue of up to US$5 million worth of convertible notes pursuant to Tranche 3 of the convertible note facility agreement with Sing Rim Pte. Ltd and the payment of interest under the convertible notes through the issue of shares, which in aggregate are convertible into 30 million ordinary shares, not to state that the convertible notes and interest shares will be issued no later than 3 months after the date of the meeting on the following conditions:

1.1 The Notice contains a summary of the material terms of the Facility Agreement, including the milestones which must be satisfied prior to the issue of the Convertible Notes.

1.2. The Notice seeks approval for a stated maximum number of shares that will be issued on conversion of the Convertible Notes and the issue of the Interest Shares.

1.3. The milestones which must be satisfied for the issue or conversion of the Convertible Notes are not varied.

1.4. The Convertible Notes and Interest Shares will be issued during the term of the Facility Agreement, and in any event no later than 23 January 2020.

1.5. If the Company releases its annual report during a period in which the Convertible Notes, and Interest Shares are issued or remain to be issued, the annual report discloses details of the Convertible Notes and Interest Shares that have been issued, the interest payable on the Convertible Notes and the terms of the Facility Agreement.

1.6. The Company includes the terms of the waiver in the Notice.

9. Secured borrowings (continued)

The Company will seek shareholder approval at an EGM, which is likely to be convened in the fourth quarter 2018, for the purposes of Listing Rule 7.1 and for all other purposes, for the issue and allotment of up to 30 million shares should there be conversion of the convertible notes under Tranche 3 at any time up to 23 January 2020.

10. Fair value of financial derivative instruments

The Group measures and recognises in the statement of financial position on a recurring basis certain assets and liabilities at fair value in accordance with AASB13 Fair value measurement. The fair value must be estimated for recognition and measurement or for disclosure purposes in accordance with the following hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as priced) or indirectly (derived from prices); and

Level 3: Inputs for the asset or liability which are not based on observable market data (unobservable inputs).

The fair values of financial derivatives shown in the balance sheet, are as follows:

	30 June 2018	31 Dec 2017
Non-current		
Fair value of financial derivatives	**3,316**	178

The fair value of financial derivative of US$3,316,000 represents the embedded derivative component within the secured convertible note (refer Note 9 above).

Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Derivatives are initially valued at fair value; subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised in profit and loss as financial income/expenses. The fair value of the financial derivative was determined at initial recognition and subsequent reporting dates using a Monte Carlo model.

11. Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. There is no separate risk management committee.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The forecast financial position of the Group is continually monitored and derivative financial instruments can be used to hedge exposure to fluctuations in commodity prices.

The Board oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2018

12. Segment reporting

The Group operates in the oil and gas industry.

Segment information is presented in the consolidated interim financial statements in respect of the Group's geographic segments, which reflects the presentation of information to the chief operating decision maker and may differ from the information required to be disclosed in accordance with the Accounting Standards.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. In presenting information on the basis of geographical segments, segment revenue and net profit/(loss) before tax are based on the geographical location of operations.

	Australia		**USA**		**Canada**		**MENA**		**Consolidated**	
	30 June 2018 US$'000	30 June 2017 US$'000	**30 June 2018 US$'000**	30 June 2017 US$'000	**30 June 2018 US$'000**	30 June 2017 US$'000	**30 June 2018 US$'000**	30 June 2017 US$'000	**30 June 2018 US$'000**	30 June 2017 US$'000
Oil & gas sales [1 & 2]	**-**	-	**1,715**	626	**-**	-	**-**	**-**	**1,715**	626
Segment net revenues after royalties	**-**	-	**1,715**	626	-	-	**-**	**-**	**1,715**	626
Segment net loss before tax	**(3,729)**	(490)	**(280)**	(937)	**(30)**	(3)	**(1,757)**	(696)	**(5,796)**	(2,126)
Income tax benefit/(expense)	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Net loss for the period	**(3,729)**	(490)	**(280)**	(937)	**(30)**	(3)	**(1,757)**	(696)	**(5,796)**	(2,126)
Depreciation, depletion & amortisation and reclamation	**(6)**	(8)	**(581)**	(443)	**(30)**	-	**(3)**	(3)	**(620)**	(454)
Dry hole, impairment and abandonment reversal/(expense)	**-**	-	**-**	546	**-**	(3)	**(469)**	-	**(469)**	543
Segment assets	**1,296**	6,218	**16,847**	19,042	**-**	-	**2,004**	7,455	**20,147**	32,715
Acquisition of property, plant and equipment and exploration, evaluation and development assets	**-**	46	**28**	2,600	**-**	-	**214**	206	**242**	2,852

[1] There are no inter-segment sales

[2] 100% of the Group's oil and gas sales are derived from one customer.

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2018

12. Segment reporting (continued)

	Australia		USA		Canada		MENA		Consolidated	
	30 June 2018 US$'000	30 June 2017 US$'000	**30 June 2018 US$'000**	30 June 2017 US$'000	**30 June 2018 US$'000**	30 June 2017 US$'000	**30 June 2018 US$'000**	30 June 2017 US$'000	**30 June 2018 US$'000**	30 June 2017 US$'000
Segment liabilities	**9,179**	5,501	**931**	3,496	**-**	-	**7,949**	7,353	**18,059**	16,350
Cash (used in)/ from operating activities	**(691)**	(778)	**295**	(844)	**-**	(2)	**(2,481)**	(1,845)	**(2,877)**	(3,469)
Cash (used in)/ from investing activities	**-**	(46)	**(124)**	(2,600)	**-**	-	**1,327**	(206)	**1,203**	(2,852)
Cash from financing activities	**-**	2,468	**-**	-	**-**	-	**-**	-	**-**	2,468

13. Oil and gas, exploration, and evaluation properties

(a) Oil and gas properties	**30 June 2018 US$'000**	31 December 2017 US$'000
Opening balance at 1 January	**15,679**	16,810
Additions	**28**	2,362
Capitalised interest and facility fees[1]	**-**	1,308
Dry hole and impairment expense	**-**	(3,439)
Current year amortisation expense	**(576)**	(1,362)
Closing balance at period end	**15,131**	15,679
(b) Exploration and evaluation properties		
Balance at 1 January	**-**	358
Additions [2]	**214**	-
Dry hole and impairment expense [2]	**(214)**	(358)
Balance at 31 December	**-**	-

1. *Interest has been capitalised on specific borrowings in respect of oil and gas properties under development.*
2. *On 16 March 2018, Petsec acquired 100% of the shares of Oil Search (ROY) Limited, which holds a 40% working interest (34% participating interest) in the Al Barqa (Block 7) License and operatorship, in the Republic of Yemen. The transaction was accounted for as an asset acquisition. The recognised amounts of identifiable net assets in relation to the acquisition comprised restricted deposits, cash and cash equivalents, property, plant and equipment, trade and other receivables, exploration and evaluation properties and trade and other payables totalling US$214,000. An impairment provision of US$214,000 was recognised against the full amount of exploration and evaluation properties acquired due to the ongoing conflict in Yemen and included in "Dry hole, impairment and abandonment (expense)/ reversal in the statement of profit or loss and other comprehensive income.*

Recoverable amount

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas.

The estimated recoverable amount of all cash generating units in the development and production phases is determined by discounting the estimated future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. The Group utilises discounted future cash flows as estimated by independent petroleum engineers for this assessment. The key assumptions used include:

- Estimated proved and probable reserves (2P reserves);
- For wells now in production – initial production rates based on current producing rates for those wells;
- For wells not currently in production – initial production rates based on test data and other related information;
- Estimated rates of production decline based on current trends;
- Hydrocarbon prices that the Group estimates to be reasonable taking into account historical prices, current prices, and prices used in making its exploration and development decisions;
- Operating costs directly applicable to the leases or wells;
- Development costs based on authorisations for expenditure for the proposed work or actual costs for similar projects;
- Pre-tax discount rate of 10%.

Risk of future impairments

- The determination of the estimated recoverable amount of Petsec's producing oil and gas properties is highly sensitive to a change in estimated recoverable reserves, oil and gas prices, discount rates and cost allocations.
- Changes in the political or regulatory regimes in the jurisdictions in which Petsec operate may have an impact on the carrying value of oil and gas properties and exploration and evaluation properties in those jurisdictions;
- As a result of historical impairments, certain properties are carried at recoverable amounts. Consequently any reduction in recoverable reserves or a reduction in the oil or gas price may trigger the need for further impairment on these specific properties.

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2018

14. Interests in unincorporated joint operating arrangements

Included in the assets of the Group are the following items which represent the Group's interest in the assets and liabilities in joint operating arrangements:

Assets	As at 30 June 2018 US$'000	As at 31 December 2017 US$'000
Oil and gas properties		
Producing leases – at cost	**19,389**	19,362
Less: accumulated amortisation and impairments	**(4,373)**	(3,798)
	15,016	15,564
Represented by the following lease carrying values:		
- Offshore Gulf of Mexico	**12,886**	13,259
- Onshore Louisiana	**2,130**	2,305
Total oil and gas properties	**15,016**	15,564

Liabilities	As at 30 June 2018 US$'000	As at 31 December 2017 US$'000
Rehabilitation provision:		
- Offshore Gulf of Mexico	**94**	90
- Onshore Louisiana	**94**	89
	188	179

The contribution of the Group's joint operating arrangements to EBIT (including exploration write-offs and impairments; and excluding the effects of hedging and any gain on sale of interests):	Six months to 30 June 2018 US$'000	Six months to 30 June 2017 US$'000
- Offshore Gulf of Mexico	**360**	546
- Onshore Louisiana	**74**	66
- Onshore Canada	**(30)**	(3)
- MENA	**(856)**	(703)
	(452)	(94)

The principal activity of all the joint operating arrangements is oil & gas exploration and production. Listed below is the percentage interest held in the joint operating arrangements of the Group as at 30 June:

	Interest Held 30 June 2018	Interest Held 30 June 2017
- Offshore Gulf of Mexico	**12.50%**	12.50%
- Onshore Louisiana	**12.50% to 25.00%**	12.50% to 25.00%
- MENA	**75.00% to 100.00%**	35% to 100.00%

15. Wholly owned areas of interest

Included in the assets and liabilities of the Group are the following items which represent the Group's wholly owned areas of interest:

	As at	
Assets	**30 June 2018 US$'000**	31 December 2017 US$'000
Oil and gas properties:		
Producing leases – at cost	**3,554**	3,554
Less: accumulated amortisation and impairments	**(3,439)**	(3,439)
	115	115
Represented by the following lease carrying values:		
- MENA	**115**	115
Total oil and gas properties	**115**	115

	Six months to	
	30 June 2018 US$'000	30 June 2017 US$'000
The contribution of the Group's areas of interest to EBIT (including exploration write-offs and impairments; and excluding the effects of hedging and any gain on sale of interests):		
- MENA	**(406)**	740
	(406)	740

16. Provisions

	As at	
	30 June 2018 US$'000	31 December 2017 US$'000
Non-current provisions		
Yemen operations	**7,006**	-
Rehabilitation (Note 14)	**188**	179
	7,194	179

During the current period, trade and other payables of US$7,006,000 associated with the Group's interests in Block S-1 and Block 7 were reclassified to provisions due to these cash outflows now being subject to the receipt of Yemen government approvals to restart operations. There is uncertainty associated with the expected timing of this approval and judgement applied in estimating the related cash outflows.

17. Capital and other commitments

	As at	
	30 June 2018	31 December 2017
Exploration, evaluation and development expenditure:	**US$'000**	US$'000
Contracted but not provided for and payable:		
Within one year	**2,550**	-
	2,550	-

18. Legal matters and contingencies

The Group is a defendant from time to time in legal proceedings. Where appropriate the Group takes legal advice. The Group does not consider that the outcome of any other current proceedings is likely to have a material effect on its operations or financial position.

The production, handling, storage, transportation and disposal of oil and natural gas, by-products thereof and other substances and materials produced or used in connection with oil and natural gas operations were subject to regulation under U.S. federal, state and local laws and regulations primarily relating to protection of human health and environment. To date, expenditure related to complying with these laws and for remediation of existing environmental contamination has not been significant in relation to the results of operations of the Group.

From time to time, the Group is required to provide bonding or security for the benefit of U.S. and Yemen regulatory authorities in relation to its obligations to pay lease rentals and royalties, the plugging and abandonment of oil and natural gas wells, the removal of related facilities, and to meet minimum exploration expenditure commitments. As at 30 June 2018, the Group had US$1.7 million in secured guarantees in place to meet minimum exploration expenditure commitments (December 2017: nil).

18. Related Parties

Arrangements with related parties continue to be in place. For details on these arrangements refer to the 2017 Annual Report.

19. Dividends

No interim dividend is to be paid on the ordinary shares (previous corresponding period: Nil). No dividend or distribution plans are currently in operation.

20. Events subsequent to balance date

On 19 July 2018, US$1 million was drawn down under Tranche 3 of the Company's convertible note facility which provides access to US$5 million to fund the Company's share of drilling and completion costs associated with the Main Pass Block 273 B-2 well.

On 20 August 2018, the Company entered into an agreement with the Registrar of the secured convertible note facility to amend the terms of the facility. The key terms of the variation agreement which covers Tranches 1, 2 and 3 include:

1. Redemption date amended from 23 July 2019 to 23 January 2020.
2. Interest rate of 12.5% per annum monthly compounding to the 23 January 2019 will increase to 15% per annum monthly compounding from 23 January 2019.
3. Conversion price of 12.5 cents per share or reducing to a 10% premium over the net issue price of stock by the Company in the period to redemption, should that price be less than 12.5 cents per share.

Directors' Declaration

In the opinion of the directors of Petsec Energy Ltd (“the Company”):

(1) the financial statements and notes set out on pages 10 to 26, are in accordance with the Corporations Act 2001 including:

   (i) giving a true and fair view of the financial position of the Group as at 30 June 2018 and of its performance, as represented by the results of its operations and cashflows for the six months ended on that date; and

   (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulation 2001; and

(2) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

Terrence N. Fern
Director

Sydney, 28 August 2018

Independent Auditor's Review Report

To the shareholders of Petsec Energy Ltd

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of Petsec Energy Ltd.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim Financial Report of Petsec Energy Ltd is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2018 and of its performance for the ***Interim Period*** ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Consolidated interim statement of financial position as at 30 June 2018
- Consolidated interim statement of profit or loss and other comprehensive income, Consolidated interim statement of changes in equity and Consolidated interim statement of cash flows for the Half-year ended on that date
- Notes 1 to 20 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The ***Group*** comprises Petsec Energy Ltd (the Company) and the entities it controlled at 30 June 2018 or from time to time during the interim period.

The ***Interim period*** is the six month period ended on 30 June 2018.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- for such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2018 and its performance for the interim period ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Petsec Energy Ltd, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an Interim Period Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

KPMG

KPMG

Daniel Camilleri
Partner

Sydney

28 August 2018