Petsec Energy Ltd

Results for announcement to market
For the six months ended 30 June 2019

Key Points

- Net loss after tax of US$19.7 million for the six months to 30 June 2019 after the recognition of dry hole and impairment expense of US$13.8 million, financial expense of US$2.2 million, and DD&A expense of US$1.8 million.
- Net oil and gas revenues of US$0.7 million generated from production of 217 MMcfe at an average gas equivalent sales price of US$3.29/Mcfe.
- Appointment of Mr. Syed Bokhari, a highly experienced production operations engineer and E&P leader, as Managing Director of Petsec Energy Ltd, effective 1 May 2019.
- USA: Main Pass Blocks 270/273/274, Hummer Project: The Main Pass Block 273 B-2 appraisal/development well was drilled to a final depth of 15,990 feet Total Vertical Depth /17,570 feet Measured Depth and did not encounter commercial hydrocarbons.
- USA: Internal review of the Main Pass Block 273 B-2 appraisal/development well results and rationalisation of the U.S. operations.
- YEMEN: Damis (Block S-1): Restart of oil production operations at the An Nagyah Oilfield progressed following successful meetings with the Yemen Minister of Oil & Minerals, his encouragement to secure joint venture partners to co-invest in the development of Block S-1, the Company's subsequent field inspection to determine the state of the oilfield infrastructure, preparation of a final restart plan and engagement with a number of potential joint venture partners.
- At 30 June 2019, the Group held total cash deposits of US$3.2 million (including US$1.9 million of restricted deposits).

Key data – Six months ended 30 June 2019 compared to the six months ended 30 June 2018

	Six Months to 30 June 2019	Six Months to 30 June 2018	% Increase/ (Decrease)
Key Operating/Financial Data			
Net production (MMcfe [1])	**217**	452	(52%)
Net revenues after royalties (US$m)	**0.7**	1.7	(59%)
Net profit/(loss) after tax (US$m)	**(19.7)**	(5.8)	n/a
Add: Depreciation, depletion & amortisation and reclamation expense (US$m)	**1.8**	0.6	200%
Add: Dry hole and impairment expense (US$m)	**13.8**	0.5	2,660%
Add: Net financial expense (US$m)	**2.2**	3.3	(33%)
EBITDAX (US$m) [2]	**(1.9)**	(1.4)	n/a
Key Performance Indicators			
Average net sales price/Mcfe [3] (US$)	**3.29**	3.79	(13%)
Add: Other revenue/(expense)/Mcfe (US$)	**-**	0.07	(100%)
Less: Operating costs/Mcfe (US$) [4]	**(12.03)**	(6.91)	n/a
EBITDAX/Mcfe (US$)	**(8.74)**	(3.05)	n/a
DD&A/Mcfe (US$)	**8.28**	1.37	503%
Other Financial Data			
Acquisition, exploration and development expenditure (US$m)	**2.7**	0.6	350%
USD/AUD average exchange rate	**0.7074**	0.7698	(8%)

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").*

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 2019; Previous corresponding period: Six months ended 30 June 2018.

Key Operating/Financial Data

- Net production for the six months ended 30 June 2019 was 217 MMcfe (194 MMcf of gas and 3,782 barrels of oil/condensate). This was 52% lower than the 452 MMcfe (404 MMcf of gas and 7,989 barrels of oil/condensate) achieved in the previous corresponding period, primarily due to production decline in the Hummer and Mystic Bayou Fields.
- Net oil and gas revenues for the current period were US$0.7 million, 59% lower than the US$1.7 million derived for the previous corresponding period, due to lower production volumes coupled with lower realised prices received for the current period.
- The Group reported negative EBITDAX of US$1.9 million for the current period (previous corresponding period: negative EBITDAX of US$1.4 million).
- The Group incurred a net loss after tax of US$19.7 million for the six months ended 30 June 2019 (previous corresponding period: net loss after tax of US$5.8 million) after the recognition of dry hole and impairment expense of US$13.8 million, financial expense of US$2.2 million, and DD&A and reclamation expense of US$1.8 million.

  Dry hole and impairment expense comprised the dry hole cost of the Main Pass Block 273 B-2 well (US$6.5 million) and the recognition of an impairment expense of US$7.3 million against the Hummer Gas/Oil Field due to a reduction of reserves, based on the results of the B-2 well.

  Financial expense of US$2.2 million comprised expenses incurred in connection with the Convertible Note Facility ("Facility") – Facility fees, interest expense and changes in the fair value of the financial derivative component of the Facility.

Key Performance Indicators

- The Group realised an average net gas equivalent sales price for the current period of US$3.29/Mcfe. This was 13% lower than the US$3.79/Mcfe achieved in the previous corresponding period, reflecting lower commodity prices. The Group received an average sales price of US$2.52/Mcf and US$60.02/bbl for its natural gas and oil/condensate production, respectively. This compares to US$2.96/Mcf and US$65.10/bbl in the previous corresponding period.
- After unit operating costs of US$12.03/Mcfe (previous corresponding period: US$6.91/Mcfe) the EBITDAX margin was negative US$8.74/Mcfe (previous corresponding period: negative US$3.05/Mcfe).
- Unit DD&A expense was US$7.91/Mcfe (previous corresponding period: US$1.37/Mcfe).

Other Financial Data

- Acquisition, exploration and development expenditures for the six months ended 30 June 2019 of US$2.7 million primarily related to drilling costs associated with the Main Pass Block 273 B-2 well on the Hummer Gas/Oil Field in the shallow waters of the Gulf of Mexico, USA.

Dividend

Petsec Energy Ltd does not propose the payment of a dividend in respect of the six months ended 30 June 2019.

Net Tangible Asset Backing

The Group's net tangible asset backing per ordinary security for the current period was negative US$0.04 (previous corresponding period: US$0.01).

Directors' Report and Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2019

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 2018 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 2019

The directors present their report together with the consolidated financial report for the six months ended 30 June 2019 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 2019 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
Mr Syed Bokhari	Appointed as Managing Director on 1 May 2019

Appointment of Managing Director

Mr. Syed Bokhari became the Managing Director of Petsec Energy Ltd on 1 May 2019. Mr. Bokhari reports to the Executive Chairman, Mr. Terrence Fern, who has stepped down as Managing Director, and the Petsec Energy Ltd Board. His main objective is to restart commercial oil production at the earliest, from the An Nagyah Oilfield in Block S-1, Yemen. Mr. Bokhari is a highly experienced operations petroleum engineer and E&P leader with extensive involvement in MENA operations and production, including 8 years' experience in Yemen. He will be primarily located in Dubai.

2. Operating results

The Group incurred a net loss after tax of US$19.7 million for the six months ended 30 June 2019 (previous corresponding period: net loss after tax of US$5.8 million) after the recognition of dry hole and impairment expense of US$13.8 million, financial expense of US$2.2 million, and depreciation, depletion and amortisation ("DD&A") and reclamation expense of US$1.8 million.

Dry hole and impairment expense of US$13.8 million comprised the dry hole cost of the Main Pass Block 273 B-2 well (US$6.5 million) and the recognition of an impairment expense of US$7.3 million against the Hummer Gas/Oil Field due to a reduction of reserves, based on the results of the B-2 well.

Financial expense of US$2.2 million comprised expenses incurred in connection with the Convertible Note Facility – facility fees, interest expense and movements in the fair value of the financial derivative component of the Convertible Note Facility.

Net oil and gas revenues for the six months ended 30 June 2019 of US$0.7 million were generated from production of 217 million cubic feet of gas equivalent ("MMcfe") at an average natural gas equivalent sales price of US$3.29/Mcfe. This was 59% lower than the net oil and gas revenues achieved in the previous corresponding period of US$1.7 million due to lower production volumes coupled with lower sales prices received for the current period.

Net production of 217 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 52% lower than the previous corresponding period primarily due to production decline in both fields.

The Group realised an average net gas equivalent sales price of US$3.29/Mcfe in the current period. This was 13% lower than the US$3.79/Mcfe achieved for the previous corresponding period, reflecting lower commodity prices. The Group received average sales prices of US$2.52/Mcf and US$60.02/bbl for its natural gas and oil/condensate production, respectively. This compares to US$2.96/Mcf and US$65.10/bbl in the previous corresponding period.

Operating expenses (i.e. lease operating and geological, geophysical and administrative expense) of US$2.6 million (previous corresponding period: US$3.1 million) were lower in the current period, reflecting the ongoing effort to reduce GG&A costs across the Group's geographical segments.

The Group recorded negative earnings before interest, income tax, depreciation, depletion and amortisation, and exploration expense ("EBITDAX") of US$1.9 million for the current period (previous corresponding period: negative EBITDAX of US$1.4 million).

DD&A expense was US$1.7 million in the current period (previous corresponding period: US$0.6 million) due to a reduction in estimated recoverable reserves in both the Hummer and Mystic Bayou fields.

3. Financial position

At 30 June 2019, the Company's cash deposits were US$3.2 million (31 December 2018: US$4.5 million). The cash deposits at 30 June 2019 are predominantly held in US dollars and include restricted cash amounts of US$1.9 million (US$ 1.9 million restricted cash at 31 December 2018).

3. Financial position (continued)

As at 30 June 2019, the Company had drawn down US$13 million under its US$15 million Convertible Note Facility Agreement, of which US$0.5 million was receivable at the balance sheet date.

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.

During the current period, the recently appointed Managing Director, Mr. Syed Bokhari, reviewed the Company’s assets in the Middle East North Africa (“MENA”) and the USA regions with the purpose of developing strategies to optimise the value of those assets.

In Yemen, Mr. Bokhari reviewed the Company’s Block S-1 and Block 7 projects and engaged with the key stakeholders with the objective of restarting oil production from the An Nagyah Oilfield at the earliest.

In the USA, Mr. Bokhari reviewed the results of the Main Pass Block 273 B-2 appraisal/development well and the Company’s producing wells on the Hummer and Mystic Bayou Fields.

The Company will direct all of its resources to the restart of oil production of the An Nagyah Oilfield in Yemen, with a consequent further reduction of GG&A in the USA through closure of its Lafayette office and releasing employees and consultants.

USA

Production

Petsec Energy holds an interest in three developed fields in the USA – the Hummer Gas/Oil Field offshore Gulf of Mexico and the Mystic Bayou and Jeanerette Fields, onshore Louisiana. The Company produced 194 million cubic feet of gas and 3,782 barrels of oil/condensate (equivalent to 217 MMcfe) net to its revenue interest in the six months to 30 June 2019. Production was derived from the Main Pass Block 270 B-1 well on the Hummer Field and the Williams Alt No.2 well on the Mystic Bayou Field.

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 175 MMcfe to production in the current period.

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 42 MMcfe to production in the current period.

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.

There was no material production from the well in 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 encompasses 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.

4. Review of operations (continued)

The Hummer Gas/Oil Field was discovered in late 2015, the Main Pass 270 "B" production platform and export pipelines were set in late 2017, and first production from the B-1 discovery well commenced in November 2017.

With a view to further development of the Hummer Gas/Oil Field, the Main Pass 270 "B" platform was built with three well slots and sufficient 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.

On 19 August 2018, the Main Pass Block 273 B-2 appraisal/development well was spud and drilled from the Main Pass Block 270 "B" Production Platform. The B-2 well had a bottom-hole location some 6,000 feet to the east of the B-1 discovery well, a significant step-out from the Main Pass 270 B-1 discovery well. The primary objectives of the well were two sand reservoirs that were encountered in the B-1 well, one of which was completed and produces in the B-1, and the other identified as proven undeveloped by Cawley, Gillespie & Associates, the Company's independent reserve engineers.

The B-2 well was drilled to a final depth of 15,990 feet TVD/17,570 feet MD in March 2019 and did not encounter commercial hydrocarbons. While the B-2 wellbore encountered numerous thin and stratigraphic oil and gas pay zones, the two primary objectives of the well were non-reservoir quality or absent at the well location.

The joint venture deemed the primary objectives in the deeper section of the well to be uneconomic for production, and therefore it was decided to permanently plug and abandon the open hole portion in the bottom of the well. In the shallower section, where pipe had already been set, certain pay zones may potentially be commercial but are subject to commodity prices. In order to maintain the option to complete and produce in the future, the B-2 well was temporarily abandoned and the rig moved off location.

Petsec Energy's share of the drilling costs of the B-2 well is estimated at approximately US$6.6 million and has been expensed.

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. The Marib Pipeline and Ras Isa Oil Export Terminal has been shut since March 2015 due to the Saudi Coalition embargo on oil lifting from the Port of Hodeidah because of the Rebels' control of Hodeidah.

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

Operations at the Company's An Nagyah Oilfield in Block S-1 continue to be shut-in while the Company seeks to secure government approvals to allow the Company to truck oil and access Yemen Government owned pipeline, storage and oil export shipping facilities in neighbouring Block 4.

The operating environment in the Shabwah Governorate, within which both Block S-1 and Block 7 are located, continues to improve, allowing the publicly listed Austrian oil company, OMV, to recommence oil production in April 2018. OMV is the first foreign oil company to restart production in Yemen since the industry wide shut-in of March 2015.

OMV has maintained oil production of the order of 14,000 bopd since April 2018 in the neighbouring Block S-2 from its Habban Oilfield (350 million barrels), 70 km North East of An Nagyah Oilfield and 14 kilometres West of the Al Meashar Oilfield in Block 7. Habban oil is transported by truck South to the West Ayad Oilfield facilities at the head of the Block 4 export pipeline, then piped some 200 kilometres South to the Bir Ali Oil Terminal on the coast of the Gulf of Aden. Shipments of some 500,000 barrels of oil are made each 1 to 2 months.

Construction has commenced of a 16 inch oil transport pipeline connecting Block 5 (to which Block S-1 is connected) and the oil export pipeline of Block 4. The Yemen Oil Ministry expects it to be operational by year end 2019.

In December 2018, the UN conducted peace talks in Sweden between the Yemen Government and the Rebels. A peace process was agreed between the conflicting parties including a ceasefire between the Yemen Government and supporting Coalition of Saudi Arabia and the UAE, and the Rebels around the port of Hodeidah including the oil export terminal of Ras Isa on the Red Sea Coast. This important port is to be placed under the control of the UN.

4. Review of operations (continued)

A ceasefire has taken effect and is largely holding. The UN and the International Community are hopeful this first step may lead to a political solution for the Republic of Yemen and a consequent broader and lasting peace.

A resolution to the conflict may allow the re-opening of the Marib Export Pipeline and the lifting of crude from the Ras Isa Export Terminal. This in turn would facilitate the restart of production from the An Nagyah Oilfield and the transport of An Nagyah crude via the Marib Export Pipeline to Ras Isa for export. Completion of the Block 5 to Block 4 pipeline would provide two pipeline export routes for Block S-1 crude oil.

Block 7, Al Barqa Permit, Republic of Yemen
Petsec: 100% working interest (85% 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 has operatorship and holds a 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 in the Al Meashar Oilfield (target resource of 11 MMbbl to 50 MMbbl) 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.

The block also contains eight potential prospect/lead targets ranging in size from 2 to 900 MMbbl oil gross. The top four prospects hold potential in excess of 1 billion barrels of recoverable oil.

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 developed An Nagyah Oilfield holds 19.8 million barrels of remaining recoverable reserves (5.6 million barrels net to Petsec's 27.5% economic interest) having commenced production in 2004 with initial recoverable reserves of 50 million barrels of oil.

The four undeveloped fields hold substantial oil and gas resources in excess of 34 MMbbl of oil and 550 Bcf of gas [1] representing substantial potential future growth of reserves and production for the Company.

OMV's continuous operations to produce Habban oil at an average rate of 14,000 bopd since April 2018, and successful use of the Block 4 pipeline and oil export lifting from the Bir Ali Oil Export Terminal confirms the viability of this export route for the Company and its An Nagyah Oilfield.

As a consequence, the Company's plans for the restart of production at the An Nagyah Oilfield have been focused on a trucking operation that transports oil 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. Estimated operating expenditure ("OPEX") for this route is US$15/bbl. Truck loading facilities for An Nagyah crude oil have been built and are in storage in Dubai ready for transport to Block S-1.

The construction of a 16 inch oil transport pipeline connecting Block 5 (to which Block S-1 is connected by a 10 inch pipeline) and the oil export pipeline of Block 4, has commenced, which on completion will provide a more reliable and cost effective mode of oil transport than trucking of An Nagyah crude. The Yemen Oil Ministry expects the pipeline to be operational by year end.

The cost for the early Phase of startup is estimated to be around US$10 million, including capital expenditure ("CAPEX") and OPEX. Production during this phase will gradually increase to 5,000 bopd and will take around 6 months. The total cost estimate for the first 12 months of startup project is US$25 million, including CAPEX and OPEX. The target production for An Nagyah after full startup is around 10,000 bopd.

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

4. Review of operations (continued)

The Company has been seeking, since early 2017, the necessary government support and formal approvals for a trucking operation to access government oil export facilities in order to restart oil production at the An Nagyah Oilfield until such times as the Ras Isa oil export terminal at the port of Hodeidah resumes operations and the Marib pipeline is again operational. Delays have been due to limited and changing Yemen administration capabilities, political changes, and security conditions.

The Company has been engaged with the Yemen Minister of Oil & Minerals ("Minister"), His Excellency Aws Al-Aud, since his appointment in January 2018, seeking his support for the restart of production at the An Nagyah Oilfield by way of trucking to Yemen Government owned pipeline transport and export facilities. Access to these facilities are part of the Contractor's rights contained within the Block S-1 Production Sharing Agreement.

Petsec Energy's Executive Chairman, Mr. Terrence Fern, and Managing Director, Mr. Syed Bokhari, met with the Minister in May 2019 to share the Company's restart plans for the An Nagyah Oilfield with supporting technical and financial capabilities. The Minister showed considerable interest in the restart plan, expressing a desire to have the field in production within six months to coincide with the expected completion of a 16 inch oil pipeline connecting Block 5 (to which Block S-1 is connected) to the Block 4 export pipeline. He also encouraged Petsec to seek joint venture partners to co-invest in the development of Block S-1 which holds four undeveloped fields in addition to the developed An Nagyah Oilfield.

Subsequent to the meeting with the Minister, Petsec Energy sent a team of oil field production experts in June 2019 to the An Nagyah Oilfield in the Shabwah Province of Yemen to evaluate the condition of the facilities and prepare final production start-up plans. The evaluation team consisted of an international production facilities expert, four Yemeni oil field professionals, Petsec Energy staff, and a representative of the Yemen Ministry of Oil & Minerals.

The team found the facilities to be in good condition allowing for an early production start-up. Local staff and contractors were keen to see an early restart of production.

Final plans are being prepared for the production start-up that include all technical work and equipment/services required, contract support and manpower ramp up, transport and access to export facilities, and export sales agreements, OCMs and government approved restart budgets. It is expected this plan will be concluded within the next month allowing for an immediate restart of onsite operations on receipt of the Yemen administrative consents.

In response to the Minister's suggestion that Petsec Energy seek further investors in the development of Yemen oil resources, Petsec has engaged with several E&P companies interested in a joint venture in Block S-1 which includes the An Nagyah Oilfield. The initial discussions have been encouraging.

5. Events subsequent to balance date

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 2019.

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, 27 August 2019

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 of Petsec Energy Ltd for the half-year ended 30 June 2019 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

27 August 2019

Consolidated interim statement of profit and loss and other comprehensive income

For the six months ended 30 June 2019

	Note	Six months to 30 June 2019 US$'000	30 June 2018 US$'000
Revenues from sale of oil & gas		**715**	1,715
Net revenues after royalties		**715**	1,715
Other income		**(1)**	33
Lease operating expenses		**(719)**	(337)
Geological, geophysical and administrative expenses		**(1,892)**	(2,787)
Depreciation, depletion & amortisation and reclamation expense		**(1,796)**	(620)
Dry hole and impairment expense	5	**(13,799)**	(469)
Financial income		**3**	5
Financial expenses		**(2,221)**	(3,336)
Net financial (expense)/income		**(2,218)**	(3,331)
Loss before income tax		**(19,710)**	(5,796)
Income tax benefit/(expense)		**-**	-
Loss from continuing operations		**(19,710)**	(5,796)
Loss for the period		**(19,710)**	(5,796)
Other comprehensive loss			
Foreign exchange translation differences		**70**	59
Total comprehensive loss for the period		**(19,640)**	(5,737)
		US$	US$
Loss per share			
Basic and diluted loss per share	7	**(0.053)**	(0.018)

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 25.

Petsec Energy

Consolidated interim statement of changes in equity

For the six months ended 30 June 2019

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 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						
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
Balance at 1 January 2019	**197,855**	**1,779**	**123**	**406**	**(199,202)**	**961**
Total comprehensive income/(loss) for the period						
Loss for the period	**-**	**-**	**-**	**-**	**(19,710)**	**(19,710)**
Other comprehensive income/(loss)						
Foreign exchange translation differences	**-**	**71**	**-**	**(1)**	**-**	**70**
Total other comprehensive income/(loss)	**-**	**71**	**-**	**(1)**	**-**	**70**
Total comprehensive income/(loss) for the period	**-**	**71**	**-**	**(1)**	**(19,710)**	**(19,640)**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Shares issued, including share issue costs	**3,109**	**-**	**-**	**-**	**-**	**3,109**
Vesting of share options	**136**	**-**	**(136)**	**-**	**-**	**-**
Share-based payments expense	**-**	**-**	**67**	**-**	**-**	**67**
Total transactions with owners	**3,245**	**-**	**(69)**	**-**	**-**	**3,176**
Balance at 30 June 2019	**201,100**	**1,850**	**54**	**405**	**(218,912)**	**(15,503)**

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 25.

Consolidated interim balance sheet

As at 30 June 2019

	Note	30 June 2019 US$'000	31 December 2018 US$'000
ASSETS			
Current assets			
Cash and cash equivalents		**1,344**	2,597
Trade and other receivables		**801**	810
Prepayments		**189**	176
Total current assets		**2,334**	3,583
Non-current assets			
Restricted deposits		**1,880**	1,880
Property, plant and equipment		**108**	117
Right-of-use asset		**381**	-
Oil and gas properties	13	**5,054**	17,952
Exploration and evaluation properties	13	**-**	-
Total non-current assets		**7,423**	19,949
Total assets		**9,757**	23,532
LIABILITIES			
Current liabilities			
Trade and other payables		**1,810**	2,899
Lease liability		**162**	-
Employee benefits provisions		**217**	211
Total current liabilities		**2,189**	3,110
Non-current liabilities			
Secured borrowings	9	**13,679**	9,483
Fair value of derivative instruments	10	**518**	1,977
Lease liability		**232**	-
Provisions	16	**8,460**	7,815
Employee benefits provisions		**182**	186
Total non-current liabilities		**23,071**	19,461
Total liabilities		**25,260**	22,571
Net assets		**(15,503)**	961
EQUITY			
Issued capital		**201,100**	197,855
Reserves		**2,309**	2,308
Accumulated losses		**(218,912)**	(199,202)
Total equity		**(15,503)**	961

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 25.

Consolidated interim statement of cashflows

For the six months ended 30 June 2019

	Note	**30 June 2019 US$'000**	30 June 2018 US$'000
Cashflows from operating activities			
Cash receipts from customers		**1,134**	1,415
Cash payments to suppliers and employees		**(2,410)**	(2,617)
Interest received		**3**	5
Restricted deposits		**-**	(1,680)
Net cash used in operating activities		**(1,273)**	(2,877)
Cashflows from investing activities			
Payments for property, plant and equipment		**(1)**	-
Payments for oil and gas, exploration and evaluation properties		**(2,979)**	(124)
Aggregate cashflows from acquisition of subsidiary		**-**	1,327
Net cash from/(used in) investing activities		**(2,980)**	1,203
Cashflows from financing activities			
Proceeds from drawdown of convertible note facility		**3,000**	-
Net cash from investing activities		**3,000**	-
Net decrease in cash and cash equivalents		**(1,252)**	(1,674)
Cash and cash equivalents at 1 January		**2,597**	3,264
Effects of exchange rate changes on cash held		**(1)**	(36)
Cash and cash equivalents at 30 June		**1,344**	1,554

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 25.

Condensed notes to the consolidated interim financial statements

For the six months ended 30 June 2019

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 2019 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 2018 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 2018 ("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.

These interim financial statements were approved by the Company's Board of Directors on 27 August 2019.

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 2018.

Going concern basis of preparation

The interim financial statements have been prepared on the going concern basis which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

As at 30 June 2019, the Group has a cash balance (excluding restricted deposits of US$1.9 million) of US$1.3 million (31 December 2018: US$2.6 million) and current net assets of US$0.1 million (31 December 2018: current net assets US$0.5 million).

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 including:

- Access to the remaining funding available under the convertible note facility and other agreed facilities (refer Note 9);
- Generating sufficient net cash inflows from the US assets; and
- Reduction in general and administrative expenditure.

Due to the significant uncertainties in achieving the following actions, the cash flow projections do not assume:

I. Restart of operations in Yemen to allow for positive cash generation for operations;
II. Sale of assets or farm-in by external investors in the group's assets; or
III. Obtaining further debt or equity funding from shareholders or other external investors.

Should the Group be unable to continue as a going concern it may be required to realise assets and discharge its liabilities other than in the normal course of business and at amounts other than those stated in the consolidated financial statements. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount of liabilities that might result should the group be unable to continue as a going concern and meet its debt obligations as and when they fall due.

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 2018.

(i) AASB 16 Leases

AASB 16 introduces a single, on-balance sheet lease accounting model requiring lessees to recognise assets and liabilities of leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee recognises a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The Group has initially adopted AASB 16 Leases from 1 January 2019 using the modified retrospective approach, as defined in the accounting policy. The Group recognised a right-of-use asset and a lease liability of US$466,000 in respect of certain of its office premises which have a lease term of greater than 12 months.

Previously, the Group classified its office premises as operating leases under AASB 17. At transition, the right-of-use asset and liability were measured at the present value of future lease payments as at the initial recognition date, by applying the Group's incremental borrowing rate.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. Subsequent to initial measurement, the Group recognises period-to-period changes in the lease liability for the passage of time (unwinding of discount) as a borrowing cost. Lease payments included in the measurement of the lease liability comprise the base lease rental amount including any annual rent escalations.

The group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of 12 months or less and leases of low-value assets, including certain office premises and office equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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 determine fair value at each balance date. 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 inputs 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 estimates of future 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 total dry hole and impairment expense of US$13,799,000 against its Main Pass Block 270/273/274 Hummer Field, comprising US$6,451,000 dry hole cost of the B-2 well and the recognition of an impairment expense of US$7,348,000 due to a reduction of reserves in the Hummer Gas/Oil Field, based on the results of the B-2 well.

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

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.

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 16,800,000 options outstanding comprising 10,000,000 options issued to Sing Rim Pte Ltd and 6,800,000 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 2019.

During the current period, 6,000,000 options were forfeited. No options were granted and no options were exercised and converted to ordinary shares.

On 28 June 2019, the Company agreed to issue 40 million shares to the Convertible Noteholders (subject to shareholder approval, if necessary) in consideration for their continued and extended support (refer Note 9 for further details). At the balance sheet date, these shares had not been issued and therefore these shares were not considered in the loss per share calculation.

Basic loss per share

The calculation of basic loss per share at 30 June 2019 was based on the loss attributable to ordinary shareholders of US$19,710,000 (Six months to 30 June 2018: Loss of US$5,796,000) and a weighted average number of ordinary shares outstanding during the six months ended 30 June 2019 of 373,782,368 (Six months ended 30 June 2018: 321,164,786), calculated as follows:

	Six months to	
Loss attributable to ordinary shareholders	**30 June 2019 US$'000**	30 June 2018 US$'000
Loss for the period	**(19,710)**	(5,796)

Share capital	**As at**	
In thousands of shares	**2019**	2018
On issue at 1 January	**333,588**	322,288
Shares issued	**65,000**	10,000
Shares cancelled	**-**	(3,700)
On issue at 30 June	**398,588**	328,588

7. Earnings per share (continued)

Weighted average number of shares (basic)	**Six months to**	
In thousands of shares	**30 June 2019**	30 June 2018
Issued ordinary shares at 1 January	**333,588**	322,288
Effect of shares issued and cancelled in 2019 and 2018, respectively	**40,194**	(1,123)
Weighted average number of ordinary shares at 30 June	**373,782**	321,165

Weighted average number of shares (basic and diluted)	**As at**	
In thousands of shares	**30 June 2019**	30 June 2018
Weighted average number of ordinary shares (basic and diluted)	**373,782**	321,165

Earnings per share	**Six months to**	
In USD dollars	**30 June 2019**	30 June 2018
Basic and diluted loss per share	**(0.053)**	(0.018)

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 2018.

Employee Share Plan

No share grants were made to key management personnel under the Employee Share Plan during the six months ended 30 June 2019 (2018: nil).

Employee Option Plan

During the six months ended 30 June 2019:

- No option grants were made to key management personnel under the Employee Option Plan (2018: 10,200,000).
- 5,000,000 options were forfeited by key management personnel under the Employee Option Plan (2018: nil).

As announced to the ASX on 25 June 2019, the Company intends to issue 5,000,000 options under the Employee Option Plan to its recently appointed Managing Director, Mr. Syed Bokhari, subject to regulatory approvals and obtaining shareholder approval at its next General Meeting, currently scheduled in May 2020. The options will have an exercise price of A$0.20.

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 2019 and 2018.

	Six months to	
	30 June 2019	30 June 2018
Weighted average fair value at measurement date	-	A$0.007
Weighted average share price	-	$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%

8. Share-based payment arrangements (continued)

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 2019 US$000's	31 Dec 2018 US$000's
Non-current		
Secured borrowings – convertible notes	**13,679**	9,483

Convertible note facility

Secured borrowings represent the outstanding balance at 30 June 2019 under a US$15 million Secured Convertible Note Facility ("Facility") with Republic Investment Management and associates in Singapore, managed through the registrar Sing Rim Pte Ltd of Singapore ("Sing Rim"). The Company entered into the Facility in August 2016.

The key terms and conditions of the Facility are disclosed in the consolidated financial report as at and for the year ended 31 December 2018.

On 5 March 2019, the maximum number of shares that may be issued on conversion of, and payment of interest on, the Convertible Notes under the entire Facility was increased to 170 million shares under an Amended and Restated Secured Convertible Note Deed Poll. This change was approved by shareholders at the Annual General Meeting of the Company held on 2 May 2019.

On 8 April 2019, the holders of the Convertible Notes ("Noteholders") agreed to vary the Facility to allow access to the first US$3 million of the US$5 million available under Tranche 2 of the Facility. In addition, the Noteholders agreed to a forbearance till 23 January 2020 in the exercise of their rights under the Secured Convertible Note Deed Poll and associated Collateral, such that they will either exercise their rights of conversion or limit any claim they may have to the Secured Collateral only.

The Company issued 30 million shares to Sing Rim on 3 May 2019 being fees for the aforementioned variation.

On 28 June 2019, the Noteholders further agreed to:

1. Vary the terms of the Facility to allow the remaining US$2 million available under Tranche 2 to be applied to the Company's restart of oil production operations at the An Nagyah Oilfield, Block S-1 Yemen.
2. Extend the forbearance till the Redemption Date of 23 January 2021 in the exercise of their rights under the Secured Convertible Note Deed Poll and associated Collateral, such that they will either exercise their rights of conversion or limit any claim they may have to the Secured Collateral only.
3. Provide the Company with an additional facility of US$3 million that can be drawn upon up until the Redemption Date of 23 January 2021 to apply to the restart operations of the An Nagyah Oilfield.

In consideration of this continued and extended support, the Company agreed to issue 40 million shares to Sing Rim subject to shareholder approval, if necessary. At the date of this report, these shares had not been issued.

As at 30 June 2019, US$13 million has been drawn down under the US$15 million facility and nil has been drawn down under the US$3 million additional facility.

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 2019 US$000's	31 Dec 2018 US$000's
Non-current		
Fair value of financial derivatives	**518**	1,977

The fair value of financial derivative of US$518,000 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 and subsequent to initial recognition are remeasured 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 Black-Scholes-Merton formula.

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.

Petsec Energy

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2019

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		MENA		Canada		Consolidated	
	30 June 2019 US$'000	30 June 2018 US$'000	**30 June 2019 US$'000**	30 June 2018 US$'000	**30 June 2019 US$'000**	30 June 2018 US$'000	**30 June 2019 US$'000**	30 June 2018 US$'000	**30 June 2019 US$'000**	30 June 2018 US$'000
Oil & gas sales *	**-**	-	**715**	1,715	**-**	-	**-**	**-**	**715**	1,715
Segment net revenues after royalties	**-**	-	**715**	1,715	-	-	**-**	**-**	**715**	1,715
Segment net loss before tax	**(1,921)**	(3,729)	**(16,461)**	(280)	**(1,328)**	(1,757)	**-**	(30)	**(19,710)**	(5,796)
Income tax benefit/(expense)		-	**-**	-	**-**	-	**-**	-	**-**	-
Net loss for the period	**(1,921)**	(3,729)	**(16,461)**	(280)	**(1,328)**	(1,757)	**-**	(30)	**(19,710)**	(5,796)
Depreciation, depletion & amortisation and reclamation	**(73)**	(6)	**(1,720)**	(581)	**(3)**	(3)	**-**	(30)	**(1,796)**	(620)
Dry hole and impairment expense	**-**	-	**(13,799)**	-	**-**	(469)	**-**	-	**(13,799)**	(469)
Segment assets	**1,388**	1,296	**6,407**	16,847	**1,962**	2,004	**-**	-	**9,757**	20,147
Acquisition of property, plant and equipment and exploration, evaluation and development assets	**1**	-	**2,979**	28	**-**	214	**-**	-	**2,980**	242

* There are no inter-segment sales. 100% of the Group's oil and gas sales and royalties are derived from three customers.

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2019

12. Segment reporting (continued)

	Australia		USA		MENA		Canada		Consolidated	
	30 June 2019 US$'000	30 June 2018 US$'000	**30 June 2019 US$'000**	30 June 2018 US$'000	**30 June 2019 US$'000**	30 June 2018 US$'000	**30 June 2019 US$'000**	30 June 2018 US$'000	**30 June 2019 US$'000**	30 June 2018 US$'000
Segment liabilities	**15,054**	9,179	**1,032**	931	**9,163**	7,949	**11**	-	**25,260**	18,059
Cash (used in)/ from operating activities	**(771)**	(691)	**34**	295	**(536)**	(2,481)	**-**	-	**(1,273)**	(2,877)
Cash (used in)/ from investing activities	**(1)**	-	**(2,979)**	(124)	**-**	1,327	**-**	-	**(2,980)**	1,203
Cash from financing activities	**3,000**	-	**-**	-	**-**	-	**-**	-	**3,000**	-

13. Oil and gas, exploration, and evaluation properties

(a) Oil and gas properties	30 June 2019 US$'000	31 December 2018 US$'000
Opening balance at 1 January	**17,952**	15,679
Additions	**2,233**	3,771
Capitalised interest and facility fees [1]	**288**	234
Dry hole and impairment expense [2]	**(13,799)**	-
Current year amortisation expense	**(1,620)**	(1,732)
Closing balance at period end	**5,054**	17,952
(b) Exploration and evaluation properties		
Opening balance at 1 January	**-**	-
Additions	**-**	214
Dry hole and impairment expense	**-**	(214)
Closing balance at period end	**-**	-

1. *Interest has been capitalised on specific borrowings in respect of oil and gas properties under development.*
2. *Dry hole and impairment expense comprised the dry hole cost of the Main Pass Block 273 B-2 well of US$6.5 million and the recognition of an impairment expense of US$7.3 million against the Hummer Gas/Oil Field due to a reduction of reserves, based on the results of the B-2 well.*

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 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 estimated 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.

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:

	As at	
Assets	**30 June 2019 US$'000**	31 December 2018 US$'000
Oil and gas properties		
Producing leases – at cost	**19,436**	23,366
Less: accumulated amortisation and impairments	**(14,499)**	(5,531)
	4,937	17,835
Represented by the following lease carrying values:		
- Offshore Gulf of Mexico	**4,379**	16,576
- Onshore Louisiana	**558**	1,259
Total oil and gas properties	**4,937**	17,835

	As at	
Liabilities	**30 June 2019 US$'000**	31 December 2018 US$'000
Rehabilitation provision:		
- Offshore Gulf of Mexico	**104**	99
- Onshore Louisiana	**103**	99
	207	198

	Six months to	
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):	**30 June 2019 US$'000**	30 June 2018 US$'000
- Offshore Gulf of Mexico	**(14,429)**	360
- Onshore Louisiana	**(643)**	74
- Onshore Canada	**-**	(30)
- MENA	**(396)**	(856)
	(15,468)	(452)

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 2019	30 June 2018
- 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%**	75% 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:

Assets	As at 30 June 2019 US$'000	As at 31 December 2018 US$'000
Oil and gas properties:		
Producing leases – at cost	**3,556**	3,556
Less: accumulated amortisation and impairments	**(3,439)**	(3,439)
	117	117
Represented by the following lease carrying values:		
- MENA	**117**	117
Total oil and gas properties	**117**	117

	Six months to 30 June 2019 US$'000	Six months to 30 June 2018 US$'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	**(351)**	(406)
	(351)	(406)

16. Provisions

	As at 30 June 2019 US$'000	As at 31 December 2018 US$'000
Non-current provisions		
Yemen operations [1]	**8,253**	7,617
Rehabilitation (Note 14)	**207**	198
	8,460	7,815

1. *Amounts associated with the Group's interests in Block S-1 and Block 7. The potential cash outflows associated with this provision are 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 2019 US$'000	31 December 2018 US$'000
Exploration, evaluation and development expenditure:		
Contracted but not provided for and payable:		
Within one year	**-**	1,776
	-	1,776

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 2019, the Group had US$1.7 million in guarantees in place to meet minimum exploration expenditure commitments (December 2018: US$1.7 million). These guarantees are secured by bank deposits of US$1.7 million, classified as "Restricted deposits" in the balance sheet.

18. Related Parties

Arrangements with related parties continue to be in place. For details on these arrangements refer to the 2018 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.

Petsec Energy

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 25, 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 2019 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, 27 August 2019

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 2019 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 statement of financial position as at 30 June 2019;
- 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 19 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 2019 or from time to time during the Interim Period.

The ***Interim Period*** is the 6 months ended on 30 June 2019.

KPMG

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; and*
- 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 2019 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

27 August 2019