Petsec Energy Ltd

Results for announcement to market
For the six months ended 30 June 2020

Key Points

- Net loss after tax of US$6.5 million for the six months to 30 June 2020 after the recognition of dry hole, impairment and abandonment expense of US$3.7 million and financial expense of US$1.6 million.
- Net oil and gas revenues of US$0.2 million generated from production of 104 MMcfe at an average gas equivalent sales price of US$1.79/Mcfe.
- The Company entered into a voluntary suspension of trading of its shares on the ASX on 3 April 2020 to in response to the effects of the COVID-19 pandemic, particularly the significant decline in oil and gas prices, in order to effect a substantial reduction in the Company's cost of operations, restructure its' financing, and amend its business plan in order to weather the economic storm caused by the COVID-19 pandemic.
- Resignation of Managing Director, Mr. Syed Bokhari, and non-executive directors, Mr. David Mortimer AO and Mr. Alan Baden, from the Petsec Energy Ltd Board on 30 April 2020.
- **YEMEN: Damis (Block S-1) Production Licence**: The Company focussed its efforts on securing a financially strong and experienced Yemen oil producer to operate Block S-1 satisfactory to, and as required by, the legitimate Yemen Minister for Oil, in order to receive approvals to access government export pipelines which would permit the restart of oil production from the An Nagyah Oilfield. To secure such a partner Petsec Energy transferred 100% of the shares in Yemen (Block S-1), Inc., the approved and recognised operator of Damis (Block S-1) and owner of a 75% working interest in Damis (Block S-1), in return for US$2 million and a life of licence carry of the all costs (operating and development) of the remaining 25% working interest in Block S-1 held by the Company's wholly owned subsidiary West Yemen Oil (Block S-1) Inc.
- **YEMEN: Al Barqa, Block 7 Exploration Licence:** An illegitimate claim was made against the Letter of Credit ("LoC") issued under the Production Sharing Agreement (PSA) on the Al Barqa, Block 7 Permit. The Block 7 LoC's totalling US$4.2 million were established between the Block 7 joint venture partners and the Arab Bank on behalf of the Yemen Ministry of Oil and Minerals and guaranteed the remaining minimum exploration expenditure obligations on the block, which has been in Force Majeure since 2011. The LoC cannot be claimed while the licence is subject to Force Majeure. The Company is seeking recovery from Arab Bank, Amman, Jordan of US$2.73 million of the Company's and Mitsui's funds supporting counterparty LoCs, transferred by Qatar National Bank (QNB) and Commonwealth Bank of Australia (CBA) banks in January 2020 to Arab Bank, acting on the illegal Houthi claim.
- Placement of 10 million shares at $0.02/share raising A$200,000 in May 2020.
- At 30 June 2020, the Group held total cash deposits of US$0.4 million (including US$0.1 million of restricted deposits).

Subsequent Events

- **USA: Sale of all of the Company's U.S. oil and gas interests**: Sale of all assets for US$600,000 and transfer of liabilities to purchaser at the effective date of 1 July 2020, was concluded in October 2020. The U.S. and Canadian subsidiary companies were subsequently wound up by year end 2020.
- **YEMEN: Damis Block S-1 Production Licence**: In October 2020, the Company sold 100% of the shares in Yemen (Block S-1), Inc., the approved and recognised operator of Damis (Block S-1) and owner of a 75% working interest in Damis (Block S-1), to a financially strong and experienced Yemen oil producer to operate Block S-1 satisfactory to and as required by the legitimate Yemen Minister for Oil, in order to receive approvals to access government export pipelines which would permit the restart of oil production from the An Nagyah Oilfield. Consideration received was US$2 million and a life of licence free carry of the all costs (operating and development) of the remaining 25% working interest in Block S-1, held by the Company's wholly owned subsidiary, West Yemen Oil (Block S-1) Inc.
- **YEMEN: Al Barqa, Block 7 Exploration Licence**: The Court of First Instance in Jordan, determined that the claim made by the rebel Houthi administration in Sana'a against the Block 7 Letter of Credit (US$4.2million) supporting future exploration obligations, held by Arab Bank, Sana'a, was illegal and counterparty LoC funds received by Arab Bank could not be transferred to the Houthi. The Company is pursuing further legal action against Arab Bank in Jordan to recover the US$2.73 million in counterparty LoC funds claimed and transferred to Arab Bank on the basis of the illegal claim by the Houthi to Arab Bank, by Qatar National Bank (QNB) acting for the Company and Commonwealth Bank of Australia (CBA) acting for Mitsui.
- **Convertible Note Facility: Renegotiation of the terms Facility:** Redemption Date was extended for a 3-year period from 23 January 2021 to 23 January 2024 with effect from 31 December 2020 and the interest rate was reduced from 15% to 10% p.a.

Key data – Six months ended 30 June 2020 compared to the six months ended 30 June 2019

	Six Months to 30 June 2020	Six Months to 30 June 2019	% Increase/ (Decrease)
Key Operating/Financial Data			
Net production (MMcfe [1])	**104**	217	(52%)
Net revenues after royalties (US$m)	**0.2**	0.7	(71%)
Net profit/(loss) after tax (US$m)	**(6.5)**	(19.7)	n/a
Add: Depreciation, depletion, amortisation and reclamation expense (US$m)	**0.1**	1.8	(94%)
Add: Dry hole, impairment & abandonment expense (US$m)	**3.7**	13.8	(73%)
Add: Net financial expense (US$m)	**1.6**	2.2	(27%)
Less: Income tax benefit	**(0.2)**	-	n/a
EBITDAX (US$m) [2]	**(1.3)**	(1.9)	n/a
Key Performance Indicators			
Average net sales price/Mcfe [3] (US$)	**1.79**	3.29	(46%)
Less: Other expense/Mcfe (US$)	**(0.12)**	-	n/a
Less: Operating costs/Mcfe (US$) [4]	**(14.61)**	(12.03)	n/a
EBITDAX/Mcfe (US$)	**(12.94)**	(8.74)	n/a
DD&A/Mcfe (US$)	**0.83**	8.28	(90%)
Other Financial Data			
Acquisition, exploration and development expenditure (US$m)	**-**	2.7	(100%)
USD/AUD average exchange rate	**0.6638**	0.7074	(6%)

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 unreviewed.*
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 2020; Previous corresponding period: Six months ended 30 June 2019.

Key Operating/Financial Data

- Net production for the current period of 104 MMcfe (94 MMcf of gas and 1,701 barrels of oil/condensate) was derived from the Group's U.S. oil and gas interests in the Main Pass Block 270 B-1 well on the Hummer Gas/Oil Field offshore Gulf of Mexico and the Williams Alt No. 2 well on the Mystic Bayou Field, onshore Louisiana, USA. This was 52% lower than the 217 MMcfe (194 MMcf of gas and 3,782 barrels of oil/condensate) achieved in the previous corresponding period as a result of both the Hummer and Mystic Bayou wells being offline for approximately 60 days due to repairs and maintenance coupled with natural decline.
- Net oil and gas revenues for the current period were US$0.2 million, 71% lower than the US$0.7 million generated in the previous corresponding period due to lower production volumes and lower realised prices in the current period.
- The Group reported negative EBITDAX of US$1.3 million for the current period (previous corresponding period: negative EBITDAX of US$1.9 million).
- The Group incurred a net loss after tax of US$6.5 million for the current period (previous corresponding period: net loss after tax of US$19.7 million) after the recognition of dry hole, impairment and abandonment expense of US$3.7 million and financial expense of US$1.6 million.

  Dry hole, impairment and abandonment expense of US$3.7 million comprised the recognition of an impairment of US$3.6 million against the Hummer Gas/Oil Field which the Group has decided to sell as part of its strategic plan to windup and close its U.S. operations; and abandonment expense of US$0.1 million relating to the relinquishment of the Main Pass Block 274 lease. Refer to *"Note 8 Discontinued Operations and Assets and Liabilities Held for Sale"* for further details.

  Financial expense of US$1.6 million related to interest expense incurred in connection with the Convertible Note Facility ("Facility") and movements 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 of US$1.79/Mcfe for the current period. This was 46% lower than the US$3.29/Mcfe in the previous corresponding period, reflecting the significant fall in commodity prices due to reduced demand caused by the worldwide government response to the COVID-19 pandemic, increase in oil production by Saudi Arabia and Russia, both of which contributed to higher inventory levels. The Group received average sales prices of US$1.28/Mcf and US$38.80/bbl for its natural gas and oil/condensate production, respectively. This compares to US$2.52/Mcf and US$60.02/bbl in the previous corresponding period.
- Unit operating costs and the EBITDAX margin were US$14.61/Mcfe (previous corresponding period: US$12.03/Mcfe) and negative US$12.94/Mcfe (previous corresponding period: negative US$8.74/Mcfe), respectively.
- Unit DD&A expense was US$0.83/Mcfe (previous corresponding period: US$8.28/Mcfe).

Other Financial Data

- No acquisition, exploration and development expenditures were incurred during the six months ended 30 June 2020 (previous corresponding period: US$2.7 million).

Dividend

Petsec Energy Ltd does not propose the payment of a dividend in respect of the six months ended 30 June 2020.

Net Tangible Asset Backing

The Group's net tangible asset backing per ordinary security for the current period was negative US$0.06 (previous corresponding period: negative US$0.04).

Directors' Report and Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

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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 2019 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 2020

The directors present their report together with the consolidated financial report for the six months ended 30 June 2020 and the independent auditor's review report thereon.

1. Directors

The directors of Petsec Energy Ltd (the "Company") at any time during or since the six months ended 30 June 2020 are:

Name	Period of directorship
Non-executive	
Mr David A. Mortimer AO	Appointed in 1985. Resigned as of 30 April 2020
Mr Alan P. Baden	Appointed in 2013. Resigned as of 30 April 2020
Mr Barry J. Dawes	Appointed on 30 September 2020
Mr Francis M. Douglas Q.C.	Appointed on 30 September 2020
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. Resigned as of 30 April 2020
Mr Brent D. Emmett	Appointed as Technical Director on 13 November 2020

Resignation of Directors

During the current period, the Managing Director of Petsec Energy Ltd, Syed Bokhari, stepped down from his position at the conclusion of his 12-month engagement on 30 April 2020. The Company's two Non-executive Directors, David Mortimer AO and Alan Baden also stepped down from their positions on the Board and its Committees with effect on 30 April 2020. Refer to the announcements made to the ASX on 30 April 2020 for further details.

Messrs. Barry Dawes and Francis Douglas QC were subsequently appointed as Non-executive Directors to the Board, effective 30 September 2020 and Mr. Brent Emmett was appointed as Technical Director to the Board, effective 13 November 2020.

2. Operating results

The Group incurred a net loss after tax of US$6.5 million for the six months ended 30 June 2020 (previous corresponding period: net loss after tax of US$19.7 million) after the recognition of impairment and abandonment expense of US$3.7 million and financial expense of US$1.6 million.

Impairment and abandonment expense of US$3.7 million comprised the recognition of an impairment of US$3.6 million against the Hummer Gas/Oil Field which the Group has agreed to sell as part of its strategic plan to windup and close its U.S. business; and abandonment expense of US$0.1 million relating to the relinquishment of the Main Pass Block 274 lease.

Financial expense of US$1.6 million related to interest expense incurred in connection with the Convertible Note Facility ("Facility") and movements in the fair value of the financial derivative component of the Facility.

Net oil and gas revenues of US$0.2 million were generated in the six months ended 30 June 2020 from production of 104 million cubic feet of gas equivalent ("MMcfe") at an average natural gas equivalent sales price of US$1.79/Mcfe. This was 71% lower than the net oil and gas revenues achieved in the previous corresponding period of US$0.7 million due to lower production volumes and lower sales prices received in the current period.

Net production for the current period of 104 MMcfe 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 that achieved in the previous corresponding period of 217 MMcfe as a result of both the Hummer and Mystic Bayou wells being offline for approximately 60 days during the current period due to repairs and maintenance coupled with natural decline.

The Group realised an average net gas equivalent sales price of US$1.79/Mcfe in the current period. This was 46% lower than the US$3.29/Mcfe achieved for the previous corresponding period, reflecting the significant fall in commodity prices due to reduced demand caused by the worldwide government response to the COVID-19 pandemic, increase in oil production by Saudi Arabia and Russia, both of which contributed to higher inventory levels. The Group received average sales prices of US$1.28/Mcf and US$38.80/bbl for its natural gas and oil/condensate production, respectively. This compares to US$2.52/Mcf and US$60.02/bbl in the previous corresponding period.

Operating expenses (i.e. lease operating and geological, geophysical and administrative expense) were reduced to US$1.5 million for the current period (previous corresponding period: US$2.6 million), reflecting the significant cuts made in the groups costs structure in the second half of 2019 and further into 2020.

The Group reported negative earnings before interest, income tax, depreciation, depletion and amortisation, and exploration expense ("EBITDAX") of US$1.3 million for the current period (previous corresponding period: negative EBITDAX of US$1.9 million).

DD&A expense was US$0.1 million in the current period (previous corresponding period: US$1.8 million), reflecting the lower production volumes for the current period and the effect of the upward reserve adjustments from the 1 January 2020 independent reserve report.

3. Financial position

At 30 June 2020, the Company held cash deposits of US$0.4 million (31 December 2019: US$0.7 million). The cash deposits at 30 June 2020 were held in US and Australian dollars, and include restricted cash amounts of US$0.1 million (31 December: US$0.1 million).

Convertible Note Facility

As at 30 June 2020, the Company had drawn down US$14 million under its US$15 million Convertible Note Facility Agreement.

In April 2020, the Company's Convertible Noteholders suspended access to the remaining US$1 million under the facility which was otherwise available to the Company, pending the negotiation of a new plan of action.

The Convertible Noteholders are supportive of the Company's plan to substantially reduce overheads and place the Company in hibernation until conditions improve and consents are obtained to restart oil production in Block S-1, and/or more accessible production assets can be acquired to rebuild the Company's reserves and cashflow.

Share Placement

On 19 May 2020, the Company completed a minimum placement of 10 million ordinary shares at an offer price of A$0.02 per share, the price at the time of voluntary suspension of the Company's shares, raising A$200,000 which would provide sufficient working capital till the end of the 2020 year without reliance on further debt provided by Noteholders.

4. Review of operations

Petsec Energy Ltd 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). During the six months to 30 June 2020, the Company had operations in the shallow waters of the Gulf of Mexico and onshore Louisiana, USA, and in the Republic of Yemen.

Voluntary Suspension

The Company entered into a voluntary suspension of its stock on the ASX on 3 April 2020 in response to the effects of the COVID-19 pandemic, particularly the significant decline in oil and gas prices, in order to effect a substantial reduction in the Company's cost of operation, restructure its' financing, and amend its' business plan in order to weather the economic storm caused by the COVID-19 pandemic and to protect shareholder value.

The Company implemented measures which have significantly reduced the cost structure of the business, including:

- Closure of the Dubai Office and release of staff.
- Closure of the Sana'a Office with existing staff retained on reduced hours.
- Divestment of the U.S. assets and winding up the U.S. business.
- Cessation of remuneration to all members of the Petsec Energy Ltd Board effective 31 March 2020, and reduction of staff remuneration.
- Conclusion of the 12-month engagement of the Managing Director of PEL, Syed Bokhari at the end of April 2020.
- Relocation of the Sydney corporate office and registered business address to the Macquarie Business Centre at Level 7, 167 Macquarie Street, Sydney NSW 2000.

At the date of this report, the Company's shares remained in voluntary suspension on the ASX. The Company expects that its shares will remain in voluntary suspension on the ASX pending the lodgement of its 2020 half-year and full-year financial reports, restructuring of Company debt, and the convening of the Company's Annual General Meeting, which is planned for May 2021.

USA

In April 2020, management committed to a plan to sell all of its U.S. oil and gas interests and to wind up and close down both its USA and Canada business segments. Refer to "*Note 8 – Discontinued Operations and Assets and Liabilities Held for Sale*" in the notes to the consolidated interim financial statements for further details.

Subsequent to balance date, the Company entered into an agreement to sell the U.S. assets. The transaction has an effective date of 1 July 2020 and was closed in October 2020. Refer to "*Note 5 – Events Subsequent to Balance Date*" of this Directors' Report for further details.

Production

During the current period, the Company held interests 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 94 million cubic feet of gas and 1,701 barrels of oil/condensate (equivalent to 104 MMcfe) net to its revenue interest in the six months to 30 June 2020. 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.

4. Review of operations (continued)

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 84 MMcfe to production in the current period (previous corresponding period: 175 MMcfe).

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 20 MMcfe to production in the current period (previous corresponding period: 42 MMcfe).

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 production from the well in the current period.

MENA

Yemen

The Company holds interests in two blocks in Yemen, 80 kilometres apart in the Marib Basin - Damis Block S-1 Production Licence and Al Barqa, 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 in Block S-1 is developed with 32 wells and has associated production facilities capable of producing 20,000 bopd, 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 have 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 oil discovery with target resources of 11 to 110 million barrels of oil.

Operations at the Company’s An Nagyah Oilfield in Block S-1 continue to be shut-in while government approvals are sought to allow the Company to access the Block 5 to Block 4 Pipeline, completed in early 2020 but not as yet operational, or 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, improved sufficiently to allow 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 kilometres North East of An Nagyah Oilfield and 14 kilometres West of the Al Meashar oil discovery in Block 7. Habban oil is transported by truck south to the Main Oil Pumping Station (MOPS) near the West Ayad Oilfield 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 600,000 barrels of oil is made every 6 to 7 weeks.

Construction of a 16 inch oil transport pipeline connecting Block 5 (to which Block S-1 is connected) to the oil export pipeline of Block 4, has been completed. The Yemen Oil Ministry expected it to be operational by March 2020, but at the date of this report was not yet operational. Block 5 is required to restart production for the new pipeline to function, which is expected to commence in the second half of this year following the Yemen Government’s recent decision to extend the Block 5 operating period by five years.

The Shabwah Governate, in which Petsec’s Blocks S-1 and 7 are located, is under the control of the internationally recognised Yemen Government with support from Saudi and local forces. The security position is generally good allowing for oil production by OMV, trucking oil 20 kilometres, then flowing through the 204 kilometre Block 4 pipeline to Bir Ali export terminal, and the construction of the 80 kilometre Block 5 to Block 4 oil pipeline.

In late 2019, the government run Safer Exploration Production Oil Company (“SEPOC”) started production of 5,000 bopd from Block 18, trucking the oil South to Rudum Terminal at Bir Ali. This was seen as a significant development as Block 18 is a major oil producer for the country, producing on average 35,000 bopd prior to rebel control of the Marib Export Pipeline. SEPOC’s Block 18 and Petsec’s Block S-1 are connected by pipeline to Block 5 which is now connected to Block 4 following recent completion of the 80 kilometre, 16 inch pipeline.

4. Review of operations (continued)

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

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

Petsec Energy acquired 100% of the block in early 2016.

Damis (Block S-1) 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 has produced around 25 million barrels of oil since start of production in 2004 out of the original 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.

The Company's plans for the restart of production at the An Nagyah Oilfield have been focused on pumping oil 27 kilometres NW to Block 5 through the existing Block S-1 10 inch pipeline and then to the Main Oil Pumping Station (MOPS) in Block 4 through the newly constructed 80 kilometre, 16 inch Block 5 to Block 4 pipeline. From MOPS, oil will be pumped 204 kilometres South to Rudum Terminal at Bir Ali.

In a press release made to the Yemeni news agency, Saba, and reported widely in the Middle East, the Yemen Oil Minister, Aws Al Awd stated the legitimate Yemen Government, now located in Aden, is actively engaged in restarting and increasing oil production in areas controlled by the legitimate Yemen Government. Chief amongst this is the Yemen Government's construction of an 80 kilometre, 16 inch pipeline connecting Jannah Hunt Block 5 to Ghareb Ayad Block 4. This pipeline connects SAFER Block 18 (35,000 bopd) to Jannah Hunt Block 5 (26,000 bopd) and Damis Block S-1 (Petsec Energy, 10,000 – 20,000 bopd) to the Block 4 pipeline which runs south to Nishaima Terminal at Bir Ali on the Arab Sea.

Austrian oil company OMV has been producing some 14,000 bopd from Block S-2, into the Block 4 pipeline since April 2018.These four blocks are all of the oil producers in the Marib/Shabwah Basins and represent the largest potential oil production in Yemen.

The Yemen Government is also actively encouraging the restart of the TOTAL operated Bal Haf, 6.7 million tonne per year LNG plant.

The Company's engineers estimate the cost to restart oil production at An Nagyah at a rate of 10,000 bopd will be under US$5 million, and would take between 6 and 12 months from the time of receipt of Yemen Government approvals to access Block 4 oil export facilities.

The Company has been seeking, since early 2017, the necessary government support and formal approvals to transport oil initially by truck to Petro Masila's Block 14 and pipe to Mukalla, then in the past year by truck to Block 4, and now via the Block 5 to Block 4 pipeline to the oil export terminal at Bir Ali through YICOM facilities at Block 4 and its Rudum Terminal. Access to these facilities are part of the Contractor's rights contained within the Block S-1 Production Sharing Agreement. Delays have been due to a lack of engagement by the Oil Minister, limited and changing Yemen administration capabilities, political changes, and security conditions.

We have engaged with the Oil Minister, His Excellency Aws Al-Awd, since his appointment in January 2018, seeking his support for the restart of production at the An Nagyah Oilfield. Documentation supporting the Company's technical and financial capabilities to restart production at the An Nagyah Oilfield was supplied to the Minister of Oil and Minerals during the September 2019 quarter for his review and approval.

Petsec Energy's Chairman, Terrence Fern and then Managing Director, Syed Bokhari, met with the Yemen Minister of Oil & Minerals, Aws Al Awd, 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 6 months to coincide with the expected completion of a 16 inch oil pipeline connecting Block 5 (to which Block S-1 is already 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 that meeting, in late 2019, the Minister indicated that approvals of access to government export transport facilities would come should we secure a financially strong and experienced Yemen oil producer to operate the field.

Subsequent to the meeting with the Minister, Petsec 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.

In response to the Minister's wish that Petsec secures a financially strong and experienced Yemen oil producer to operate the An Nagyah Oilfield, Petsec focused its efforts in the second half of 2019 and the first half of 2020 on securing such a partner in Yemen that would meet the Minister's requirements, which when met would allow access to government owned export transport facilities and thus the restart of production from the An Nagyah Oilfield and the development of the Damis (Block S-1) Production Licence.

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

4. Review of operations (continued)

Block 7, Al Barqa Exploration Licence, Republic of Yemen

Petsec: 75% working interest (63.75% participating interest) and operatorship.

Petsec Energy acquired its interest in the period 2014-2018.

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 with two suspended discovery wells (target resource of 11 MMbbl to 110 MMbbl) which is located 14 kilometres East of OMV's Habban Oilfield in Block S-2 which holds ultimate recovered reserves of 350 million barrels of oil of the same type and in the same reservoir rocks as Al Meashar. In 2010/2011, short-term testing of the two Al Meashar wells delivered flow rates ranging from 200 to 1,000 bopd.

The block also holds an inventory of leads and prospects with significant oil potential defined by 2D and 3D seismic surveys. The four largest prospects range in target size from 174 MMbbl to 439 MMbbl.

5. Events subsequent to balance date

USA: Sale of all of the Company's U.S. oil and gas interests

On 6 August 2020, the Company announced that it had agreed to sell all of its U.S. oil and gas interests to a privately held U.S. exploration and production company based in Houston.

The Sale Agreement had an effective date of 1 July 2020, and included all of the Company's interests in the Hummer, Mystic Bayou and Jeanerette Fields including the assumption of plug and abandonment obligations by the Purchaser, for consideration of US$0.6 million (US$0.5 million base cash payment plus a further US$0.1 million trailing payment due in October 2021). Completion occurred in October 2020. Refer to announcement made to ASX on 6 August 2020 for further details.

The assets sold pursuant to the transaction are:

- The Company's production and exploration rights on the Hummer Field – Southern portion of Main Pass Block 270 and all of Main Pass Block 273, Gulf of Mexico.
- The Company's production and exploration rights on the Mystic Bayou Field, Louisiana.
- The Company's production and exploration rights on the Jeanerette Field, Louisiana.

Proceeds from the transaction have been applied to the wind up and closure of the USA and Canadian business.

YEMEN: Damis Block S-1 Production Licence: Sale of Yemen (Block S-1), Inc.

In October 2020, the Company secured a financially strong and Yemen experienced oil producer, satisfactory to the Yemen Minister for Oil and Minerals, to be operator of the Damis Block S-1 Production Licence, so as to gain access to government owned export transport facilities which would allow restart of oil production from the An Nagyah Oilfield in Block S-1.

The Company sold all of the shares of Yemen (Block S-1), the designated operator of Block S-1 and owner of a 75% working interest, to Yung Holdings Limited, a subsidiary of Octavia Energy Corporation, a UK company focused on oil and gas exploration and production in the MENA region, and active in Yemen since 2016. Octavia Energy Corporation has demonstrated the financial capacity and technical capabilities required to manage the resumption of oil production from Block S-1 through its extensive operating experience in the MENA region where its operated current production is in excess of 6,500 bopd.

Consideration for the transfer of Yemen (Block S-1) Inc. to Yung Holdings was payment of US$2 million and a life of licence carry of all future costs (operating and development) in Block S-1 of the Company's wholly owned subsidiary, West Yemen Oil (Block S-1) Inc., which holds a 25% working interest in Block S-1.

Convertible Note Facility: Renegotiation of the terms

Effective 31 December 2020, the Company concluded negotiations with the Convertible Noteholders and agreed the following variations to the terms of the Convertible Note Facility:

- *Redemption Date*: Extended for a three-year period from 23 January 2021 to 23 January 2024.
- *Interest Rate*: Reduced from the current 15% per annum to 10% per annum monthly compounding for the period commencing 23 January 2021.
- *Convertible Note Conversion Price and Limit*: Conversion price is 2 cents per share and conversion of debt is limited to 170 million shares as approved by shareholders at the AGM held on 2 May 2019.
- *Dedication of Income/Cash to Debt Repayment*: 80% of all income/cash generated from operations or transactions of the assets to be used to repay debt unless otherwise directed by the Noteholders.

5. Events subsequent to balance date (continued)

- *Approval of Expenditure*: Material expenditures to be under the control of the Noteholders directed through the Chairman.
- *Penalty Terms*: If by 23 January 2023 less than 50% of the Convertible Note debt (i.e. principal and interest) has been paid to the Noteholders, the debt will increase by US$1 million. If by 23 January 2024 less than 80% of the debt (i.e. principal and interest) has been paid, the debt will increase by a further US$1.5 million.
- *Consent Terms*: 40 million fully paid ordinary shares in Petsec Energy Ltd to be granted to the Noteholders as a facility variation fee subject to shareholder approval at the next General Meeting.

YEMEN: Al Barqa, Block 7 Exploration Licence: Block 7 Letter of Credit Litigation Matter

On 17 February 2021, the Court of First Instance in Jordan determined that the Houthi claim against the Block 7 LoC was illegal and counterparty LoC funds received by Arab Bank could not be transferred to the Houthi. The Company is pursuing further legal action against Arab Bank in Jordan to recover the US$2.73 million in counterparty LoC funds claimed and transferred to Arab Bank on the basis of the illegal claim by the Houthi to Arab Bank, by Qatar National Bank (QNB) acting for the Company and Commonwealth Bank of Australia (CBA) acting for Mitsui.

Other than as 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 sole director 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. 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 Board of Directors of Petsec Energy Ltd.

Terrence N. Fern
Director
Sydney, 26 April 2021

PETSEC ENERGY LTD
ABN 92 000 602 700
AND CONTROLLED ENTITIES

AUDITOR'S INDEPENDENCE DECLARATION UNDER S 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF PETSEC ENERGY LTD

I declare that, to the best of my knowledge and belief, during the half-year ended 30 June 2020 there have been no contraventions of:

i. the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. any applicable code of professional conduct in relation to the review.

MNSA Pty Ltd

MNSA Pty Ltd

Mark Schiliro
Director

Sydney
Dated this 26th of April 2021

Petsec Energy

Consolidated interim statement of profit or loss and other comprehensive income

For the six months ended 30 June 2020

	Note	Six months to 30 June 2020 US$'000	30 June 2019 [1] US$'000
Continuing operations			
Other expense		**(5)**	(5)
Lease operating expenses		**(324)**	(575)
Geological, geophysical and administrative expenses		**(697)**	(1,361)
Depreciation, depletion, amortisation and reclamation expense		**(18)**	(76)
Financial income		**-**	3
Financial expenses		**(1,546)**	(1,235)
Net financial expense		**(1,546)**	(1,232)
Loss before income tax		**(2,590)**	(3,249)
Income tax benefit/(expense)	5	**-**	-
Loss from continuing operations		**(2,590)**	(3,249)
Discontinued operations			
Loss from discontinued operation, net of tax [2]	8	**(3,935)**	(16,461)
Loss for the period		**(6,525)**	(19,710)
Other comprehensive loss			
Foreign exchange translation differences		**45**	70
Total comprehensive loss for the period		**(6,480)**	(19,640)

	Note	30 June 2020 US$	30 June 2019 US$
Loss per share – continuing and discontinued operations			
Basic and diluted loss per share	6	**(0.016)**	(0.053)
Loss per share – continuing operations			
Basic and diluted loss per share	6	**(0.006)**	(0.009)

1. *The previous corresponding period results have been restated in accordance with AASB 5 Discontinued Operations to reflect the classification of the results of the USA and Canada operations as "discontinued operations" following management's decision in April 2020 to windup and close both its USA and Canada business segments.*

2. *The Group has elected to disclose a single amount of post-tax profit or loss from its discontinued USA and Canada operations in the statement of profit or loss and other comprehensive income for the current and previous corresponding period, and has analysed that single amount into revenue, expenses and pre-tax profit or loss in Note 8 Discontinued Operations and Assets and Liabilities Held for Sale.*

The consolidated interim statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the consolidated financial statements set out on pages 14 to 27.

Petsec Energy

Consolidated interim statement of changes in equity

For the six months ended 30 June 2020

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 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						
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)
Balance at 1 January 2020	**201,099**	**1,859**	**74**	**406**	**(223,443)**	**(20,005)**
Total comprehensive income/(loss) for the period						
Loss for the period	**-**	**-**	**-**	**-**	**(6,525)**	**(6,525)**
Other comprehensive income/(loss)						
Foreign exchange translation differences	**-**	**53**	**-**	**(8)**	**-**	**45**
Total other comprehensive income/(loss)	**-**	**53**	**-**	**(8)**	**-**	**45**
Total comprehensive income/(loss) for the period	**-**	**53**	**-**	**(8)**	**(6,525)**	**(6,480)**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Shares issued, including share issue costs	**138**	-	-	-	-	**138**
Vesting of share options	**51**	**-**	**(51)**	**-**	**-**	**-**
Share-based payments expense	**-**	**-**	**11**	**-**	**-**	**11**
Total transactions with owners	**189**	**-**	**(40)**		**-**	**149**
Balance at 30 June 2020	**201,288**	**1,912**	**34**	**398**	**(229,968)**	**(26,336)**

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 27.

Consolidated interim statement of financial position

As at 30 June 2020

	Note	30 June 2020 US$'000	31 December 2019 US$'000
ASSETS			
Current assets			
Cash and cash equivalents		**333**	645
Trade and other receivables		**236**	192
Prepayments		**23**	84
Assets held for sale	8	**478**	-
Total current assets		**1,070**	921
Non-current assets			
Restricted deposits		**45**	46
Property, plant and equipment		**10**	22
Right-of-use asset		**96**	134
Oil and gas properties	13	**-**	4,249
Total non-current assets		**151**	4,451
Total assets		**1,221**	5,372
LIABILITIES			
Current liabilities			
Trade and other payables		**1,109**	1,305
Secured borrowings	9	**18,136**	-
Fair value of financial derivative instruments	10	**1**	-
Unsecured loans		**118**	-
Lease liability		**50**	69
Employee benefits provisions		**340**	194
Liabilities held for sale	8	**719**	-
Total current liabilities		**20,473**	1,568
Non-current liabilities			
Secured borrowings	9	**-**	15,772
Fair value of financial derivative instruments	10	**-**	358
Provisions	16	**7,034**	7,428
Lease liability		**50**	68
Employee benefits provisions		**-**	183
Total non-current liabilities		**7,084**	23,809
Total liabilities		**27,557**	25,377
Net assets		**(26,336)**	(20,005)
EQUITY			
Issued capital		**201,288**	201,099
Reserves		**2,344**	2,339
Accumulated losses		**(229,968)**	(223,443)
Total equity		**(26,336)**	(20,005)

The consolidated interim statement of financial position is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 14 to 27.

Consolidated interim statement of cashflows

For the six months ended 30 June 2020

	Note	30 June 2020 US$'000	30 June 2019 US$'000
Cashflows from operating activities			
Cash receipts from customers		**294**	1,134
Cash payments to suppliers and employees		**(1,373)**	(2,410)
Alternative minimum tax refund		**169**	-
Interest received		**-**	3
Net cash used in operating activities		**(910)**	(1,273)
Cashflows from investing activities			
Payments for property, plant and equipment		**-**	(1)
Payments for oil and gas, exploration and evaluation properties		**-**	(2,979)
Net cash from/(used in) investing activities		**-**	(2,980)
Cashflows from financing activities			
Proceeds from drawdown of convertible note facility		**500**	3,000
Proceeds from shares issued – net of transaction costs		**139**	-
Payments for lease liabilities		**(38)**	
Net cash from investing activities		**601**	3,000
Net decrease in cash and cash equivalents		**(309)**	(1,253)
Cash and cash equivalents at 1 January		**645**	2,597
Effects of exchange rate changes on cash held		**(3)**	-
Cash and cash equivalents at 30 June		**333**	1,344

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 27.

Condensed notes to the consolidated interim financial statements

For the six months ended 30 June 2020

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 2020 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 2019 is available upon request from the Company's registered office at Level 7, Macquarie Business Centre, 167 Macquarie Street, 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 2019 ("last annual financial statements").

These interim financial statements were approved by the Board of Directors on 26 April 2021.

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 2019.

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 2020, the Group has a cash balance (excluding restricted deposits of US$0.1 million) of US$0.3 million (31 December 2019: US$0.6 million) and current net liabilities of US$19.4 million (31 December 2019: current net liabilities US$0.6 million).

The Group has a Convertible Note Facility of US$15.0 million (refer Note 9). As at 30 June 2020, the Group has drawn down US$14 million, excluding accrued interest, from the Convertible Note Facility. The carrying value of the Convertible Note Facility at 30 June 2020 excluding the fair value of the conversion option (refer Note 10) and including accrued interest is US$18.1 million (31 December 2019: US$15.8 million) (refer Note 9).

The directors have approved the going concern basis of preparation under the following significant assumptions:

- Completion of the sale of the U.S. oil and gas interests in the third quarter of 2020;
- Closure and dissolution of the Company's U.S. and Canadian subsidiaries during the second half of 2020 for the purpose of eliminating all expenditures in the North American region;
- The significant reduction in committed expenditures apart from those required to maintain the Company as a publicly traded entity;
- Securing a financially strong and experienced Yemen oil producer to operate Block S-1 as required by the legitimate Yemen Minister for Oil, in order to receive government approvals to access export transport facilities to permit the restart of oil production from the An Nagyah Oilfield in Block S-1.To secure such a partner, Petsec Energy sold 100% of the shares in Yemen (Block S-1), Inc. , the approved and recognised operator of Damis (Block S-1) and owner of a 75% working interest in Damis (Block S-1), to Yung Holdings Limited, a subsidiary of Octavia Energy Corporation, a UK company focused on oil and gas exploration and production in the MENA region, and active in Yemen since 2016. Octavia Energy Corporation has demonstrated the financial capacity and technical capabilities required to manage the resumption of oil production from Block S-1 through its extensive operating experience in the MENA region where its operated current production is in excess of 6,500 bopd.

  Consideration for the sale was US$2 million and a life of licence carry of all future costs (operating and development) of the remaining 25% working interest in Block S-1 held by the Company's wholly owned subsidiary, West Yemen (Block S-1) Inc.
- Effective 31 December 2020, achieving an extension to the 23 January 2024 and restructure of the terms of the Convertible Note Facility due on 23 January 2021 under the Convertible Note facility (estimated to be US$20.5 million including accrued interest).

3. Changes in significant accounting policies

The accounting policies applied by the Group in these interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2019.

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. 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 will be lost in conjunction with the closure of the companies in the respective jurisdictions.

6. 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 18,200,000 options outstanding comprising 10,000,000 options issued to Sing Rim Pte Ltd and 8,200,000 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 2020.

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

On 28 June 2019, the Company agreed to issue 40 million shares to the Convertible Noteholders in consideration for their continued and extended support (refer to the consolidated financial report as at and for the year ended 31 December 2019 for further details).

At balance sheet date, these shares had not been issued to the Noteholders as the Company did not have sufficient placement capacity under ASX Listing Rule 7.1 to issue the 40 million shares to the Noteholders without firstly obtaining shareholder approval for the issue of the shares. The Company intends to seek shareholder approval for the issue of these shares at its next General Meeting, anticipated for May 2021.

6. Earnings per share (continued)

Basic loss per share

The calculation of basic loss per share at 30 June 2020 was based on the loss attributable to ordinary shareholders for the current period of US$6,525,000 (Six months to 30 June 2019: Loss of US$19,710,000) and a weighted average number of ordinary shares outstanding during the six months ended 30 June 2020 of 400,908,366 (Six months ended 30 June 2019: 373,782,368), calculated as follows:

	Six months to	
Loss attributable to ordinary shareholders	**30 June 2020**	30 June 2019
	US$'000	US$'000
Loss from continuing operations	**(2,590)**	(3,249)
Loss from discontinued operations	**(3,935)**	(16,461)
Loss for the period	**(6,525)**	(19,710)

	As at	
Share capital		
In thousands of shares	**2020**	2019
On issue at 1 January	**398,588**	333,588
Shares issued	**10,000**	65,000
Shares cancelled	**-**	-
On issue at 30 June	**408,588**	398,588

	Six months to	
Weighted average number of shares (basic)		
In thousands of shares	**30 June 2020**	30 June 2019
Issued ordinary shares at 1 January	**398,588**	333,588
Effect of shares issued and cancelled in 2020 and 2019, respectively	**2,320**	40,194
Weighted average number of ordinary shares at 30 June	**400,908**	373,782

	As at	
Weighted average number of shares (basic and diluted)		
In thousands of shares	**30 June 2020**	30 June 2019
Weighted average number of ordinary shares (basic and diluted)	**400,908**	373,782

	Six months to	
Loss per share – continuing and discontinued operations		
In USD dollars	**30 June 2020**	30 June 2019
Basic and diluted loss per share	**(0.016)**	(0.053)

Represented by:

	Six months to	
Loss per share – continuing operations		
In USD dollars	**30 June 2020**	30 June 2019
Basic and diluted loss per share	**(0.006)**	(0.009)

	Six months to	
Loss per share – discontinued operations		
In USD dollars	**30 June 2020**	30 June 2019
Basic and diluted loss per share	**(0.010)**	(0.044)

7. 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 2019.

Employee Share Plan

No share grants were made to key management personnel under the Employee Share Plan during the six months ended 30 June 2020 (2019: nil).

Employee Option Plan

During the six months ended 30 June 2020:

- No option grants were made to key management personnel under the Employee Option Plan (2019: nil).
- No options were forfeited by key management personnel under the Employee Option Plan (2019: 5 million).
- No options were exercised and converted into ordinary shares (2019: 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 2020 and 2019.

	Six months to	
	30 June 2020	30 June 2019
Weighted average fair value at measurement date	-	-
Weighted average share price	-	-
Weighted average exercise price	-	-
Expected volatility (expressed as weighted average used in the modelling under Black-Scholes model)	-	-
Expected option life (expressed as weighted average used in the modelling under Black-Scholes model)	-	-
Expected dividends	-	-
Risk-free interest rate (based on national government bonds)	-	-

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.

8. Discontinued operations and assets and liabilities held for sale

In April 2020, management committed to wind up both its USA and Canada segments. Post balance date the Company entered into a Purchase and Sale Agreement to sell 100% of U.S. Oil and Gas interests which were sold in October 2020 with an effective date of 1 July 2020. Accordingly, the U.S. oil and gas interests are presented as assets held for sale. The Canada segment did not hold any assets or liabilities.

The agreement to sell the U.S. assets was reached in late July 2020 and the transaction was concluded in October 2020. Refer to “Note 21 – Events Subsequent to Balance Date” for further details.

8. Discontinued operations and assets and liabilities held for sale (continued)

A. Results from discontinued operations

The U.S. oil and gas interests held for sale form part of the Company's USA segment. The following table presents details of the contribution of both the discontinued operations in the USA and Canada.

	USA		Canada		Total	
	30 June 2020 US$'000	30 June 2019 US$'000	**30 June 2020 US$'000**	30 June 2019 US$'000	**30 June 2020 US$'000**	30 June 2019 US$'000
Revenue	**186**	715	**-**	-	**186**	715
Other income/(expenses)	**(7)**	4	**-**	-	**(7)**	4
Lease operating and GG&A expenses	**(498)**	(675)	**-**	-	**(498)**	(675)
DD&A and reclamation expense	**(78)**	(1,720)	**10**	-	**(68)**	(1,720)
Dry hole, impairment & abandonment expense	**(3,712)**	(13,799)	**-**	-	**(3,712)**	(13,799)
Financial income/(expense)	**(5)**	(986)	**-**	-	**(5)**	(986)
Results from operating activities	**(4,114)**	(16,461)	**10**	-	**(4,104)**	(16,461)
Income tax benefit	**169**	-	**-**	-	**169**	-
Loss from discontinued operations, net of tax	**(3,945)**	(16,461)	**10**	**-**	**(3,935)**	(16,461)
Basic and diluted loss per share (US$)	**(0.010)**	(0.044)	**-**	**-**	**(0.010)**	(0.044)

B. Impairment losses relating to the assets held for sale

Impairment losses of US$3,668,000 relating to the write-down of assets held for sale have been included in the current period "Dry holes, impairment and abandonment expense" of US$3,712,000. The impairment losses have been applied to reduce the carrying amount of certain of the U.S. oil and gas properties to their estimated fair value less costs to sell.

C. Cash flows from (used in) discontinued operation

	30 June 2020 US$000's	30 June 2019 US$000's
Net cash from (used in) operating activities	**(30)**	34
Net cash from (used in) investing activities	**-**	(2,979)
Net cash flows for the period	**(30)**	(2,945)

D. Assets and liabilities held for sale

At 30 June 2020, the disposal group comprised assets of US$478,000 and liabilities of US$719,000 detailed as follows:

Assets held for sale	**Note**	**30 June 2020 US$000's**
Oil and gas properties	13	**478**
Assets held for sale		**478**

Liabilities held for sale	**Note**	**30 June 2020 US$000's**
Rehabilitation provisions	16	**719**
Liabilities held for sale		**719**

9. Secured borrowings

	30 June 2020 US$000's	31 Dec 2019 US$000's
Current		
Secured borrowing – convertible notes	**18,136**	-
Non-current		
Secured borrowings – convertible notes	**-**	15,772

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 2019.

During the current period, the amount outstanding under the convertible notes was reclassified from non-current to current liabilities as the redemption date of the notes falls due in less than 12 months on 23 January 2021.

As at 30 June 2020, US$14 million has been drawn down under the US$15 million facility.

In April 2020, the Company's Convertible Noteholders suspended access to the remaining US$1 million under the facility which was otherwise available to the Company, pending the negotiation of a new plan of action.

The Convertible Noteholders are supportive of the Company's plan to substantially reduce overheads and largely hibernate the Company until conditions improve and consents are gained to restart oil production in Block S-1, and/or more accessible production assets are acquired to rebuild the Company's reserves and cashflow.

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 AASB 13 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 statement of financial position, are as follows:

	30 June 2020 US$000's	31 Dec 2019 US$000's
Current		
Fair value of financial derivative instruments	**1**	-
Non-current		
Fair value of financial derivative instruments	**-**	358

The fair value of financial derivative of US$1,000 represents the embedded derivative component within the secured convertible note (refer "Note 9 Secured Borrowings" 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.

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 ("CODM") 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.

During the current period, management committed to sell all of its U.S. oil and gas interests and to wind up its USA and Canada segments. At report date, separate financial results of the USA segment were being maintained and are to be reviewed by the CODM until the discontinuance of operations is completed during the second half of 2020. Refer to "Note 8 Discontinued Operations and Assets and Liabilities Held for Sale" and "Note 21 Events Subsequent to Balance Date" for further details.

	Continuing Operations				**Discontinued Operations**					
	Australia		**MENA**		**USA**		**Canada**		**Consolidated**	
	30 June 2020 US$'000	30 June 2019 US$'000	**30 June 2020 US$'000**	30 June 2019 US$'000	**30 June 2020 US$'000**	30 June 2019 US$'000	**30 June 2020 US$'000**	30 June 2019 US$'000	**30 June 2020 US$'000**	30 June 2019 US$'000
Oil & gas sales *	**-**	-	**-**	-	**186**	715	**-**	-	**186**	715
Segment net revenues after royalties	**-**	-	**-**	-	**186**	715	**-**	-	**186**	715
Segment net loss before tax	**(1,826)**	(1,921)	**(764)**	(1,328)	**(4,114)**	(16,461)	**10**	-	**(6,694)**	(19,710)
Income tax benefit/(expense)	**-**	-	**-**	-	**169**	-	**-**	-	**169**	-
Net loss for the period	**(1,826)**	(1,921)	**(764)**	(1,328)	**(3,945)**	(16,461)	**10**	-	**(6,525)**	(19,710)
Depreciation, depletion & amortisation and reclamation	**(17)**	(73)	**(1)**	(3)	**(78)**	(1,720)	**10**	-	**(86)**	(1,796)
Dry hole, impairment and abandonment expense	**-**	-	**-**	-	**(3,712)**	(13,799)	**-**	-	**(3,712)**	(13,799)
Segment assets	**296**	1,388	**16**	1,962	**909**	6,407	**-**	-	**1,221**	9,757
Acquisition of property, plant and equipment and exploration, evaluation and development assets	**-**	1	**-**	-	**-**	2,979	**-**	-	**-**	2,980

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

12. Segment reporting (continued)

	Continuing Operations				Discontinued Operations					
	Australia		MENA		USA		Canada		Consolidated	
	30 June 2020 US$'000	30 June 2019 US$'000	**30 June 2020 US$'000**	30 June 2019 US$'000	**30 June 2020 US$'000**	30 June 2019 US$'000	**30 June 2020 US$'000**	30 June 2019 US$'000	**30 June 2020 US$'000**	30 June 2019 US$'000
Segment liabilities	**18,499**	15,054	**7,718**	9,163	**1,340**	1,032	**-**	11	**27,557**	25,260
Cash (used in)/ from operating activities	**(491)**	(771)	**(389)**	(536)	**(30)**	34	**-**	-	**(910)**	(1,273)
Cash (used in)/ from investing activities	**-**	(1)	**-**	-	**-**	(2,979)	**-**	-	**-**	(2,980)
Cash from financing activities	**601**	3,000	**-**	-	**-**	-	**-**	-	**601**	3,000

13. Oil and gas, exploration, and evaluation properties

(a) Oil and gas properties	30 June 2020 US$'000	31 December 2019 US$'000
Opening balance at 1 January	**4,249**	17,952
Additions	**-**	2,320
Capitalised interest and facility fees	**-**	288
Dry hole, impairment and abandonment expense	**(3,712)**	(13,964)
Current year amortisation expense	**(59)**	(2,347)
Reclass to assets held for sale [1]	**(478)**	-
Closing balance at period end	**-**	4,249

1. *Refer to "Note 8 Discontinued Operations and Assets and Liabilities held for sale" for further details.*

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.

(b) Dry hole, impairment and abandonment expense

The estimated recoverable amount of all oil and gas assets is based on value in use discounted cash flow projections that 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 asset impairments.

During the current period, the Group recognised total dry hole, impairment and abandonment expense of US$3,712,000 in relation to its discontinued USA operation, including an impairment expense of US$3,668,000 against the Hummer Oil and Gas Field to reduce the carrying value of the field to reflect its fair value less costs to sell; and US$44,000 in relation to the relinquishment of the Main Pass Block 274 lease.

In the half-year ended 30 June 2019, the Group recognised total dry hole, impairment and abandonment expense of US$13,799,000 against its Main Pass Block 270/273/274 Hummer Field in the USA, 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.

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 2020 US$'000**	31 December 2019 US$'000
Assets held for sale		
Producing leases – at cost	**19,330**	-
Less: accumulated amortisation and impairments	**(18,852)**	-
	478	-
Represented by the following lease carrying values:		
- Offshore Gulf of Mexico [1]	**473**	-
- Onshore Louisiana [1]	**5**	-
Total assets held for sale	**478**	-
Oil and gas properties		
Producing leases – at cost	**-**	19,468
Less: accumulated amortisation and impairments	**-**	(15,219)
	-	4,249
Represented by the following lease carrying values:		
- Offshore Gulf of Mexico [1]	**-**	4,233
- Onshore Louisiana [1]	**-**	16
Total oil and gas properties	**-**	4,249
Liabilities		
Liabilities held for sale		
- Offshore Gulf of Mexico [1]	**504**	-
- Onshore Louisiana [1]	**215**	-
	719	-
Rehabilitation provision:		
- Offshore Gulf of Mexico [1]	**-**	501
- Onshore Louisiana [1]	**-**	215
	-	716

1. *The lease carrying values of the U.S. oil and gas interests together with the associated rehabilitation provisions were reclassified to "Assets and Liabilities Held for Sale" as at 30 June 2020. Refer to "Note 8 – Discontinued Operations and Assets and Liabilities Held for Sale" for further details.*

	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 2020 US$'000**	30 June 2019 US$'000
- Offshore Gulf of Mexico	**(3,773)**	(14,429)
- Onshore Louisiana	**(32)**	(643)
- Onshore Canada	**(10)**	-
- MENA	**(123)**	(396)
	(3,938)	(15,468)

14. Interests in unincorporated joint operating arrangements (continued)

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 2020	30 June 2019
- Offshore Gulf of Mexico [1]	**12.50%**	12.50%
- Onshore Louisiana [1]	**12.50% to 25.00%**	12.50% to 25.00%
- MENA	**75.00% to 100.00%**	75% to 100.00%

1. *Subsequent to balance date, the Company agreed to sell all of its U.S. oil and gas interests with effect from 1 July 2020. Refer to "Note 21 – Events Subsequent to Balance Date" for further details.*

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 2020 US$'000**	31 December 2019 US$'000
Oil and gas properties:		
Producing leases – at cost	**3,556**	3,556
Less: accumulated amortisation and impairments	**(3,556)**	(3,556)
	-	-
Represented by the following lease carrying values:		
- MENA	**-**	-
Total oil and gas properties	**-**	-

	Six months to	
	30 June 2020 US$'000	30 June 2019 US$'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	**(344)**	(351)
	(344)	(351)

16. Provisions

	MENA		Rehabilitation		Total	
	30 June 2020 US$'000	31 December 2019 US$'000	**30 June 2020 US$'000**	31 December 2019 US$'000	**30 June 2020 US$'000**	31 December 2019 US$'000
Non-current						
Balance at 1 January	**6,712**	7,617	**716**	198	**7,428**	7,815
Changes in provision estimate	**-**	(2,100)	**-**	505	**-**	(1,595)
Provisions made during the year	**322**	1,195	**-**	-	**322**	1,195
Unwind of discount	**-**	-	**3**	13	**3**	13
Reclass to liabilities held for sale	**-**	-	**(719)**	-	**(719)**	-
Balance at period end	**7,034**	6,712	**-**	716	**7,034**	7,428

17. Capital and other commitments

As at 30 June 2020, the Group had no capital commitments (previous corresponding period: nil).

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 2020, the Group had no guarantees in place to meet minimum exploration expenditure commitments (December 2019: nil).

Fraudulent claim against US$4.2 million Letter of Credit supporting Block 7 exploration obligations

As announced to the ASX on 19 February 2020, a claim was made on the Letter of Credit (LoC) of US$4.2 million, issued under the Production Sharing Agreement on the Al Barqa, Block 7 Exploration Permit. The Block 7 counterparty LoC's totalling US$4.2 million were established between the Block 7 joint venture partners and the Arab Bank on behalf of the Yemen Ministry of Oil and Minerals and guaranteed the remaining minimum expenditure requirements on the block, which has been in Force Majeure since 2011. No claim can be made against the Block 7 LoC while the licence is under Force Majeure.

In Petsec's opinion the claim is fraudulent and was made by the illegitimate rebel Houthi Minister for Oil and Minerals. Despite concerted efforts by Petsec to prevent any action on the claim, the Qatar National Bank (QNB) released the US$1.68 million of restricted cash that was on deposit as collateral to support the Company's share of the Letter of Credit.

The Company was also advised by Mitsui that the Commonwealth Bank Australia (CBA) had also released US$1.05 million of AWE/Mitsui's funds in response to a similar claim, despite Petsec's prior warning the claim was illegal and fraudulent. Mitsui is seeking to recover these funds from Petsec. The Company has sought further information from AWE/Mitsui and will defend any action to recover the funds.

It is understood that the QNB and CBA funds were fraudulently transferred to and are being held by Arab Bank, Amman, Jordan.

The Company has initiated a suit against Arab Bank to recover those funds. An injunction against Arab Bank, Jordan, to prevent our funds from being transferred to the Houthis, was granted by the Jordanian courts. The suit against Arab Bank for the recovery of our funds, continues.

Kuwait National Bank has not released the US$1.05 million LoC funds to Arab Bank on behalf of KUFPEC, a 25% working interest holder of Block 7, acting on advice that the claim was fraudulent, supported by advice from the legitimate Minister of Oil in Aden to Arab Bank that there was no claim on the LoC.

19. Related parties

Arrangements with related parties continue to be in place. For details on these arrangements refer to the 2019 Annual Report.

20. 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.

21. Events subsequent to balance date

USA: Sale of all of the Company's U.S. oil and gas interests

On 6 August 2020, the Company announced that it had agreed to sell all of its U.S. oil and gas interests to a privately held U.S. exploration and production company based in Houston.

The Sale Agreement had an effective date of 1 July 2020, and includes all of the Company's interests in the Hummer, Mystic Bayou and Jeanerette Fields including the assumption of plug and abandonment obligations by the Purchaser, for consideration of US$0.6 million (US$0.5 million base cash payment plus a further US$0.1 million trailing payment due in October 2021). Completion occurred in October 2020. Refer to announcement made to ASX on 6 August 2020 for further details.

21. Events subsequent to balance date (continued)

The assets sold pursuant to the transaction are:

- The Company's production and exploration rights on the Hummer Field – Southern portion of Main Pass Block 270 and all of Main Pass Block 273, Gulf of Mexico.
- The Company's production and exploration rights on the Mystic Bayou Field, Louisiana.
- The Company's production and exploration rights on the Jeanerette Field, Louisiana.

Proceeds from the transaction have been applied to the wind up and closure of the USA and Canadian business.

Yemen: Damis Block S-1 Production Licence: Sale of Yemen (Block S-1), Inc.

In October 2020, the Company secured a financially strong and Yemen experienced oil producer, satisfactory to the Yemen Minister for Oil and Minerals, to be operator of the Damis Block S-1 Production Licence, so as to gain access to government owned export transport facilities which would allow the restart of oil production from the An Nagyah Oilfield in Block S-1.

The Company sold all of the shares of Yemen (Block S-1), the designated operator of Block S-1 and owner of a 75% working interest, to Yung Holdings Limited, a subsidiary of Octavia Energy Corporation, a UK company focused on oil and gas exploration and production in the MENA region, and active in Yemen since 2016. Octavia Energy Corporation has demonstrated the financial capacity and technical capabilities required to manage the resumption of oil production from Block S-1 through its extensive operating experience in the MENA region where its operated current production is in excess of 6,500 bopd.

Consideration for the transfer of Yemen (Block S-1) Inc. to Yung Holdings was payment of US$2 million and a life of licence carry of all future costs (operating and development) in Block S-1 of the Company's wholly owned subsidiary, West Yemen Oil (Block S-1) Inc., which holds a 25% working interest in Block S-1.

Convertible Note Facility: Renegotiation of the terms

Effective 31 December 2020, the Company concluded negotiations with the Convertible Noteholders and agreed the following variations to the terms of the Convertible Note Facility:

- *Redemption Date*: Extended for a three-year period from 23 January 2021 to 23 January 2024.
- *Interest Rate*: Reduced from the current 15% per annum to 10% per annum monthly compounding for the period commencing 23 January 2021.
- *Convertible Note Conversion Price and Limit*: Conversion price is 2 cents per share and conversion of debt is limited to 170 million shares as approved by shareholders at the AGM held on 2 May 2019.
- *Dedication of Income/Cash to Debt Repayment*: 80% of all income/cash generated from operations or transactions of the assets to be used to repay debt unless otherwise directed by the Noteholders.
- *Approval of Expenditure*: Material expenditures to be under the control of the Noteholders directed through the Chairman.
- *Penalty Terms*: If by 23 January 2023 less than 50% of the Convertible Note debt (i.e. principal and interest) has been paid to the Noteholders, the debt will increase by US$1 million. If by 23 January 2024 less than 80% of the debt (i.e. principal and interest) has been paid, the debt will increase by a further US$1.5 million.
- *Consent Terms*: 40 million fully paid ordinary shares in Petsec Energy Ltd to be granted to the Noteholders as a facility variation fee subject to shareholder approval at the next General Meeting.

Yemen: Al Barqa, Block 7 Exploration Licence: Block 7 Letter of Credit Litigation Matter

On 17 February 2021, the Court of First Instance in Jordan determined that the Houthi claim against the Block 7 LoC was illegal and counterparty LoC funds received by Arab Bank could not be transferred to the Houthi. The Company is pursuing further legal action against Arab Bank in Jordan to recover the US$2.73 million in counterparty LoC funds claimed and transferred to Arab Bank on the basis of the illegal claim by the Houthi to Arab Bank, by Qatar National Bank (QNB) acting for the Company and Commonwealth Bank of Australia (CBA) acting for Mitsui.

Other than as 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 sole director 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.

Directors' Declaration

In the opinion of the sole director of Petsec Energy Ltd ("the Company"):

(1) the financial statements and notes set out on pages 10 to 27, 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 2020 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 Board of Directors of Petsec Energy Ltd.

Terrence N. Fern
Director

Sydney, 26 April 2021

PETSEC ENERGY LTD
ABN 92 000 602 700
AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF PETSEC ENERGY LTD

Report on the Half-year Financial Report

We have reviewed the accompanying half-year financial report of Petsec Energy Ltd, which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' Responsibility for the Half-year Financial Report

The directors of Petsec Energy Ltd are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year 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 half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Petsec Energy Ltd's financial position as at 30 June 2020 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the *Corporations Regulations 2001*. As the 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 a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and 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.

Matters Relating to Electronic Publication of the Audited Financial Report

This review report relates to the financial report of Petsec Energy Ltd for the half-year ended 30 June 2020 included on the website of Petsec Energy Ltd. The directors of the company are responsible for the integrity of the website and we have not been engaged to report on its integrity. This review report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial report. If users of the financial report are concerned with the inherent risk arising from publication on a website, they are advised to refer to the hard copy of the reviewed financial report to confirm the information contained in this website version of the financial report.

Independence

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

Conclusion

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

i. giving a true and fair view of Petsec Energy Ltd's financial position as at 30 June 2020 and of its performance for the half-year ended on that date; and

ii. complying with AASB 134: Interim Financial Reporting and the *Corporations Regulations 2001*.

Material Uncertainty Related to Going Concern

We draw your attention to Note 2 of "Going concern basis of preparation" in the financial report. The conditions disclosed in Note 2 indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report. Our opinion is not modified in respect of this matter.

In concluding there is material uncertainty related to going concern we have assessed the extent of uncertainty regarding events or conditions casting significant doubt in the Group's assessment of going concern. Our approach to this involved:

- Assessing the Groups cash flow forecasts for incorporation of the Group's operations and plans to address going concern;
- Reviewing the existing convertible note and repayment terms agreed upon; and
- The impact of disposals during the period and anticipated reduction of expenditure of the group as a result.

MNSA Pty Ltd

MNSA Pty Ltd

Mark Schiliro
Director

Sydney
Dated this 26th of April 2021