

Petsec Energy Ltd

Results for announcement to market
For the six months ended 30 June 2021



Key Points

- Net loss after tax of US\$1.1 million for the six months to 30 June 2021 after the recognition of net financial expense of US\$0.7 million.
- YEMEN: Damis (Block S-1) Production Licence:** Preparations continue for the restart of oil production from the An Nagyah Oilfield. Plans are to produce initially up to 5,000 bopd from some four wells with the oil trucked to the Block 4 pipeline and thence to Bir Ali for export and sale, then for the produced oil to flow through the Block 5 to Block 4 pipeline when it is commissioned, so as to increase production. We are informed by the operator that it expects oil production from the An Nagyah Oilfield to recommence by year end 2021.
- YEMEN: Al Barqa, Block 7 Exploration Licence:** On 17 February 2021, the Court of First Instance in Jordan determined that the Houthi claim against the Block 7 Letter of Credit ("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 Amman, 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.
- Extension and variation of the terms of the Convertible Note Facility ("Facility")** – the terms of the Facility were renegotiated with the Noteholders effective 31 December 2020 and settled on 18 January 2021, with the key variations including an extension of the redemption date for a 3-year period from 23 January 2021 to 23 January 2024, and a reduction of the interest rate from 15% to 10% per annum.
- As at 30 June 2021, the Group held total cash deposits of US\$592,000 (including US\$49,000 million of restricted deposits).

Key data – Six months ended 30 June 2021 compared to the six months ended 30 June 2020

	Six Months to 30 June 2021	Six Months to 30 June 2020	% Increase/ (Decrease)
Key Operating/Financial Data			
Net production (MMcfe ¹)	-	104	(100%)
Net revenues after royalties (US\$m)	-	0.2	(100%)
Net profit/(loss) after tax (US\$m)	(1.1)	(6.5)	n/a
Add: Depreciation, depletion, amortisation and reclamation expense (US\$m)	-	0.1	(100%)
Add: Dry hole, impairment & abandonment expense (US\$m)	-	3.7	(100%)
Add: Net financial expense (US\$m)	0.7	1.6	(56%)
Less: Income tax benefit	-	(0.2)	n/a
EBITDAX (US\$m) ²	(0.4)	(1.3)	n/a
Key Performance Indicators			
Average net sales price/Mcfe ³ (US\$)	n/a	1.79	n/a
Less: Other expense/Mcfe (US\$)	n/a	(0.12)	n/a
Less: Operating costs/Mcfe (US\$) ⁴	n/a	(14.61)	n/a
EBITDAX/Mcfe (US\$)	n/a	(12.94)	n/a
DD&A/Mcfe (US\$)	n/a	0.83	n/a
Other Financial Data			
Acquisition, exploration and development expenditure (US\$m)	-	-	-
USD/AUD average exchange rate	0.7660	0.6638	15%

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 2021; Previous corresponding period: Six months ended 30 June 2020.

Key Operating/Financial Data

- No production or oil and gas revenues were generated during the current period following the sale of the Company's U.S. oil and gas interests with effect from 1 July 2020. This compares to net production of 104 MMcfe (94 MMcf of gas and 1,701 barrels of oil/condensate) and oil and gas revenues of US\$0.2 million achieved in the previous corresponding period.
- The Group reported negative EBITDAX of US\$0.4 million for the current period (previous corresponding period: negative EBITDAX of US\$1.3 million).
- The Group incurred a net loss after tax of US\$1.1 million for the current period (previous corresponding period: net loss after tax of US\$6.5 million) after the recognition of net financial expense of US\$0.7 million.

Net financial expense of US\$0.7 million (previous corresponding period: US\$1.6 million) comprised expenses incurred in connection with the Convertible Note Facility ("Facility"), including facility fees, interest expense and changes in the fair value of the financial derivative component of the Facility. The effect of which was offset to some extent by the write back of a prior period over accrual of the facility fees pertaining to the 40 million shares issued in June 2021 in accordance with the 28 June 2019 Facility Variation Agreement.

Other Financial Data

- No acquisition, exploration and development expenditures were incurred during the six months ended 30 June 2021 (previous corresponding period: nil).

Dividend

Petsec Energy Ltd does not propose the payment of a dividend in respect of the six months ended 30 June 2021.

Net Tangible Asset Backing

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

Directors' Report and Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2021

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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 2020 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 2021

The directors present their report together with the consolidated financial report for the six months ended 30 June 2021 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 2021 are:

Name	Period of directorship
Non-executive	
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 Brent D. Emmett	Appointed as Technical Director on 13 November 2020

2. Operating results

The Group incurred a net loss after tax of US\$1.1 million for the six months ended 30 June 2021 (previous corresponding period: net loss after tax of US\$6.5 million) after the recognition of net financial expense of US\$0.7 million.

Net financial expense of US\$0.7 million (previous corresponding period: US\$1.6 million) comprised expenses incurred in connection with the Convertible Note Facility ("Facility"), including facility fees, interest expense and changes in the fair value of the financial derivative component of the Facility. The effect of which was offset to some extent by the write back of a prior period over accrual of the facility fees pertaining to the 40 million shares issued in June 2021 in accordance with the 28 June 2019 Facility Variation Agreement.

No production or oil and gas revenues were generated during the current period following the sale of the Company's U.S. oil and gas interests with effect from 1 July 2020. This compares to net production of 104 MMcfe (94 MMcf of gas and 1,701 barrels of oil/condensate) and oil and gas revenues of US\$0.2 million achieved in the previous corresponding period.

Lease operating and geological, geophysical and administrative expense ("operating expenses") of US\$0.4 million for the current period were significantly lower than the operating expenses incurred in the previous corresponding period of US\$1.5 million, reflecting the substantial reduction in the cost structure of the business, implemented during the 2020 financial year.

The Group reported negative earnings before interest, income tax, depreciation, depletion and amortisation, and exploration expense ("EBITDAX") of US\$0.4 million for the current period (previous corresponding period: negative EBITDAX of US\$1.3 million).

3. Financial position

Cash Deposits

As at 30 June 2021, the Company held cash deposits of US\$592,000 (31 December 2020: US\$912,000). The cash deposits at 30 June 2021 were held in US and Australian dollars, and include restricted cash amounts of US\$49,000 (31 December 2020: US\$50,000).

Convertible Note Facility

As at 30 June 2021, the Company had drawn down US\$14 million under its US\$15 million Convertible Note Facility Agreement.

Effective 31 December 2020, the Company concluded negotiations with the Convertible Noteholders ("Noteholders") and settled the following variations to the terms of the Convertible Note Facility pursuant to an agreement with Sing Rim on 18 January 2021:

- *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 – approved by shareholders at the Company's General Meeting held on 28 May 2021.
- *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.

Directors' Report (continued)

For the six months ended 30 June 2021

3. Financial position (continued)

Convertible Note Facility (continued)

- *Consent Terms:* 40 million fully paid ordinary shares in Petsec Energy Ltd to be granted to the Noteholders as a facility variation fee – approved by shareholders at the Company's General Meeting held on 28 May 2021 and issued on 1 June 2021.

4. Review of operations

Petsec Energy Ltd (the "Company") is an independent oil and gas exploration and production company listed on the Australian Stock Exchange (ASX Ticker: PSA). The Company has operations onshore in the Republic of Yemen.

Voluntary Suspension on ASX

During the current period, the shares of Petsec Energy Ltd (ASX Ticker: PSA) remained in voluntary suspension on the ASX.

The Company's shares were initially placed into voluntary suspension on 3 April 2020, following the Board's consideration of the confluence of events at the time which affected the Company, particularly the effects of the Corona virus COVID-19 pandemic which resulted in an unprecedented collapse in oil and gas prices and a lockdown of government administrative processes around the World.

The voluntary suspension provided the time to allow the Company to effectively resolve its cost structure, financing, and business plan to protect and enhance shareholder values during the period of the pandemic.

The Company had the support of its Noteholders such that it achieved the following since its voluntary suspension:

- Closure of the Dubai, Sana'a, Houston and Sydney offices and release of staff.
- Divestment of the U.S. assets, extinguishing obligations and the wind up of the U.S. and Canadian business.
- An injunction to prevent Arab Bank from transferring Block 7 Letter of Credit (LoC) funds to the Houthi and a court determination that the Houthi claim against the Block 7 LoC (total of US\$4.2 million), was illegal and counterparty LoC funds received by Arab Bank could not be transferred to the Houthi. The Company is pursuing a legal suit against Arab Bank for the recovery of US\$2.73 million of the Company and Mitsui's funds supporting counterparty LoC's wrongfully transferred to Arab Bank, Amman, Jordan.
- The securing of a financially strong and Yemen experienced oil producer, satisfactory to the Yemen Minister for Oil and Minerals, to be operator of Block S-1, so as to gain access to government owned export transportation facilities to allow restart of oil production from the An Nagyah Oilfield in Block S-1, through the sale of Yemen (Block S-1), Inc., the operator and a 75% interest holder in the Damis (Block S-1) Production Licence in consideration of receiving a payment of US\$2 million and a carry of all future operating and development costs in Block S-1 of the Company's wholly owned subsidiary, West Yemen Oil (Block S-1), Inc. which holds a 25% interest in Block S-1.
- A variation of the terms of the Convertible Note Facility with the Redemption Date extended by three years to 23 January 2024 and interest reduced from 15% to 10% per annum.

At the date of this report, the Company's shares remained in voluntary suspension on the ASX. The Company intends to seek reinstatement to quotation on the ASX once the An Nagyah Oilfield is returned to production, expected by year end 2021.

Production

The Company had no production during the current period having sold all its U.S. oil and gas interests with effect from 1 July 2020.

MENA

Yemen

The Company holds rights to working 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 Production Licence in the Shabwah Governate contains five oil and gas fields, with target resources of approximately 60 million barrels of oil and 600 Bcf of natural gas. One field, the An Nagyah Oilfield is developed, with 32 wells, and has associated production facilities capable of producing 20,000 bopd, connected by an 80,000 bopd pipeline to Block 5 and 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. In 2020, a pipeline between Block 5 and Block 4 was completed which when commissioned once Block 5 restarts production, expected in the fourth quarter of 2021, will allow An Nagyah oil to flow to Block 5 thence South through the Block 4 pipeline to the Rudum Export Terminal at Bir Ali, for export and sale.

Al Barqa, Block 7 is a 5,000 square kilometre (1,235,527 acres) area in the Shabwah Governate, which holds the undeveloped Al Meashar Oilfield discovery with target resources of 11 to 110 million barrels of oil and four prospects which range between 174 and 439 MMbbls potential.

Directors' Report (continued)

For the six months ended 30 June 2021

4. Review of operations (continued)

Damis (Block S-1), Republic of Yemen

Petsec: 25% carried working interest (20.625% participating interest)

Petsec Energy acquired 100% of the block late 2015/early 2016 from wholly owned subsidiaries of Occidental Petroleum Corporation and TransGlobe Energy Corporation.

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.¹

The four undeveloped fields hold substantial oil and gas resources of approximately 35 MMbbl of oil and 600 Bcf of gas² representing substantial potential future growth of reserves and production for the Company.

The Company had been seeking, since 2017, government approvals to access government owned export transport facilities. In late 2019, the Yemen Oil Minister indicated that those approvals were predicated on the Company securing a financially strong and experienced Yemen oil producer to operate Block S-1.

Late in 2020, the Company secured 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 government approvals to access export transport facilities which would permit the restart of oil production from the An Nagyah Oilfield in Block S-1.

All of the shares of Yemen (Block S-1), the designated operator of Block S-1 and owner of a 75% working interest, were acquired by Yung Holdings Limited, a subsidiary of the 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 current production is in excess of 6,500 bopd.

Yemen (Block S-1) Inc., the operator of Damis Block S-1, has been renamed Octavia Yemen (Block S-1) Inc. and has recently established its Block S-1 operations offices in Cairo. Preparations are progressing to restart oil production from the An Nagyah Oilfield. Plans are to produce initially up to 5,000 bopd from some four wells to be trucked to the Block 4 pipeline and thence to Bir Ali for export and sale, then for the produced oil to flow through the Block 5 to Block 4 pipeline when it is commissioned, so as to increase production.

Currently OMV (Block S-2), SAFER (Block 18), and Calvalley (Block 9) are utilising the Block 4 sales export facilities, soon to be joined by Octavia Yemen (Block S-1) and Jana Hunt (Block 5).

Block 7, Al Barqa Permit, Republic of Yemen

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

Petsec Energy acquired its interest over the period from 2014 to 2017 from AWE, Mitsui and Oil Search Ltd. The Company has operatorship of the block through its wholly owned subsidiary Oil Search (ROY) Limited, and holds a 75% working interest (63.75% participating interest) in the Al Barqa (Block 7) Joint Venture.

Block 7 is an onshore exploration permit covering an area of 5,000 square kilometres (1,235,527 acres) in the Shabwah Basin, located approximately 340 kilometres East of Sana'a, and 14 kilometres East of OMV's Habban Oilfield which holds ultimate recoverable reserves of 350 million barrels of oil.

Block 7 contains the undeveloped Al Meashar Oilfield discovered in 2010 by Oil Search Ltd, and eight prospects and leads each holding significant oil potential identified by 2D and 3D seismic surveys. The four largest prospects range in target size from 174 MMbbl to 439 MMbbl.

The two discovery wells of the Al Meashar Oilfield (target resource of 11 MMbbl to 110 MMbbl) in 2010 and 2011, are suspended for future production. In 2010/2011, short-term testing of the two Al Meashar wells delivered flow rates ranging from 200 to 1,000 bopd. The wells intersected an 800 metre oil column in the Kuhlan and Basement formations, the same formations and oil as OMV's Habban Oilfield, which has an oil column of 945 metres and is located 14 kilometres to the West. The Habban Oilfield holds ultimate recoverable reserves of 350 million barrels of oil, and is producing oil at a rate of 14,000 bopd into the Block 4 export pipeline to the export port of Bir Ali to the South. Prior to March 2015 when all Yemen oilfields were shut-in because of the civil war, OMV was producing 30,000 bopd, trucked to Block 18 for pipeline transport West to Ras Isa on the Red Sea.

1. Based on estimates by previous operator and DeGolyer and McNaughton Canada Limited. The Company intends to commission a new reserves report after the resumption of production.

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

Directors' Report (continued)

For the six months ended 30 June 2021

5. Events subsequent to balance date

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.

A handwritten signature in black ink, appearing to read "T. Fern", is positioned above the printed name of the director.

Terrence N. Fern

Director

Sydney, 27 August 2021

Consolidated interim statement of profit or loss and other comprehensive income

For the six months ended 30 June 2021

	Note	Six months to	
		30 June 2021 US\$'000	30 June 2020 US\$'000
Continuing operations			
Other expense		(45)	(5)
Lease operating expense		(18)	(324)
Geological, geophysical and administrative expense		(381)	(697)
Depreciation, depletion, amortisation and reclamation expense		(1)	(18)
Financial income		1,164	-
Financial expense		(1,840)	(1,546)
Net financial expense		(676)	(1,546)
Loss before income tax		(1,121)	(2,590)
Income tax benefit/(expense)	5	-	-
Loss from continuing operations		(1,121)	(2,590)
Discontinued operations			
Loss from discontinued operation, net of tax ¹	8	-	(3,935)
Loss for the period		(1,121)	(6,525)
Other comprehensive loss			
Foreign exchange translation differences		(56)	45
Total comprehensive loss for the period		(1,177)	(6,480)
		30 June 2021 US\$	30 June 2020 US\$
Loss per share – continuing and discontinued operations			
Basic and diluted loss per share	6	(0.003)	(0.016)
Loss per share – continuing operations			
Basic and diluted loss per share	6	(0.003)	(0.006)

^{1.} In the previous corresponding period, the Company classified the results of the USA and Canada operations as “discontinued operations” following management’s decision in April 2020 to divest its U.S. oil and gas assets and to windup and close its USA and Canada business segments – concluded during the second half of FY2020.

The Group 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, and has analysed that single amount into revenue, expenses and pre-tax profit or loss in Note 8 – Discontinued Operations.

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 12 to 23.

Consolidated interim statement of changes in equity

For the six months ended 30 June 2021

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 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						
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)
Balance at 1 January 2021	201,290	1,875	40	446	(222,177)	(18,526)
Total comprehensive income/(loss) for the period						
Loss for the period	-	-	-	-	(1,121)	(1,121)
Other comprehensive income/(loss)						
Foreign exchange translation differences	-	(44)	-	(12)	-	(56)
Total other comprehensive income/(loss)	-	(44)	-	(12)	-	(56)
Total comprehensive income/(loss) for the period	-	(44)	-	(12)	(1,121)	(1,177)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Shares issued, including share issue costs	615	-	-	-	-	615
Write back of prior period accrual of share issue	(1,067)	-	-	-	-	(1,067)
Option issues	-	-	-	10	-	10
Vesting of share options	40	-	(40)	-	-	-
Share-based payments expense	-	-	3	-	-	3
Total transactions with owners	(412)	-	(37)	10	-	(439)
Balance at 30 June 2021	200,878	1,831	3	444	(223,298)	(20,142)

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 12 to 23.

Consolidated interim statement of financial position

As at 30 June 2021

	Note	30 June 2021 US\$'000	31 December 2020 US\$'000
ASSETS			
Current assets			
Cash and cash equivalents		543	862
Trade and other receivables		106	236
Prepayments		1	3
Total current assets		650	1,101
Non-current assets			
Restricted cash deposits		49	50
Other receivables		1,000	1,000
Property, plant and equipment		3	4
Oil and gas properties	13	-	-
Total non-current assets		1,052	1,054
Total assets		1,702	2,155
LIABILITIES			
Current liabilities			
Trade and other payables		245	286
Employee benefits provisions		4	157
Total current liabilities		249	443
Non-current liabilities			
Secured borrowings	9	20,773	20,238
Fair value of financial derivative instruments	10	673	-
Employee benefits provisions		149	-
Total non-current liabilities		21,595	20,238
Total liabilities		21,844	20,681
Net assets		(20,142)	(18,526)
EQUITY			
Issued capital		200,878	201,290
Reserves		2,278	2,361
Accumulated losses		(223,298)	(222,177)
Total equity		(20,142)	(18,526)

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 12 to 23.

Consolidated interim statement of cashflows

For the six months ended 30 June 2021

	30 June 2021 US\$'000	30 June 2020 US\$'000
Cashflows from operating activities		
Cash receipts from customers	-	294
Cash payments to suppliers and employees	(326)	(1,373)
Alternative minimum tax refund	-	169
Net cash used in operating activities	(326)	(910)
Cashflows from investing activities		
Payments for property, plant and equipment	-	-
Payments for oil and gas, exploration and evaluation properties	-	-
Net cash from/(used in) investing activities	-	-
Cashflows from financing activities		
Proceeds from drawdown of convertible note facility	-	500
Proceeds from shares issued – net of transaction costs	-	139
Proceeds from options issued	10	-
Payments for lease liabilities	-	(38)
Net cash from financing activities	10	601
Net decrease in cash and cash equivalents	(316)	(309)
Cash and cash equivalents at 1 January	862	645
Effects of exchange rate changes on cash held	(3)	(3)
Cash and cash equivalents at 30 June	543	333

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 12 to 23.

Condensed notes to the consolidated interim financial statements

For the six months ended 30 June 2021

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 2021 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 2020 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 2020 (“last annual financial statements”).

These interim financial statements were approved by the Board of Directors on 27 August 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 2020.

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 2021, the Group had a cash balance (excluding restricted deposits of US\$49,000) of US\$543,000 (31 December 2020: US\$862,000) and current net assets of US\$401,000 (31 December 2020: current net assets of US\$658,000).

In addition, the group incurred a loss from continuing operations of US\$1,121,000 (30 June 2020: US\$2,590,000) and had net cash outflows from operating activities of US\$326,000 during the period (30 June 2020: US\$910,000).

The Group has a Convertible Note Facility (“Facility”) of US\$15.0 million excluding interest (refer Note 9 for further details).

As at 30 June 2021, the Group had drawn down US\$14.0 million under the Facility. The carrying value of the Facility at 30 June 2021 excluding the fair value of the conversion option and including accrued interest is US\$20.8 million (31 December 2020: US\$20.2 million).

The directors have approved cash flow projections which support the going concern basis of preparation. The preparation of these projections incorporate a number of assumptions and judgements, and we have concluded that the range of possible outcomes considered in arriving at this judgement indicate that a material uncertainty exists that may cast doubt on the Group’s ability to continue as a going concern.

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 2020.

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2021

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.

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 32,200,000 options outstanding as at 30 June 2021 comprising:

- 10,000,000 options on issue to Sing Rim Pte Ltd;
- 8,200,000 options on issue to key management personnel and former employees under the Employee Option Plan; and
- 14,000,000 options which were issued during the current period to key management personnel outside the Employee Option Plan. The terms and conditions of these options are disclosed within the Appendix 3G announcements made to the ASX on 14 May 2021 and 15 June 2021.

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

In determining potential ordinary shares, none of the options are dilutive for the six months to 30 June 2021.

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2021

6. Earnings per share (continued)

Basic loss per share

The calculation of basic loss per share at 30 June 2021 was based on the loss attributable to ordinary shareholders for the current period of US\$1,121,000 (Six months to 30 June 2020: Loss of US\$6,525,000) and a weighted average number of ordinary shares outstanding during the six months ended 30 June 2021 of 421,476,813 (Six months ended 30 June 2020: 400,908,366), calculated as follows:

Loss attributable to ordinary shareholders

Loss from continuing operations
Loss from discontinued operations
Loss for the period

Six months to	
30 June 2021	30 June 2020
US\$'000	US\$'000
(1,121)	(2,590)
-	(3,935)
(1,121)	(6,525)

Share capital

In thousands of shares

On issue at 1 January
Shares issued
Shares cancelled
On issue at 30 June

As at	
2021	2020
408,588	398,588
80,000	10,000
-	-
488,588	408,588

Weighted average number of shares (basic)

In thousands of shares

Issued ordinary shares at 1 January
Effect of shares issued and cancelled in 2021 and 2020, respectively
Weighted average number of ordinary shares at 30 June

Six months to	
30 June 2021	30 June 2020
408,588	398,588
12,889	2,320
421,477	400,908

Weighted average number of shares (basic and diluted)

In thousands of shares

Weighted average number of ordinary shares (basic and diluted)

As at	
30 June 2021	30 June 2020
421,477	400,908

Loss per share – continuing and discontinued operations

In USD dollars

Basic and diluted loss per share

Represented by:

Six months to	
30 June 2021	30 June 2020
(0.003)	(0.016)

Loss per share – continuing operations

In USD dollars

Basic and diluted loss per share

Six months to	
30 June 2021	30 June 2020
(0.003)	(0.006)

Loss per share – discontinued operations

In USD dollars

Basic and diluted loss per share

Six months to	
30 June 2021	30 June 2020
-	(0.010)

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2021

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 2020.

Employee Share and Option Plans

During the six months ended 30 June 2021, no share or option grants were made to key management personnel under the Employee Share Plan or Employee Option Plan (2020: nil). No options were forfeited or exercised and converted into ordinary shares during the six months ended 30 June 2021 (2020: nil).

Options issued outside the Employee Option Plan

During the current period, 14,000,000 million options were granted to key management personnel outside the Employee Option Plan. The terms and conditions of these options are disclosed within the Appendix 3G announcements made to the ASX on 14 May 2021 and 15 June 2021.

Share and option grants to key management personnel

The following table summarises the fair value assumptions of shares and options granted to key management personnel during the six months ended 30 June 2021 and 2020.

	Six months to	
	30 June 2021	30 June 2020
Weighted average fair value at measurement date	0.001	-
Weighted average share price	0.021	-
Weighted average exercise price	0.02	-
Expected volatility (expressed as weighted average used in the modelling under Black-Scholes model)	2.836%	-
Expected option life (expressed as weighted average used in the modelling under Black-Scholes model)	2.6	-
Expected dividends	-	-
Risk-free interest rate (based on national government bonds)	0.09% - 0.11%	-

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

In the previous corresponding period, management committed to a plan to sell all of its U.S. oil and gas interests and to wind up both its USA and Canada segments.

The U.S. oil and gas interests were sold and all associated liabilities transferred to the purchaser in October 2020 for a consideration price of US\$600,000 (US\$500,000 base cash payment plus a further US\$100,000 trailing payment due in October 2021) and an effective date of 1 July 2020.

The USA and Canadian subsidiary companies were wound up and deconsolidated from the Group by year end 2020.

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2021

8. Discontinued operations (continued)

Results from discontinued operations

The following table presents details of the contribution of both the discontinued operations in the USA and Canada in the previous corresponding period.

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

9. Secured borrowings

	30 June 2021 US\$000's	31 Dec 2020 US\$000's
Non-current		
Secured borrowings – convertible notes	20,773	20,238

Convertible note facility

Secured borrowings represent the outstanding balance at 30 June 2021 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 2020.

As at 30 June 2021, US\$14 million has been drawn down under the US\$15 million facility.

Effective 31 December 2020, the Company concluded negotiations with the Convertible Noteholders ("Noteholders") and settled the following variations to the terms of the Convertible Note Facility pursuant to an agreement with Sing Rim on 18 January 2021:

- *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 – approved by shareholders at the Company's General Meeting held on 28 May 2021.
- *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.

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2021

9. Secured borrowings (continued)

Convertible note facility (continued)

- *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 – approved by shareholders at the Company’s General Meeting held on 28 May 2021 and issued on 1 June 2021.

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 2021 US\$000's	31 Dec 2020 US\$000's
Non-current		
Fair value of financial derivative instruments	673	-

The fair value of financial derivative of US\$673,000 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

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2021

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.

In the previous corresponding period, management committed to a plan to sell all of its U.S. oil and gas interests and to wind up its USA and Canada segments. Separate financial results of the USA and Canada segment were maintained and reviewed by the CODM until the discontinuance of the operations during the second half of 2020. Refer to "Note 8 – Discontinued Operations" for further details.

	Continuing Operations				Discontinued Operations				Consolidated	
	Australia		MENA		USA		Canada			
	30 June 2021 US\$'000	30 June 2020 US\$'000	30 June 2021 US\$'000	30 June 2020 US\$'000	30 June 2021 US\$'000	30 June 2020 US\$'000	30 June 2021 US\$'000	30 June 2020 US\$'000	30 June 2021 US\$'000	30 June 2020 US\$'000
Oil & gas sales *	-	-	-	-	-	186	-	-	-	186
Segment net revenues after royalties	-	-	-	-	-	186	-	-	-	186
Segment net loss before tax	(1,028)	(1,826)	(93)	(764)	-	(4,114)	-	10	(1,121)	(6,694)
Income tax benefit/(expense)	-	-	-	-	-	169	-	-	-	169
Net loss for the period	(1,028)	(1,826)	(93)	(764)	-	(3,945)	-	10	(1,121)	(6,525)
Depreciation, depletion & amortisation and reclamation	(1)	(17)	-	(1)	-	(78)	-	10	(1)	(86)
Dry hole, impairment and abandonment expense	-	-	-	-	-	(3,712)	-	-	-	(3,712)
Segment assets	676	296	1,026	16	-	909	-	-	1,702	1,221
Acquisition of property, plant and equipment and exploration, evaluation and development assets	-	-	-	-	-	-	-	-	-	-

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

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2021

12. Segment reporting (continued)

	Continuing Operations				Discontinued Operations				Consolidated	
	Australia		MENA		USA		Canada			
	30 June 2021 US\$'000	30 June 2020 US\$'000	30 June 2021 US\$'000	30 June 2020 US\$'000	30 June 2021 US\$'000	30 June 2020 US\$'000	30 June 2021 US\$'000	30 June 2020 US\$'000	30 June 2021 US\$'000	30 June 2020 US\$'000
Segment liabilities	21,657	18,499	187	7,718	-	1,340	-	-	21,844	27,557
Cash (used in)/ from operating activities	(326)	(491)	-	(389)	-	(30)	-	-	(326)	(910)
Cash (used in)/ from investing activities	-	-	-	-	-	-	-	-	-	-
Cash from financing activities	10	601	-	-	-	-	-	-	10	601

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2021

13. Oil and gas, exploration, and evaluation properties

(a) Oil and gas properties

	30 June 2021 US\$'000	31 December 2020 US\$'000
Opening balance at 1 January	-	4,249
Additions	-	-
Sale of interests ¹	-	(474)
Dry hole, impairment and abandonment expense	-	(3,711)
Current year amortisation expense	-	(64)
Closing balance at period end	-	-

1. Represents the fair value (less costs to sell) of certain of the U.S. oil and gas interests that were sold in the previous corresponding period. Refer to "Note 8 – Discontinued Operations" 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.

In the previous corresponding period, the Group recognised total dry hole, impairment and abandonment expense of US\$3,712,000 in relation to its discontinued USA operation, including 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.

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2021

15. Provisions

	MENA ¹		Rehabilitation ²		Total	
	30 June 2021 US\$'000	31 December 2020 US\$'000	30 June 2021 US\$'000	31 December 2020 US\$'000	30 June 2021 US\$'000	31 December 2020 US\$'000
Non-current						
Balance at 1 January	-	6,712	-	716	-	7,428
Sale of interests	-	(6,712)	-	(719)	-	(7,431)
Changes in provision estimate	-	-	-	-	-	-
Provisions made during the year	-	-	-	-	-	-
Unwind of discount	-	-	-	3	-	3
Balance at period end	-	-	-	-	-	-

¹ In the previous corresponding period, the Group sold all of the shares of Yemen (Block S-1), Inc. which holds a 75% interest in the Damis (Block S-1), Inc. Production Licence and executed an agreement for the free carry of all costs associated with the remaining 25% interest held by West Yemen Oil (Block S-1), Inc. Refer to "Note 5(b) – Gain on Disposal of Subsidiaries" of the 31 December 2020 financial statements for further details.

² In the previous corresponding period, the Company sold all of its USA oil and gas interests with effect from 1 July 2020. Refer to "Note 8 – Discontinued Operations" for further details.

16. Capital and other commitments

As at 30 June 2021, the Group had no capital commitments (previous corresponding period: nil).

17. 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.

Historically, 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 Company. In the previous corresponding period, the Group sold all its U.S. oil and gas interests and no longer has any operations in the USA (refer to "Note 8 – Discontinued Operations" for further details).

From time to time, the Group may be required to provide bonding or security for the benefit of regulatory authorities in jurisdictions where it operates 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 2021, the Group had no bonding or security in place (December 2020: 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, an illegitimate claim was made on the Letter of Credit (LoC) in November 2019, issued under the Production Sharing Agreement on the Al Barqa, Block 7 Exploration 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 expenditure requirements on the block, which has been in Force Majeure since 2011. No claim can be made against the LoC while the licence is in Force Majeure.

Arab Bank acted on the Houthi claim and called on the counterparty LoCs held on behalf of the Company by Qatar National Bank (QNB) and Mitsui by Commonwealth Bank of Australia (CBA). Despite concerted efforts by Petsec to prevent any action on the claim, warning the claim was illegal and fraudulent, the banks responded to the Houthi and Arab Bank's illegitimate claim such that US\$2.73 million of the Company and Mitsui's funds were transferred to Arab Bank, Amman, Jordan. Kuwait National Bank has not released the US\$1.05 million counterparty 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 that there was no claim on the LoC.

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2021

17. Legal matters and contingencies (continued)

The Company has initiated legal suits against the Arab Bank, Jordan to recover those funds illegally transferred to Arab Bank. To date, the Jordan Court has granted an injunction against Arab Bank to prevent transfer of the funds to the Houthi, and has 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 seeking a return of the US\$2.73 million from Arab Bank, through the Courts in Jordan.

18. Related parties

Arrangements with related parties continue to be in place. For details on these arrangements refer to the 2020 Annual Report.

19. Dividends

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



Directors' Declaration

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

- (1) the financial statements and notes set out on pages 8 to 23, 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 2021 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.

A handwritten signature in black ink, appearing to read "Terrence N. Fern", is written over a faint, light-colored background.

Terrence N. Fern
Director

Sydney, 27 August 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 2021 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 27th of August 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 interim statement of financial position as at 30 June 2021, the consolidated interim statement of profit or loss and other comprehensive income, the consolidated interim statement of changes in equity, and the consolidated interim 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 2021 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 2021 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 2021 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*.

Emphasis of Matter Regarding Continuation as a Going Concern

We draw attention to Note 2 of "Going concern basis of preparation" in the financial report, which indicates that the Group had a cash balance (excluding restricted deposits of US\$49,000) of US\$543,000 (31 December 2020: US\$862,000) and current net assets of US\$401,000 (31 December 2020: current net assets of US\$658,000) as at 30 June 2021.

In addition, we note the group incurred a loss from continuing operations of US\$1,121,000 (30 June 2020: US\$2,590,000) and had net cash outflows from operating activities of US\$326,000 during the period (30 June 2020: US\$910,000).

These events or conditions, along with other matters as set forth in Note 2 of "Going concern basis of preparation", indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

MNSA PTY LTD

MNSA Pty Ltd

Mark Schiliro

Director

Sydney

Dated this 27th of August 2021