PETSEC ENERGY LTD

ACN 000 602 700

MEDIA RELEASE

18th April 2016

Release of Petsec Energy 2015 Annual Report

Petsec Energy Ltd (ASX: PSA / OTC ADR: PSJEY)

Petsec Energy (the "Company") is pleased to release the 2015 Annual Report.

The Company met its stated goals for the year through exploration success in the USA and acquisition of developed/producing oil reserves in Yemen. Net proved and probable reserves increased by 9.3 million barrels of oil equivalent ("MMboe") which held a Net Present Value (NPV_{10}) for the Company as of the 1st January 2016 of US$188 million or $1.06 per Petsec Energy share.

The Company's key achievements in the 2015 year were:

- A 3,000% uplift to the Company's net oil and gas proved and probable (2P) reserves to 9.3 MMboe at the 1st January 2016 determined by independent oil and gas reserve auditors, Cawley, Gillespie & Associates and DeGolyer & McNaughton Canada Limited.
- A net present value (NPV_{10}) of US$188.1 million which is the equivalent of $1.06 per Petsec Energy share for the Company's 9.3 MMboe of 2P reserves, at the forward oil and gas prices at the 1st January 2016.
- Significant exploration discoveries made in the USA on the Mystic Bayou and Hummer prospects, which added to date 3.6 MMBoe with a NPV_{10} of US$32.7 million.
- Acquisition of the Damis (Block S-1) Production Licence in Yemen which contains the developed/producing An Nagyah Oilfield and four undeveloped oil and gas fields. Petsec Energy owns a net 5.6 MMbbl of 2P oil reserves in the An Nagyah Oilfield which had a NPV_{10} value at the 1st January 2016 of US$155 million. The four undeveloped oil and gas fields hold resources of 34 MMbbl and 550 Bcf [1].
- Increasing our working interest to 75% (63.75% participating interest) in Block 7 Exploration Licence which holds the undeveloped Al Meashar Oilfield which holds a target resource of 11 MMbbl, plus 8 prospects and leads with mapped potential up to 900 MMbbl.

The discovery and acquisition of oil reserves in 2015 are expected to be brought into production in 2016. The restart of production from the An Nagyah Oilfield in Yemen will deliver substantial cash flow to the Company which in turn will be applied to the development of the five undeveloped oil and gas fields in Yemen and to the Hummer discovery in the USA.

1 Source Wood Mackenzie Asia Pacific Pty Ltd

<u>*For further information, please contact:*</u>

Mr. Paul Gahdmar
Company Secretary & Group Financial Controller
Petsec Energy Ltd
Level 13, 1 Alfred Street
Sydney NSW 2000
Tel: (612) 9247 4605 Fax: (612) 9251 2410

Mr. Manny Anton
Head of Investor Relations & Corporate Development
Petsec Energy Ltd
Level 13, 1 Alfred Street
Sydney NSW 2000
Tel: (612) 9247-4605 Fax: (612) 9251 2410

Petsec Energy Ltd is an independent oil and gas exploration and production company listed on the Australian Stock Exchange. It has operations in the shallow waters of the Gulf of Mexico and state waters of the Louisiana Gulf Coast region of the USA, and exploration activities in the Gulf Coast onshore and bay areas of Texas and Louisiana, USA and Yemen.

PETSEC ENERGY LTD
ANNUAL REPORT 2015

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Williams Alt. No.2 discovery well: Barge drill rig next to production & oil storage facilities.

Cover: Damis (Block S-1) Yemen – An Nagyah Oilfield: Production and storage facilities.

CAPITAL STRUCTURE

as at 29 March 2016

AUSTRALIA

EXCHANGE	ASX
TICKER	PSA
SHARES ON ISSUE	235.5 MILLION
SHARE PRICE	$0.12
MARKET CAPITALISATION	$28.3 MILLION

USA

EXCHANGE	OTC PINK SHEETS
TICKER	PSJEY

CORPORATE OBJECTIVE AND STRATEGY

Petsec Energy's corporate objective is to increase shareholder value by increasing the net asset value of the Company through successful oil and gas exploration, development, and production, thereby building Petsec Energy into a significant mid-tier oil and gas exploration and production company, respected in the industry for its technical skills, timely and cost effective delivery of projects, and the integrity with which it conducts its business.

The Company's strategy to meet the above objective is to maximise the value of its current reserves, pursue participation in high quality, high impact exploration drilling opportunities, and to acquire leases, with undeveloped or producing oil and gas reserves, which also hold significant development, low risk exploitation and exploration potential.

Historically the strategic and geographical focus has been predominately exploration in Louisiana, USA. This focus had shifted in 2014 to include oil reserve acquisition in the Middle East and North Africa (MENA) region. In Yemen, the Company holds two leases. One with undeveloped oil resources, and substantial exploration potential, and the second a production licence over five sizeable oil and gas discoveries, one of which is developed (An Nagyah) and has until recently been in production. The Company will actively continue to identify and acquire additional developed and undeveloped reserves within the MENA region.

ANNUAL GENERAL MEETING

To be held at: 11am (AEST) on Thursday, 19 May 2016,
at the Museum of Sydney, corner of Bridge and Phillip Streets, Sydney.

PETSEC ENERGY LTD ABN 92 000 602 700

The Company is listed on the Australian Stock Exchange (symbol: PSA) and traded over the counter in the USA as American Depositary Receipts (ADRs) (symbol: PSJEY). Its corporate office is in Sydney, Australia, its USA operations offices are in Houston, Texas and Lafayette, Louisiana, and its Middle East and North Africa (MENA) operations office is in Dubai, United Arab Emirates (UAE).

COMPANY PROFILE AND HISTORY

Petsec Energy Ltd (the “Company”) is an independent oil and gas exploration and production company listed on the Australian Stock Exchange (symbol: PSA) and traded over the counter in the USA in the form of American Depositary Receipts (symbol: PSJEY).

The Company was established on 7 December 1967 and its registered Australian Company Number is: 000 602 700.

The Company through its wholly owned subsidiary companies Petsec Energy Inc. and Petsec Exploration and Production LLC has operations in the shallow waters of the Gulf of Mexico and onshore Louisiana, USA. The Company also has operations onshore in the Republic of Yemen through its wholly owned subsidiary Petsec Energy (Middle Eastern) Limited.

The Company has been active in the USA since 1989 and has explored offshore in the Gulf of Mexico and onshore in Louisiana, Texas, California, Utah, Colorado, Wyoming, Montana and North Dakota. In the period through 2015, the Company has drilled over 100 wells in the USA and has enjoyed an exploration success rate of 74%.

From 2002 to 2011, the Company was active in the Beibu Gulf, China, participating in the drilling of seven exploration wells resulting in three oil fields being discovered.

In 2014, the Company determined that it wished to pursue both an exploration and an oil reserves acquisition strategy. Following a strategic review, the Company identified the Middle East & North African (MENA) region as a growth area for the Company where licences with producing oil reserves or near development reserves, with associated high exploration potential, can be acquired at more competitive prices than those in the USA. In 2015, a non-operated interest in a large licence area (Block 7) was acquired in Yemen, which held a potentially large undeveloped oilfield discovery and a number of drill prospects which held potentially very large oil reserves ranging up to 900 million barrels of oil. In early 2016, the Company acquired another licence (Block S-1) in Yemen, which held five oil and gas fields of which one field, the An Nagyah Oilfield had been developed and was producing until political unrest in 2014 caused it to be shut-in.

The Company’s corporate office is in Sydney, Australia and the Company’s operational offices are located in Houston, Texas, Lafayette, Louisiana, USA, and Dubai, UAE.

Damis (Block S-1) Yemen – An Nagyah Oilfield: Production and storage facilities.

2015 YEAR IN REVIEW

CORPORATE

- Continued to implement the MENA region oil reserves acquisition strategy established in 2014.
- Acquired :
  - A 35% working interest (29.75% participating interest) in Block 7, Al Barqa Permit, Yemen; and
  - A 100% working interest (82.5% participating interest) in Damis (Block S-1) Production Licence, Yemen.
- Appointed Mr. Maki Petkovski as Chief Executive Officer of Petsec Energy (Middle Eastern) Limited to lead the Company's operations in the MENA region.
- Established a MENA branch office in Dubai, UAE.

OPERATIONS

USA

Exploration & Development

- Completed an eight well exploration programme in 2015 focusing on high impact conventional exploration opportunities onshore Gulf Coast Louisiana and in the shallow waters of the Gulf of Mexico:
  - Significant discoveries made on the Mystic Bayou and Hummer prospects.
  - USA exploration success added net proved and probable (2P) oil and gas reserves of 3.6 MMboe.
  - USA net 2P oil and gas reserves as of 1 January 2016 were 3.7 MMboe with an NPV_{10} value of US$32.7 million (Cawley, Gillespie & Associates).
  - Williams No.2 Alt. gas/condensate discovery well on the Mystic Bayou Prospect brought into production on 31 August 2015, less than four months from spud in May 2015.
  - Mystic Bayou discovery holds an additional three proved undeveloped locations proximal to the discovery well.
  - Main Pass 270 #3 BP 1 well made a significant discovery on the Hummer prospect in the second half of 2015. The well will be completed and production tested when a platform jacket has been fabricated and installed (anticipated mid-2016). First production from the discovery well is expected in 2Q 2017. Extent of reserves in the discovery can be better determined following testing of the well.

Production

- The Company gained production from three fields – the Main Pass Block 19 Field in the shallow waters of the Gulf of Mexico, and the Jeanerette and Mystic Bayou Fields, onshore Louisiana.
- Main Pass Block 19 Field reached the end of its economic life and production ceased in mid-June 2015. Field is to be plugged and abandoned in 2016.
- Williams No. 2 Alt. well (Mystic Bayou) discovery was brought into production on 31 August 2015.
- Adeline Sugar Factory #4 well (Jeanerette) discovered and brought into production in mid-2014 was shut-in mid-November 2015 due to high water production caused by salt build-up in the production tubing.

MENA

Acquisitions

- Block 7, Al Barqa Permit, Yemen:
  - Completed acquisition of AWE and Mitsui 35% working interests (29.75% participating interests).
  - Signed agreement to acquire 40% working interest (34% participating interest) in Block 7 from Oil Search Limited. Completion of agreement and transfer of operatorship is subject to receipt of Government approvals.
  - The block contains the undeveloped Al Meashar oil discovery as well as an inventory of leads and prospects, which are defined by 2D and 3D seismic surveys, and hold significant oil potential.
- Damis (Block S-1) Production Licence, Yemen:
  - Post balance-date acquisition of 100% working interest (82.5% participating interest) and assumption of operatorship.
  - Area contains five sizeable, oil and gas discoveries including the developed/productive An Nagyah Oilfield complete with surface facilities to process and transport 20,000 bopd.
  - The An Nagyah Oilfield is estimated to have remaining 2P reserves of 5.6 MMbbl of oil (net to Petsec Energy) with an NPV_{10} of US$155.4 million (DeGolyer and MacNaughton), at 1 January 2016 forward oil prices.
  - Significant additional resource potential in four undeveloped fields (Osaylan, An Naeem, Wadi Bayhan and Harmel fields).

Opposite: Damis (Block S-1) Yemen – An Nagyah Oilfield: Production facilities.

FINANCIAL

Production and financial results were significantly lower in 2015 compared to the 2014 year, due to the divestiture of the Company's production interests in the Marathon and Main Pass 270 gas/condensate fields in July 2014.

- Net production: 511 MMcfe, down 68%.
- Gas equivalent average sales price realised: US$3.07/Mcfe, down 40%.
- Net revenue (after royalties): US$1.6 million, down 80%.
- EBITDAX: negative US$3.5 million, down from the positive EBITDAX of US$3.4 million gain in the previous corresponding period.
- Impairment, abandonment, exploration and work-over expense: US$6.4 million, up 113%.
- Depreciation, depletion and amortisation (DD&A) expense: US$0.5 million (US$1.05/Mcfe), down 72%.
- Unit operating costs: US$11.38/Mcfe, up from US$4.23/Mcfe in the previous corresponding period due to lower production volumes.
- Net loss after tax: US$10.6 million, up from the loss of US$1.1 million in the previous corresponding period.
- Acquisition, exploration and development expenditures: US$16.1 million, up 182% due to the USA exploration programme, and asset additions in the MENA region.
- Cash at 31 December 2015: US$12.8 million, down 61%.

CHAIRMAN'S REPORT

DEAR SHAREHOLDER,

I am pleased to report that 2015 was a particularly successful year for the Company, having met our exploration and reserves acquisition goals stated in last year's Annual Report and Annual General Meeting.

We returned to conventional exploration in the USA, drilled eight prospects, and made two major successes.

Our oil and gas reserves acquisition strategy achieved much more than we had anticipated resulting in the acquisition of a substantial amount of developed, production ready oil reserves in the Republic of Yemen.

We expended US$18.1 million on operating and investment activities in 2015 which delivered a reserve addition of 9.2 million barrels of oil equivalent for the year, which has a net present value (NPV_{10}) of US$188.1 million at a 10% per annum discount value, at the forward oil and gas prices current at 1 January 2016.

This NPV_{10} value of US$188.1 million represented a value of approximately A$1.06 for each Petsec Energy share, at the time of writing.

CONVENTIONAL EXPLORATION IN THE USA

The eight well conventional exploration programme onshore in the Gulf Coast of Louisiana and offshore in the Gulf of Mexico delivered significant discoveries on the Mystic Bayou and the Hummer prospects, adding 3.6 million barrels of oil equivalent. The USA reserves as of 1 January 2016 hold an NPV_{10} value of US$32.7 million.

The Williams No.2 Alt. exploration well made a substantial gas/condensate discovery well on the Mystic Bayou Prospect, onshore Louisiana. The well was brought into production in late August 2015, four months after the well was drilled. The gas/condensate discovery can be further expanded with the drilling of an additional three locations of proven undeveloped reserves which are expected to substantially increase reserves, production and cash flow.

The Hummer Prospect, which was generated by Petsec Energy some years ago, was tested in the third quarter of 2015. The Main Pass Block 270 #3 BP 1 well was a major discovery and will be completed and production tested in mid-2016 following the fabrication and installation of a platform jacket. We anticipate that the well will be brought into production in early 2017, and further development drilling will follow.

We are most encouraged by the preliminary drilling results which indicate that the Hummer Prospect discovery has the potential to develop into an asset of considerable value to the Company.

OIL AND GAS RESERVES ACQUISITIONS IN THE MENA REGION

While 2015 was a challenging year for the global oil and gas industry due to the precipitous fall in oil and natural gas prices, these lower commodity prices have provided us with significant oil and gas reserve acquisition opportunities, which in turn has allowed us to accelerate our oil and gas reserves acquisition strategy in the MENA region.

The major achievement for the year was the completion of the acquisition (finalised in early 2016), at a modest

OUR BUSINESS APPROACH
A FOCUS ON RESERVES ACQUISITION AND DEVELOPMENT OF EXISTING RESERVES

The Company now has a sizeable reserves base and large oil and gas resources which could be developed for production in the near term, providing a strong growth profile for many years, and high leverage to any increase in oil prices.

cost, of a 100% working interest in the Damis (Block S-1) Production Licence in Yemen, which holds five substantial oil and gas field discoveries, only one of which has been developed. The An Nagyah Oilfield production was suspended in 2014 due to political uncertainty in Yemen. Remaining oil reserves net of all costs to Petsec Energy's economic interest in An Nagyah are 5.6 million barrels. The estimated net present value of the oilfield to the Company is US$155.4 million at oil prices current as of 1 January 2016. The field is in a state of readiness to recommence oil production once the Yemen political situation allows, which we assess to be sometime in 2016.

Production facilities have the capacity to process and transport 20,000 barrels of oil per day from Damis (Block S-1).

Agreements entered into in 2014 to acquire a 35% working interest (29.75% participating interest) in Block 7 from AWE Limited and Mitsui, were completed in 2015. We also entered into an agreement with Oil Search Limited to acquire its 40% working interest (34% participating interest) in Block 7, and operatorship. This transaction is subject to customary government approvals, expected within 2016.

Block 7 holds the potentially large Al Meashar oil discovery, and eight prospects and leads each holding potential of up to 900 million barrels of oil.

The above Yemen acquisitions were largely due to the efforts of Mr. Maki Petkovski who was appointed Chief Executive Officer of Petsec Energy (Middle Eastern) Limited to lead our expansion in the MENA region. Immediately prior to joining Petsec, he was the manager for 12 years of Oil Search's MENA assets, including Block 7, Al Barqa Permit in Yemen.

OUTLOOK

The oversupply of oil internationally and natural gas in the USA, is likely to take another year or two to come into balance with demand, consequently we are conducting our business plan on the basis of sub US$40 per barrel oil, and sub US$2 per thousand cubic feet of gas. Happily our current reserves are soundly economic at those prices, and at such times as the An Nagyah Oilfield can be brought back into production, anticipated in excess of 5,000 barrels of oil per day, it is likely to generate cash flow per annum the equivalent of our current market capitalisation.

The current industry environment argues for a conservative business approach with a focus on reserves acquisition and development of existing reserves. In 2016, in the USA, we shall concentrate on the development of Hummer and in Yemen, and MENA generally, we will seek more low cost oil reserves acquisitions, and seek to bring existing developed reserves into production, to generate sufficient cash flow to engage in further development while costs are low.

The Company now has a sizeable reserves base and large oil and gas resources which could be developed for production in the near term, providing a strong growth profile for many years, and high leverage to any increase in oil prices.

The Board and I would like to thank you, our shareholders, for your ongoing support and I look forward to providing further details on our progress at the AGM.

TN Fern
Chairman and Managing Director

OPERATIONS REVIEW

PRODUCTION

USA

Petsec Energy produced 452 million cubic feet of gas and 9,876 barrels of oil/condensate (equivalent to 511 MMcfe) in the twelve months to 31 December 2015, from the Main Pass Block 19 Field, offshore Gulf of Mexico and the Jeanerette and Mystic Bayou Fields, onshore Louisiana USA.

This was lower than the production of 1,612 MMcfe in 2015 due to the Company's divestment of its production interests in the Atchafalaya Bay (Marathon) and Main Pass Block 270 fields in the Gulf of Mexico in July 2014, for US$17 million, and the Main Pass Block 19 field ceasing production in June 2015 after reaching the end of its commercial life.

Main Pass Block 19
55% W.I. (NRI: 45.83%)

The Main Pass 19 lease is in 26 feet of water in the Gulf of Mexico and was acquired in the 2004 MMS lease sale. The Company drilled six successful wells on the lease in the period 2005 to 2006. A four-pile platform with compression facilities was set in 2005 and a 3,000-barrel oil storage facility was added in 2008.

In 2015, the field was near the end of its commercial life and produced only 57 MMcfe prior to being shut-in in June. The field will be plugged and abandoned in 2016.

Adeline Sugar Factory #4 Well, Jeanerette Field
12.5% W.I. (NRI: 9.22%)

The Adeline Sugar Factory ("ASF") #4 well located in the Jeanerette Field, St Mary Parish, Louisiana, was discovered and brought into production in June 2014.

The ASF #4 well produced 257 MMcfe prior to it being shut-in in mid-November 2015 due to high water production and a restriction in the tubing due to salt build-up. The well was brought back into production in late January 2016 at a gross daily rate of approximately 1.5 MMcfpd and 10 bopd but ceased production again in mid-February. Remedial options are being evaluated.

Williams No.2 Alt. Well, Mystic Bayou Field
25.0% W.I. (NRI: 18.5%)

The Williams No. 2 Alt. well, located on the Mystic Bayou Field, St Martin Parish, Louisiana made a gas/condensate discovery mid-2015 and was brought into production on 31 August 2015.

The well contributed 197 MMcfe of the Company's total production volume of 511 MMcfe for the year.

EXPLORATION

USA

In the 2015 year, the Company returned to conventional exploration and drilled eight conventional exploration wells on eight separate prospects in the USA, onshore and offshore Louisiana, exposing the Company to in excess of 21 Bcfe (or 3.5 MMboe) of potential reserves at a cost of US$13.2 million. The programme delivered major discoveries to the Company on each of the Mystic Bayou and Hummer prospects and a consequent increase in reserves

PETSEC ENERGY GULF OF MEXICO AND LOUISIANA GULF COAST EXPLORATION AND PRODUCTION LEASES

of 3.6 MMboe. The year end NPV_{10} value of the USA closing reserves was US$32.7 million.

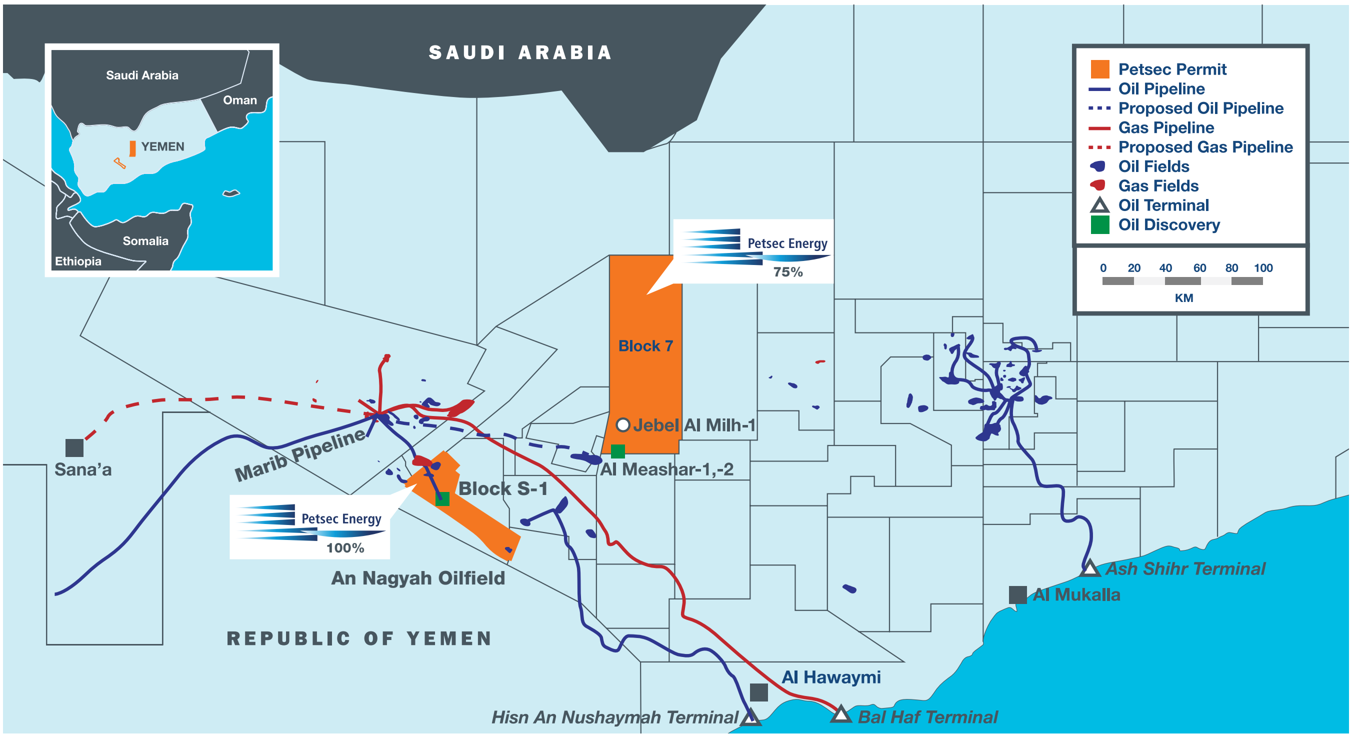
The Williams No. 2 Alt. well on the Mystic Bayou Field was brought onto production in late August 2015 within four months of the well being spud.

The Main Pass Block 270 #3 BP 1 well on the Hummer exploration prospect in 215 feet of water, offshore Louisiana was drilled during the second half of 2015. The well has been mud-line suspended for future completion and production testing following the fabrication, and installation of a platform jacket. The installation of the jacket, well completion and testing are expected to be completed by mid-2016. Results of the testing of the well will reasonably determine the further extent and value of the reserves discovered. First production from the discovery well is anticipated in the second quarter of 2017.

Right: Williams No.2 Alt. discovery well – Barge drill rig next to production & oil storage facilities.

Above opposite: Onshore exploration drilling – Herbert Abstract Co. #1 Well on the SW Holmwood Prospect.

PETSEC ENERGY MIDDLE EAST AND NORTH AFRICA EXPLORATION AND PRODUCTION LEASES



ACQUISITIONS

MENA (MIDDLE EAST AND NORTH AFRICA)

The Company has been very active during 2014 and 2015 in the MENA region, pursuing its objective of acquiring onshore leases, with oil reserves both developed/producing and undeveloped, that hold significant development, exploitation and exploration potential. In the period, the Company acquired a 75% working interest (63.75% participating interest) in Block 7 and a 100% working interest (82.5% participating interest) in the Damis (Block S-1) Production Licence.

Block 7 holds the potentially large Al Meashar Oilfield and substantial exploration prospects and leads, and Damis (Block S-1) holds the developed/producing An Nagyah Oilfield with net 2P reserves of 5.6 million barrels of oil to the Company's economic interest, and four other sizeable undeveloped oil and gas fields.

In 2016, the Company will continue to seek, with the intention to acquire, additional oil reserves in the MENA region.

Block 7, Al Barqa Permit

Republic of Yemen

Block 7 is an onshore exploration permit covering an area of 5,000 square kilometres (1,235,527 acres) located 340 kilometres east of Sana'a, the capital of Yemen. It contains the undeveloped Al Meashar oil discovery made in 2010, and an inventory of prospects and leads defined by 2D and 3D seismic surveys that hold significant oil potential ranging from 2 to 900 million barrels of oil.

The Al Meashar oil discovery is similar in geology and structure to the Habban Oilfield, located 14 kilometres to the West of Al Meashar, operated by OMV. The field had been producing at rates of 23,000 barrels of oil per day prior to its shut-in in 2015.

In 2014, the Company executed agreements with AWE Limited (25% working interest/21.25% participating interest) and Mitsui E&P Middle East B.V. (10% working interest/8.5% participating interest)to acquire their respective participating interests in Block 7. The Company concluded the acquisition of these interests in September 2015.

In April 2015, the Company executed an agreement with Oil Search Limited to acquire all the shares of its subsidiary Oil Search (ROY) Limited, which holds a 40% working interest (34% participating interest) in Block 7 and is the designated operator of the exploration permit. Completion of the transaction and transfer of operatorship is subject to customary approvals (expected in 2016) from the government of Yemen and the Ministry of Oils and Minerals.

Once approved, this acquisition will increase Petsec's working interest in Block 7 to 75% (63.75% participating interest) and the Company will also assume operational control of the block.

As soon as the political situation in Yemen allows, the Company's first objective in this block is to bring the two suspended discovery wells (2010/2011) of the Al Meashar Oilfield into production. Short-term testing of the wells in 2011 delivered flow rates ranging from 200 to 1,000 bopd.

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

The Company announced on 5 February 2016 a further significant expansion of its oil and gas interests in the Republic of Yemen with the acquisition of entities holding a 100% working interest (82.5% participating interest) and operational control of the Damis (Block S-1) Production Licence.

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 producing (until suspended in 2014), An Nagyah Oilfield, and a further four undeveloped oil and gas fields – Osaylan, An Naeem, Wadi Bayhan, and Harmel.

The An Nagyah Oilfield has remaining 2P reserves of 5.6 million barrels of oil, net to the Company, net of all royalties and costs, which has an NPV_{10} value of US$155.4 million at Brent oil forward prices current at 1 January 2016.

The four undeveloped fields hold substantial oil and gas resources, which will be a source of future growth of production and reserves for the Company.

The block contains significant existing infrastructure, including surface facilities with a capacity to process up to 20,000 bopd and an 80,000 bopd pipeline, which joins the 200,000 bopd Marib export pipeline to the Ras Isa terminal on the Red Sea Coast.

The An Nagyah Oilfield was shut-in at the end of February 2014 following the declaration of Force Majeure by the current operator due to political issues in Yemen and consequent inability to ship oil for the Al Nagyah Oilfield from the export pipeline terminus on the west coast of Yemen.

It is Petsec's intention to restart production as early as the political situation makes possible, either by pipeline or trucking or a combination of both.

Above: Damis (Block S-1) Yemen – An Nagyah Oilfield: Wellhead.

Top: Block 7 Yemen: Onshore exploration drilling – Al Meashar oil discovery well.

RESERVES

PETSEC ENERGY GROUP NET RESERVES AS OF 1 JANUARY 2016

Oil Equivalent (Mboe[1])	Net Proved Reserves[3]	Net Probable Reserves[3]	Net Proved and Probable Reserves[3]
USA Reserves[2]			
Reserves as of 1 January 2015	274.7	41.5	316.2
Additions	2,015.7	1,578.2	3,593.9
Revisions	(109.0)	(41.5)	(150.5)
Production	(85.2)	–	(85.2)
USA reserves as of 1 January 2016	**2,096.2**	**1,578.2**	**3,674.4**
Developed	**680.4**	**284.2**	**964.6**
Undeveloped	**1,415.8**	**1,294.0**	**2,709.8**
Yemen Reserves[2]			
Reserves as of 1 January 2015	–	–	–
Acquisitions – An Nagyah Oilfield	4,540.0	1,108.0	5,648.0
Yemen reserves as of 1 January 2016	**4,540.0**	**1,108.0**	**5,648.0**
Developed	**4,540.0**	**1,108.0**	**5,648.0**
Undeveloped	**–**	**–**	**–**
Total Petsec Group Reserves as of 1 January 2016	**6,636.2**	**2,686.2**	**9,322.4**
Developed	**5,220.4**	**1,392.2**	**6,612.6**
Undeveloped	**1,415.8**	**1,294.0**	**2,709.8**

1. Mboe = One thousand barrels of oil equivalent (using a ratio of approximately six thousand cubic feet of natural gas to one barrel of oil).
2. The USA and Yemen reserve assessments presented in the table above and throughout this report are consistent with the announcements released to the ASX on 8 March 2016 and 15 March 2016, respectively. The Company confirms that it is not aware of any new information or data that materially affects the information included in these announcements, and that all the material assumptions and technical parameters underpinning the estimates therein continue to apply and have not materially changed.

   The USA reserves are stated for the Jeanerette, Mystic Bayou and Main Pass Block 270 fields. The Yemen reserves are stated for the An Nagyah Oilfield only.
3. Net reserves means those reserves representing the Company's net revenue interest (or net economic interest) which is the Company's working interest less royalties payable in the USA, and in Yemen after all costs – operational, government taxes and government participation according to the terms of the Participating Agreement with the Yemen government.

To ensure accuracy and compliance of reserves estimations, the Company has put in place a robust process which incorporates the following governance arrangements and internal controls:

- At least once a year, as part of the year-end reporting procedures, the Company's oil and gas reserves are to be reviewed by an external, independent expert. The externally verified reserves are to be used as the basis for depreciation, depletion and amortisation calculations.
- All releases or reports containing statements of reserves are to be in accordance with ASX listing rules, requiring sign-off for content and context by an appropriately qualified person and in accordance with the Company's Reserves Policy.

Opposite: Damis (Block S-1)
Yemen – An Nagyah Oilfield:
Production facilities.

DIRECTORS' AND FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015

The Secretary
Petsec Energy Ltd
PO Box R204
Royal Exchange NSW 1225
61 (2) 9247 4605

The directors present their report together with the Financial Report of Petsec Energy Ltd ("the consolidated entity"), being Petsec Energy Ltd (the Company) and its subsidiaries, for the financial year ended 31 December 2015 and the independent auditor's report thereon.

1. DIRECTORS

The names and particulars of the qualifications and experience of each director during or since the end of the financial year are:

TERRENCE N FERN

Chairman and Managing Director

Mr Fern has been a director since 1987 and has over 40 years of extensive international experience in petroleum and minerals exploration, development and financing. He holds a Bachelor of Science degree from the University of Sydney and has followed careers in both exploration geophysics and natural resource investment. Mr Fern was formerly a director of TSX and ASX listed company Oceana Gold Corporation from 2006 until June 2011.

DAVID A MORTIMER AO

Non-executive Director

Chairman of the Audit Committee and the Nomination and Remuneration Committee

Mr Mortimer was appointed to the Board in 1985 and has over 40 years of corporate finance experience. He was a senior executive of TNT Limited Group from 1973, serving as Finance Director and then as Chief Executive Officer until his resignation in October 1997. He is presently Chairman of Opera Australia, Crescent Capital Partners Limited, Buildcorp Advisory Board, and the Senate Investment and Commercialisation Committee. He is a Director of MySale Group PLC, Clayton Utz Foundation, the Grant Samuel Advisory Board and is on the CEDA's Board of Governors.

Mr Mortimer holds a Bachelor of Economics degree (First Class Honours) from the University of Sydney and is a Fellow of the University of Sydney Senate and the Australian Institute of Company Directors. Mr Mortimer's other roles include Governor of the Australia Israel Chamber of Commerce, and Chairman of the Sydney University Football Club Foundation.

Mr Mortimer was formerly a non-executive director and more recently Chairman of ASX listed company Leighton Holdings Limited from 1997 until August 2011 and Chairman of Australia Post from 2006 to 2012.

ALAN P BADEN

Non-executive Director

Member of the Audit Committee and the Nomination and Remuneration Committee

Mr Baden was appointed to the Board in May 2013 and is a USA citizen, resident in Houston, Texas. He is a senior counsel with the legal firm of Thompson & Knight and has over 35 years of experience in the USA oil and gas industry, with a focus on mergers and acquisitions, public and private financings, and USA capital market activities, representing USA and foreign E&P companies, master limited partnerships and other energy companies. He has been recognised by his peers to be a leading lawyer in oil and gas transactions and in securities and corporate finance.

Mr Baden holds a Juris Doctor Degree from Case Western Reserve University, and a Bachelor of Science (Economics) Degree from the University of Pennsylvania.

MARK S LOBER

Non-executive Director

Member of the Audit Committee and the Nomination and Remuneration Committee

Mr Lober was appointed to the Board in May 2013 and is a USA citizen, resident in Houston, Texas, who brings a wealth of technical and management expertise gained from over 35 years of experience in the USA oil and gas industry, where he was particularly engaged in prospect generation in those areas in which the Company operates for both conventional and unconventional exploration. In the last decade he has been actively involved in shale oil exploration in California, New Mexico, Texas and Louisiana.

Mr Lober holds a Master of Science (Geophysics) Degree from the Boston College and a Bachelor of Science (Geology) Degree from the State of New York at Brockport. Mr Lober is a Certified Professional Petroleum Geologist and a member of the American Association of Petroleum Geologists and the Society of Exploration Geophysicists.

He has held the positions of senior geophysicist, exploration manager and new ventures manager with Amoco Production Company, Standard Oil Production Company (SOHO), Amerada Hess Corporation, Prime Natural Resources, Inc., Meridian Resource Corporation and Caltex Gas Exploration where he is currently developing new resource play opportunities.

2. EXECUTIVE OFFICERS

RICHARD J SMITH

Chief Executive Officer of Petsec Energy Inc. ("PEI")

Mr Smith joined the Company in March 2014 and has over 35 years of experience in a wide variety of senior exploration and production roles predominantly with USA E&P companies including Amerada Hess Corporation, Amoco Production Company, Pedernales Production LLC, Houston Energy LLC, Prime Natural Resources (formerly F-W Oil Interests, Inc.), and F-W Oil Exploration LLC/F-W Oil Trinidad LLC. He holds an impressive record of growing the value of exploration and production companies through successful exploration and acquisitions. His North American experience is predominantly in the Gulf of Mexico, Louisiana and Texas onshore, in conventional and unconventional reservoirs. He also has international exploration experience in West Africa, North Africa, Europe and the Caribbean.

Mr Smith holds a Master of Science (Geology) from the University of Tennessee, Knoxville, Tennessee and a Bachelor of Science (Geology) from SUNY at Brockport, Brockport, New York.

2. EXECUTIVE OFFICERS CONTINUED

ROSS A KEOGH

President of PEI and Group Chief Financial Officer

Mr Keogh joined the Company in 1989 and has over 35 years of experience in the oil and gas industry. Between 1979 and 1989, Mr Keogh worked in the financial accounting and budgeting divisions of Total Oil Company and as Joint Venture Administrator for Bridge Oil Limited in Australia. Mr Keogh holds a Bachelor of Economics degree, with a major in Accounting, from Macquarie University in Sydney. Mr Keogh was appointed Chief Financial Officer in November 1998 until April 2002, and appointed President of PEI in April 2002. Mr Keogh took on the extended role of Group Chief Financial Officer in February 2012, in addition to his current role of President of PEI.

RON KRENZKE

Executive Vice President of Exploration of PEI

Mr Krenzke joined the Company in November 2009 as the Executive Vice President of Exploration of Petsec Energy Inc. Mr Krenzke has over 40 years of experience in the oil and gas exploration and production industry. His career includes experience in many phases of management of oil and gas exploration and production operations. During his early career Mr Krenzke worked in a variety of technical and management positions at major and large independent oil and gas companies including: Mobil Oil, Texas Eastern, Monsanto Oil and Amerada Hess. Since 1990 Mr Krenzke has founded and co-founded three private E&P companies operating in the Gulf Coast region of the USA. Mr Krenzke founded INEXS and South Coast Exploration in 1990, both of which were sold in 1997 to Xplor Energy. In 2000, he co-founded Gryphon Exploration Company, which was ultimately sold to Woodside Petroleum in 2005 for US$285 million. From 2006 through 2009, Mr Krenzke worked with small cap private companies primarily as a business and technical consultant.

Mr Krenzke holds a Bachelor of Science degree in Geophysics from Texas A&M University.

MAKI PETKOVSKI

Chief Executive Officer of Petsec Energy (Middle Eastern) Limited

Mr Petkovski joined the Company in March 2015 as the Chief Executive Officer of Petsec Energy (Middle Eastern) Limited. Mr Petkovski has over 25 years of experience in the international upstream oil and gas business sector and has held various managerial and senior technical roles with large E&P companies including BP, Ampolex Ltd and most recently with Oil Search Ltd where he was responsible for managing Oil Search's MENA portfolio.

Mr Petkovski holds a Bachelor of Science (Geology) degree from the University of Technology, Sydney.

PAUL GAHDMAR

Company Secretary and Group Financial Controller

Mr Gahdmar joined the Company in 1999 as the Financial Accountant of the Petsec Energy Ltd group and has since held a number of management positions within the Company. Mr Gahdmar was appointed as the Company Secretary of Petsec Energy Ltd in 2008 and has over 20 years of experience in corporate accounting and finance in listed companies within the mining and resources industry. Mr Gahdmar holds a Master of Business and Technology degree from The University of New South Wales and a Diploma in Investor Relations from the Australasian Investor Relations Association. Mr Gahdmar is a Fellow of the Institute of Public Accountants and a Member of the Australian Institute of Company Directors.

3. DIRECTORS' MEETINGS

The Board has a formally constituted Audit Committee and a Nomination and Remuneration Committee, of which Mr Mortimer, Mr Baden and Mr Lober (non-executive directors) are members. Mr Mortimer chairs both committees.

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

	Regular Board Meetings	Additional Board Meetings	Audit Committee Meetings	Nomination & Remuneration Committee Meetings
Total number held during the year	**8**	**1**	**4**	**4**
T N Fern[1]	8	1	4	4
D A Mortimer	7	1	3	4
A P Baden	8	1	4	4
M S Lober	7	–	2	2

1 Mr Fern attended the Audit and Nomination & Remuneration Committee meetings as an invitee.

4. REMUNERATION REPORT

The Remuneration Report is set out on pages 23 to 29 and forms part of the Directors' Report for the financial year ended 31 December 2015.

5. PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the course of the year were oil and gas exploration activities and production onshore and coastal waters of the Louisiana Gulf Coast region, and the shallow waters of the Gulf of Mexico, USA and the acquisition of certain oil and gas interests in the MENA region.

There were no other significant changes in the nature of the activities of the consolidated entity during the year.

6. FINANCIAL REVIEW

The consolidated entity incurred a net loss after tax for the twelve months ended 31 December 2015 of US$10.6 million (previous corresponding period: net loss after tax of US$1.1 million) after the recognition of dry hole and impairment expense of US$6.4 million and depreciation, depletion, and amortisation ("DD&A") expense of US$0.5 million.

Petsec Energy generated net oil and gas revenues (after royalties) of US$1.6 million for the twelve months to 31 December 2015, from production of 511 million cubic feet of gas equivalent ("MMcfe") at an average natural gas equivalent sales price of US$3.07/Mcfe. This represents a reduction of 81% on the net oil and gas revenues achieved in the previous corresponding period of US$8.2 million due to the divestiture of the consolidated entity's working interests in the Marathon and Main Pass 270 producing fields in July 2014, coupled with the significant collapse of oil and gas prices since late 2014.

Net production fell 68% to 511 MMcfe (previous corresponding period: 1,612 MMcfe), reflecting the effect of the 2014 asset divestiture. The impact of which was slightly tempered by the full year contribution to production from the Jeanerette Field, which had commenced initial production in June 2014, and the Mystic Bayou discovery well which was brought into production on 31 August 2015.

The consolidated entity realised an average gas equivalent sales price for the current period of US$3.07/Mcfe which was 40% lower than the US$5.08/Mcfe achieved in the previous corresponding period due to the downturn in global oil and USA natural gas prices driven by OPEC oil production levels and strong growth in USA production and inventory levels. The consolidated entity received an average sale price of US$2.60/Mcf and US$39.95/bbl for its natural gas and oil/condensate production, respectively in the current period compared to US$4.68/Mcf and US$101.12/bbl in the previous corresponding period.

Lease operating expense of US$0.6 million (previous corresponding period: US$2.5 million) was lower in the current period, reflecting the reduced size of the consolidated entity's USA operations. Geological, geophysical and administrative ("GG&A") expense of US$5.2 million (previous corresponding period: US$4.4 million) was higher as a result of the increased activities and business expansion in MENA region.

On a unit-basis, lease operating expense was US$1.26/Mcfe (previous corresponding period: US$1.53/Mcfe) and GG&A expense was US$10.12/Mcfe (previous corresponding period: US$2.70/Mcfe).

The consolidated entity recorded negative earnings before interest, income tax, depreciation, depletion and amortisation, and exploration expense ("EBITDAX") of US$3.5 million for the current period. This compares to positive EBITDAX of US$3.4 million for the previous corresponding period.

Consequently, EBITDAX margin was negative US$6.81/Mcfe for the current period (previous corresponding period: positive EBITDAX margin of US$2.10/Mcfe).

Depreciation, depletion and amortisation ("DD&A") expense reduced to US$0.5 million in the current period (previous corresponding period: US$1.8 million) following the divestiture of the Marathon and Main Pass 270 producing fields in 2014.

Financial position

At 31 December 2015, the consolidated entity's cash balance of US$12.8 million was US$19.8 million lower than the previous corresponding period cash balance of US$32.6 million, mainly reflecting payments in relation to Petsec's participation in the eight well exploration programme undertaken in the USA during the year, and its expansion in MENA. The cash deposits which are predominantly held in USA dollars include US$3.7 million primarily held in an escrow account to secure operator bonds that are on issue to the Bureau of Ocean Energy Management ("BOEM").

Corporate

Appointment of new Head of Investor Relations

Mr Manny Anton was appointed to the role of Head of Investor Relations, effective 1 December 2015. The new role is required to attend to the rapid growth of the Company's acquisition, development and production operations in both the USA and MENA.

7. OPERATIONS REVIEW

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

PRODUCTION

Petsec Energy produced 452 million cubic feet of gas and 9,876 barrels of oil/condensate (equivalent to 511 MMcfe) for the twelve months to 31 December 2015, predominantly from the Jeanerette and Mystic Bayou Fields, onshore Louisiana USA.

7. OPERATIONS REVIEW CONTINUED

The Adeline Sugar Factory #4 gas/condensate well on the Jeanerette Field in St. Mary Parish, Louisiana, was shut-in mid-November 2015 due to high water production and a restriction in the tubing due to salt build-up. The well was returned to production in late January 2016 at a gross daily rate of approximately 1.5 MMcfpd and 10 bopd.

The Williams No.2 Alt. gas/condensate discovery well on the Mystic Bayou Field in St. Martin Parish, Louisiana was drilled and commenced initial production on 31 August 2015.

In June 2015, the Main Pass Block 19 Field reached the end of its commercial life and was shut in. Initial decommissioning activities were undertaken in late 2015 and is expected to be completed in late 2016. The total estimated cost to the consolidated entity is approximately US$2.6 million.

2015 Exploration Programme

USA

The Company embarked upon an eight well exploration programme in the USA in 2015, focussing on high impact conventional exploration, in mainly gas/condensate and oil rich areas onshore Gulf Coast Louisiana and shallow Gulf of Mexico, USA. The programme delivered two significant discoveries – the Main Pass Block 270 #3 BP 1 well (Hummer Prospect) and the Williams No. 2 Alt. well (Mystic Bayou Prospect).

Main Pass Block 270 #3 BP 1 well – Hummer Prospect
Petsec: 12.5% working interest (10.24% net revenue interest)

The Main Pass Block 270 #3 BP 1 well was drilled during the second half of 2015 on the highly anticipated Hummer exploration prospect, offshore Louisiana (federal waters), USA in approximately 215 feet of water.

The well encountered the Miocene age sand objectives as anticipated and was mud-line suspended at 14,300 feet TVD/ 14,342 feet MD. The well be completed and production tested after the fabrication and installation of a platform jacket. The net cost of the well to the Company was approximately US$4.3 million through the setting of casing and temporary suspension.

The fabrication, installation, well completion and testing of the well is anticipated to be concluded in mid-2016. The estimated net cost to the Company for the fabrication and installation of the platform jacket is approximately US$1.1 million.

The initial drilling results indicate that Hummer is likely to develop into a material asset for the Company and should contribute to a significant uplift to reserves, production and cash flow.

Williams No.2 Alt. well – Mystic Bayou Prospect
Petsec: 25% working interest (18.5% net revenue interest)

The Williams No. 2 Alt. gas/condensate discovery was drilled on the Mystic Bayou Field in St. Martin Parish, Louisiana to 17,266 feet MD/16,873 feet TVD and brought into production on 31 August 2015.

The well was flow tested in July 2015 at various restricted rates of up to 5.7 MMcfpd and 744 bcpd on a 13/64th inch choke from a Lower Miocene Planulina age sand reservoir. Since then the production rates have increased and current rates are approximately 8 MMcf of gas plus 316 barrels of condensate per day.

In addition to the discovery well, there are several identified development locations within the field that can be drilled to increase reserves and production.

Ruth R. Bravanec, et al #1 well – West Crab Lake Prospect
Petsec: 20% working interest

The Ruth R. Bravanec, et al #1 well on the West Crab Lake Prospect in Cameron Parish, onshore Louisiana, USA was spud on 7 January 2015 and reached its planned true vertical depth of 12,500 feet (12,911 feet measured depth) in late January 2015.

The directional well was drilled to test multiple Lower Miocene age Marg (A) and Discorbis (B) sand reservoirs in a fault closure syncline separated from production in the same sand intervals at the Crab Lake Field. The well intersected the target reservoirs as anticipated, however only a few thin zones were identified on logs as hydrocarbon bearing. These zones were deemed to have insufficient reserves to warrant completion and development, consequently the well was plugged and abandoned. The Company's share of the drilling cost of the well of approximately US$0.6 million has been expensed.

Holcombe #1 well – English Bayou Deep Prospect
Petsec: 27.5% working interest

The Holcombe #1 well on the English Bayou Deep Prospect in Calcasieu Parish, onshore Louisiana was spud on 24 April 2015 and reached the planned total depth of 13,000 feet TVD on 13 May 2015.

The well intersected the target reservoirs as anticipated and well logs indicated that two intervals were hydrocarbon bearing. However, multiple wireline tests were unable to recover formation fluid samples. In addition, side-wall core samples and analyses indicated low permeability within the intervals. Consequently, the zones were deemed too "tight" to produce at commercial rates and the well was plugged and abandoned. The up-front and drilling costs net to the Company of approximately US$1.6 million has been expensed.

Exxon Mobil Corporation 001 well – Bayou St. Charles Prospect
Petsec: 15% working interest

The Exxon Mobil Corporation 001 well on the Bayou St. Charles Prospect in Terrebonne Parish, Louisiana was spud on 19 July 2015. The well was drilled to a TVD of 14,001 feet (14,504 feet MD) to test Middle Miocene age Tex (W) "II" sand reservoirs in a stratigraphic trap with and associated amplitude and AVO anomaly.

The well encountered the object sand structurally as anticipated, but oil and gas shows encountered in the objective sand on the mud logs proved to be non-commercial. The net exploration cost of the well to the Company of approximately US$1.1 million has been expensed.

Simon Family ET AL No. 001 well – North Cossinade Prospect
Petsec: 25% working interest

In August 2015, the Simon Family ET AL No. 001 well was drilled on the North Cossinade prospect in Vermilion Parish, approximately 20 miles SW of Lafayette, Louisiana. The well was drilled directionally to a TVD of 11,560 feet (11,723 feet MD) to test multiple Lower Miocene age "Alliance" sand reservoirs in a fault closure up-dip of two previously drilled wells which have oil and gas shows. The well encountered the object sands approximately 40 feet structurally up-dip to the "show" wells as anticipated. Well logs indicated two of the target reservoirs were either very thin or shaled out on the crest of the structure. Several thin intervals of hydrocarbons were calculated from well logs. However, the zones were deemed to have insufficient pay thickness to produce commercial volumes and the well will be plugged and abandoned. The Company's net share of the cost of the well of approximately US$0.5 million has been expensed.

Rauser ET AL No.1 – Northeast Starks Prospect
Petsec: 45% working interest

The Rauser ET AL #1 well was spud on 6 September 2015 to test the Northeast Starks prospect in Calcasieu Parish, Louisiana. The well was drilled to a TVD of 9,204 feet to test Oligocene age Hackberry sands associated with a seismic amplitude and AVO anomaly.

The well encountered the objective sands structurally as anticipated, but the sands were non-productive. The net exploration cost of the well to the Company of approximately US$0.8 million has been expensed.

Levert - St. John Farms, Inc. No. 1 well – St. Johns Bayou Prospect
Petsec Operator: 17.5% working interest

The Levert – St. John Farms, Inc. No.1 well was spud on 16 September 2015 on the St. John Bayou prospect located in St. Martin Parish, Louisiana. The well was drilled to 14,175 feet MD (12,950 feet TVD) to test Oligocene age Fuselier, Foti, Marg Howeii, Camerina and Marg Tex sand reservoirs in a fault closure syncline separated from production in the Northeast flank of St. Martinville salt dome. The objective sands were encountered as anticipated structurally, but were non-productive. The net exploration cost of the well to the Company of approximately US$1.2 million has been expensed.

MENA

In 2014, Petsec Energy decided that it required exposure to substantial oil reserves to augment the exploration strategy in the USA The Middle East and North African ("MENA") region, and in particular Yemen, was identified as an area that contained leases with substantial oil potential that could be acquired at moderate entry prices and have the potential to deliver material value to shareholders.

Appointment of new CEO of Petsec Energy (Middle Eastern) Limited

Petsec Energy's expansion into the MENA region is led by Mr Maki Petkovski, who was appointed as Chief Executive Officer of Petsec Energy (Middle Eastern) Limited in April 2015. Mr Petkovski is an experienced geologist with over 25 years' experience in the international upstream oil and gas business sector, most recently acquiring and managing a portfolio of assets in the MENA Region.

Establishment of new branch office in Dubai, United Arab Emirates

The Company has established an office in Dubai, United Arab Emirates, located at 2908 Indigo Icon Tower, Jumeirah Lakes Towers. This office will be the central business hub for the Company's MENA operations.

Block 7, Al Barqa Permit, Republic of Yemen

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 capital of Yemen. The block contains the Al Meashar oil discovery as well as an inventory of leads and prospects defined by 2D and 3D seismic surveys, which hold significant oil potential.

Petsec Energy had executed agreements in 2014 to acquire a combined 29.75% participating interest in the Block 7. These transactions were concluded and announced to the Australian Stock Exchange on 30 September 2015.

The Company also executed an agreement with Oil Search Limited (ASX: OSH) in April 2015 to acquire its 34% participating interest in Block 7. The acquisition which involves acquiring all the shares of its subsidiary, Oil Search (ROY) Limited, will increase Petsec Energy's overall participating interest in the block to 63.75%. On completion of the transaction, Petsec Energy will assume operatorship of the block.

The Company is committed to bring the two suspended discovery wells of the Al Meashar Oilfield into production. In 2011, short-term testing of the wells delivered flow rates ranging from 200 to 1,000 bopd. Analysis of this data suggests that stable production rates will be achievable over a longer production period.

8. OBJECTIVES, STRATEGY AND FUTURE PERFORMANCE

It is the consolidated entity's objective to increase the value of the Company and thus shareholder value through successful oil and gas exploration, development, and production, and through acquisitions. The consolidated entity intends to produce its current reserves, pursue participation in high quality, high impact exploration drilling opportunities in the Gulf Coast onshore Louisiana and offshore Gulf of Mexico, USA. The consolidated entity also intends to explore opportunities to acquire onshore producing oil and gas reserves in MENA which hold significant development, exploitation potential.

The consolidated entity's strategy takes into account the expected operating and market conditions, together with general economic conditions, which are inherently uncertain. The consolidated entity has structured and proactive risk management and internal control systems in place to manage material risks. Certain of those risks are inherent to the consolidated entity's business, such as drilling for, producing and marketing oil and gas. Although the consolidated entity is committed to minimising its risk exposure, many risks are largely beyond the control of the consolidated entity and its directors. Moreover, other more general risks associated with the vicissitudes of commercial life, political change, and cyclical economic conditions are risks that the consolidated entity cannot control.

8. OBJECTIVES, STRATEGY AND FUTURE PERFORMANCE CONTINUED

The following are those risks which management and the Board consider to be material business risks that could adversely affect the achievement of the financial prospects of the Company discussed above:

DRILLING AND PRODUCTION RISKS

Drilling for oil and natural gas is subject to numerous risks. Paramount is the risk that drilling operations will not result in the discovery of commercially productive oil or natural gas reservoirs. Also, projects are subject to economic risks. Before beginning a drilling project, the Company can only estimate the cost of drilling and completing wells as many undeterminable factors can affect the total cost. For example, oil and natural gas drilling and production activities may be extended, shortened, delayed or cancelled as a result of a variety of factors, many of which are beyond the Company's control. These risks may negatively impact the economics of drilling projects. In part, these factors include:

- Unexpected drilling conditions including abnormal geological pressure or irregularities in formations;
- Equipment failures or accidents;
- Weather conditions, including hurricanes and other tropical weather disturbances;
- Shortages in experienced labour;
- Shortages, delays in the delivery, or high cost of drilling rigs and equipment;
- Constraints on access to transportation systems (pipelines) delaying sale of oil and natural gas;
- Reduction or losses of resources or reserves;
- Acquiring and maintaining title to its interests;
- Unresolved landowner or regulatory issues; and
- Inability of third-party joint venture partners to participate in or fund their share of drilling and production activities.

OPERATING RISKS

The exploration for and development and production of oil and natural gas involves a variety of industry operating risks. If any of these industry-operating risks occur, the Company could have substantial losses. Substantial losses could include injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. These risks include:

- Fire, explosions, blowouts and surface cratering;
- Lost or damaged oilfield drilling pipe and service tools;
- Casing or cement failures;
- Environmental hazards caused by oil spills, natural gas leaks, pipeline ruptures or discharges of toxic gases; and
- Hazards of marine operations such as capsizing, collision and adverse weather and sea conditions.

MARKETING AND SALES RISKS

The marketing and sale of oil and natural gas is subject to the risk of adverse commodity price fluctuations that impact cash flow. Some factors that affect commodity prices include:

- Relatively minor changes in the supply of and demand for oil and natural gas;
- Market uncertainty;
- The level of consumer product demand;
- Weather conditions;
- Domestic and foreign governmental regulations;
- The price and availability of alternative fuels;
- Technological advances affecting oil and natural gas consumption;
- Political and economic conditions in oil producing countries, particularly those in the Middle East;
- Policies of the Australian, USA and Yemen governments;
- The foreign supply of oil and natural gas;
- The price of oil and natural gas imports; and
- General economic conditions.

To reduce the impact of price fluctuations, from time to time, the Company has used derivative financial instruments, such as natural gas swaps, puts and costless collars, on a portion of its future production. However, such hedging activities may not be sufficient to protect the Company against the risk of price declines and may limit income and liquidity if prices rise.

- Hedging activities that are intended to reduce the risk of downward price fluctuations on a portion of our future production may limit the Company's potential income if oil and gas prices rise above a level established by its hedge instruments.
- Hedging counterparties require collateral when the mark-to-market value of our hedge instruments is in the counterparties' favour and exceeds the Company's credit limits with such counterparties. As a result, the Company may be required to provide substantial security to the counterparties when commodity prices change significantly. The security provided may be in the form of cash or letters of credit, and thus, could have a significant impact on the Company's liquidity.

EXCHANGE RATE RISKS

Adverse exchange rate variations between the USA dollar and the Australian dollar may impact upon cash balances held in Australian dollars. Since most of the Company's operations are conducted in USA dollars, the Company generally maintains a substantial portion of its cash balances in USA dollar accounts. Occasionally, however, it may have substantial cash deposits in Australian dollar accounts. Until these funds are converted into USA dollars, the USA dollar value of the deposits will change as the exchange rate between the two currencies fluctuates.

OTHER RISKS

Other factors can impact the environment in which the Company operates and thus can affect its ability to perform as desired. Such factors include:

- Changes in legislation and Government regulation both in the USA and in other countries in which the Company operates.
- Political and societal risks from wars, social and ethnic unrest, changes in government and insurgencies in the districts, regions and countries in which the Company operates;
- Environmental risks from existing and new regulations and standards being applied in the jurisdictions in which the Company operates;
- General economic conditions in the USA and Australia; and
- Stock market conditions in Australia.

9. DIVIDENDS

Directors do not recommend the payment of a dividend for the financial year ended 31 December 2015. No dividends were paid during the financial year.

10. SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes to the state of affairs of Petsec Energy during the financial year, other than those detailed in the "Financial review" and "Operations review" sections of this report.

11. ENVIRONMENTAL REGULATION

The consolidated entity's oil and gas exploration and production activities are subject to significant environmental regulation under USA Federal and State legislation.

The consolidated entity is committed to achieving a high standard of environmental performance and compliance with all lease conditions. Directors are not aware of any breach of environmental compliance requirements relating to the consolidated entity's activities during the year.

12. LIKELY DEVELOPMENTS

The consolidated entity's focus in 2016 will be:

- USA – on the optimisation of production from the Mystic Bayou Field, with emphasis on evaluation and planning for future development drilling and the completion and testing of the initial well in the Hummer project.
- MENA – subject to the lifting of Force Majeure, delivering production from its assets in the region, with an emphasis on optimising costs and delivering projects that will ensure profitable operations. The consolidated entity will continue to focus on reviewing assets of high value that include discovered reserves for possible acquisition as a part of its strategic portfolio build, and will work with the Yemen Government to secure approval of the Oil Search transaction and to secure approvals for production testing of the Al Meashar oil discovery on Block 7.

In view of the current macro environment and oil and gas price headwinds, additional focus will be applied to reducing costs across all of the geographic segments.

13. DIRECTORS' INTERESTS

The relevant interest of each director in the shares or options over such instruments issued by the Company, as notified by the directors to the Australian Securities Exchange in accordance with S205G (1) of the *Corporations Act 2001*, at the date of this report is as follows:

Director	Ordinary Shares	Options over Ordinary Shares
T N Fern	30,826,876	Nil
D A Mortimer	9,326,550	Nil
A P Baden	Nil	Nil
M S Lober	Nil	Nil

14. SHARE OPTIONS

OPTIONS GRANTED TO DIRECTORS AND OFFICERS OF THE COMPANY

During or since the end of the financial year, no grants of options were made to directors or key management personnel of the Company as part of their remuneration.

As at 31 December 2015, there were no options over ordinary shares in Petsec Energy Ltd on issue. During the year, no options were granted or exercised, and 30,000 options were forfeited.

During or since the end of the financial year, no ordinary shares have been issued by the Company as result of the exercise of options.

15. INDEMNIFICATION AND INSURANCE OF OFFICERS

During the year ended 31 December 2015, the Company maintained policies of insurance in respect of directors and officers liability. The policies insure persons who are directors or officers of the Company and its controlled entities against certain costs and expenses which may be incurred by them in defending proceedings and against other liabilities which may arise from their positions. The insured directors and officers are the directors, executive officers and secretaries of the Company and the directors, executive officers and secretaries of controlled entities.

The insurance contracts prohibit the disclosure of particulars of the premiums and the nature of the liabilities insured.

The Company has entered into Deeds of Indemnity and Access with directors on the terms approved by shareholders. The agreements stipulate that the Company will meet the full amount of any liabilities to another person that might arise from their position (except where the liability arises out of conduct involving a lack of good faith).

The Company has made during or since the end of the financial year no payments in relation to indemnification. The Company provides the normal indemnities to directors and officers in relation to the work carried out on behalf of or at the request of the Company.

16. NON-AUDIT SERVICES

During the year KPMG, the Company's auditor, has not performed certain other services in addition to their statutory duties.

16. NON-AUDIT SERVICES CONTINUED

The Board considers the non-audit services provided during the year by the auditor and in accordance with advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out in Note 9 of the accompanying Financial Statements.

17. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead Auditor's Independence Declaration is set out on page 30 and forms part of the Directors' Report for the financial year ended 31 December 2015.

18. ROUNDING OFF

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 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.

19. EVENTS SUBSEQUENT TO BALANCE DATE

On 5 February 2016, the Company announced to the Australian Stock Exchange that it had significantly expanded its oil and gas interests in the Republic of Yemen with the acquisition of entities holding the entire 100% participating interest and operatorship of the Damis (Block S-1) Production Licence.

The Damis (Block S-1) Production Licence holds five sizeable oil and gas discoveries including the developed and producing, until suspended in 2014, An Nagyah Oilfield, and four undeveloped oil and gas fields within the licence area: Osaylan, An Naeem, Wadi Bayhan and Harmel.

The newly acquired Damis (Block S-1) Production Licence, which continues the Company's stated policy of acquiring developed and undeveloped oil reserves in the MENA region, is located approximately 80 kilometres to the southwest of the Company's Block 7 in the Sab'atayn Basin, in central West Yemen.

The Company's purchase of the Damis (Block S-1) Production Licence was achieved through the acquisition by the Company's wholly owned subsidiary, Petsec Energy (Middle Eastern) Limited, of all the shares of Yemen (Block S-1) Inc., a wholly owned subsidiary of Occidental Petroleum Corporation (NYSE: OXY), and the operator of Damis (Block S-1) holding a 75% participating interest. Separately, Petsec Energy (Middle Eastern) Limited acquired all of the shares of TG West Yemen Inc., a wholly owned subsidiary of TransGlobe Energy Corporation (TSE: TGL), which holds a 25% participating interest.

The acquisition consideration is comprised of a base cash payment of US$0.7 million plus trailing payments, subject to the recommencement of production and other conditions precedent. The block is currently subject to Force Majeure due to the current political issues in Yemen and consequent inability to ship oil from the West coast of Yemen, at the export pipeline terminus for the An Nagyah Oilfield.

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

This report is made with a resolution of the directors:

TN Fern
Director

Sydney, 23 February 2016

20. REMUNERATION REPORT – AUDITED

20.1 INTRODUCTION

This Remuneration Report forms part of the Directors' Report. It outlines the overall remuneration strategy, framework and practices adopted by the Company and the consolidated entity ("Petsec Energy Group") for the year ended 31 December 2015 and has been prepared in accordance with Section 300A of the *Corporations Act 2001* and its regulations.

In accordance with the *Corporations Act 2001*, remuneration details are disclosed for the Petsec Energy Group's Key Management Personnel.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Petsec Energy Group. Key management personnel comprise the directors of the Company and senior executives of the Petsec Energy Group, whose names appear in the tables in section 20.5 of this report.

20.2 EXECUTIVE SUMMARY

The Board's remuneration policy is to provide fair and market competitive levels of remuneration for all employees, including directors and key management personnel in order for the Company and the Petsec Energy Group to benefit by attracting and retaining a high quality team.

The Company has a Nomination and Remuneration Committee to assist the Board in the implementation and administration of the remuneration policy – refer to *section 20.3*, below.

The key developments during the year in the implementation and administration of the remuneration policy included:

20.2.1 The annual review of key management personnel performance.

20.2.2 Annual review of the Nomination & Remuneration Committee Charter.

20.3 NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee oversees the appointment and induction process for directors and committee members, and the selection, appointment and succession planning process of the Company's Chief Executive Officer. The Committee makes recommendations to the Board on the appropriate skill mix, personal qualities, expertise and diversity of each position. When a vacancy exists or there is a need for particular skills, the Committee in consultation with the Board determines the selection criteria based on the skills deemed necessary.

The Committee reviews and makes recommendations to the Board on compensation packages and policies applicable to the executive officers and directors of the Petsec Energy Group. It is also responsible for oversight of diversity, employee share and option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies, deeds of access and indemnity, and professional indemnity and liability insurance policies.

Executive compensation and other terms of employment are reviewed annually by the Nomination and Remuneration Committee having regard to performance against goals set at the start of the year, relevant corporate information and where appropriate independent expert advice.

The Nomination and Remuneration Committee comprised the following members during the year:

- D A Mortimer (Chairman) – Independent Non-executive Director
- A P Baden – Independent Non-executive Director
- M S Lober – Independent Non-executive Director

The Board policy is that the Nomination and Remuneration Committee will comprise a majority of non-executive directors and a non-executive chairman.

The Nomination and Remuneration Committee meets at least twice a year and as required. The Committee met four times during the year and the Committee members' attendance record is disclosed in the table of directors' meetings.

The Nomination and Remuneration Committee's Charter is available on the Company's website www.petsec.com.au.

20.4 PRINCIPLES OF COMPENSATION

Compensation levels for key management personnel are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The Nomination and Remuneration Committee obtains peer comparisons and/or independent advice on the appropriateness of compensation packages of the Petsec Energy Group, given trends in comparative companies both locally and internationally and the objectives of the Company's compensation strategy.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of the Company's objectives, and achieve the broader outcome of creation of value for shareholders.

The compensation structures take into account:

- the capability and experience of the key management personnel; and
- the ability of key management personnel to control the relevant performance of their segment of operation.

Compensation packages include a mix of fixed compensation and performance-based incentives, including equity-based incentives as set out below.

In addition to their salaries, the Petsec Energy Group also provides non-cash benefits to its key management personnel as set out below, and contributes to several post-employment defined contribution superannuation plans in Australia and also matches contributions made by USA based key management personnel to a voluntary savings plan under Section 401(k) of the USA tax code.

Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits), as well as employer contributions to superannuation funds in Australia

20. REMUNERATION REPORT – AUDITED CONTINUED

and employer matching contributions to voluntary savings plans under Section 401(k) of the USA tax code. Non-cash benefits comprise employer payments towards USA health, dental and vision plans, as well as life and salary continuance insurance benefits.

The Nomination and Remuneration Committee reviews compensation levels and other terms of employment annually through a process that considers individual, segment and overall performance of the Company against goals set at the start of the year. In addition, where necessary, external consultants provide analysis and advice to ensure the directors' and senior executives' compensation is competitive in the market place.

Performance-linked compensation

Performance-linked compensation includes both short-term and long-term incentives and is designed to reward key management personnel for meeting or exceeding the Company's financial objectives and agreed individual objectives. The short-term incentive (STI) is an "at risk" bonus provided in the form of cash or ordinary shares in the Company, while the long-term incentive (LTI) is provided as either shares or options over ordinary shares of the Company under the rules of the Employee Share and Option Plans approved by shareholders at the Annual General Meeting held on 22 May 2013 (see note 19(b) to financial statements). The maximum number of securities in aggregate that may be issued under the Employee Share and Option Plans is 15,033,435.

Short-term incentive

Short-term incentives are provided to key management personnel through bonuses and the Company's Nomination and Remuneration Committee has the right to grant discretionary bonuses. Factors considered by the Committee when granting discretionary bonuses include personal performance, the achievement of strategic objectives, and the retention and motivation of employees.

During the year, the Company awarded discretionary bonuses to certain key management personnel in part as recognition of their personal efforts, and in part to encourage exemplary performance.

Long-term incentive

Key management personnel are also provided with long-term incentives through participation in the Company's Employee Share and Option Plans, subject to the approval of the Committee. Key management personnel are typically offered options on an annual basis with the exercise price of the shares or options based on the weighted average market price of the Company's ordinary shares for the five trading days preceding the date of issue, subject to a minimum exercise price of 20 cents.

During the year, the Company issued 2,500,000 shares under its shareholder approved Employee Share Plan ("ESP") to Mr Petkovski as long-term incentive compensation (see note 20.7 of the Remuneration Report). The shares were issued to the Trustee of the ESP on behalf of Mr Petkovski and under the terms of the ESP at a price of A$0.20 per share, being the minimum issue price under the terms of the ESP. The funds for the shares was provided to Mr Petkovski through an interest free limited recourse loan under the terms of the loan scheme under the ESP, which provides that if the borrower defaults on the loan the Company shall accept the shares issued under the ESP in full satisfaction of the loan.

The shares will vest as follows:

(i) 500,000 shares on 24 June 2016 at a minimum share price of A$0.25

(ii) A further 500,000 shares on 24 June 2017 at a minimum share price of A$0.30

(iii) A further 500,000 shares on 24 June 2018 at a minimum share price of A$0.35

(iv) A further 500,000 shares on 24 June 2019 at a minimum share price of A$0.40

(v) A further 500,000 shares on 24 June 2020 at a minimum share price of $0.45

Consequences of performance on shareholder wealth

In considering the Group's performance and benefits for shareholder wealth, the remuneration committee have regard to the following indices in respect of the current financial year and the previous four financial years.

	2015	2014	2013	2012	2011
Profit/(loss) attributable to owners of the company	**($10,605,000)**	($1,048,000)	($15,210,000)	($5,858,000)	$14,034,000
Dividend paid	**–**	–	–	–	–
Change in share price	**($0.037)**	$0.025	($0.09)	$0.06	($0.04)

Net profit/(loss) amounts for 2011 to 2015 have been calculated in accordance with Australian Accounting Standards (AASBs).

Service and employment agreements

Remuneration and other terms of engagement of executive employees are formalised in service agreements that are unlimited in term but capable of termination by varying periods of notice or by payment of an amount in lieu of notice. The service agreements generally outline the components of compensation paid, but do not prescribe how compensation levels are modified from year-to-year. Compensation levels are reviewed each year in light of cost-of-living changes, performance of and changes in the scope of the role performed by the executive and changes required to meet the principles of the compensation policy.

The Managing Director, Mr Fern, is engaged via a company of which Mr Fern is a director. The Company may terminate this agreement without cause by giving not less than twelve months' notice or pay an amount equal to the fees for twelve months in lieu of notice. Mr Fern may terminate the agreement with not less than six months' notice. In the event of a breach of the agreement by the Company, Mr Fern may terminate the agreement by giving one month's notice and would be entitled to a payment equal to fees for a twelve-month period.

The Chief Executive Officer of Petsec Energy (Middle Eastern) Limited, Mr Petkovski, Chief Executive Officer of Petsec Energy Inc., Mr Smith, President of Petsec Energy Inc., Mr Keogh, and Executive Vice President of Exploration of Petsec Energy Inc., Mr Krenzke ("the senior executives") all have employment agreements that are capable of termination without cause by the company by a lump sum payment equal to one times their annual Base Salary. The senior executives may terminate the agreement without cause by giving the company at least 120 days' notice in writing. In the event of a breach of the agreement by the Company, the senior executives may terminate their agreement by giving 30 days' notice and would be entitled to receive a lump sum payment equal to one times their annual base salary at that time.

Other executives have service agreements which are capable of termination by the Company without cause by the payment of between one and three months' notice, or are "at-will" employment contracts entered into in the USA where either party may terminate the employment relationship at any time and for any reason without any further liability, except as required by law.

Non-executive directors

Directors' fees are set having regard to periodic advice from external remuneration consultants, market surveys and the level of fees paid relative to those of other comparable companies. Directors' fees for the 2015 year were unchanged from the 2014 year and comprise base fees, plus statutory superannuation for Australian directors. Directors are also entitled to reasonable travel, accommodation and other expenses incurred in attending meetings or while engaged on Company business.

Non-executive directors do not receive performance-related compensation. Directors' fees cover all main Board activities and membership of committees and are subject to the aggregate limit of A$300,000 approved by shareholders at the 1996 Annual General Meeting.

Non-executive directors appointed prior to 2003 are entitled to receive a retirement benefit equivalent to the remuneration received in the three years prior to retirement. Incoming non-executive directors are not entitled to retirement benefits.

20. REMUNERATION REPORT – AUDITED CONTINUED

20.5 DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION REPORT

Details of the nature and amount of remuneration for the key management personnel consisting of each director and executive officer of the Company and the consolidated entity are:

		Short-term benefits				Post-employment benefits		Share-based payment			
		Salary & fees US$	Short-term incentive/ retention cash bonus US$	Other benefits US$	Service agreements US$	Super-annuation benefits US$	Termination benefits US$	Accounting fair value US$	Total US$	Proportion of remuneration performance related %	Accounting fair value as proportion of remuneration %
Directors[1]											
Executive											
T N Fern[1] Chairman, Managing Director *(Note 1)*	**2015**	**–**	**–**	**42,061**	**541,224**	**–**	**–**	**–**	**583,285**	**–**	**–**
	2014	–	–	49,329	646,632	–	–	48	696,009	–	–
Non-executive											
D A Mortimer[1] Director	**2015**	**48,860**	**–**	**–**	**–**	**4,642**	**–**	**–**	**53,502**	**–**	**–**
	2014	58,377	–	–	–	5,473	–	–	63,850	–	–
A P Baden Director	**2015**	**50,000**	**–**	**–**	**–**	**–**	**–**	**–**	**50,000**	**–**	**–**
	2014	50,000	–	–	–	–	–		50,000	–	–
M S Lober Director	**2015**	**50,000**	**–**	**–**	**–**	**–**	**–**	**–**	**50,000**	**–**	**–**
	2014	50,000	–	–	–	–	–		50,000	–	–
Total directors remuneration	**2015**	**148,860**	**–**	**42,061**	**541,224**	**4,642**	**–**	**–**	**736,787**	**–**	**–**
	2014	158,377	–	49,329	646,632	5,473	–	48	859,859	–	–

1 Australian-based directors' remuneration amounts are actually paid in Australian dollars and presented in US dollars at the following average FX rates i) 2015 – 0.7517 ii) 2014 – 0.8981

Details of the nature and amount of remuneration for the key management personnel consisting of each director of the Company and executive officer of the Company and the consolidated entity are:

		Short-term benefits				Post-employment benefits		Share-based payment			
		Salary & fees US$ *Note 3*	Short-term incentive/ retention cash bonus[2] US$ *Note 4*	Other benefits US$ *Note 5*	Service agreements US$	Super-annuation/ 401K benefits US$	Termination benefits US$	Accounting fair value US$ *Note 6*	Total US$	Proportion of remuneration performance related %	Accounting fair value as proportion of remuneration %
Executives											
R J Smith Chief Executive Officer of Petsec Energy Inc. (PEI) (appointed 3 March 2014)	**2015**	**310,000**	**–**	**32,884**	**–**	**13,250**	**–**	**–**	**356,134**	**–**	**–**
	2014	241,677	70,000	23,047	–	7,250	–	–	341,974	20.5	–
R A Keogh President, PEI and Group Chief Financial Officer	**2015**	**295,000**	**–**	**31,521**	**–**	**13,250**	**–**	**–**	**339,771**	**–**	**–**
	2014	280,000	70,000	29,195	–	13,000	–	–	392,195	17.8	–
R Krenzke Executive Vice President Exploration, PEI	**2015**	**290,000**	**–**	**36,792**	**–**	**13,250**	**–**	**–**	**340,042**	**–**	**–**
	2014	280,000	70,000	33,997	–	13,000	–	–	396,997	17.6	–
M Petkovski[1] Chief Executive Officer of Petsec Energy (Middle Eastern) Limited (appointed 16 March 2015) *(Note 2)*	**2015**	**–**	**84,566**	**96,985**	**208,452**	**–**	**–**	**11,085**	**401,088**	**21.1**	**2.8**
	2014	–	–	–	–	–	–	–	–	–	–
P Gahdmar[1] Company Secretary, Group Financial Controller	**2015**	**147,686**	**–**	**7,486**	**–**	**14,030**	**–**	**15**	**169,217**	**–**	**–**
	2014	151,320	25,596	8,419	–	14,194	–	6,352	205,881	–	3.1
Total executive remuneration	**2015**	**1,042,686**	**84,566**	**205,668**	**208,452**	**53,780**	**–**	**11,100**	**1,606,252**	**5.3**	**0.7**
	2014	952,997	235,596	94,658	–	47,444	–	6,352	1,337,047	17.6	0.5
Total directors and executive officer remuneration	**2015**	**1,191,546**	**84,566**	**247,729**	**749,676**	**58,422**	**–**	**11,100**	**2,343,039**	**3.6**	**0.5**
	2014	1,111,374	235,596	143,987	646,632	52,917	–	6,400	2,196,906	10.7	0.3

1 Australian-based executive officers' remuneration amounts are actually paid in Australian dollars and presented in US dollars at the following average FX rates i) 2015 – 0.7517 ii) 2014 – 0.8981.

2 2015 short-term incentive bonus amounts have been accrued in respect of the 2015 financial year and will be paid in 2016. Bonuses accrued in respect of the 2014 year were paid in 2015.

Notes

1) Included in service agreements above is an amount of US$541,224 (2014: US$646,632) which was paid or is payable to, a company of which Mr Fern is a director.

   During the year, a company of which Mr Fern is a director provided management services to the Company and its controlled entities. The dealings were in the ordinary course of business and on normal terms and conditions.

2) Mr Petkovski was appointed to the role of Chief Executive Officer of the Company's MENA subsidiary, Petsec Energy (Middle Eastern) Limited on 16 March 2015.

   Included in service agreements above is an amount of US$208,452 (2014: nil) which was paid, or is payable to a company of which Mr Fern is a director and through which Mr Petkovski provided services.

3) Salary and fees for certain specified executives includes the movement during the reporting period of accruals for annual leave and long service leave.

4) Short-term incentive/retention cash bonuses represent discretionary bonus amounts granted based on a number of factors including personal performance, the achievement of strategic objectives, retention and motivation of employees.

5) Other benefits represent amounts paid on behalf of the Managing Director and Executive Officers in respect of insurance, car parking, fringe benefits and sign-on bonuses.

6) The fair value of options and shares is calculated at the date of the grant using the Black-Scholes model and allocated to each reporting period over the period from grant date to vesting date.

20. REMUNERATION REPORT – AUDITED CONTINUED

No termination benefits were paid to key management personnel for the year ended 31 December 2015 (2014: Nil).

The following table sets out the factors and assumptions used in determining the fair value of the options issued to the above individuals.

Grant date	Expiry date	Average fair value per option	Exercise price	Price of shares on grant date	Estimated volatility	Risk-free interest rate	Dividend yield
26/3/12	26/3/17	A$0.116	A$0.20	A$0.235	75.7%	3.56%	–
26/6/15	24/6/21	A$0.006	A$0.20	A$0.10	67.0%	2.06%	–

20.6 ANALYSIS OF SHORT-TERM INCENTIVE/RETENTION CASH BONUSES INCLUDED IN REMUNERATION

Amounts included in remuneration for the financial year, within the table included in note 20.5 of this Directors' Report, represent the amount that vested in the financial year based on a number of factors including achievement of personal goals, satisfaction of specified performance criteria, retention and motivation of employees.

No amounts vest in future financial years in respect of the bonus schemes for the 2015 year.

No amounts were forfeited due to the performance or service criteria not being met in relation to the current financial year.

20.7 EQUITY INSTRUMENTS

Options over equity instruments granted as compensation

All options refer to options over ordinary shares of Petsec Energy Ltd, which are exercisable on a one-for-one basis under the Employee Option Plan.

During 2015, no options over ordinary shares in Petsec Energy Ltd were granted as compensation to key management personnel (2014: nil) and no options vested.

The movement during the reporting period in the number of options over ordinary shares in Petsec Energy Ltd held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 January 2015	Granted as compensation	Exercised	Other changes[1]	Held at 31 December 2015	Vested during the year	Vested and exercisable at 31 December 2015
Directors							
T Fern	–	–	–	–	–	–	–
Executives							
R Smith	–	–	–	–	–	–	–
R Keogh	–	–	–	–	–	–	–
R Krenzke	–	–	–	–	–	–	–
M Petkovski[2]	–	–	–	–	–	–	–
P Gahdmar	–	–	–	–	–	–	–

	Held at 1 January 2014	Granted as compensation	Exercised	Other changes[1]	Held at 31 December 2014	Vested during the year	Vested and exercisable at 31 December 2014
Directors							
T Fern	–	–	–	–	–	–	–
Executives							
R Smith	–	–	–	–	–	–	–
R Keogh	–	–	–	–	–	–	–
R Krenzke	–	–		–	–	–	–
P Gahdmar	200,000	–	–	(200,000)	–	–	–

1 Other changes represent options that expired or were forfeited during the year.

2 Mr Petkovski was appointed as the Chief Executive Office of the Company's MENA subsidiary, Petsec Energy (Middle Eastern) Limited on 16 March 2015.

Key management personnel related parties held no options.

Movements in shares

The movement during the reporting period in the number of ordinary shares in Petsec Energy Ltd held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 January 2015	Granted as compensation	Purchases	Received on exercise of options	Sales/ Disposal of relevant interest	Held at 31 December 2015
Directors						
T Fern	30,826,876	–	–	–	–	30,826,876
D Mortimer	9,326,550	–	–	–	–	9,326,550
A Baden	–	–	–	–	–	–
M Lober	–	–	–	–	–	–
Executives						
R Smith	–	–	–	–	–	–
R Keogh	3,612,500	–	–	–	–	3,612,500
R Krenzke	2,250,000	–	–	–	–	2,250,000
M Petkovski	–	2,500,000	1,130,000			3,630,000
P Gahdmar	750,000	–	–	–	–	750,000

	Held at 1 January 2014	Granted as compensation	Purchases	Received on exercise of options	Sales/ Disposal of relevant interest	Held at 31 December 2014
Directors						
T Fern	30,826,876	–	–	–	–	30,826,876
D Mortimer	9,326,550	–	–	–	–	9,326,550
A Baden						
M Lober						
Executives						
R Smith	–	–	–	–	–	–
R Keogh	3,612,500	–	–	–	–	3,612,500
R Krenzke	2,250,000	–	–	–	–	2,250,000
P Gahdmar	550,000	–	200,000	–	–	750,000

No options have been granted or exercised since the end of the financial year through the date of this report.

Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share-based payment transactions (including options granted as compensation to key management personnel) have been altered or modified by the issuing entity during the reporting period or the prior period.

Exercise of options granted as compensation

No shares were issued, during the reporting period, on the exercise of options previously granted as compensation to key management personnel (previous corresponding period: Nil).

Analysis of Movement in Options

During the reporting period, no options were granted to or exercised by key management personnel (previous corresponding period: Nil).

AUDITOR'S INDEPENDENCE DECLARATION

KPMG

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

To: the directors of Petsec Energy Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2015 there have been:

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

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

KPMG

KPMG

Daniel Camilleri
Partner

Sydney, 23 February 2016

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Note	2015 US$'000	2014 US$'000
Revenues from sale of oil & gas		**1,613**	8,692
Royalties paid		**(43)**	(501)
Net revenues after royalties		**1,570**	8,191
Other income/(expenses)	5	**764**	2,021
Lease operating expenses		**(643)**	(2,459)
Geological, geophysical and administrative expenses		**(5,173)**	(4,364)
Depreciation, depletion, and amortisation		**(538)**	(1,817)
Exploration and work-over expense		**(5)**	(54)
Dry hole and impairment expense	7	**(6,398)**	(2,965)
Derivative gains/(losses)	8	**–**	(34)
Financial income	10	**40**	58
Financial expenses	10	**(222)**	(224)
Profit/(loss) before income tax		**(10,605)**	(1,647)
Income tax benefit/(expense)	11	**–**	599
Profit/(loss) from continuing operations		**(10,605)**	(1,048)
Profit/(loss) for the period		**(10,605)**	(1,048)
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Foreign exchange translation differences		**(382)**	(130)
Cash flow hedges, net of tax		**–**	(2)
Total comprehensive income/(loss) for the period		**(10,987)**	(1,180)

		US Cents	
	Note	2015	2014
Earnings/(loss) per share			
Basic and diluted earnings/(loss) per share	12	**(4.6)**	(0.5)

The statement of profit and loss and other comprehensive income is to be read in conjunction with the notes to the consolidated financial statements set out on pages 35 to 60.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

In thousands of USD	Share capital US$'000	Translation Reserve US$'000	Cashflow hedge Reserve US$'000	Share-based compensation US$'000	Accumulated losses US$'000	Total Equity US$'000
Balance at 1 January 2014	185,955	1,916	2	57	(152,511)	35,419
Total comprehensive income for the period						
Profit/(loss) for the period	–	–	–	–	(1,048)	(1,048)
Other comprehensive income						
Foreign exchange translation difference	–	(130)	–	–	–	(130)
Cash flow hedges, net of tax	–	–	(2)	–	–	(2)
Total other comprehensive income/(loss)	–	(130)	(2)	–	–	(132)
Total comprehensive income/(loss) for the period	–	(130)	(2)	–	(1,048)	(1,180)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Vesting of share options	46	–	–	(46)	–	–
Share-based payments expense	–	–	–	6	–	6
Total transactions with owners	46	–	–	(40)	–	6
Balance at 31 December 2014	186,001	1,786	–	17	(153,559)	34,245
Balance at 1 January 2015	**186,001**	**1,786**	**–**	**17**	**(153,559)**	**34,245**
Total comprehensive income/(loss) for the period						
Profit/(loss) for the period	**–**	**–**	**–**	**–**	**(10,605)**	**(10,605)**
Other comprehensive income/(loss)						
Foreign exchange translation differences	**–**	**(382)**	**–**	**–**	**–**	**(382)**
Cash flow hedges, net of tax	**–**	**–**	**–**	**–**	**–**	**–**
Total other comprehensive income/(loss)	**–**	**(382)**	**–**	**–**	**–**	**(382)**
Total comprehensive income/(loss) for the period	**–**	**(382)**	**–**	**–**	**(10,605)**	**(10,987)**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share issue	**525**					**525**
Vesting of share options	**15**	**–**	**–**	**(15)**	**–**	**–**
Share-based payments expense	**–**	**–**	**–**	**11**	**–**	**11**
Total transactions with owners	**540**	**–**	**–**	**(4)**	**–**	**536**
Balance at 31 December 2015	**186,541**	**1,404**	**–**	**13**	**(164,164)**	**23,794**

The statement of changes in equity is to be read in conjunction with the notes to the consolidated financial statements set out on pages 35 to 60.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Note	2015 US$'000	2014 US$'000
ASSETS			
Current assets			
Cash and cash equivalents		**9,140**	27,290
Restricted cash deposits		**66**	–
Trade and other receivables	13	**5,180**	2,206
Prepayments		**520**	286
Total current assets		**14,906**	29,782
Non-current assets			
Restricted cash deposits[1]		**3,601**	5,301
Receivables	13	**861**	1,093
Property, plant and equipment		**104**	149
Oil and gas properties	14(a)	**6,443**	1,674
Exploration and evaluation properties	14(b)	**6,556**	2,064
Total non-current assets		**17,565**	10,281
Total assets		**32,471**	40,063
LIABILITIES			
Current liabilities			
Trade and other payables	16	**5,702**	2,638
Rehabilitation provisions	18	**2,573**	618
Employee benefits provisions		**157**	142
Total current liabilities		**8,432**	3,398
Non-current liabilities			
Rehabilitation provisions	18	**61**	2,219
Employee benefits provisions		**184**	201
Total non-current liabilities		**245**	2,420
Total liabilities		**8,677**	5,818
Net assets		**23,794**	34,245
EQUITY			
Issued capital		**186,541**	186,001
Reserves		**1,417**	1,803
Accumulated losses		**(164,164)**	(153,559)
Total equity		**23,794**	34,245

1 Relates to cash used to guarantee certain future rehabilitation obligations (see note 23–Contingencies and Legal Matters for further details).

The statement of financial position is to be read in conjunction with the notes to the consolidated financial statements set out on pages 35 to 60.

CONSOLIDATED STATEMENT OF CASHFLOWS

For the year ended 31 December 2015

	Note	2015 US$'000	2014 US$'000
Cashflows from operating activities			
Cash receipts from customers		**1,572**	11,191
Cash payments for royalties		**(252)**	(537)
Cash payments to suppliers and employees		**(8,810)**	(10,168)
Interest received		**26**	48
Withholding tax refund		**–**	608
Restricted deposits[1]		**1,634**	–
Net cash from operating activities	29	**(5,830)**	1,142
Cashflows from investing activities			
Payments for property, plant and equipment		**(20)**	(93)
Payments for oil and gas, exploration and evaluation properties		**(12,238)**	(5,948)
Payments for investments		**–**	(130)
Proceeds from sale of assets		**–**	11,975
Proceeds from sale of investments		**–**	293
Net cash from investing activities		**(12,258)**	6,097
Net increase/(decrease) in cash and cash equivalents		**(18,088)**	7,239
Cash and cash equivalents at 1 January		**27,290**	20,123
Effects of exchange rate changes on cash held		**(62)**	(72)
Cash and cash equivalents at 31 December		**9,140**	27,290

1 Relates to cash used to guarantee certain future rehabilitation obligations (see note 23 – Contingencies and Legal Matters for further details).

The statement of cashflows is to be read in conjunction with the notes to the consolidated financial statements set out on pages 35 to 60.

1. REPORTING ENTITY

Petsec Energy Ltd (the "Company") is a company domiciled in Australia. The registered office of the Company is Level 13, 1 Alfred Street Sydney NSW 2000. The consolidated financial statements of the Company as at and for the year ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as the "consolidated entity").

The financial report is presented in United States dollars, which is the consolidated entity's choice of presentation currency.

The Group is a for-profit entity and is primarily involved in oil and gas exploration and production with operations in the shallow waters of the Gulf of Mexico and onshore Texas and Louisiana, USA, and in the Republic of Yemen.

2. BASIS OF PREPARATION

(A) STATEMENT OF COMPLIANCE

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") (including Australian Interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*. The consolidated financial report of the consolidated entity and the financial report of the Company comply with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board (IASB).

The Board of Directors approved the financial statements on 23 February 2016.

(B) BASIS OF MEASUREMENT

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value;

The methods used to measure fair values are discussed further in note 4.

The consolidated entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, all financial information presented in US dollars has been rounded to the nearest thousand unless otherwise stated.

(C) USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 3 (d) – Exploration, evaluation properties and oil and gas properties, Note 3(m) Rehabilitation provision and Note 3 (r) – Income tax.

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

(D) GOING CONCERN BASIS OF PREPARATION

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Company and consolidated entity.

(A) BASIS OF CONSOLIDATION

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the consolidated entity.

In the Company's financial statements, investments in subsidiaries are carried at the lower of cost and recoverable amount.

(ii) Joint operating arrangements

Joint operating arrangements are those entities over whose activities the consolidated entity has joint control, whereby the Company has rights to the assets and obligations for the liabilities relating to the arrangement. The interest of the consolidated entity in unincorporated joint operating arrangements and jointly operated assets are brought to account by recognising in its financial statements the Company's share of the arrangements underlying assets and liabilities, and the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint arrangements.

(iii) Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(iv) Loss of control

Upon the loss of control, the consolidated entity derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the consolidated entity retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(B) FOREIGN CURRENCY

(i) Functional and presentation currency

Items included in the financial statements of each of the consolidated entity's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates ("the functional currency"). The functional currency of the Company and its Australian subsidiaries is Australian dollars (A$) and the functional currency of the Company's overseas subsidiaries is United States dollars (US$).

The financial statements are presented in United States dollars. The consolidated entity believes the US dollar is the best measure of performance for Petsec Energy Ltd because oil and gas, the consolidated entity's dominant sources of revenue, are priced in US dollars and the consolidated entity's main operations are based in jurisdictions where most of the costs incurred are denominated in US dollars.

Prior to consolidation, the results and financial position of each entity within the group are translated from the functional currency into the group's presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the date of that balance sheet;
- Income and expenses are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- Components of equity are translated at the historical rates; and
- All resulting exchange differences are recognised as a separate component of equity.

(ii) Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the respective functional currency at the foreign exchange rate ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the foreign currency translation reserve (FCTR).

(C) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The consolidated entity's revenues are exposed to changes in commodity prices. From time to time, the consolidated entity enters into derivative financial instruments to manage a portion of its oil and gas sales price risks.

The consolidated entity does not hold derivative financial instruments for speculative purposes.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value each reporting date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The consolidated entity designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges).

The consolidated entity documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The consolidated entity also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Cash flow hedge

Changes in the fair value of the derivative-hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the statement of comprehensive income.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to the income statement in the same period that the hedged item affects profit or loss.

(ii) Derivative financial instruments that do not qualify for hedge accounting

Certain derivative financial instruments do not qualify for hedge accounting. Changes in the fair value of any derivative financial instrument that does not qualify for hedge accounting are recognised immediately in the statement of comprehensive income.

(iii) Other derivative financial instruments

Other derivative financial instruments are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognised immediately in profit or loss.

(D) EXPLORATION, EVALUATION PROPERTIES AND OIL AND GAS PROPERTIES

Exploration and evaluation expenditure is accumulated in respect of each separate area of interest. The consolidated entity's capitalisation policy for its natural gas and crude oil exploration and development activities is to capitalise expenditure of productive exploratory wells, development drilling and productive wells, and expenditure to acquire mineral interests. Exploration expenditure, including personnel costs, certain geological and geophysical expenses including seismic costs where exploration rights have not been obtained for oil and natural gas leases, are charged to expense as incurred. Exploratory drilling expenditures are initially capitalised, but charged to expense if and when the well is determined not to have found reserves in commercial quantities.

Exploration and evaluation expenditures relating to an area of interest are capitalised where exploration rights have been obtained. This expenditure is carried forward only to the extent that they are expected to be recouped through successful development and exploitation, or sale of the area, or where exploration and evaluation activities have not yet reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves, and active and significant exploration operations are continuing. This expenditure is not subject to amortisation. Once management has determined the existence of economically recoverable reserves for an area of interest, expenditure is reclassified from exploration and evaluation to oil and gas properties on the balance sheet. Oil and gas properties are amortised using a units-of-production method, as further discussed in note 3(e).

Exploration and evaluation expenditures relating to an area of interest are capitalised in the category of Oil and Gas Properties, and are carried forward to the extent that they are expected to be recouped either through the sale or successful exploitation of the area of interest.

Exploration and evaluation properties and oil and gas properties are assessed for impairment when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount. In the event that indicators of impairment are present, an impairment loss is recorded based on the higher of an asset's fair value less costs to sell and value in use (see note 3(h)). When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made.

(E) AMORTISATION OF OIL AND GAS PROPERTIES

Oil and gas properties in the production phase are amortised on a units-of-production method based on the ratio of actual production to remaining proved and probable reserves (2P). Remaining 2P reserves are measured at the lower of 2P reserves estimated by external independent petroleum engineers and internal estimates.

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until commercial production commences.

(F) INTANGIBLE ASSETS – SOFTWARE

Software acquired by the consolidated entity, which have finite useful lives, is measured at cost less accumulated amortisation.

(G) PROPERTY, PLANT AND EQUIPMENT

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit and loss.

(ii) Leased assets

Leases in terms of which the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance leases. Lease payments are accounted for as described in accounting policy 3(o).

(iii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the consolidated entity and its costs can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iv) Depreciation and amortisation

Depreciation of property, plant and equipment is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item. Leased assets are depreciated over the shorter of the lease term and their useful lives. Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Depreciation methods, useful lives and residual values are reassessed at the reporting date. When changes are made, adjustments are reflected prospectively in current and future periods only.

The estimated useful lives or the amortisation method used for each class of asset in the current and comparative periods are as follows:

	2015	2014
Property, plant and equipment		
Furniture and fittings	**5 – 8 years**	5 – 8 years
Office equipment	**3 – 4 years**	3 – 4 years
Leasehold improvements	**5 – 7 years**	5 – 7 years

(H) IMPAIRMENT – NON-FINANCIAL ASSETS

The carrying amounts of the consolidated entity's and the Company's non-financial assets, other than deferred tax assets (see note 3(r)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets or groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

The measurement of recoverable amount for the consolidated entity's exploration, evaluation and development expenditure requires significant estimation and judgement. Note 14 provides further details of the key assumptions adopted by the consolidated entity in measuring the recoverable amount of exploration, evaluation and development expenditure.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(I) TRADE AND OTHER RECEIVABLES

Trade receivables, which generally have 30-60 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(J) CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the balance sheet comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(K) INTEREST-BEARING LOANS AND BORROWINGS

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of debt issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

(L) BORROWING COSTS

Borrowing costs comprise interest payable on borrowings calculated using the effective interest rate method, lease finance charges and amortisation of discounts or premiums relating to borrowings.

(M) PROVISIONS

A provision is recognised if, as a result of a past event, the consolidated entity has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Rehabilitation

The consolidated entity recognises a provision for the legal obligation associated with the retirement of long-lived assets that results from the acquisition, construction, development, and (or) the normal operation of oil and natural gas properties. The initial recognition of a liability for rehabilitation, which is discounted using a credit-adjusted risk-free interest rate, increases the carrying amount of the related long-lived asset by the same amount as the liability. In periods subsequent to initial measurement, period-to-period changes in the liability are recognised for the passage of time (unwinding of discount) as financial expense. Additionally, the capitalised asset retirement cost is subsequently allocated to expense on a units-of-production basis over its estimated useful life.

Changes in the estimate of the liability arising from revised timing or estimated cost-to-complete the rehabilitation are recognised with a corresponding adjustment to the relevant long-lived asset.

The rehabilitation provision requires significant estimation and judgement. These estimates include:

- Expected method of remediation;
- Forecast costs-to-complete the future remediation; and
- Anticipated timing of the remediation work.

The consolidated entity monitors the estimates and judgements involved in measuring this provision. Changes in estimated rehabilitation provisions are accounted for on a prospective basis and affect provisions.

(N) EMPLOYEE BENEFITS AND DIRECTOR BENEFITS

(i) Short-term employee benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date which are expected to be wholly settled by the Company within the next financial year. Such liabilities are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers' compensation insurance and payroll tax.

(ii) Long-term employee benefits

The provision for employee benefits for long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities.

(iii) Defined contribution pension plans

The Company and other controlled entities contribute to several defined contribution pension plans. Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income when they are due.

(iv) Employee incentive plans

Under the employee incentive plan, a liability may be recognised for bonuses for eligible employees based on the consolidated entity's performance for the year based on a number of pre-determined performance criteria.

(v) Share-based compensation transactions

Share-based compensation benefits are provided to employees of the consolidated entity, including directors, via the Company's Employee Option Plan and Employee Share Plan.

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options.

(O) LEASES

Leases in terms of which the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(P) REVENUE AND OTHER INCOME RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of oil and gas

Revenues are recognised when the product is in the form in which it is to be delivered and an actual physical quantity has been provided or allocated to a purchaser pursuant to a contract. Revenue from oil and gas sales is measured at the fair value of the consideration receivable.

Revenue from oil and gas royalties is recognised on an accrual basis in accordance with the terms of underlying royalty agreements. Revenue from oil and gas royalties is measured at the fair value of the consideration receivable.

Sale of non-current assets

Gains or losses on sale of non-current assets are recognised as other income at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

Interest income

Interest income is recognised as the interest accrues (using the effective interest method, which is the rate that discounts estimated future cash receipts through the expected life of the financial instrument).

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(Q) EARNINGS PER SHARE

The consolidated entity presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

(R) INCOME TAX

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference or tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation

The Company and its wholly owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2002 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Petsec Energy Ltd.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the ‘separate taxpayer within group’ approach by reference to the carrying amount of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused Australian tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised by the Company as amounts payable (receivable) to/(from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability are recognised by the head entity only.

Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the Australian tax-consolidated group, has entered into a tax funding arrangement, which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable/(payable) equal in amount to the tax liability/(asset) assumed. The inter-entity receivable/(payable) is at call.

The head entity in conjunction with other members of the Australian tax-consolidated group has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement, as payment of any amounts under the tax sharing agreement is considered remote.

(S) GOODS AND SERVICES TAX

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the balance sheet.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from or payable to the taxation authority, are classified as operating cash flows.

(T) SEGMENT REPORTING

An operating segment is a distinguishable component of the consolidated entity whose information is reviewed regularly by the CEO, the consolidated entity's chief decision making officer who is engaged in providing related products or services which are subject to risk and rewards that are different to other segments.

(U) CHANGES IN ACCOUNTING POLICIES

The consolidated entity has consistently applied the accounting policies set out in Note 3(a) through (t) to all periods presented in these consolidated financial statements.

(V) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the consolidated entity are set out below. The consolidated entity does not plan to adopt these standards early.

(i) **AASB 9 Financial Instruments**

AASB 9, published in July 2014, replaces the existing guidance in AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from AASB 139.

AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The consolidated entity is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 9.

(ii) **AASB 15 Revenue from Contracts with Customers**

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 18 Revenue and AASB 111 *Construction Contracts*.

AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The consolidated entity is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 15.

4. DETERMINATION OF FAIR VALUES

A number of the consolidated entity'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 Company 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.

COMMODITY DERIVATIVES

The fair values of commodity derivative hedging instruments (level 3 category instruments) are determined relative to the relationship between the agreed contracted fixed and floor prices and estimated future natural gas prices quoted in an active market at period end, taking into account the effect of the Company's own credit risk (when in an asset position) and counterparty credit risk (when in a liability position). The estimated future natural gas prices have been determined using mathematical approximations of market values as of a given date derived from proprietary models and methodologies based on certain assumptions regarding past, present and future market conditions or other factors, or from other sources of pricing information.

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 consolidated entity 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. OTHER INCOME AND EXPENSES

	2015 US$'000	2014 US$'000
Other income and expenses		
Production and project overhead income	**222**	57
Net foreign exchange gains / (losses)	**203**	3
Net gain on disposal of assets[1]	**339**	2,232
Net gain on disposal of property, plant and equipment	**–**	75
Net loss on disposal of investments	**–**	5
Change in fair value of investments	**–**	(351)
	764	2,021

1 **Assets sold during the period**
In the previous corresponding period, the consolidated entity sold its working interests in the Marathon and Main Pass 270 fields, together with certain associated exploration interests within the USA segment.
The consolidated statement of profit or loss and cash flows generated from these assets prior to disposal are detailed below:

	2015 US$'000	2014 US$'000
Revenue	–	6,794
Expenses	–	(2,830)
Results from operating activities	–	3,964
Net cash from operating activities	–	4,928

The profit from the assets sold of $339,000 (previous corresponding period: $2,232,000) is attributable to the remaining recoveries associated with the prior year sale of the Marathon and Main Pass 270 fields.

6. PERSONNEL EXPENSES

	2015 US$'000	2014 US$'000
Wages and salaries	**1,287**	1,178
Service agreements for executives	**750**	647
Bonuses	**84**	236
Contract labour	**126**	312
Superannuation & 401(k) plans	**79**	63
Share-based payment compensation	**11**	6
Other employee-related expenses	**91**	1
	2,428	2,443

7. PROFIT/(LOSS) FOR THE PERIOD

	2015 US$'000	2014 US$'000
Profit/(loss) for the period includes the following items that are significant because of their nature, size or incidence:		
Expenses		
Dry hole and impairment expense	**(6,398)**	(2,965)

IMPAIRMENT AND ABANDONMENT EXPENSE

The estimated recoverable amount of all oil and gas assets is based on 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 future asset impairments.

During the current period, the consolidated entity recognised total dry hole and impairment expense of US$6,398,000 comprising US$5,659,000 mainly in relation to certain onshore wells drilled as part of the Company's 2015 exploration programme and the recognition of an impairment of US$739,000 against the Adeline Sugar Factory #4 well due to well performance.

In the previous corresponding period, the consolidated entity incurred a net impairment charge of US$2,965,000.

8. DERIVATIVE GAINS/(LOSSES)

The following table presents details of the change in fair value recognised in the current and comparative period:

	2015 US$'000	2014 US$'000
Change in fair value of securities held in unrelated entities	–	(174)
Net derivative gain on liquidation of swap hedge contracts	–	140
	–	(34)

In the previous corresponding period, the consolidated entity held share options in an unrelated entity. The carrying amount of the share options was measured at fair value using the Black-Scholes-Merton formula. Measurement inputs included the share price on the measurement date, the exercise price of the instrument, expected volatility, expected term of the instruments, expected dividends and the risk free interest rate (based on Australian government bonds). Changes therein were recognised immediately in profit or loss.

The share options were categorised as a level 2 financial instrument as the measurement inputs used in the calculation of the fair value of these instruments requires the use of inputs other than quoted prices that are observable in the market, either directly (as prices) or indirectly (derived from prices). Refer to Note 20 for further details.

In the previous corresponding period, the consolidated entity held natural gas swap derivative contracts to hedge the price risk associated with selling a portion of its 2014 gas production. Following the divestiture of its interests in the Marathon and Main Pass 270 producing fields in July 2014, the Company liquidated its July through December 2014 natural gas futures contracts, realising a net derivative gain of US$140,000.

9. AUDITOR'S REMUNERATION

	2015 US$	2014 US$
Audit services:		
Auditors of the Company		
KPMG Australia		
Audit and review of financial reports	**85,000**	98,578
Other services:		
Auditors of the Company		
KPMG Australia		
Corporate, tax and compliance services	–	–
	85,000	98,578

10. FINANCE INCOME AND EXPENSE

	2015 US$'000	2014 US$'000
Interest income – Other parties	**40**	58
Financial income	**40**	58
Interest expense		–
Unwinding of discount	**(222)**	(224)
Financial expense	**(222)**	(224)
Net financial income	**(182)**	(166)

11. INCOME TAX EXPENSE

	2015 US$'000	2014 US$'000
Recognised in the statement of comprehensive income		
Deferred tax expense		
Origination and reversal of temporary differences	**–**	–
Total income tax benefit/(expense) in the statement of comprehensive income	**–**	–
Numerical reconciliation between tax expense and pre-tax net profit/(loss)		
Profit/(loss) before tax	**(10,605)**	(1,048)
Income tax expense/(benefit) using the Australian corporation tax rate of 30% (2014: 30%)	**(3,182)**	(314)
Increase/(decrease) in income tax expense due to:		
Non-deductible expenses	**700**	438
USA income taxes assessed at different rate	**(417)**	(19)
Canadian income taxes assessed at different rate	**1**	1
Deferred tax movements not brought to account in current year	**2,898**	(106)
USA withholding tax refund	**–**	(599)
Under/(over) provided in prior years	**–**	–
Income tax expense/(benefit) on pre–tax net profit/(loss)	**–**	(599)

12. EARNINGS PER SHARE

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

As at 31 December 2015, there were no options over ordinary shares in Petsec Energy Ltd on issue (2014: 30,000). In determining potential ordinary shares, no options are dilutive (2014: Nil).

During the year, no options were granted or exercised, and 30,000 options were forfeited.

BASIC EARNINGS/ (LOSS) PER SHARE

The calculation of basic earnings/ (loss) per share at 31 December 2015 was based on the loss attributable to ordinary shareholders of US$10,605,000 (2014: Loss of US$1,048,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2015 of 232,532,863 (2014: 231,161,630), calculated as follows:

PROFIT/ (LOSS) ATTRIBUTABLE TO ORDINARY SHAREHOLDERS

	2015 US$'000	2014 US$'000
Profit/(loss) for the period	**(10,605)**	(1,048)

WEIGHTED AVERAGE NUMBER OF SHARES (BASIC)

In thousands of shares	2015	2014
Issued ordinary shares at 1 January	**231,162**	231,162
Effect of shares issued in 2015 and 2014, respectively	**1,371**	–
Weighted average number of ordinary shares at 31 December	**232,533**	231,162

EARNINGS/(LOSS) PER SHARE

In USD cents	2015	2014
Basic and diluted earnings/(loss) per share	**(4.6)**	(0.5)

13. TRADE AND OTHER RECEIVABLES

	2015 US$'000	2014 US$'000
Current		
Trade receivables	**3,494**	2,194
Loan receivable from related parties	**639**	–
Other receivables	**1,047**	12
	5,180	2,206
Non-current		
Loan receivable from related parties	**861**	1,093
	861	1,093

14. OIL AND GAS, EXPLORATION, AND EVALUATION PROPERTIES

	2015 US$'000	2014 US$'000
(a) Oil and gas properties		
Costs carried forward at WDV		
Balance at 1 January	**1,674**	11,806
Additions	**5,989**	3,328
Disposals	**–**	(10,522)
Dry hole and impairment expense	**(739)**	(1,251)
Current year amortisation expense	**(481)**	(1,687)
Balance at 31 December	**6,443**	1,674
(b) Exploration and evaluation properties		
Costs carried forward at cost		
Balance at 1 January	**2,064**	1,569
Additions	**10,151**	2,293
Disposals	**–**	(84)
Impairment expense	**(5,659)**	(1,714)
Balance at 31 December	**6,556**	2,064

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 consolidated entity utilises discounted future cash flows as estimated by independent petroleum engineers for this assessment. The key assumptions used include:

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

14. OIL AND GAS, EXPLORATION, AND EVALUATION PROPERTIES CONTINUED

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 and oil and gas prices.
- 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.

15. DEFERRED TAX ASSETS

RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

	Assets		Liabilities		Net	
	2015 US$'000	2014 US$'000	2015 US$'000	2014 US$'000	2015 US$'000	2014 US$'000
Exploration, evaluation and development expenditure	**3,848**	3,656	**–**	–	**3,848**	3,656
Other items	**42**	484	**–**	–	**42**	484
Deferred tax balances not brought to account	**(3,890)**	(4,140)	**–**	–	**(3,890)**	(4,140)
Deferred tax assets/(liabilities)	**–**	–	**–**	–	**–**	–

15. DEFERRED TAX ASSETS CONTINUED

UNRECOGNISED DEFERRED TAX ASSETS

Deferred tax assets have not been recognised in respect of the following items:

	2015 US$'000	2014 US$'000
Deductible temporary differences in USA (net)	**3,890**	4,140
Tax operating loss carry-forwards in USA (net)	**33,713**	31,492
Deductible temporary differences in Canada (net)	**1,717**	1,717
Tax operating loss carry-forwards in Canada (net)	**230**	223
Deductible temporary differences in Australia (net)	**126**	103
Tax operating loss carry-forwards in Australia (net)	**2,565**	3,004
	42,241	40,679

Under Australian Accounting Standards, the consolidated entity 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 Australian 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.

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 expire in 2021 and later.

MOVEMENT IN TEMPORARY DIFFERENCES DURING THE YEAR

	Balance 1 Jan 14 US$'000	Recognised in income US$'000	Recognised in equity US$'000	Reclassified to other balance sheet account US$'000	Balance 31 Dec 14 US$'000
Exploration and evaluation expenditure	5,125	(1,469)	–	–	3,656
Other items	104	380	–	–	484
Deferred tax balances in USA not brought to account	(5,229)	1,089	–	–	(4,140)
	–	–	–	–	–

	Balance 1 Jan 15 US$'000	Recognised in income US$'000	Recognised in equity US$'000	Reclassified to other balance sheet account US$'000	Balance 31 Dec 15 US$'000
Exploration and evaluation expenditure	**3,656**	**192**	**–**	**–**	**3,848**
Other items	**484**	**(442)**	**–**	**–**	**42**
Deferred tax balances in USA not brought to account	**(4,140)**	**250**	**–**	**–**	**(3,890)**
	–	**–**	**–**	**–**	**–**

16. TRADE AND OTHER PAYABLES

	2015 US$'000	2014 US$'000
Current		
Trade and other payables, stated at cost		
Trade payables	**1,928**	844
Exploration and evaluation accruals	**2,202**	150
Operational and administration accruals	**1,423**	1,599
Related party payables	**149**	45
	5,702	2,638

17. EMPLOYEE BENEFITS

(A) SUPERANNUATION/PENSION PLANS

The consolidated entity contributes to several defined contribution employee superannuation plans in Australia. Employer contributions are based on various percentages of their gross salaries. The consolidated entity is under no legal obligation to make contributions in excess of those specified in Superannuation Industry (Supervision) legislation. The amount recognised, as expense was, US$30,000 for the year ended 31 December 2015 (2014: US$23,000).

USA based employees are eligible to participate in a voluntary retirement savings plan under Section 401(k) of the USA tax code ("401(k) plan"). Employer matching contributions under the 401(k) plan recognised as an expense was US$49,000 for the year ended 31 December 2015 (2014: US$40,000).

(B) SHARE-BASED PAYMENTS

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.

Employee Share Plan

The following sets forth the share-based compensation transactions under the Company's Employee Share Plan.

The number and weighted average share price, is as follows:

In thousands of shares	Weighted average share price 2015	Number of shares 2015	Weighted average share price 2014	Number of shares 2014
Outstanding at the beginning of the period	**A$0.20**	**2,400**	A$0.20	2,400
Granted during the period	**A$0.20**	**3,500**	–	–
Forfeited during the period	**–**	**–**	–	–
Outstanding at the end of the period	**A$0.20**	**5,900**	A$0.20	2,400

During the current year, the Company issued 3,500,000 shares under its Employee Share Plan ("ESP") to certain personnel as long term incentive compensation (2014: Nil).

The shares were issued to the Trustee of the ESP on behalf of the personnel and under the terms of the ESP at a price of A$0.20 per share, being the minimum issue price under the terms of the ESP.

17. EMPLOYEE BENEFITS CONTINUED

Employee Option Plan

The following sets forth the share-based compensation transactions under the Company's Employee Option Plan.

The number and weighted average exercise prices of share options, is as follows:

In thousands of options	Weighted average exercise price 2015	Number of options 2015	Weighted average exercise price 2014	Number of options 2014
Outstanding at the beginning of the period	**A$0.20**	**30**	A$0.23	335
Granted during the period		**–**	–	–
Exercised during the period		**–**	–	–
Forfeited during the period	**A$0.20**	**30**	A$0.23	305
Outstanding at the end of the period	**–**	**–**	A$0.20	30
Exercisable at the end of the period	**–**	**–**	A$0.20	20

There were no options outstanding at 31 December 2015 (2014: 30,000).

During the year, no share options were granted or exercised (2014: Nil). 30,000 options were forfeited during the period (2014: 305,000).

Each option is convertible to one ordinary share. The exercise prices of the options, determined in accordance with the Rules of the plan, are based on the ruling market prices when the options are issued.

All options expire on the earlier of their expiry date or when the holder's employment ceases unless otherwise approved by the Remuneration Committee. Options may not be exercised until they are vested and thereafter exercise is conditional on satisfaction of share price hurdles and the terms of issue. The vesting periods range from six months to four years after granting. The plan does not represent remuneration for past services.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured using an option pricing model – the Black-Scholes-Merton formula. The contractual life of the option is used as an input into this model.

Share and option grants to key management personnel

Grants of 2,500,000 shares were made to key management personnel during the year ended 31 December 2015 (2014: Nil).

The following table summarises the fair value assumptions of shares granted to key management personnel during the years ended 31 December 2015 and 2014.

	Key management personnel 2015	Key management personnel 2014
Weighted average fair value at measurement date	**$0.01**	–
Weighted average share price	**A$0.10**	–
Weighted average exercise price	**A$0.20**	–
Expected volatility (expressed as weighted average used in the modelling under Black-Scholes model)	**67.02%**	
Expected option life (expressed as weighted average used in the modelling under Black-Scholes model)	**5.5 years**	
Expected dividends	**–**	–
Risk–free interest rate (based on national government bonds)	**2.06%**	–

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.

18. REHABILITATION PROVISIONS

	2015 US$'000	2014 US$'000
Current		
Balance at 1 January	**618**	3,721
Provisions made during the year	**–**	62
Provisions reclassed from non-current classification	**2,307**	24
Provisions used during the year	**(460)**	(3,189)
Unwind of discount	**108**	–
Balance at 31 December	**2,573**	618
Non-current		
Balance at 1 January	**2,219**	2,503
Provisions made during the year	**38**	17
Sale of interests	**–**	(501)
Provisions reclassed to current classification	**(2,307)**	(24)
Unwind of discount	**111**	224
Balance at 31 December	**61**	2,219
	2,634	2,837

19. CAPITAL AND RESERVES

SHARE CAPITAL

	Ordinary Shares	
In thousands of shares	**2015**	**2014**
On issue at 1 January	**231,162**	231,162
Shares issued	**3,500**	–
On issue at 31 December – fully paid	**234,662**	231,162

The Company does not have authorised capital or par value in respect of its issued shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

TRANSLATION RESERVE

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of operations where their functional currency is different to the presentation currency of the reporting entity.

CASH FLOW HEDGE RESERVE

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that had not yet transpired.

SHARE-BASED COMPENSATION

The share-based compensation represents the value of unvested options issued under the Company's Employee Option Plan.

CAPITAL MANAGEMENT

The Board's policy is to maintain an appropriate capital base to sustain future development of the consolidated entity. This capital base may comprise equity and borrowings.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

20. FINANCING ARRANGEMENTS AND ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURES

FINANCING ARRANGEMENTS

At 31 December 2015, the consolidated entity had no debt outstanding (2014: Nil).

20. FINANCING ARRANGEMENTS AND ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURES CONTINUED

ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURES

Overview

The consolidated entity has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the consolidated entity's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

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 consolidated entity, 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 consolidated entity's activities. The consolidated entity, 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 consolidated entity is continually monitored and derivative financial instruments can be used to hedge exposure to fluctuations in commodity prices (refer to Commodity Price Risk below for further details).

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

Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The credit risk on financial assets of the consolidated entity that have been recognised is the carrying amount, net of any provision for doubtful debts. The consolidated entity has assessed that the counterparty's credit ratings determined by a recognised ratings agency remains acceptable.

Exposure to credit risk

The carrying amount of the consolidated entity's financial assets represents the maximum credit exposure. The consolidated entity's maximum exposure to credit risk at the reporting date was:

	Consolidated	
	2015 US$'000	**2014 US$'000**
Cash and restricted cash deposits	**12,807**	32,591
Trade and other receivables	**5,180**	2,206
	17,987	34,797

As at 31 December 2015, there was no material exposure to credit risk in relation to cash held by banks as $7.4 million was held with Australian financial institutions rated AA with the remaining balances held in the USA with institutions rated A or higher.

Where possible, the consolidated entity manages its credit risk on trade receivables by dealing with only large reputable customers for its oil and gas sales. At balance date, approximately 17% of trade and other receivables were due from two such customers. The remainder of the receivables were due mainly from a number of joint owners of the jointly owned properties. The consolidated entity does not consider there to be any impairment indicators associated with these debtors. The consolidated entity's credit risk is limited to the carrying value of its financial assets. None of the consolidated entity's receivables are materially past due (2014: is consistent with 2015).

Liquidity risk

Liquidity risk is the risk that the consolidated entity and companies within the consolidated entity will not be able to meet their financial obligations as they fall due. The consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the consolidated entity's reputation.

Ultimate responsibility for liquidity risk management rests with the Board of Directors. The consolidated entity manages liquidity risk by monitoring of future rolling cash flow forecasts. These reflect management's expectations of the settlement of financial assets and liabilities.

The following are the contractual maturities of financial liabilities, including estimated interest payments.

		Contractual cashflows				
31 December 2015	**Carrying amount US$'000**	**6 mths or less US$'000**	**6 – 12 mths US$'000**	**1 – 2 years US$'000**	**2 – 5 years US$'000**	**5 years or more US$'000**
Trade and other payables	**5,702**	**5,702**	**–**	**–**	**–**	**–**
Total	**5,702**	**5,702**	**–**	**–**	**–**	**–**

		Contractual cashflows				
31 December 2014	**Carrying amount US$'000**	**6 mths or less US$'000**	**6 – 12 mths US$'000**	**1 – 2 years US$'000**	**2 – 5 years US$'000**	**5 years or more US$'000**
Trade and other payables	2,638	2,638	–	–	–	–
Total	2,638	2,638	–	–	–	–

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, interest rates will affect the consolidated entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Foreign exchange risk

During 2014 and 2015, operating costs were incurred in US, Australian and Canadian dollars, and Arab Emirates Dirham.

Throughout 2014 and 2015, the consolidated entity held the majority of its liquid funds in US dollars.

Fluctuations in the Australian dollar/US dollar exchange rate have impacted the underlying performance of the consolidated entity. The consolidated entity's policy is not to hedge the Australian dollar/US dollar exchange rate risk as income (cash inflows) and expenses (cash outflows), are predominantly denominated in US dollars, with the exception of Australian dollar denominated equity funding, consequently surplus funds are primarily held in US dollars.

Commodity price risk

The revenue and income of the consolidated entity are affected by changes in natural gas and crude oil prices, and from time to time various financial transactions (swap contracts and collar contracts involving NYMEX commodity prices for natural gas and crude oil) may be undertaken to reduce the effect of these changes. The consolidated entity ensures that it has sufficient proved reserves of these commodities to cover all these transactions and it only enters into such derivatives to match its anticipated underlying physical production and reserves. The consolidated entity also limits the term of the transactions and the percentage of the Company's expected aggregate oil and natural gas production that may be hedged at any time.

Swaps

In a natural gas swap agreement the consolidated entity receives from the counterparty the difference between the agreed contracted fixed price and the quoted or published reference settlement price if the latter is lower than the fixed price. If the reference settlement price is higher than the agreed fixed price, the consolidated entity will pay the difference to the counterparty.

Collars

In a collar agreement, a floor price and a ceiling price are established. If there is no cash outlay upon entering a collar arrangement, it is called a "costless" or "cashless" collar. If quoted reference prices at the specified date (expiration date) are lower than the floor price, then the counterparty pays the price difference multiplied by the notional quantity to the consolidated entity. If the quoted reference prices at the specified date are higher than the ceiling price, then the consolidated entity pays the price difference multiplied by the notional quantity to the counterparty.

At 31 December 2015, the consolidated entity had no outstanding oil or natural gas hedges in place (previous corresponding period: Nil).

Interest rate risk

The consolidated entity's exposure to market interest rates primarily relates to the consolidated entity's cash holdings (2014: cash holdings).

20. FINANCING ARRANGEMENTS AND ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURES CONTINUED

The financial instruments exposed to interest rate risk are as follows:

	2015 US$'000	2014 US$'000
Financial assets		
Cash and restricted cash deposits	**12,807**	32,591
	12,807	32,591

Sensitivity analysis

In managing commodity price and interest rate risks the consolidated entity aims to reduce the impact of short-term fluctuations on the consolidated entity's earnings. However, credit considerations limit the amount of hedging with derivative instruments that the consolidated entity can enter into. The consolidated entity and the Company do not use derivative instruments to manage foreign exchange rate risk. Over the longer-term, permanent changes in commodity prices, interest rates and exchange rates will have an impact on profit.

The estimated impact of a 10 per cent change in the average commodity price for the year ended 31 December 2015 would have increased or decreased the consolidated entity's profit or loss by US$157,000 (2014: US$630,000) excluding potential impact of impairments. The estimated impact of a change of 100 basis points in interest rates would have increased or decreased the consolidated entity's profit or loss by US$4,000 (2014: US$6,000). The estimated impact of a 10 per cent change in the USD/AUD and USD/CAD exchange rates would have increased or decreased the consolidated entity's profit or loss by a total of US$44,000 (2014: US$75,000).

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	2015		2014	
	Carrying amount US$'000	Fair value US$'000	Carrying amount US$'000	Fair value US$'000
Trade and other receivables	**5,180**	**5,180**	2,206	2,206
Cash and restricted cash deposits	**12,807**	**12,807**	32,591	32,591
Trade and other payables	**(5,702)**	**(5,702)**	(2,638)	(2,638)
	12,285	**12,285**	32,159	32,159

21. OPERATING LEASES

LEASES AS LESSEE

Non-cancellable operating lease rentals are payable as follows:

	2015 US$'000	2014 US$'000
Less than one year	**362**	366
Between one and five years	**200**	361
	562	727

The consolidated entity leases office space in Australia and the USA under operating leases. The leases typically run for a period of three years. None of the leases includes contingent rentals.

During the year ended 31 December 2015, US$537,000 was recognised as an expense in the statement of comprehensive income in respect of operating leases including month-to-month leases (2014: US$540,000).

22. CAPITAL AND OTHER COMMITMENTS

	2015 US$'000	2014 US$'000
Capital expenditure commitments		
Exploration, evaluation and development expenditure		
Contracted but not provided for and payable:		
Within one year	**2,077**	3,680
One year or later and no later than five years	**–**	–
	2,077	3,680

23. CONTINGENCIES AND LEGAL MATTERS

The consolidated entity is a defendant from time to time in legal proceedings. Where appropriate the consolidated entity takes legal advice. The consolidated entity does not consider that the outcome of any 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 USA 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.

The Company's USA subsidiary, Petsec Energy Inc. ("PEI") is required to provide bonding or security for the benefit of USA regulatory authorities and certain lease operators in relation to its obligations to pay lease rentals and royalties, the plugging and abandonment of oil and natural gas wells, and the removal of related facilities. As of 31 December 2015, the consolidated entity was contingently liable for US$3,601,000 of surety and supplemental bonds (2014: US$5,301,000) issued through a surety company to secure those obligations. At balance date US$3,601,000 of these bonds were collateralised by cash (2014: US$5,301,000).

24. DEED OF CROSS GUARANTEE

Pursuant to an ASIC Class Order 98/1418 dated 13 August 1998, relief is granted to certain wholly owned Australian subsidiaries of the Company from the Corporations Act requirements for preparation, audit, and publication of Financial Reports and Directors' Reports.

It is a condition of the Class Order that the Company and each of its subsidiaries enter into a Deed of Cross Guarantee Indemnity. The effect of the deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act. If a winding-up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

- Petsec Investments Pty. Limited
- Petroleum Securities Pty. Limited
- Najedo Pty. Ltd
- Petroleum Securities Share Plan Pty Limited
- Laurel Bay Petroleum Limited
- Ginida Pty. Limited
- Western Medical Products Pty. Limited

A consolidated statement of comprehensive income and consolidated balance sheet, comprising the Company and subsidiaries which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, as at 31 December 2015 and 2014, is set out on the following page:

24. DEED OF CROSS GUARANTEE CONTINUED

SUMMARISED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME AND RETAINED EARNINGS/(ACCUMULATED LOSSES)

	2015 US$'000	2014 US$'000
Other income and expenses	**9,261**	8,008
Operating expenses	**(1,340)**	(1,680)
Finance income	**40**	58
Net movement in provisions against loans and investments in controlled entities	**–**	(18,210)
Profit/(loss) before tax	**7,961**	(11,824)
Income tax benefit/(expense)	**–**	599
Profit/(loss) after tax	**7,961**	(11,225)
Other comprehensive income	**–**	–
Total comprehensive income for the period	**7,961**	(11,225)
Retained earnings/(accumulated losses) at beginning of year	**(175,983)**	(164,758)
Retained earnings/(accumulated losses) at end of year	**(168,022)**	(175,983)

BALANCE SHEET

	2015 US$'000	2014 US$'000
Assets		
Cash and cash equivalents	**7,361**	11,376
Restricted deposits	**66**	74
Loans receivable from related parties	**639**	–
Other receivables	**1,067**	740
Prepayments	**61**	71
Total current assets	**9,194**	12,261
Loans receivable from controlled entities	**3,011**	16
Loans receivable from related parties	**861**	1,093
Other financial assets	**27,524**	23,042
Other investments	**908**	1,018
Property, plant and equipment	**35**	36
Total non-current assets	**32,339**	25,205
Total assets	**41,533**	37,466
Liabilities		
Trade and other payables	**136**	202
Employee benefits provision	**31**	25
Total current liabilities	**167**	227
Loans payable to controlled entities	**349**	485
Employee benefits provision	**184**	201
Total non-current liabilities	**533**	686
Total liabilities	**700**	913
Net assets	**40,833**	36,553
Equity		
Issued capital	**186,542**	186,001
Reserves	**22,313**	26,535
Retained earnings/(accumulated losses)	**(168,022)**	(175,983)
Total equity	**40,833**	36,553

25. CONSOLIDATED ENTITIES

	Country of Incorporation	Ownership interest 2015 %	2014 %
Parent entity			
Petsec Energy Ltd			
Significant subsidiaries			
Petsec Investments Pty. Limited	Australia	**100**	100
Petroleum Securities Pty. Limited	Australia	**100**	100
Najedo Pty. Limited	Australia	**100**	100
Petroleum Securities Share Plan Pty. Limited	Australia	**100**	100
Petsec America Pty. Limited	Australia	**100**	100
Petsec (U.S.A.) Inc.	USA	**100**	100
Petsec Energy Inc.	USA	**100**	100
Petsec Exploration and Production LLC	USA	**100**	100
Petsec Energy Resources Inc.	USA	**100**	100
Petsec Energy Canada Ltd	Canada	**100**	100
Laurel Bay Petroleum Limited	Australia	**100**	100
Ginida Pty. Limited	Australia	**100**	100
Western Medical Products Pty. Limited	Australia	**100**	100
Petsec Energy Yemen Ltd[1]	British Virgin Islands	**100**	100
Petsec Energy (Middle Eastern) Limited	British Virgin Islands	**100**	–
TG West Yemen Inc.[2]	Turks and Caicos Islands	**100**	–

1 Petsec Energy (Middle Eastern) Limited was incorporated on 4 March 2015.

2 TG West Yemen was acquired on 29 Oct 2015.

With the exception of Petsec Energy Yemen Ltd, and Petsec Energy (Middle Eastern) Limited and TG West Yemen Inc., all entities carry on business in the country where they were incorporated.

26. SEGMENT REPORTING

The consolidated entity operates in the oil and gas industry.

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

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment acquisition of property, plant and equipment, intangibles and exploration, evaluation and development assets is the total cost incurred during the period to acquire segment assets that are expected to be utilised for more than one period.

In presenting information on the basis of geographical segments, segment assets and liabilities, segment revenue and net profit/(loss) after tax are based on the geographical location of operations.

26. SEGMENT REPORTING CONTINUED

	Australia		USA		Canada		MENA		Consolidated	
	2015 US$'000	2014 US$'000	2015 US$'000	2014 US$'000	2015 US$'000	2014 US$'000	2015 US$'000	2014 US$'000	2015 US$'000	2014 US$'000
Oil and gas sales and royalties	**–**	–	**1,613**	8,692	**–**	–	**–**	–	**1,613**	8,692
Royalties paid	**–**	–	**(43)**	(501)	**–**	–	**–**	–	**(43)**	(501)
Net revenues after royalties*	**–**	–	**1,570**	8,191	**–**	–	**–**	–	**1,570**	8,191
Segment net profit/(loss) before tax	**(1,566)**	(2,022)	**(7,522)**	404	**(21)**	(20)	**(1,496)**	(9)	**(10,605)**	(1,647)
Income tax expense	**–**	599	**–**	–	**–**	–	**–**	–	**–**	599
Profit/(loss) after tax	**(1,566)**	(1,423)	**(7,522)**	404	**(21)**	(20)	**(1,496)**	(9)	**(10,605)**	(1,048)
Depreciation, depletion, amortisation & reclamation	**12**	13	**526**	1,739	**–**	65	**–**	–	**538**	1,817
Dry hole, impairment and abandonment expense	**–**	–	**6,378**	3,057	**20**	(92)	**–**		**6,398**	2,965
Exploration and work-over expense	**–**	–	**–**	54	**–**	–	**5**		**5**	54
Segment assets	**9,042**	12,663	**19,721**	27,392	**–**	–	**3,708**	8	**32,471**	40,063
Acquisition of property, plant and equipment and exploration, evaluation and development assets	**15**	4	**11,373**	6,029	**20**	–	**850**	8	**12,258**	6,041

* There are no inter-segment sales

	Australia		USA		Canada		MENA		Consolidated	
	2015 US$'000	2014 US$'000	2015 US$'000	2014 US$'000	2015 US$'000	2014 US$'000	2015 US$'000	2014 US$'000	2015 US$'000	2014 US$'000
Segment liabilities	**352**	429	**5,669**	5,319	**–**	70	**2,656**	–	**8,677**	5,818
Cash flows from operating activities	**(903)**	(961)	**(3,161)**	2,067	**(62)**	45	**(1,704)**	(9)	**(5,830)**	1,068
Cash flows from investing activities	**(15)**	167	**(11,373)**	5,938	**(20)**	–	**(850)**	(8)	**(12,258)**	6,097
Cash flows from financing activities	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–

27. INTERESTS IN UNINCORPORATED JOINT OPERATING ARRANGEMENTS

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

	2015 US$'000	2014 US$'000
Assets		
Oil and gas properties:		
Producing leases – at cost	**44,739**	38,831
Less: accumulated amortisation and impairment	**(38,296)**	(37,157)
	6,443	1,674
Represented by the following lease carrying values:		
– Offshore Gulf of Mexico	**–**	–
– Onshore Louisiana	**4,443**	1,674
– MENA	**2,000**	–
Total oil and gas properties	**6,443**	1,674
Exploration and evaluation properties:		
– Offshore Gulf of Mexico	**5,735**	1,484
– Onshore Louisiana	**464**	572
– MENA	**357**	8
Total exploration and evaluation properties	**6,556**	2,064

	2015 US$'000	2014 US$'000
Liabilities		
Rehabilitation provision:		
– Offshore Gulf of Mexico	**2,083**	2,267
– Onshore Louisiana	**208**	167
– Onshore Canada	**–**	69
	2,291	2,503

	2015 US$'000	2014 US$'000
The contribution of the consolidated entity'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):		
– Offshore Gulf of Mexico	**(374)**	120
– Onshore Louisiana	**(5,731)**	2,215
– Onshore Canada	**(21)**	92
– MENA	**(1,496)**	–
	(7,622)	2,427

The principal activity of all the joint operating arrangements is oil & gas exploration. Listed below is the name of each of the joint operating arrangements and the percentage working interest held in the joint operating arrangement by the consolidated entity as at and during the year ended 31 December:

	Interest held 2015	Interest held 2014
– Offshore Gulf of Mexico	**12.50% to 55.00%**	12.50% to 75.00%
– Onshore Louisiana	**12.50% to 25.00%**	12.50% to 45.00%
– Onshore Canada	**24.50%**	24.50%
– MENA	**29.75%**	29.75%

In respect of the joint operating arrangements listed above, the voting powers of the consolidated entity align with its ownership percentages listed in all cases. Management has determined that the consolidated entity has joint control of these arrangements by virtue of the agreements it has with its other partners. The consolidated entity accounts for its share of the individual assets and liabilities of the joint operating arrangements in light of the fact that all of these arrangements lack legal form as separate vehicles.

28. WHOLLY OWNED AREAS OF INTEREST

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

	2015 US$'000	2014 US$'000
Assets		
Oil and gas properties:		
Producing leases – at cost	**17,124**	49,600
Less: accumulated amortisation and impairments	**(17,124)**	(49,600)
	–	–
Represented by the following lease carrying values:		
– Offshore Gulf of Mexico	**–**	–
	–	–

28. WHOLLY OWNED AREAS OF INTEREST CONTINUED

	2015 US$'000	2014 US$'000
Liabilities		
Rehabilitation provision:		
– Offshore Gulf of Mexico	**343**	334
	343	334

	2015 US$'000	2014 US$'000
The contribution of the consolidated entity's areas of interest to EBIT (including exploration write-offs and impairments; and excluding the effects of hedging):		
– Offshore Gulf of Mexico	**(39)**	(1,284)
	(39)	(1,284)

29. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2015 US$'000	2014 US$'000
Cash flows from operating activities		
Profit/(loss) for the period	**(10,605)**	(1,048)
Adjustments for:		
Depreciation, depletion and amortisation	**538**	1,817
Dry-hole and impairment expense	**6,398**	2,965
Exploration and work-over expense	**5**	54
Net movement in fair value of investments	**–**	524
Net foreign exchange losses/(gains)	**(203)**	(3)
Net loss/(gain) on assets	**(339)**	(2,232)
Net loss/(gain) on property, plant and equipment	**–**	(75)
Net loss/(gain) on investments	**–**	(5)
Share-based payment expenses	**11**	6
Operating profit before changes in working capital and provisions	**(4,195)**	2,003
Decrease/(Increase) in restricted cash deposits	**1,634**	–
Decrease/(Increase) in receivables and prepayments	**(2,569)**	1,330
(Decrease)/Increase in payables and provisions	**(700)**	(2,191)
Net cash from operating activities	**(5,830)**	1,142

30. RELATED PARTIES

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Non-executive director	Executive director
D A Mortimer	T N Fern (Chairman and Managing Director)
A P Baden	
M S Lober	

Executives
M Petkovski (Chief Executive Officer, Petsec Energy (Middle Eastern) Limited) – joined the Company on 16 March 2015
R J Smith (Chief Executive Officer, Petsec Energy Inc.)
R A Keogh (President, Petsec Energy Inc.)
R A Krenzke (Executive Vice President Exploration, Petsec Energy Inc.)
P Gahdmar (Company Secretary and Group Financial Controller, Petsec Energy Ltd)

KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensation included in personnel expenses (see note 6) is as follows:

	2015 US$'000	2014 US$'000
Wages and salaries	**1,191,546**	1,111,374
Service agreements	**749,676**	646,632
Superannuation & 401(k) plans	**58,422**	52,917
Bonuses	**84,566**	235,596
Termination benefits	**–**	–
Share-based payment compensation	**11,100**	6,400
Other benefits	**247,729**	143,987
	2,343,039	2,196,906

INDIVIDUAL DIRECTORS AND EXECUTIVES COMPENSATION DISCLOSURES

Information regarding individual directors' and executives' compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 and 2M.6.04 are provided in the Remuneration Report section of the Directors' Report on pages 23 to 29.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

Non-executive directors appointed prior to 2003 are entitled to receive a retirement benefit that is equivalent to the remuneration received in the three years prior to retirement. Incoming non-executive directors appointed thereafter are not entitled to receive retirement benefits in accordance with the recommendations made by the ASX Corporate Governance Council. Directors' retirement obligations are presently US$142,000 in total (2014: US$160,000).

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management personnel of the Company and their immediate relatives control approximately 21.5 percent of the voting shares of the Company.

2,500,000 shares were issued by the Company under its shareholder approved Employee Share Plan ("ESP") to key management personnel as long term incentive compensation during the year (2014: nil).

The aggregate amounts recognised during the year relating to key management personnel and their personally related entities, were a total expense of US$750,000 (2014: US$647,000). Refer to Remuneration Report for further details.

ASSETS AND LIABILITIES ARISING FROM THE ABOVE RELATED PARTY TRANSACTIONS

	2015 US$'000	2014 US$'000
Current assets		
Related party receivables	**639**	–
Non-current assets		
Related party receivables	**861**	1,093
Current liabilities		
Related party payables	**149**	45

OTHER RELATED PARTY DISCLOSURES

Information relating to subsidiaries is set out in note 25.

31. PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ending 31 December 2015 the parent entity of the consolidated group was Petsec Energy Ltd.

	2015 US$'000	2014 US$'000
Result of parent entity		
Profit/(loss) for the period	**7,998**	(10,733)
Other comprehensive income	**(4,217)**	(3,306)
Total comprehensive income/(loss) for the period	**3,781**	(14,039)
Financial position of parent entity at year end		
Current assets	**8,556**	12,261
Total assets	**44,515**	44,172
Current liabilities	**168**	228
Total liabilities	**3,660**	7,634
Total equity of the parent entity comprising of:		
Share capital	**186,541**	186,001
Share-based payment compensation reserve	**13**	17
Foreign currency translation reserve	**22,380**	26,597
Accumulated losses	**(168,079)**	(176,077)
Total equity	**40,855**	36,538

PARENT ENTITY GUARANTEES IN RESPECT OF THE DEBTS OF ITS SUBSIDIARIES

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of its subsidiaries. Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed are disclosed in note 24.

PARENT ENTITY CONTINGENCIES AND CAPITAL COMMITMENTS

The parent entity had no contingent liabilities and capital commitments outstanding at 31 December 2015.

32. EVENTS SUBSEQUENT TO BALANCE DATE

On 5 February 2016, the Company announced to the Australian Stock Exchange that it had significantly expanded its oil and gas interests in the Republic of Yemen with the acquisition of entities holding the entire 100% working interest and operatorship of the Damis (Block S-1) Production Licence.

The Damis (Block S-1) Production Licence holds five sizeable oil and gas discoveries including the developed and producing, until suspended in 2014, An Nagyah Oilfield, and four undeveloped oil and gas fields within the licence area: Osaylan, An Naeem, Wadi Bayhan and Harmel.

The newly acquired Damis (Block S-1) Production Licence, which continues the Company's stated policy of acquiring developed and undeveloped oil reserves in the MENA region, is located approximately 80 kilometres to the southwest of the Company's Block 7 in the Sab'atayn Basin, in central West Yemen.

The Company's purchase of the Damis (Block S-1) Production Licence was achieved through the acquisition by the Company's wholly owned subsidiary, Petsec Energy (Middle Eastern) Limited, of all the shares of Yemen (Block S-1) Inc., a wholly owned subsidiary of Occidental Petroleum Corporation (NYSE: OXY), and the operator of Damis (Block S-1) holding a 75% working interest. Separately, Petsec Energy (Middle Eastern) Limited acquired all of the shares of TG West Yemen Inc., a wholly owned subsidiary of TransGlobe Energy Corporation (TSE: TGL), which holds a 25% working interest.

The acquisition consideration is comprised of a base cash payment of US$0.7 million plus trailing payments, subject to the recommencement of production and other conditions precedent. The block is currently subject to Force Majeure due to the current political issues in Yemen and consequent inability to ship oil from the West coast of Yemen, at the export pipeline terminus for the An Nagyah Oilfield.

DIRECTORS' DECLARATION

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

(a) the financial statements and notes and the Remuneration report in the Directors' Report, set out on pages 23 to 60, are in accordance with the Corporations Act 2001 including:

   (i) giving a true and fair view of the financial position of the Company and the consolidated entity as at 31 December 2015 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the Corporations Regulation 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2; and

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

2 There are reasonable grounds to believe that the Company and the controlled entities identified in Note 26 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.

3 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 31 December 2015.

Signed in accordance with a resolution of the directors:

TN Fern
Director

Sydney, 23 February 2016

Independent auditor's report to the members of Petsec Energy Ltd

Report on the financial report

We have audited the accompanying financial report of Petsec Energy Ltd (the company), which comprises the consolidated statement of financial position as at 31 December 2015, and consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 32 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Report on the remuneration report

We have audited the Remuneration Report included in pages 23 to 29 of the directors' report for the year ended 31 December 2015. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Petsec Energy Ltd for the year ended 31 December 2015, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Daniel Camilleri
Partner
Sydney

23 February 2016

EXPLORATION AND PRODUCTION INTERESTS

As at 31 December 2015

USA				
Geographical Location	**Field/Prospect**	**Status**	**Working Interest**	**Revenue Interest**
USA				
Onshore Louisiana	Jeanerette	Producing	12.5%	9.22%
	Mystic Bayou	Producing	25.0%	18.50%
	Ouiski Bayou	Evaluation	12.5%	9.22%
Gulf of Mexico	Main Pass 18[1]	Shut-in	100.0%	83.33%
	Main Pass 19[1]	Shut-in	55.0%	45.83%
	Main Pass 270/273[2]	Suspended	12.5%	10.24%

MENA Region				
Geographical Location	**Licence**	**Status**	**Working Interest**	**Participating Interest**
Yemen				
Shabwa Basin	Block 7, Al Barqa Permit	Evaluation	35.00%	29.75%
	Block 7, Al Barqa Permit[3]	Evaluation	40.00%	34.00%
	Block S-1, Damis Production Licence[4]	Shut-in	100.00%	82.50%

1. Fields will be permanently plugged and abandoned during 2016.
2. Well drilled in 2015 and temporarily suspended for future completion and development.
3. In April 2015, the Company entered into an agreement with Oil Search to acquire its interest in the Block 7, Al Barqa Permit, in the Republic of Yemen and assume operatorship of the block. Agreement not completed as of 31 December 2015.
4. The Company secured 100% interest and operatorship in the established production area of Damis (Block S-1) Production Licence in Yemen on 2 February 2016.

SHAREHOLDER INFORMATION

As at 21 March 2016

NUMBER OF SHAREHOLDERS

Issued capital was 235,461,630 ordinary shares held by 1,952 shareholders.
All issued shares carry equal voting rights on a one for one basis.

Size of Holding	No of Holders
1-1,000	183
1,001-5,000	305
5,001-10,000	510
10,001-100,000	767
100,001 and over	187
Total number of shareholders	**1,952**
Number holding less than a marketable parcel	459

LARGEST TWENTY SHAREHOLDERS

The largest twenty shareholders held 139,667,827 ordinary shares being 59.317% of the issued ordinary capital.

Name of Holder	No of Holders	%
CANNING OIL PTY LTD	25,709,116	10.919
MARTIN PLACE SECURITIES NOMINEES PTY LTD	24,426,981	10.374
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	12,133,747	5.153
LIPPO SECURITIES LTD <CLIENT A/C>	11,372,195	4.830
MR DAVID A MORTIMER & MRS BARBARA L MORTIMER <WALLAROY PROVIDENT FUND A/C>	8,411,448	3.572
PETROLEUM SECURITIES SHARE PLAN PTY LIMITED	6,700,000	2.845
NATIONAL NOMINEES LIMITED	5,410,020	2.298
MARTIN PLACE SECURITIES NOMINEES PTY LTD <GULF STREAM A/C>	5,261,475	2.235
ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	4,305,725	1.829
KIRMAN PTY LTD <BEEGEES SUPER FUND A/C>	4,129,700	1.754
MR EDWARD GACKA & MRS BERYL GACKA <GACKA FAMILY S/F A/C>	3,855,763	1.638
MR PETER RAYMOND GACKA & MRS JENNY ELAINE GACKA <PETER & JENNY GACKA S/F A/C>	3,642,000	1.547
HUMBOLDT CAPITAL CORPORATION	3,624,532	1.539
MR ROSS ADRIAN KEOGH	3,612,500	1.534
CITICORP NOMINEES PTY LIMITED	3,602,036	1.530
J P MORGAN NOMINEES AUSTRALIA LIMITED	3,201,432	1.360
DEN DUYTS CORPORATION PTY LTD	3,057,635	1.299
CALVESTON WORLDWIDE LTD	2,460,000	1.045
SINO CHAMPION DEVELOPMENT LIMITED	2,459,579	1.045
MS DAN LUO	2,291,943	0.973
Substantial shareholders disclosed in substantial shareholder notices given to the Company are as follows:		
CANNING OIL PTY LTD including its associates	30,826,876	13.092

5 YEAR COMPARATIVE DATA SUMMARY

		2011	2012	2013	2014	2015	% change
Financial Performance							
Net Production (Bcfe)[1]		2.3	2.4	3.6	1.6	**0.5**	(68%)
Average Gas Price Received	(US$/Mcfe)	$5.69	$3.50	$4.50	$5.08	**$3.07**	(40%)
US$ millions							
Net Revenue	(US$m)	$13.0	$8.6	$16.4	$8.2	**$1.6**	(80%)
Net Profit/(Loss) after Tax		$14.0	($5.9)	($15.2)	($1.1)	**($10.6)**	n/a
Realised hedge gains[2]	(US$m)	$1.5	$0.0	$0.0	$0.0	**$0.0**	n/a
Depreciation, depletion & amortisation	(US$m)	$5.2	$3.9	$7.0	$1.8	**$0.5**	(72%)
Exploration writeoffs, impairments, abandonment and work-over expenses	(US$m)	$20.6	$3.2	$14.4	$3.0	**$6.4**	113%
Derivative (gains)/losses	(US$m)	$0.9	($1.1)	$1.3	$0.1	**$0.0**	n/a
Gain on discharge of debt	(US$m)	($11.3)	$0.0	$0.0	$0.0	**$0.0**	n/a
Net financial expense	(US$m)	$0.5	$0.4	$0.2	$0.2	**$0.2**	0%
Income tax (benefit)/expense	(US$m)	$0.0	$0.0	$0.0	$0.0	**$0.0**	n/a
(Profit)/Loss from discontinued operation[3]	(US$m)	($29.8)	$0.0	$0.0	$0.0	**$0.0**	n/a
Tax (benefit)	(US$m)	$0.0	$0.0	$0.0	($0.6)	**$0.0**	n/a
EBITDAX[4]	(US$m)	$1.6	$0.5	$7.7	$3.4	**($3.5)**	n/a
EBITDAX Margin/Mcfe	(US$/Mcfe)	$0.72	$0.22	$2.09	$2.10	**($6.81)**	n/a
Balance Sheet							
Total Assets	(US$m)	$66.4	$64.3	$44.6	$40.1	**$32.5**	(19%)
Cash[5]	(US$m)	$41.6	$28.4	$25.4	$32.6	**$12.8**	(61%)
Debt	(US$m)	$0.0	$0.0	$0.0	$0.0	**$0.0**	n/a
Shareholders Equity	(US$m)	$57.3	$51.9	$35.4	$34.2	**$23.8**	(30%)
Cashflow and Capital Expenditures							
Net Cashflow from:							
Operations	(US$m)	($6.6)	($1.4)	$8.1	$1.1	**($5.8)**	n/a
Investing	(US$m)	$37.0	($10.6)	($10.1)	$6.1	**($12.3)**	n/a
Financing	(US$m)	($12.8)	$0.0	($0.6)	$0.0	**$0.0**	n/a
		$17.6	($12.0)	($2.6)	$7.2	**($18.1)**	
Capital Expenditures[6]							
Exploration	(US$m)	$0.6	$4.9	$2.8	$3.2	**$3.4**	6%
Development	(US$m)	$2.8	$8.4	$2.9	$1.3	**$12.2**	841%
Acquisition	(US$m)	$0.5	$1.5	$0.0	$1.2	**$0.5**	(58%)
		$3.9	$14.8	$5.7	$5.7	**$16.1**	
A$ million							
EBITDAX[4]	(A$m)	$1.5	$0.5	$8.0	$3.8	**($4.7)**	n/a
Net Profit/(Loss) after Tax	(A$m)	$13.5	($5.7)	($15.8)	($1.2)	**($14.1)**	n/a
(US$/A$ exchange rate)		$1.04	$1.04	$0.96	$0.90	**$0.75**	(16%)
Operating Margins & Costs							
Average Gas Price Received	(US$/Mcfe)	$5.69	$3.50	$4.50	$5.08	**$3.07**	(40%)
+ Other Income	(US$/Mcfe)	$0.07	$0.63	($0.01)	$1.25	**$1.50**	20%
- Operating Costs (GG&A + LOE)	(US$/Mcfe)	$5.04	$3.92	$2.40	$4.23	**$11.38**	n/a
= EBITDAX[4]	(US$/Mcfe)	$0.72	$0.22	$2.09	$2.10	**($6.81)**	n/a
Depreciation, Depletion & Amortisation	(US$/Mcfe)	$2.29	$1.59	$1.93	$1.13	**$1.05**	(7%)
Proved and Probable Reserves (2P)[7]							
USA	(MMboe)	2.6	1.9	1.2	0.3	**3.7**	1058%
Yemen	(MMboe)	n/a	n/a	n/a	n/a	**5.6**	n/a

1 Bcfe = billion cubic feet of gas equivalent. Mcfe = thousand cubic feet of gas equivalent. Conversion ratio: 1 barrel of oil = 6 Mcf of gas.

2 Realised hedge gains in FY2011 relate to derivative natural gas collar contracts which settled during the period. The Company had included the impact of the realised hedge gains, in the reported Net Revenue and EBITDAX amounts in the above table and elsewhere in the comparative Full Year Financial Statements to better reflect the commercial impact and rationale for holding these derivative instruments.

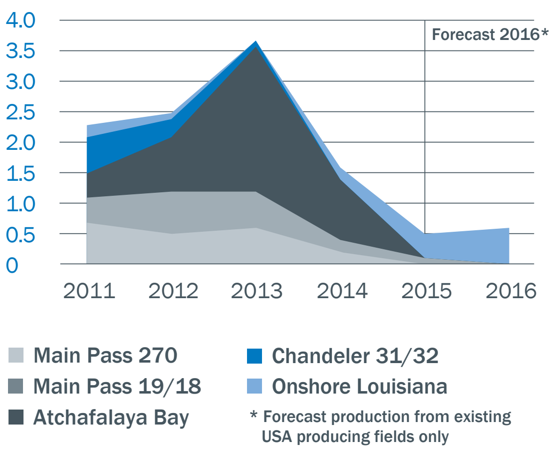
3 Profit from discontinued operation in FY2011 reflects the accounting gain recognised on the disposal of the wholly owned subsidiary which held the China oil interests.

4 EBITDAX = earnings before interest (financial income and expense), income tax, depreciation, depletion and amortisation, and exploration (including dry hole and impairment expense, exploration and work-over expense) and realised hedge gains. EBITDAX is a non-IFRS number and is unaudited.

5 FY2015 includes US$3.6 million of cash deposits held in an escrow account to secure operator bonds that are on issue to the Bureau of Ocean Energy Management ("BOEM").
6 Excludes minor (non oil & gas) property, plant & equipment expenditure and investments.
7 2P reserve estimates are based on independent reserve assessments.

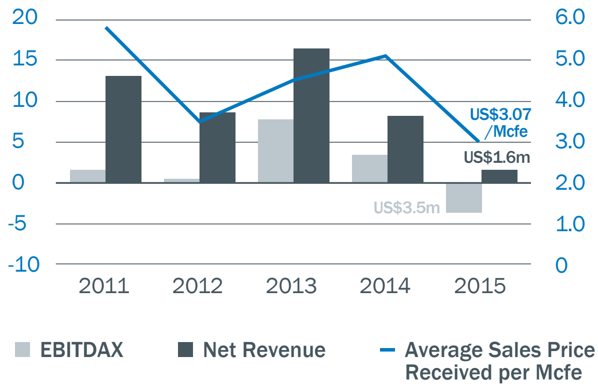
USA PRODUCTION HISTORY BY FIELD

Bcfe



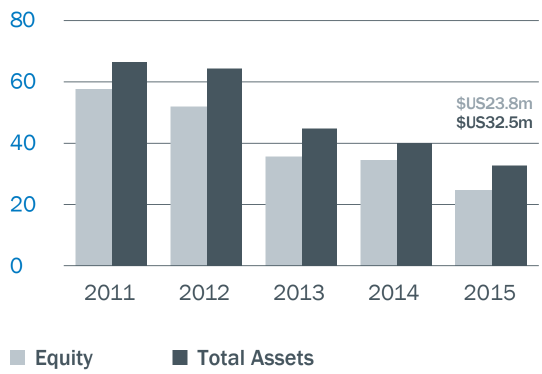
EBITDAX, USA NET REVENUE & AVERAGE SALES PRICED RECEIVED PER Mcfe

US$ Million / US$



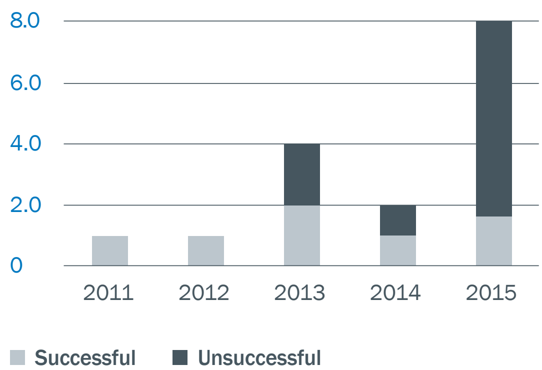
BALANCE SHEET EQUITY AND TOTAL ASSETS

US$ Million



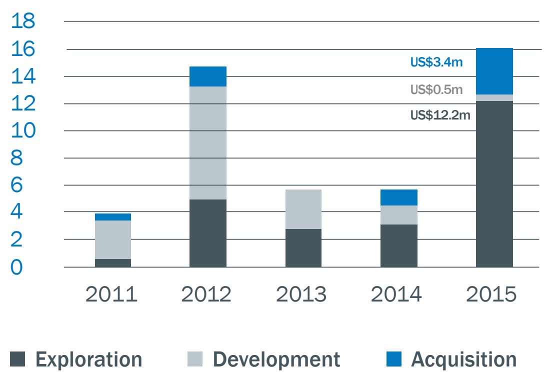
WELLS DRILLED/SUCCESSFUL 44% SUCCESS RATE – 5 YEARS TO 2014

Number of wells



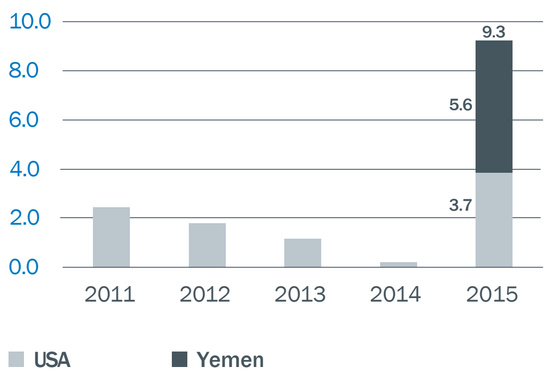
EXPLORATION, DEVELOPMENT AND ACQUISITION EXPENDITURE

US$ Million



YEAR END INDEPENDENTLY ASSESSED PROVED AND PROBABLE RESERVES

MMboe



GLOSSARY

1P	Proved reserves
2P	Proved and probable reserves
AMI	Area of mutual interest
Bcf	Billion cubic feet of gas
Bcfe	Billion cubic feet of gas equivalent
Bopd	Barrels of oil per day
capex	Capital expenditure
cps	Cents per share
DD&A	Depreciation, depletion and amortisation
EBITDAX	Earnings before Interest, taxation, depreciation, amortisation and exploration expense. EBITDAX is a non-IFRS number
Field	An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition
JV	Joint venture
Mbbls	Thousand barrels of crude oil or other liquid hydrocarbons
Mbo	Thousand barrels of oil
Mboe	Thousand barrels of oil equivalent
MMbbls	Million barrels of crude oil or other liquid hydrocarbons
MMbo	Million barrels of oil
MMboe	Million barrels of oil equivalent
Mcfe	Thousand cubic feet of gas equivalent
MMcf	Million cubic feet of gas
MMcfe	Million cubic feet of gas equivalent
MMcfpd	Million cubic feet of gas per day
NRI	Net revenue interest
Oil	Crude oil and condensate
Proved reserves	The estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions
Proved undeveloped reserves	Proved reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion
Working Interest or W.I.	The operating interest which gives the owner the right to drill, produce and conduct operating activities on the property and a share of production

CORPORATE DIRECTORY

BOARD OF DIRECTORS
Terrence N Fern – Chairman and Managing Director
David A Mortimer – Non-executive Director
Alan P Baden – Non-executive Director
Mark S Lober – Non-executive Director

COMPANY SECRETARY
Paul Gahdmar

AUSTRALIAN MANAGEMENT
Terrence N Fern – Chairman and Managing Director
Paul Gahdmar – Company Secretary and Group Financial Controller
Manny Anton – Head of Investor Relations

MENA MANAGEMENT
Maki M Petkovski – Chief Executive Officer of Petsec Energy (Middle Eastern) Limited (“PEMEL”)
Murray R Hawkes – Chief Operating Officer & Yemen General Manager of PEMEL
John L Rees – Vice President Technical of PEMEL

USA MANAGEMENT
Richard J Smith – Chief Executive Officer of Petsec Energy Inc. (“PEI”)
Ross A Keogh – President of PEI and Group Chief Financial Officer
Ron A Krenzke – Executive Vice President of Exploration of PEI

REGISTERED OFFICE AND PRINCIPAL BUSINESS OFFICE
Level 13, 1 Alfred Street
Sydney NSW 2000 Australia
Telephone: + 61 2 9247 4605
Facsimile: + 61 2 9251 2410

MENA OFFICE
Indigo Icon Tower, Suite 2908
Dubai, United Arab Emirates
Telephone: +971 4 454 7714
Facsimile: +971 4 451 8443

USA OFFICES
1201 Louisiana, Suite 520
Houston, TX 77002
Telephone: +1 713 457 5800
Facsimile: +1 713 457 5838

301 E. Kaliste Saloom Road
Suite 300, Lafayette
LA 70508 USA
Telephone: +1 337 989 1942
Facsimile: +1 337 989 7271

SHARE REGISTER
Boardroom Pty Limited
Level 12, 225 George Street, Sydney NSW 2000 Australia
Postal: GPO Box 3993, Sydney NSW 2001
Telephone: 1300 737 760
International: + 61 2 9290 9600
Facsimile: 1300 653 459
International: + 61 2 9279 0664
Email: enquiries@boardroomlimited.com.au

DEPOSITARY RECEIPTS REGISTER
The Bank of New York
6th Floor, 620 Avenue of the Americas
New York NY 10011 USA
Telephone: + 1 646 885 3300
Facsimile: + 1 646 885 3043

AUDITORS
KPMG Chartered Accountants
King Street Wharf
10 Shelley Street
Sydney NSW 2000 Australia

STOCK EXCHANGE
Listed on the Australian Stock Exchange, Symbol: PSA
Traded in USA on ADRs, Symbol: PSJEY

FOR FURTHER INFORMATION
Web: www.petsec.com.au