Petsec Energy Ltd

Results for announcement to market
For the six months ended 30 June 2016

Key Points

- Net loss after tax for the six months to 30 June 2016 was US$ 5.1 million.
- Net oil and gas revenues (after royalties) of US$0.3 million were generated from production of 105 MMcfe at an average gas equivalent sales price of US$3.14/Mcfe.
- Acquisition of 100% working interest (82.5% participating interest) and operatorship of the Damis (Block S-1) Production licence in Yemen which holds 5 sizeable oil and gas discoveries including the developed/productive An Nagyah Oilfield.
- Main Pass Block 270 #3 BP 1 discovery well (Hummer Project) – platform jacket construction complete, load out and installation to commence early September 2016. Tie back, completion and testing of the well will follow in 2nd half 2016.
- Award of Main Pass Block 274 lease (Hummer Project) at the Central Gulf of Mexico Lease Sale 241.
- At 30 June 2016, the consolidated entity had no debt and held total cash deposits of US$9.2 million (including US$3.7 million of restricted deposits).

Subsequent Events

- Established US$15 million Secured Unlisted Convertible Note Facility to provide flexibility for the Group's ongoing funding requirements to progress its development projects in the USA and Middle East and North Africa ("MENA").

Key data – Six months ended 30 June 2016 compared to the six months ended 30 June 2015

	Six Months to 30 June 2016	Six Months to 30 June 2015	% Increase/ (Decrease)
Key Operating/Financial Data			
Net production (MMcfe [1])	**105**	218	(52%)
Net revenues after royalties (US$m)	**0.3**	0.6	(50%)
Net profit/(loss) after tax (US$m)	**(5.1)**	(3.7)	n/a
Add: Depreciation, depletion and amortisation expense (US$m)	**0.1**	0.2	(50%)
Add: Dry hole, impairment and exploration expense (US$m)	**-**	2.3	(100%)
Add: Net financial expense (US$m)	**0.1**	0.1	-
Add: Major workovers, maintenance & repair expense	**0.8**	-	n/a
Less: Income tax benefit	**-**	-	-
EBITDAX (US$m) [2]	**(4.1)**	(1.1)	n/a
Key Performance Indicators			
Average net sales price/Mcfe [3] (US$)	**3.14**	2.97	6%
Add: Other revenue/(expense)/Mcfe (US$)	**1.62**	2.48	(35%)
Less: Operating costs/Mcfe (US$) [4]	**(43.95)**	(10.51)	n/a
EBITDAX/Mcfe (US$)	**(39.19)**	(5.06)	n/a
Gross margin [5]	**n/a**	n/a	n/a
DD&A/Mcfe (US$)	**1.14**	0.83	37%
Other Financial Data			
Acquisition, exploration and development expenditure (US$m)	**3.9**	4.5	(13%)
USD/AUD average exchange rate	**0.7356**	0.7800	(6%)

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

Commentary on results

General

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

Current period: Six months ended 30 June 2016; Previous corresponding period: Six months ended 30 June 2015.

Key Operating/Financial Data

- Net production for the six months ended 30 June 2016 was 85 MMcf of gas and 3,451 barrels of oil/condensate (equivalent to 105 MMcfe). This was 52% lower than the previous corresponding period production of 218 MMcfe due to the shut-in of both the Adeline Sugar Factory No.4 and Williams No. 2 wells for an extended period of time. Refer to the "*Review of Operations"* section in the Directors Report on page 5 for further details.
- Net oil and gas revenues (after royalties) for the current period of US$0.33 million were 49% lower than that achieved in the previous corresponding period of US$0.65 million, mainly attributable to lower production volumes.
- The consolidated entity reported negative EBITDAX US$4.1 million for the current period (previous corresponding period: EBITDAX of US$1.1 million), reflecting the lower oil and gas revenue base coupled with additional operating and GG&A costs associated with the acquisition of the An Nagyah Oilfield in Yemen.
- The consolidated entity incurred a net loss after tax for the current period of US$5.1 million (previous corresponding period: net loss after tax of US3.7 million) due to the aforementioned operating factors.

Key Performance Indicators

- Petsec Energy realised an average net gas equivalent sales price of US$3.14/Mcfe for the current period, 6% higher than the US$2.97/Mcfe achieved for the previous corresponding period, reflecting a higher proportion of liquids production in the current period. The consolidated entity received an average sales of price US$2.32/Mcf and US$38.66/bbl for its natural gas and oil/condensation production, respectively. This compares to US$2.79/Mcf and US$53.83/bbl for its natural gas and oil/condensation production in the previous corresponding period.
- Current period unit operating costs of US$43.95/Mcfe (previous corresponding period of US$10.51/Mcfe) and negative EBITDAX of US$39.19/Mcfe (previous corresponding period: US$5.06/Mcfe) reflected the combined effect of lower production volumes and increased operating costs relating to Petsec Energy's expansion in MENA.
- Unit DD&A expense was US$1.14/Mcfe for the current period (previous corresponding period: US$0.83/Mcfe).

Other Financial Data

- Acquisition, exploration and development expenditures for the six months ended 30 June 2016 of US$3.9 million comprised acquisition cost and working capital adjustments of the Damis (Block S-1) interest in Yemen and development costs associated with the Main Pass 270 #3 BP 1 well (Hummer Project).

Dividend

Petsec Energy Ltd does not propose the payment of a dividend in respect of the six months ended 30 June 2016.

Net Tangible Asset Backing

The consolidated entity's net tangible asset backing per ordinary security for the current period was US$0.05 (previous corresponding period: US$0.12).

Directors’ Report and Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2016

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This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2015 and any public announcements made by Petsec Energy Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Directors' Report

For the six months ended 30 June 2016

The directors present their report together with the consolidated financial report for the six months ended 30 June 2016 and the independent auditor's review report thereon.

1. Directors

The directors of the Company at any time during or since the six months ended 30 June 2016 are:

Name	Period of directorship
Non-executive	
Mr David A. Mortimer AO	Appointed in 1985
Mr Alan P. Baden	Appointed in 2013
Mr Mark S. Lober	Appointed in 2013. Resigned on 19 May 2016
Executive	
Mr Terrence N. Fern	Appointed as Director and Chief Executive Officer in 1987 Appointed Chairman in 1999

2. Operating results

The consolidated entity incurred a net loss after tax for the six months ended 30 June 2016 of US$5.1 million (previous corresponding period: net loss after tax of US$3.7 million) largely due to a lower oil and gas revenue base in combination with increased operating and GG&A costs associated with the acquisition of the An Nagyah Oilfield in Yemen.

Net oil and gas revenues of US$0.33 million were generated for the current period, from production of 105 MMcfe at an average natural gas equivalent sales price of US$3.14/Mcfe. This was 49% lower than the US$0.65 million in net oil and gas revenues achieved in the previous corresponding period, mainly due to the impact of lower production volumes.

Net production for the six months ended 30 June 2016 fell 52% to 105 MMcfe (previous corresponding period: 218 MMcfe) due to the shut-in of both the Adeline Sugar Factory No.4 and Williams No. 2 wells for extended periods of time during the course of the first half of the year. Refer to the "*Review of Operations*" section in the Directors Report on page 5 for further details.

The average gas equivalent sales price realised for the current period of US$3.14/Mcfe was 6% higher than the US$2.97/Mcfe achieved for the previous corresponding period, reflecting a higher proportion of liquids production in the current period. The consolidated entity received an average sales price of US$2.32/Mcf and US$38.66/bbl for its natural gas and oil/condensation production, respectively. This compares to an average sales price of US$2.79/Mcf and US$53.83/bbl for its natural gas and oil/condensation production in the previous corresponding period.

Lease operating expense of US$1.4 million (previous corresponding period: US$0.3 million) and geological, geophysical and administrative ("GG&A") expense of US$3.2 million (previous corresponding period: US$2.0 million) were higher as a result of the increased activities and business expansion in the MENA region – Dubai/Yemen.

The consolidated entity recorded negative earnings before interest, income tax, depreciation, depletion and amortisation, and exploration expense ("EBITDAX") of US$4.1 million for the current period (previous corresponding period: negative EBITDAX of US$1.1 million).

Depreciation, depletion and amortisation ("DD&A") expense was US$0.1 million in the current period (previous corresponding period: US$0.2 million).

3. Financial position

At 30 June 2016, the Company's cash deposits of US$9.2 million was US$3.6 million or 28% lower than the 31 December 2015 cash balance of US$12.8 million. The cash deposits which are predominantly held in US dollars include secured deposits of 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").

Subsequent to 30 June 2016, the Company entered into a US$15 million Secured Unlisted Convertible Note Facility Agreement to provide flexibility for its ongoing funding requirements to progress its development projects in the USA and MENA. Further details are provided in Note 5 – Events subsequent to balance date.

4. Review of operations

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

USA

Production

The Company produced 85 MMcf of gas and 3,451 barrels of oil/condensate (equivalent to 105 MMcfe) for the six months to 30 June 2016, predominantly from the Williams No.2 Alt. well in the Mystic Bayou Field, onshore Louisiana USA.

Adeline Sugar Factory No. 4 Well – Jeanerette Field
Petsec: 12.5% working interest (9.2% net revenue interest)

The Adeline Sugar Factory ("ASF") No. 4 well located in St. Mary Parish, Louisiana was drilled and brought into production in June 2014. The well was shut-in in mid-November 2015 due to high water production and a restriction in the tubing due to salt build-up. The well has produced on an intermittent basis since that time, and it's the operator's intention to continue as is for the near-term.

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

The Williams No.2 Alt. well was shut-in on 10 February 2016 due to a leak in the tubing at a depth below the producing reservoir. The operator completed a work-over of the well and returned it to production on 26 May 2016 at a gross rate of approximately 5.2 MMcfpd and 240 bcpd. The well had averaged gross daily production rates of approximately 7.5 MMcfpd and 300 bcpd prior to being shut-in.

Acquisitions

Main Pass Block 274 – Hummer Project
Petsec: 12.5% working interest (10.24% net revenue interest)

On 5 May 2016, the Bureau of Ocean Energy Management ("BOEM") awarded the Main Pass Block 274 lease to Castex Offshore, Inc. ("Castex"), the operator of the Hummer Project. Castex was the high bidder with a gross bid of US$675,576 (US$84,447 net to Petsec).

The block falls within an Area of Mutual Interest (AMI) for the Hummer Project participants, and as a result the Company had the right, which it has exercised, to participate for its 12.5% working interest ("W.I.") in the lease.

Main Pass Block 274 was previously leased by Petsec in March 2010 as part of the Hummer Exploration Prospect, which was identified on 3D seismic as extending across portions of Main Pass Blocks 270, 273 and 274. The Main Pass Block 270 #3 Hummer discovery well (Petsec 12.5% W.I.) was drilled in late 2015 and is currently under development with the fabrication and installation of a platform jacket. The Main Pass Block 274 lease had already expired prior to the discovery well being drilled.

Development

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 Gulf of Mexico (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 for future completion and production testing after the fabrication and installation of a platform jacket.

The fabrication and installation of the jacket, tie-back, well completion, and testing are anticipated to be completed during the second half of 2016. The estimated net cost for the fabrication and installation of the platform jacket is approximately US$1.1 million. Net cost for completion and testing of the well are anticipated to be approximately US$0.9 million.

4. Review of operations (continued)

Development (continued)

Following completion and testing of the well, the deck, facilities and pipelines will be fabricated and installed. Initial production on the project is anticipated during the second quarter of 2017.

MENA

During the first half of the year, the Company expanded its capabilities and activities in the MENA regions in order to pursue its objective of acquiring onshore leases with oil reserves, both developed/producing and undeveloped, that hold significant development, exploitation and exploration potential.

In February 2016, the Company announced the appointments of Mr. Murray Hawkes and Mr. John Rees as Chief Operating Officer and VP Technical, respectively, of the Company's wholly owned subsidiary, Petsec Energy (Middle Eastern) Limited. Mr. Hawkes also took on the role of Yemen General Manager, focussing on reactivating field activities in Yemen, including the re-start of production from the newly acquired An Nagyah Oilfield in Damis (Block S-1). Mr. Hawkes and Mr. Rees both have significant managerial experience overseeing the delivery of major oil and gas projects, and extensive contacts in the MENA region which will enhance the Company's capabilities and expansion of activities in the region.

In the second half of 2016, the activities for the Company in MENA are focussed on preparations for the re-start of production from the recently acquired An Nagyah Oilfield with the aim of ensuring that the Company is ready for production once the political situation allows.

The political situation in Yemen continues to evolve and is progressing towards a resolution of the conflict. The internationally recognised Government continues to prepare for the re-start of crude exports from Yemen facilities. It is anticipated that Yemen oil production is likely to recommence by the fourth quarter of 2016.

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

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

The Company announced on 5 February 2016 a further significant expansion of its oil and gas interests in 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 productive (until suspended in 2014), An Nagyah Oilfield, and a further four undeveloped oil and gas fields – Osaylan, An Naeem, Wadi Bayhan, and Harmel.

The four undeveloped fields hold substantial oil and gas resources, in excess of 34 million barrels of oil and 550 Bcf of gas [1] which will be a source of future growth of reserves and production for the Company.

The block contains significant existing infrastructure, including surface facilities with a capacity to process up to 20,000 barrels of oil per day (bopd) and an 80,000 bopd pipeline, which joins the 300,000 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 previous operator due to the political issues in Yemen and the resulting inability to ship oil for the An Nagyah oilfield from the export pipeline terminus on the west coast of Yemen. The field was producing at a rate of over 5,600 bopd prior to its being shut-in.

It is Petsec's intention to restart production as early as the political situation allows. The production facility has been maintained during the shut-in period and preparations are underway for the re-start of production with the initiation of maintenance on access roads within the facility, with a view to the delivery of crude either by pipeline or trucking or a combination of both.

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

4. Review of operations (continued)

Block 7, Al Barqa Permit, Republic of Yemen

Petsec: 35% working interest (29.75% participating interest)

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.

Petsec currently holds a non-operating 35% working interest (29.75% participating interest) in the Block 7 Joint Venture and has an agreement with Oil Search Limited (ASX: OSH) to acquire its 40% working interest (34% participating interest) in the block. The Company now expects to conclude the acquisition of the Oil Search interest in Block 7 towards the end of 2016 following the announcement of a peace agreement. The acquisition which involves acquiring all the shares of its subsidiary, Oil Search (ROY) Limited, will increase Petsec Energy's overall working interest in the block to 75% (63.75% participating interest). On completion of the transaction Petsec Energy will assume operatorship of the block.

The Company's first objective in this block is to bring the two suspended discovery wells of the Al Meashar Oilfield (target resource of 11 MMbbl [1]) 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 cleanup of the reservoir is likely to result in stabilised production rates over a longer production period.

Well engineering and cost estimates of the re-entry programme for both wells on the Al Meashar Oilfield are complete and will be followed by a tendering process for equipment and services.

1 Source: Oil Search Limited

5. Events subsequent to balance date

Subsequent to 30 June 2016, the Group entered into a Secured Convertible Note Facility under which US$5 million (Tranche 1) can be drawn down on or before 31 December 2016. Under the facility additional draw downs in two tranches of US$5 million each are available to the Group to facilitate the restart of production of the An Nagyah Oilfield on the Damis (Block S-1) Production Licence, and the expansion of its MENA production asset portfolio. These additional funds are subject to an improvement in the operating conditions in the Republic of Yemen that permits the production of oil and gas at certain rates. If however, the operating conditions in Yemen do not materialise, the Group has committed to alternative additional funding to meet its expected expenditures.

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.

6. Lead auditor's independence declaration

The Lead Auditor's Independence Declaration is set out on page 9 and forms part of the Directors' Report for the six months ended 30 June 2016.

Directors' Report (continued)

For the six months ended 30 June 2016

7. Rounding off

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

This report is made with a resolution of the directors:

T N Fern,
Director   Sydney, 25 August 2016

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 review for the half-year ended 30 June 2016 there have been:

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

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

KPMG

KPMG

Daniel Camilleri
Partner

Sydney

25 August 2016

Consolidated interim statement of profit and loss and other comprehensive income

For the six months ended 30 June 2016

	Note	Six months to 30 June 2016 US$'000	30 June 2015 US$'000
Revenues from sale of oil & gas		330	678
Royalties paid		-	(31)
Net revenues after royalties		330	647
Other income and expenses		170	541
Lease operating expenses		(1,388)	(296)
Geological, geophysical and administrative expenses		(3,227)	(1,995)
Depreciation, depletion and amortisation		(120)	(182)
Exploration and work-over expense		(775)	(5)
Dry hole expense	5	(46)	(2,316)
Financial income		16	22
Financial expenses		(100)	(109)
Net financial income/(expense)		(84)	(87)
Profit/(loss) before income tax		(5,140)	(3,693)
Income tax benefit/(expense)	6	-	-
Profit/(loss) from continuing operations		(5,140)	(3,693)
Profit/(loss) for the period		(5,140)	(3,693)
Other comprehensive income/(loss)			
Foreign exchange translation differences		(120)	(67)
Total comprehensive income/(loss) for the period		(5,260)	(3,760)
		US$	US$
Earnings/(loss) per share			
Basic and diluted earnings/(loss) per share	7	(0.022)	(0.016)

The consolidated interim statement of comprehensive income is to be read in conjunction with the notes to the consolidated financial statements set out on pages 14 to 22.

Consolidated interim statement of changes in equity

For the six months ended 30 June 2016

In thousands of USD	Share capital US$'000	Translation reserve US$'000	Share-based Compensation US$'000	Accumulated losses US$'000	Total Equity US$'000
Balance at 1 January 2015	186,001	1,786	17	(153,559)	34,245
Total comprehensive income/loss for the period					
Loss for the period	-	-	-	(3,693)	(3,693)
Other comprehensive income					
Foreign exchange translation differences	-	(67)	-	-	(67)
Cash flow hedges, net of tax	-	-	-	-	-
Total other comprehensive income/(loss)	-	(67)	-	-	(67)
Total comprehensive income/(loss) for the period	-	(67)	-	(3,693)	(3,760)
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners		-		-	
Shares issued	380	-			
Vesting of share options	16	-	(16)	-	380
Share-based payments expense	-	-	5	-	-
Total transactions with owners	396	-	11	-	5
Balance at 30 June 2015	186,397	1,719	6	(157,252)	30,870
Balance at 1 January 2016	**186,541**	**1,404**	**13**	**(164,164)**	**23,794**
Total comprehensive income/(loss) for the period					
Loss for the period	**-**	**-**	**-**	**(5,140)**	**(5,140)**
Other comprehensive income/(loss)					
Foreign exchange translation differences	**-**	**(120)**	**-**	**-**	**(120)**
Cash flow hedges, net of tax	**-**	**-**	**-**	**-**	**-**
Total other comprehensive income/(loss)	**-**	**(120)**	**-**	**-**	**(120)**
Total comprehensive income/(loss) for the period	**-**	**(120)**	**-**	**(5,140)**	**(5,260)**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners		**-**		**-**	
Shares issued/(cancelled)	**(523)**	-	-	-	**(523)**
Vesting of share options	**5**	-	**(5)**	-	**-**
Share-based payments expense	**-**	-	**12**	-	**12**
Total transactions with owners	**(518)**	**-**	**7**	**-**	**(511)**
Balance at 30 June 2016	**186,023**	**1,284**	**20**	**(169,304)**	**18,023**

The consolidated interim statement of changes in equity is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 14 to 22.

Consolidated interim balance sheet

As at 30 June 2016

	Note	**30 June 2016 US$'000**	31 December 2015 US$'000
ASSETS			
Current assets			
Cash and cash equivalents		**5,493**	9,140
Restricted deposits [1]		**3,668**	66
Trade and other receivables		**2,449**	5,180
Prepayments		**328**	520
Crude inventories		**190**	-
Total current assets		**12,128**	14,906
Non-current assets			
Restricted deposits [1]		**-**	3,601
Receivables		**997**	861
Property, plant and equipment		**93**	104
Oil and gas properties	10, 11	**9,288**	6,443
Exploration and evaluation properties	10, 11	**7,528**	6,556
Total non-current assets		**17,906**	17,565
Total assets		**30,034**	32,471
LIABILITIES			
Current liabilities			
Trade and other payables		**8,882**	5,702
Rehabilitation provisions	10, 11	**2,643**	2,573
Employee benefits provisions		**232**	157
Total current liabilities		**11,757**	8,432
Non-current liabilities			
Rehabilitation provisions	10, 11	**65**	61
Employee benefits provisions		**189**	184
Total non-current liabilities		**254**	245
Total liabilities		**12,011**	8,677
Net assets		**18,023**	23,794
EQUITY			
Issued capital		**186,023**	186,541
Reserves		**1,304**	1,417
Accumulated losses		**(169,304)**	(164,164)
Total equity		**18,023**	23,794

1 Relates to cash used to guarantee certain future rehabilitation obligations (see *note 12 – Legal Matters and Contingencies* for further details).

The consolidated interim balance sheet is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 14 to 22.

Consolidated interim statement of cashflows

For the six months ended 30 June 2016

	Note	30 June 2016 US$'000	30 June 2015 US$'000
Cashflows from operating activities			
Cash receipts from customers		730	875
Cash payments for royalties		(5)	(238)
Cash payments to suppliers and employees		(3,681)	(4,694)
Interest received		10	14
Interest paid		-	-
Withholding tax refund		-	-
Restricted deposits		-	(69)
Net cash from operating activities		(2,946)	(4,112)
Cashflows from investing activities			
Payments for property, plant and equipment		(14)	(11)
Payments for oil and gas, exploration and evaluation properties		(689)	(4,548)
Net cash from investing activities		(703)	(4,559)
Net increase/(decrease) in cash and cash equivalents		(3,649)	(8,671)
Cash and cash equivalents at 1 January		9,140	27,290
Effects of exchange rate changes on cash held		2	(33)
Cash and cash equivalents at 30 June		5,493	18,586

The consolidated interim statement of cashflows is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 14 to 22.

Condensed notes to the consolidated interim financial statements

For the six months ended 30 June 2016

1. Reporting entity

Petsec Energy Ltd (the "Company") is a company domiciled in Australia. These condensed consolidated interim financial statements ("interim financial statements") as at and for the six months ended 30 June 2016 comprise the Company and its subsidiaries (together referred to as the "consolidated entity").

The consolidated annual financial report of the consolidated entity for the year ended 31 December 2015 is available upon request from the Company's registered office at Level 13, 1 Alfred St, Sydney NSW 2000 or at http://www.petsec.com.au.

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

2. Basis of accounting

These interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board. They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the consolidated entity's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2015.

These interim financial statements were approved by the Company's Board of Directors on 25 August 2016.

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

3. Significant accounting policies

The accounting policies applied by the consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial statements as at and for the year ended 31 December 2015.

4. Use of judgements and estimates

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

The significant judgements made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2015.

Measurement 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 consolidated entity 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.

5. Dry hole expense

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

During the current period, the consolidated entity recognised total dry hole expense of US$46,000, mainly in association with the prior year's U.S. exploration programme.

In the previous corresponding period, the consolidated entity recognised total dry hole expense of US$2,316,000 primarily in relation to the Ruth R. Bravanec, et al #1 well and the Holcombe #1 well drilled on the West Crab Lake and English Bayou Deep prospects, respectively.

6. Income tax expense

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 consolidated entity's operations as they do not qualify for recognition of deferred tax assets until such time that it is probable that future taxable profits will be available against which unused tax losses and temporary differences in the relevant tax jurisdictions can be utilised.

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

7. Earnings per share

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

There are no outstanding options under the Employee Option Plan.

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

Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share at 30 June 2016 was based on the loss attributable to ordinary shareholders of US$5,140,000 (Six months to 30 June 2015: Loss of US$3,693,000) and a weighted average number of ordinary shares outstanding during the six months ended 30 June 2016 of 234,301,190 (Six months ended 30 June 2015: 231,244,503), calculated as follows:

Profit/(loss) attributable to ordinary shareholders	**Six months to**	
	30 June 2016 US$'000	30 June 2015 US$'000
Loss for the period	**(5,140)**	**(3,693)**

Weighted average number of shares (basic)	**Six months to**	
In thousands of shares	**30 June 2016**	30 June 2015
Issued ordinary shares at 1 January	**234,662**	**231,162**
Effect of shares issued and cancelled in 2016 and 2015, respectively	**(361)**	**83**
Weighted average number of ordinary shares at 30 June	**234,301**	**231,245**

7. Earnings per share (continued)

Weighted average number of shares (basic and diluted) *In thousands of shares*	As at 30 June 2016	As at 30 June 2015
Weighted average number of ordinary shares (basic and diluted)	**231,462**	**231,245**

Earnings per share *In USD dollars*	Six months to 30 June 2016	Six months to 30 June 2015
Basic and diluted earnings/(loss) per share	**(0.022)**	**(0.016)**

8. 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. The terms and conditions of the share and option programmes are disclosed in the consolidated financial report as at and for the year ended 31 December 2015.

Employee Share Plan

During the six months ended 30 June 2016, the Company issued 800,000 shares under its Employee Share Plan (“ESP”) to key management personnel as long term incentive compensation (2015: 2,500,000 shares).

The shares were issued to the Trustee of the ESP on behalf of the key management 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. The funds for the shares was provided to the key management personnel by the Company 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 term of the loan is 5 years.

The shares are unrestricted and vest on various dates from 24 February 2017 through to 24 February 2020.

Employee Option Plan

No option grants were made to key management personnel during the six months ended 30 June 2016 (2015: Nil).

Share and option grants to key management personnel

The following table summarises the fair value assumptions of shares granted to key management personnel during the six months ended 30 June 2016 and 2015.

	Six months to 30 June 2016	Six months to 30 June 2015
Weighted average fair value at measurement date	**A$0.002**	A$0.03
Weighted average share price	**A$0.09**	A$0.10
Weighted average exercise price	**A$0.20**	A$0.20
Expected volatility (expressed as weighted average used in the modelling under Black-Scholes model)	**58.1%**	67.02%
Expected option life (expressed as weighted average used in the modelling under Black-Scholes model)	**4.5 years**	5.5 years
Expected dividends	**-**	-
Risk-free interest rate (based on national government bonds)	**1.75%**	2.06%

8. Share-based payments (continued)

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

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

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2016

9. Segment reporting

The consolidated entity operates in the oil and gas industry.

Segment information is presented in the consolidated interim 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. In presenting information on the basis of geographical segments, segment revenue and net profit/(loss) before tax are based on the geographical location of operations.

	Australia		USA		Canada		MENA		Consolidated	
	30 June 2016 US$'000	30 June 2015 US$'000	**30 June 2016 US$'000**	30 June 2015 US$'000	**30 June 2016 US$'000**	30 June 2015 US$'000	**30 June 2016 US$'000**	30 June 2015 US$'000	**30 June 2016 US$'000**	30 June 2015 US$'000
Oil & gas sales and royalties [1]	**-**	-	**330**	678	**-**	-	**-**	-	**330**	678
Royalties paid	**-**	-	**-**	(31)	**-**	-	**-**	-	**-**	(31)
Segment net revenues after royalties	-	-	**330**	647	-	-	**-**	-	**330**	647
Segment net profit/(loss) before tax	**(714)**	(658)	**(1,957)**	(2,863)	**(4)**	(1)	**(2,465)**	(171)	**(5,140)**	(3,693)
Income tax benefit/(expense)	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Net profit/(loss) for the period	**(714)**	(658)	**(1,957)**	(2,863)	**(4)**	(1)	**(2,465)**	(171)	**(5,140)**	(3,693)
Depreciation, depletion and amortisation	**6**	6	**114**	176	**-**	-	**-**	-	**120**	182
Dry hole expense	**-**	-	**42**	2,316	**4**		**-**	-	**46**	2,316
Exploration and work-over expense	**-**	-	**775**	-	**-**	-	**-**	5	**775**	5
Segment assets	**5,969**	12,122	**16,855**	23,270	**-**		**7,210**	45	**30,034**	35,437
Acquisition of property, plant and equipment and exploration, evaluation and development assets	**-**	8	**495**	4,551	**-**	-	**208**	-	**703**	4,559

[1] There are no inter-segment sales

9. Segment reporting (continued)

	Australia		USA		Canada		MENA		Consolidated	
	30 June 2016 US$'000	30 June 2015 US$'000	**30 June 2016 US$'000**	30 June 2015 US$'000	**30 June 2016 US$'000**	30 June 2015 US$'000	**30 June 2016 US$'000**	30 June 2015 US$'000	**30 June 2016 US$'000**	30 June 2015 US$'000
Segment liabilities	**506**	387	**4,760**	4,105	**-**	64	**6,745**	11	**12,011**	4,567
Cash flows from operating activities	**(801)**	(646)	**(665)**	(3,305)	**(4)**	(1)	**(1,476)**	(160)	**(2,946)**	(4,112)
Cash flows from investing activities	**-**	(8)	**(495)**	(4,551)	**-**	-	**(208)**	-	**(703)**	(4,559)
Cash flows from financing activities	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-

10. 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:

	As at	
Assets	**30 June 2016 US$'000**	31 December 2015 US$'000
Oil and gas properties		
Producing leases – at cost	**42,759**	42,739
Less: accumulated amortisation and impairments	**(38,354)**	(38,296)
	4,405	4,443
Represented by the following lease carrying values:		
- Onshore Louisiana	**4,405**	4,443
Total oil and gas properties	**4,405**	4,443
Exploration and evaluation properties		
Not in production		
- MENA	**358**	357
- Onshore Louisiana	**473**	464
- Offshore Gulf of Mexico	**6,697**	5,735
Total exploration, evaluation and development expenditure – Intangible	**7,528**	6,556

	As at	
Liabilities	**30 June 2016 US$'000**	31 December 2015 US$'000
Rehabilitation provision:		
- Onshore Louisiana	**65**	208
- Offshore Gulf of Mexico	**2,447**	2,083
	2,512	2,291

	Six months to	
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):	**30 June 2016 US$'000**	30 June 2015 US$'000
- Offshore Gulf of Mexico	**(101)**	(151)
- Onshore Louisiana	**(717)**	(2,056)
- Onshore Canada	**(4)**	(1)
- MENA	**(691)**	(171)
	(1,513)	(2,379)

10. Interests in unincorporated joint operating arrangements (continued)

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

	Interest Held	
	30 June 2016	30 June 2015
- Onshore Louisiana	**12.50% to 25.00%**	12.50% to 45.00%
- Onshore Canada	**24.50%**	24.50% to 25.00%
- Offshore Gulf of Mexico	**12.50% to 55.00%**	12.50% to 55.00%
- MENA	**35.00% to 75.00%**	-

11. 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:

	As at	
Assets	**30 June 2016 US$'000**	31 December 2015 US$'000
Oil and gas properties:		
Producing leases – at cost	**22,007**	19,124
Less: accumulated amortisation and impairments	**(17,124)**	(17,124)
	4,883	2,000
Represented by the following lease carrying values:		
- MENA	**4,883**	2,000
- Offshore Gulf of Mexico	**-**	-
Total oil and gas properties	**4,883**	2,000
Liabilities		
Rehabilitation provision:		
- Offshore Gulf of Mexico	**196**	343
	196	343

	Six months to	
	30 June 2016 US$'000	30 June 2015 US$'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 and any gain on sale of interests):		
- Offshore Gulf of Mexico	**(8)**	(21)
- MENA	**(1,305)**	-
	(1,313)	(21)

12. Legal matters and contingencies

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 other current proceedings is likely to have a material effect on its operations or financial position.

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

The Company's U.S. subsidiary, Petsec Energy Inc. ("PEI") is required to provide bonding or security for the benefit of U.S. regulatory authorities 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 30 June 2016, PEI was contingently liable for US$3,601,000 of surety and supplemental bonds (December 2015: US$3,601,000) issued through a surety company to secure those obligations. At balance date, US$3,601,000 of these bonds were collateralised by cash (December 2015: US$3,601,000).

13. Related Parties

Arrangements with related parties continue to be in place. For details on these arrangements refer to the 2015 Annual Report.

14. Dividends

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

15. Subsequent Events

Subsequent to 30 June 2016, the Group entered into a Secured Convertible Note Facility under which US$5 million (Tranche 1) can be drawn down on or before 31 December 2016. Under the facility additional draw downs in two tranches of US$5 million each are available to the group to facilitate the restart of production of the An Nagyah Oilfield on the Damis (Block S-1) Production Licence, and the expansion of its MENA production asset portfolio. These additional funds are subject to an improvement in the operating conditions in the Republic of Yemen that permits the production of oil and gas at certain rates. If however, the operating conditions in Yemen do not materialise, the Group has committed to alternative additional funding to meet its expected expenditures.

Petsec Energy

Directors' Declaration

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

(1) the financial statements and notes set out on pages 10 to 22, are in accordance with the Corporations Act 2001 including:

   (i) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2016 and of its performance, as represented by the results of its operations and cashflows for the six months ended on that date; and

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

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

Signed in accordance with a resolution of the directors:

Terrence N. Fern
Director

Sydney, 25 August 2016

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

Report on the financial report

We have reviewed the accompanying interim financial report of Petsec Energy Ltd ("the Company"), which comprises the consolidated interim balance sheet as at 30 June 2016, consolidated interim statement of comprehensive income, consolidated interim statement of changes in equity and consolidated interim statement of cash flows for the interim period ended on that date, notes 1 to 15 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 half-year's end or from time to time during the interim period.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2016 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Petsec Energy Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

KPMG

Conclusion

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

(a) Giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the interim period ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

Daniel Camilleri

Partner

Sydney

25 August 2016