Petsec Energy Ltd

Results for announcement to market
For the twelve months ended 31 December 2020

Petsec Energy

Key Points

- Net profit after tax of US$1.3 million for the twelve months to 31 December 2020 after the recognition of gains on sale of assets and investments of US$9.4 million offset by dry hole, impairment and abandonment expense of US$3.7 million and financial expense of US$3.6 million.
- Net oil and gas revenues of US$0.2 million generated from production of 111 MMcfe at an average gas equivalent sales price of US$1.81/Mcfe – prior to the sale of the Company's U.S. oil and gas interests, effective 1 July 2020.
- The Company entered into a voluntary suspension of its stock on the ASX on 3 April 2020 in response to the effects of the COVID-19 pandemic, particularly the significant decline in oil and gas prices, in order to effect a substantial reduction in the Company's cost of operations, restructure its' financing, and amend its business plan in order to weather the economic storm caused by the COVID-19 pandemic.
- Resignation of Managing Director, Mr. Syed Bokhari, and non-executive directors, Mr. David Mortimer AO and Mr. Alan Baden, from the Petsec Energy Ltd Board ("Board") on 30 April 2020.
- Placement of 10 million shares at A$0.02/share, the price at the time of voluntary suspension, raising A$200,000 in May 2020.
- Appointment of Messrs. Barry Dawes and Francis Douglas QC as Non-executive Directors to the Board, effective 30 September 2020 and Mr. Brent Emmett as Technical Director to the Board, effective 13 November 2020.
- **USA: Sale of all the Company's U.S. oil and gas interests:** Sale of all assets for US$600,000 and transfer of liabilities to purchaser at the effective date of 1 July 2020, was concluded in October 2020 The U.S. and Canadian subsidiary companies were subsequently wound up by year end 2020.
- **YEMEN: Damis (Block S-1) Production Licence:** In October 2020, the Company secured a financially strong and experienced Yemen oil producer to operate Block S-1 satisfactory to, and as required by, the legitimate Yemen Minister for Oil, in order to receive approvals to access government export pipelines which would permit the restart of oil production from the An Nagyah Oilfield. To secure such a partner, Petsec Energy sold 100% of the shares in Yemen (Block S-1), Inc., the approved and recognised operator of Damis (Block S-1) and owner of a 75% working interest in Damis (Block S-1), in return for US$2 million and a life of licence carry of all future costs (operating and development) of the remaining 25% working interest in Block S-1 held by the Company's wholly owned subsidiary West Yemen Oil (Block S-1) Inc.
- **YEMEN: Al Barqa Block 7 Exploration Licence:** The Court of First Instance in Jordan, determined that the claim made by the rebel Houthi administration in Sana'a against the Block 7 Letter of Credit (US$4.2million) supporting future exploration obligations, held by Arab Bank, Sana'a, was illegal and counterparty LoC funds received by Arab Bank could not be transferred to the Houthi. The Company is pursuing further legal action against Arab Bank in Jordan to recover the US$2.73 million in counterparty LoC funds claimed and transferred to Arab Bank on the basis of the illegal claim by the Houthi to Arab Bank, by Qatar National Bank (QNB) acting for the Company and Commonwealth Bank of Australia (CBA) acting for Mitsui.
- Resignation of Mr. Ross Keogh, a resident of the USA, as Group Chief Financial Officer of Petsec Energy Ltd, effective 31 December 2020.
- At 31 December 2020, the Group held total cash deposits of US$912,000 (including US$50,000 of restricted deposits).

Subsequent Events

- **Convertible Note Facility: Renegotiation of the terms:** Facility Redemption Date was extended for a 3-year period from 23 January 2021 to 23 January 2024 with effect from 31 December 2020, and the interest rate was reduced from 15% to 10% per annum.

Key data – Twelve months ended 31 December 2020 compared to the twelve months ended 31 December 2019

	Twelve Months to 31 December 2020	Twelve Months to 31 December 2019	% Increase/ (Decrease)
Key Operating/Financial Data			
Net production (MMcfe [1])	**111**	368	(70%)
Net revenues after royalties (US$m)	**0.2**	1.1	(82%)
Net profit/(loss) after tax (US$m)	**1.3**	(24.2)	n/a
Add: Depreciation, depletion, amortisation and reclamation expense (US$m)	**0.1**	2.6	(96%)
Add: Change in rehabilitation provision (US$m)	**-**	0.5	(100%)
Add: Dry hole, impairment and abandonment expense (US$m)	**3.7**	13.8	(73%)
Add: Net financial expense (US$m)	**3.6**	3.7	(3%)
Less: Gain on disposal of assets and subsidiaries	**(9.4)**	-	n/a
Less: Income tax benefit	**(0.2)**	-	n/a
EBITDAX (US$m) [2]	**(0.9)**	(3.6)	n/a
Key Performance Indicators			
Average net sales price/Mcfe [3] (US$)	**1.81**	2.96	(39%)
Add: Other revenue/(expense)/Mcfe (US$)	**6.35**	(0.48)	n/a
Less: Operating costs/Mcfe (US$) [4]	**(16.36)**	(12.36)	n/a
EBITDAX/Mcfe (US$)	**(8.20)**	(9.88)	n/a
DD&A/Mcfe (US$)	**0.99**	7.05	(86%)
Other Financial Data			
Acquisition, exploration and development expenditure (US$m)	**-**	2.6	(100%)
USD/AUD average exchange rate	**0.6943**	0.6967	0%

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.*

Commentary on results

General

The Appendix 4E results and the accompanying consolidated 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: Twelve months ended 31 December 2020; Previous corresponding period: Twelve months ended 31 December 2019.

Key Operating/Financial Data

- Petsec Energy derived net production of 111 MMcfe (99 MMcf of gas and 1,984 barrels of oil/condensate) in the current period from its interests in the Main Pass Block 270 B-1 well on the Hummer Gas/Oil Field, offshore Gulf of Mexico, and the Williams Alt No. 2 well on the Mystic Bayou Field, onshore Louisiana, prior to the sale of the fields, effective 1 July 2020. This compares to net production of 368 MMcfe achieved in the previous corresponding period.
- Net oil and gas revenues of US$0.2 million were generated from production of 111 MMcfe at an average natural gas equivalent sales price of US$1.81/Mcfe. This was 82% lower than the net oil and gas revenues derived in the previous corresponding period of US$1.1 million, reflecting low oil and gas prices, prolonged maintenance shutdowns and 6 months production prior to the sale of the U.S. assets effective 1 July 2020.
- The Group recorded negative earnings before interest, income tax, depreciation, depletion and amortisation, and exploration expense (“EBITDAX”) of US$0.9 million for the current period (previous corresponding period: negative EBITDAX of US$3.6 million).
- The Group reported a profit after tax for the twelve months ended 31 December 2020 of US$1.3 million (previous corresponding period: net loss after tax of US$24.2 million) after the recognition of a net gain on disposal of assets and subsidiaries of US$9.4 million; offset by dry hole, impairment, and abandonment expense of US$3.7 million and net financial expense of US$3.6 million.

  Dry hole, impairment, and abandonment expense of US$3.7 million comprised the recognition of an impairment of US$3.6 million against the Hummer Gas/Oil Field, which was sold as part of the Group’s strategic plan to wind up and close its U.S. business; and abandonment expense of US$0.1 million relating to the relinquishment of the Main Pass Block 274 lease (refer to “*Note 9 – Discontinued Operations*” in the notes to the consolidated financial statements for further details).

  Financial expense of US$3.6 million related to interest expense incurred in connection with the Convertible Note Facility and movements in the fair value of the financial derivative component of the Convertible Note liability.

Key Performance Indicators

- The Group realised an average net gas equivalent sales price of US$1.81/Mcfe in the current period. This was 39% lower than the US$2.96/Mcfe achieved for the previous corresponding period. The Group received average sales prices of US$1.24/Mcf and US$39.31/bbl for its natural gas and oil/condensation production, respectively. This compares to US$2.22/Mcf and US$58.87/bbl received respectively, in the previous corresponding period.
- After unit operating costs of US$16.36/Mcfe (previous corresponding period: US$12.36/Mcfe) the EBITDAX margin was negative US$8.20/Mcfe (previous corresponding period: US$9.88/Mcfe).
- Unit DD&A expense was US$0.99/Mcfe for the current period (previous corresponding period: US$7.05/Mcfe).

Other Financial Data

- No acquisition, exploration and development expenditures were incurred during the twelve months ended 31 December 2020 (previous corresponding period: US$2.6 million).

Dividend

Petsec Energy Ltd does not propose the payment of a dividend in respect of the twelve months ended 31 December 2020.

Net Tangible Asset Backing

The Group’s net tangible asset backing per ordinary security for the current period was negative US$0.05 (previous corresponding period: negative US$0.05).

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Petsec Energy Ltd

ABN 92 000 602 700

The Company is listed on the Australian Stock Exchange (symbol: PSA) and its corporate office is in Sydney, Australia.

The Company holds interests in two onshore blocks in the Republic of Yemen, 80 kilometres apart in the Marib Basin – Damis (Block S-1) Production Licence and Al Barqa, Block 7 Exploration Licence.

Annual General Meeting

To be held at: 11 a.m. (AEST) on Friday, 28 May 2021, at Boardroom Pty Limited, Level 12, 225 George Street Sydney, NSW Australia.

Capital Structure

At 31 March 2021

Australia

Exchange	ASX
Ticker	PSA
Shares on issue	408.6 million
Share price	A$0.021
Market capitalisation	A$8.6 million

Annual Report
For the year ended 31 December 2020

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 onshore in the Republic of Yemen and to pursue opportunities to acquire other oil and gas reserves as they become available.

Prior to 2014, the strategic and geographical focus of the Company was predominately in Louisiana, USA. This focus shifted in 2014 to include oil reserve acquisitions in the MENA region. In Yemen, the Company holds two leases: Block 7 holds undeveloped oil resources (11 to 110 MMbbls target resources) in the Al Meashar discovery, and substantial exploration potential; and Block S-1 a production licence over five oil and gas discoveries holding in excess of 54 MMbbls oil and 550 Bcf gas one of which is developed (An Nagyah Oilfield- 25 MMbbls remaining recoverable) and was in production until late in February 2014 when the field was shut-in due to political unrest.

Company Profile and History

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

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

Historically, the Company through its wholly owned subsidiary companies Petsec Energy Inc. and Petsec Exploration and Production LLC had operations in the shallow waters of the Gulf of Mexico and onshore Louisiana, USA. The Company had been active in the USA since 1989 and had explored and produced offshore in the Gulf of Mexico and onshore in Louisiana, and Texas. The Company has drilled over 100 wells in the USA and had a high success rate of 74% resulting in the discovery of over 30 oil and gas fields, total reserves of 450 Bcfe, and production of 217 Bcfe. The U.S. oil and gas interests were sold in October 2020, and the U.S. subsidiaries dissolved.

From 2002 to 2011, the Company was active in the Beibu Gulf, China, participating in the drilling of 7 exploration wells resulting in 3 oil fields being discovered. The fields were sold in 2011.

The Company currently holds interests onshore in the Republic of Yemen through its wholly owned subsidiary Petsec Energy (Middle Eastern) Limited.

In 2014, the Company determined that it wished to pursue both an exploration and an oil reserves acquisitions 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 lower prices than those in the USA.

In 2014, a 35% non-operated working interest in a large licence (Block 7 – 5,000 square kilometres) area was acquired in Yemen. Two wells drilled on the Block by Oil Search Ltd in 2010 and 2011 discovered the Al Meashar Oilfield, with target resources of 11 to 110 million barrels of oil. The block also has eight prospects and leads identified with 2D and 3D seismic, the larger four prospects range between 174 and 439 million barrels of oil potential. In 2018, the Company acquired a further 40% working interest in the block, securing the Block 7 operatorship and increasing its total holdings in Block 7 to a 75% working interest.

In late 2015 and early 2016, the Company acquired a 100% working interest in the Damis (Block S-1) production licence in Yemen, which holds five oil and gas fields containing in excess of 54 million barrels of recoverable oil and 550 billion cubic feet of gas. One of the fields, the An Nagyah Oilfield, is developed by 32 wells, with production facilities of 20,000 bopd capacity with initial recoverable reserves of 50 MMbbls. The field began production in 2004 and produced 25 MMbbls prior to its suspension in 2014 for political reasons. The Company attempted to restart production from 2017 but was denied access to government owned transport facilities, contrary to the Block S-1 Petroleum Sharing Agreement (PSA). In late 2019, the Yemen Oil Minister indicated that approvals would be granted subject to our securing a financially strong Yemen oil producing company to be operator.

Company Profile and History (continued)

In April 2020, as a consequence of the effects of the COVID-19 pandemic, the Company reviewed its business plan, and determined to substantially reduce its operating costs, to close its U.S. and Canadian businesses, due to the substantially reduced oil and natural gas prices and the demand on capital for reinvestment in the U.S. oil and gas assets, and focus on monetising its Yemen assets, the Damis (Block S-1) Production Licence which required modest capital investment to generate substantial cashflow and Al Barqa, Block 7 Exploration Permit which held substantial discovered oil resources awaiting development.

The US assets were sold in October 2020 at an effective date of 1 July 2020, and the U.S. and Canadian businesses effectively closed by year end.

In October 2020, the Company secured a financially strong and experienced Yemen oil producer to operate Block S-1, satisfactory to and as had been required by the legitimate Yemen Minister for Oil and Minerals in Aden in order to access government owned export transport facilities which would permit restart oil production in Block S-1.

To secure such a partner, Petsec Energy sold 100% of the shares in Yemen (Block S-1), Inc. the owner of a 75% working interest and the approved and recognised operator of Damis (Block S-1). The consideration was a payment of US$2 million and a life of licence carry of all future costs (operating and development) of the Company's wholly owned subsidiary West Yemen (Block S-1) Inc., holder of a 25% working interest in Block S-1.

With new ownership of the Block S-1 operator, Yemen (Block S-1) Inc., the joint venture expects to return to oil production in 2021, hopefully by mid-year 2021.

2020 Year in Review

Corporate

- **YEMEN: Al Barqa Block 7 Exploration Licence**: An illegitimate claim was made in November 2019 by the illegitimate Houthi Minister for Oil and Minerals in Sana'a against the US$4.2 million Letter of Credit (LoC) issued under the Production Sharing Agreement ("PSA") on the Al Barqa, Block 7 Exploration Licence, held by Arab Bank, Sana'a. Arab Bank acted on this illegal claim by the Houthi in claiming upon the counterparty LoCs from Qatar National Bank (QNB) and Commonwealth Bank of Australia (CBA) in January 2020, which banks transferred US$2.73 million of the Company and Mitsui's funds securing the LoCs, to Arab Bank, Amman, Jordan. The Company secured an injunction in Jordan to restrain Arab Bank from transferring these funds to the Houthi, and the Court of First Instance in Amman, Jordan, subsequently determined that the Houthi claim was illegal and forbade Arab Bank from transferring the LoC funds to the Houthi. The Company is pursuing Arab Bank through the Courts in Jordan to recover the funds.
- The Company entered into a voluntary suspension of its stock on the ASX on 3 April 2020 in response to the effects of the COVID-19 pandemic, particularly the significant decline in oil and prices, in order to effect a substantial reduction in the Company's cost of operation, restructure its financing, and amend its business plan in order to weather the economic storm caused by the COVID-19 pandemic.
- The Dubai, Sana'a, Houston, and Sydney offices were closed and staff released, the U.S. assets were sold as of the 1st July 2020 and the U.S. and Canadian businesses closed by year end, and a 75% working interest in Block S-1 was transferred in order to secure an operator acceptable to the Yemen Minister for Oil and Minerals, to allow access to government export transport facilities which would allow oil production at the An Nagyah Oilfield in Block S-1 to recommence.
- Resignation of Mr Syed Bokhari (Managing Director), Mr David Mortimer AO and Mr Alan Baden (Non-executive Directors) from the Petsec Energy Ltd Board of Directors on 30 April 2020.
- Placement of 10 million shares at A$0.02/share, the price at the time of voluntary suspension, raising A$200,000 in May 2020, sufficient to support the Company until year end 2020 without reliance on further debt provided by Noteholders.

2020 Year in Review

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

  The Company sold all of the shares of Yemen (Block S-1), the designated operator of Block S-1 and owner of a 75% working interest, to Yung Holdings Limited, a subsidiary of Octavia Energy Corporation, a UK company focused on oil and gas exploration and production in the MENA region, and active in Yemen since 2016. Octavia Energy Corporation has demonstrated the financial capacity and technical capabilities required to manage the resumption of oil production from Block S-1 through its extensive operating experience in the MENA region where its operated current production is in excess of 6,500 bopd.
- Consideration for the transfer of Yemen (Block S-1) Inc. to Yung Holdings was payment of US$2 million and a life of licence carry of all future costs (operating and development) in Block S-1 of the Company's wholly owned subsidiary, West Yemen Oil (Block S-1) Inc., which holds a 25% working interest in Block S-1.
- Corporate office and registered business address relocated to Level 7, Macquarie Business Centre, 167 Macquarie Street, Sydney NSW 2000.
- Appointment of Messrs. Barry Dawes and Francis Douglas QC as Non-executive Directors to the Petsec Energy Ltd Board, effective 30 September 2020.
- Appointment of Mr. Brent Emmett as Technical Director to the Petsec Energy Ltd Board, effective 13 November 2020.
- Renegotiation of the terms of the Convertible Note Facility ("Facility") – key variations include extension of the redemption date for a 3-year period from 23 January 2021 to 23 January 2024 with effect from 31 December 2020, and reduction of the interest rate from 15% to 10% per annum.
- Resignation of Mr. Ross Keogh, resident of the USA, from his position of Group Chief Financial Officer, effective 31 December 2020.
- Initiation of process to terminate the Petsec Energy Ltd American Depositary Receipts ("ADRs") facility through The Bank of New York Mellon, following the sale of the Company's US assets and wind up of the Company's US and Canadian subsidiaries.

Operations

USA:

- The Company held interests in three producing fields – the Jeanerette and Mystic Bayou Fields, onshore Louisiana, and the Hummer Gas/Oil Field offshore Louisiana, Gulf of Mexico, USA.

  The Company sold all its' U.S. oil and gas interests with an effective date of 1 July 2020.
- Production for the year of 111 MMcfe was derived from the Hummer Gas/Oil Field (90 MMcfe) and the Mystic Bayou Field (21 MMcfe).

MENA

Damis (Block S-1) Production Licence, Yemen
Petsec: 25% carried working interest (20.625% participating interest)

- A 100% working interest in the block of 1,152 square kilometres (284,665 acres), located in the Shabwah/Marib Oil Basin, was acquired by the Company in late 2015/early 2016 from Occidental Petroleum Corporation and TransGlobe Energy Corporation.
- The block contains five oil and gas fields, four of which are undeveloped, the Osaylan, An Naeem, Wadi Bayhan and Harmel fields defined by nine wells and 3D seismic and hold target resources in excess of 34 MMbbl of oil and 550 Bcf of gas. The An Nagyah Oilfield is developed and was productive from 2004 until suspended in 2014 for political reasons.

2020 Year in Review (continued)

Operations (continued)

MENA (continued)

Damis (Block S-1) Production Licence, Yemen
Petsec: 25% carried working interest (20.625% participating interest)

- The An Nagyah Oilfield holds in excess of 19.8 MMbbls of remaining recoverable oil complete with a central processing facility (CPF) which can process 20,000 bopd and pipe transport 80,000 bopd to Block 5 which is connected to the Marib/Hodeidah Pipeline West to Ras Isa on the Red Sea, and the new Block 5 to Block 4 Pipeline South to Bir Ali. Block S-2 (OMV operator) and Block 9 (Calvalley operator) produce into the Block 4 pipeline South to the Rudum Export Terminal at the port of Bir Ali. SAFER (Block 18) trucks oil directly to the terminal.
- The An Nagyah Oilfield has 32 development wells, and commenced production in 2004 at rates of 12,000 bopd with an estimated 50 MMbbls of recoverable oil of which 25 million barrels have been produced. The field has been shut-in under Force Majeure since 2014 due to the political situation in the country.
- In 2016, DeGolyer and McNaughton, reserve engineers, estimated the An Nagyah Oilfield to hold 19.8 million barrels of remaining recoverable oil using 1 January 2016 forward oil prices of US$30/bbl and a proposed production rate of 5,000 bopd trucked 580 kilometres to the Block 14 export facilities in the Masila Basin. Under this conservative scenario, these operations would have delivered gross 2P reserves of 12.8 MMbbl, of which 5.6 MMbbl of oil with an NPV10 of US$155.4 million was attributed to Petsec Energy. There is additional potential identified by Occidental to increase the remaining reserves in the field significantly through further development drilling.
- The restart of production was estimated to cost less than US$5 million and production of 5,000 bopd could be achieved from four wells within three months of being onsite. The objective was to increase production to 10,000 bopd within 12 months of being onsite. The Company has not been able to restart oil production because of a lack of Yemen Government approvals to access the government's Block 4 export pipeline, which is the Company's right according to the Block S-1 PSA.
- The internationally recognised Yemen Government led by President Hadi had requested in late 2016, that oil producers in Southern Yemen restart production as soon as possible, using the Yemen Government's facilities in the Shabwah and Masila areas until such times as the Marib Pipeline is permitted to be operational. To meet this request by the Hadi Government, the Company started making preparations and field operational changes to restart production from the An Nagyah Oilfield.
- The Company had been seeking, since early 2017, the necessary government support and formal approvals for a trucking operation to access government oil export facilities in order to restart oil production at the An Nagyah Oilfield until such times as the Ras Isa oil export terminal at the Port of Hodeidah and the Marib pipeline resumes operations. Initially the Company proposed trucking 5,000 bopd 580 kilometres to Petro Masila's export transport pipeline facilities in Block 14 to Mukalla for export but did not receive the necessary government approvals.
- When OMV began producing oil from the Habban Oilfield in Block S-2, 70 kilometres to the North West of An Nagyah, in April 2018 through the newly rehabilitated Block 4 pipeline South to the port of Bir Ali, Petsec Energy sought approval from the legitimate Yemen Oil Minister to use the Block 4 pipeline, which is 70 kilometres by road from An Nagyah. This approval was not forthcoming.
- At a meeting with the Oil Minister in May of 2019, in an attempt to secure restart of production approvals, the Minister encouraged Petsec to seek joint venture partners to co-invest in the development of Block S-1 which holds four undeveloped fields in addition to the developed An Nagyah Oilfield. Subsequent to that meeting in late 2019, the Minister indicated that approvals to access government owned export transport facilities would come should we secure a financially strong and experienced Yemen oil producer to operate the field.
- Construction of a 16 inch oil transport pipeline connecting Block 5 (to which Block S-1 is connected) to the oil export pipeline of Block 4 was completed by the Yemen Government and the pipeline tested in early 2020.This pipeline which connects Block S-1, Block 5 and the SAFER Block 18 to Block 4 thus negating the need to use the Marib/Hodeidah pipeline to Ras Isa on the Red Sea which is controlled by the Houthi at the port of Hodeidah. All Shabwah production was transported through the Marib Pipeline prior to March 2015 when the Houthi took control of the port of Hodeidah on the Red Sea.

2020 Year in Review (continued)

Operations (continued)

- The Block 5/4 pipeline can be commissioned once Block 5 returns to production which is understood to be in the third quarter of 2021. Block S-1 is connected to Block 5 by an 80,000 bopd pipeline. Once Block 5 is operating, Block S-1 crude can be piped to Block 5 thence to Block 4 pipeline and to the Rudum Terminal at Bir Ali for ship export and sale.
- The Shabwah Governate, in which Petsec's Blocks S-1 and 7 are located, is under the control of the internationally recognised Yemen Government with support from Saudi and local forces. The security position is generally good and OMV has been producing some 14,000 bopd since April 2018. OMV is trucking oil 20 kilometres to Block 4, which is then flowed through the 204 kilometre pipeline to the Rudum Export Terminal at Bir Ali.
- The government owned SAFER Exploration Production Oil Company (SEPOC) in Block 18 recommenced production in the last quarter of 2019, producing 5,000 bopd and trucking it South to the Rudum Export Terminal at Bir Ali. Block 18 was a major oil producer for the country, producing on average 35,000 bopd prior to rebel control of the Marib Export Pipeline in March 2015.
- During 2020, operations at the Company's An Nagyah Oilfield in Block S-1 remained shut-in. The Company focused its efforts on securing a financially strong and experienced Yemen oil producing operator to be operator of Block S-1 as required by the Minister in order to acquire the necessary government approvals to access government owned export transport facilities which would permit the restart of production at Block S-1.
- In October 2020, the Company secured a financially strong and Yemen experienced oil producer, acceptable to the Yemen Minister for Oil and Minerals, to be operator of Block S- 1, so as to gain access to government owned export transport facilities which would allow restart of oil production from the An Nagyah Oilfield in Block S-1.
- To secure such an operator, the Company sold all of the shares of Yemen (Block S-1) Inc., the designated operator of Block S-1 and owner of a 75% working interest, to Yung Holdings Limited, a subsidiary of Octavia Energy Corporation, a UK company focused on oil and gas exploration and production in the MENA region, and active in Yemen since 2016. Octavia Energy Corporation has demonstrated the financial capacity and technical capabilities required to manage the resumption of oil production from Block S-1 through its extensive operating experience in the MENA region where its operated current production is in excess of 6,500 bopd.
- Consideration for the transfer of Yemen (Block S-1) Inc. to Yung Holdings was payment of US$2million and a life of licence carry of all future costs (operating and development) in Block S-1 of the Company's wholly owned subsidiary, West Yemen Oil (Block S-1) Inc., which holds a 25% working interest in Block S-1.
- Yemen (Block S-1) Inc. the operator of Damis Block S-1 has been renamed Octavia Yemen (Block S-1) Inc. and has recently established its Block S-1 operations offices in Cairo. Preparations are progressing to restart oil production from the An Nagyah Oilfield in 2021, hopefully by mid-year. Initially up to 5,000 bopd from some four wells to be trucked to the Block 4 pipeline and thence to Bir Ali for export and sale, then when the Block 5 to Block 4 pipeline is commissioned, expected in the fourth quarter of 2021, to increase production. Currently OMV (Block S-2), SAFER (Block 18), and Calvalley (Block 9) are utilising the Block 4 sales export facilities, soon to be joined by Octavia (Block S-1) and Jana Hunt (Block 5).

  Since concluding the agreement in October with Octavia, Petsec has been engaged with Octavia's technical and operations team in providing all of our technical and restart documentation in order to hasten the restart of production at Block S-1. We find ourselves to be aligned with Octavia in our mutual objectives of restarting production in Block S-1 as soon as is practically possible, optimising and increasing production at earliest and increasing reserves through early development of the four undeveloped fields.

  We have found the team at Octavia to be highly experienced oil production professionals with wide production experience in Yemen and the broader MENA area. They are committed to the early restart of operations in Block S-1 and we have every confidence in their engagement and capacity.

2020 Year in Review (continued)

Operations (continued)

Block 7, Al Barqa Permit, Yemen
Petsec: 75% working interest (63.75% participating interest)

- Petsec Energy acquired its interest over the period 2014-2018 from AWE, Mitsui and Oil Search Ltd. The Company has operatorship of the block through its wholly owned subsidiary Oil Search (ROY) Ltd, and holds a total 75% working interest (63.75% participating interest) in the Al Barqa (Block 7) Joint Venture.
- Block 7 is an onshore exploration permit covering an area of 5,000 square kilometres (1,235,527 acres) in the Shabwah Basin, located approximately 340 kilometres East of Sana'a, and 14 kilometres East of OMV's Habban Oilfield which holds ultimate recoverable reserves of 350 million barrels of oil.
- Block 7 contains the undeveloped Al Meashar Oilfield discovered in 2010 by Oil Search Ltd, and eight prospects and leads each holding significant oil potential identified by 2D and 3D seismic surveys. The four largest prospects range in target size from 174 MMbbl to 439 MMbbl.
- The two suspended discovery wells in of the Al Meashar Oilfield oil discovery (target resource of 11 MMbbl to 110 MMbbl) in 2010 and 2011, are suspended for future production. In 2010/2011, short-term testing of the two Al Meashar wells delivered flow rates ranging from the equivalent of 200 to 1,000 bopd. The wells intersected an 800 metre oil column in the Kuhlan and Basement formations, the same formations and oil as OMV's Habban Oilfield, which has an oil column of 945 metres and is located 14 kilometres to the West. Prior to the start of the Yemen civil war in March 2015 the Habban Oilfield was producing 30,000 bopd through the Marib Pipeline to the Red Sea terminal of Ras Isa. Since April 2018, the field has been producing around 14,000 bopd through the Block 4 Pipeline to the Rudum Export Terminal at the port of Bir Ali.
- In November 2019, an illegitimate claim was made by the Houthi controlled oil ministry in Sana'a against the Letter of Credit ("LoC") held by Arab Bank, Sana'a, issued under the Production Sharing Agreement (PSA) on the Al Barqa, Block 7 Permit. The Block 7 LoC totalling US$4.2 million was established between the Block 7 joint venture partners and the Arab Bank on behalf of the Yemen Ministry of Oil and Minerals. The LoC guaranteed the remaining minimum exploration expenditure obligations on the block, which has been in Force Majeure since 2011. No claim can be made against the LoC while the licence is in Force Majeure.
- Arab Bank acted on the Houthi claim and called on the counterparty LoCs held on behalf of the Company by Qatar National Bank (QNB) and Mitsui by Commonwealth Bank of Australia (CBA). The banks responded to Arab Banks' illegitimate claim such that US$ 2.73 million of the Company and Mitsui's funds were transferred to Arab Bank, Amman, Jordan. The Company initiated a legal suit against the Arab Bank, Jordan to recover those funds. To date, the Jordan Court has granted an injunction against Arab Bank to prevent transfer of the funds to the Houthi, and has determined that the Houthi claim against the Block 7 LoC was illegal and counterparty LoC funds received by Arab Bank could not be transferred to the Houthi. The Company is seeking a return of the US$2.73 million from Arab Bank, through the Courts in Jordan.

Financial

- Net production: 111 MMcfe, down 70%.
- Gas equivalent average sales price realised: US$1.81/Mcfe, down 39%.
- Net oil and gas revenues (after royalties): US$0.2 million, down 82%.
- EBITDAX: negative US$0.9 million (previous corresponding period: negative US$3.6 million).
- Dry hole, impairment, and abandonment expense: US$3.7 million (previous corresponding period: US$13.8 million).
- Depreciation, depletion and amortisation (DD&A) expense: US$0.1 million (US$0.99/Mcfe), down 96%.
- Unit operating costs: US$16.36/Mcfe (previous corresponding period: US$12.36/Mcfe).
- Net profit after tax: US$1.3 million (previous corresponding period: loss after tax of US$24.2 million).
- Acquisition, exploration and development expenditures: Nil, down 100%.
- Cash (including restricted cash) at 31 December 2020: US$0.9 million, up 32%.
- US$15 million Convertible Note Facility: US$14.0 million drawn at 31 December 2020.

Chairman's Report

Dear Shareholder

In my report to you of the 2019 year, in February of 2020, while there was disappointment in the U.S. Hummer Project, largely from operator failings, there was optimism that through engagement with the Yemen Oil Minister, and the building of the Block 5 to Block 4 oil pipeline, that we were close to gaining approvals to access the government owned Block 4 Pipeline which allowed export and sale of our crude and thus the capacity to restart oil production at the An Nagyah Oilfield in Block S-1, Yemen. The Company owned 100% of the An Nagyah Oilfield and its remaining 25 million barrels of oil, and our engineers estimated that for no more than US$5 million that the field could be producing 5,000 barrels of oil a day from four wells, within 3 months of returning to site, and the oil trucked 70 kilometres to the Block 4 pipeline for export and sale at the port of Bir Ali. Once the Block 5 to Block 4 pipeline was commissioned, expected by mid-2020, then the An Nagyah Central Processing Facility could have been recommissioned and production increased to 10,000 bopd flowing through the Block S-1 pipeline to Block 5 and through the new Block 5 to Block 4 pipeline and thence to Bir Ali for export and sale.

COVID-19

This optimism was short lived because in March 2020, the emerging World calamity of the COVID-19 virus had become a pandemic, having progressed from Wuhan, China to the rest of the World, which in response was fast closing to International traffic, and stringent restriction of movement and lockdown was being instituted in all countries. This had an immediate and drastic negative impact on oil and gas prices, as World oil consumption dropped by 20% and oil prices for a time went negative US$34 per barrel as World oil storage was filled. International stock markets reacted similarly. The Petsec Energy stock price fell 80% within a few days of the proclamation of the pandemic.

Response to COVID-19: COVID Plan and voluntary ASX suspension

It became apparent to the Board that this pandemic was going to cause great economic damage and the paralysis of lockdown could continue for one to two years. In consultation with our major shareholders and noteholders we established a plan to reorganise the Company and enter a period of hibernation to protect shareholder value and weather the economic storm caused by the COVID-19 pandemic. The plan required a substantial reduction in the Company's cost of operation, restructure of its' financing, and to amend the business plan to concentrate on the most valuable of the Company's assets, needing the least working capital, over which we had the most control, providing early and substantial production and cashflow. Consequently, it was decided to close the U.S. business and focus on monetising the Company's major asset, the An Nagyah Oilfield, in Block S-1, Yemen.

In order to effect this COVID plan, the Company entered into a voluntary suspension of its stock on the ASX on 3 April 2020.

COVID Plan: Achievements

In the year the Dubai, Sana'a, Houston, and Sydney offices were closed and staff released, the U.S. assets were sold and the U.S. and Canadian businesses closed, a 75% working interest in Block S-1 was sold to a financially and technically strong Yemen oil producer in order to secure an operator acceptable to the Yemen Minister for Oil and Minerals, so as to allow restart oil production from the An Nagyah Oilfield in Block S-1, and a life of licence carry of all costs (operating and development) of the retained 25% working interest in Block S-1 held by the Company's wholly owned subsidiary West Yemen (Block S-1) Inc. Consequently and subsequently , and the Company's debt was restructured, whereby the term was extended for 3 years from 23 January 2021 to 23 January 2024, and the interest rate reduced from 15% to 10% per annum.

I am pleased to say we have achieved much of our COVID Plan, so we propose to seek relisting of the Company's stock following the Company's AGM to be held on the 28th May 2021.

Change in Board

In accommodation of the Company's COVID Plan, Mr Syed Bokhari (Managing Director), Mr David Mortimer AO and Mr Alan Baden (non-executive Directors) resigned from the Petsec Energy Ltd Board of Directors on 30 April 2020. These directors were highly valued members of the Board and the Company has benefited greatly from their knowledge and wise counsel. Mr. Bokhari was engaged in April 2019 to secure Hadi Yemen Government consents for restart of oil production in Block S-1, secure a strong JV partner and to bring the An Nagyah Oilfield into production, all of which he was eminently qualified to do. The barrier to restarting oil production was the Yemen Oil Minister's failure to provide access consents to Government owned export transport pipelines and facilities, as is required under the Block S-1 Petroleum Sharing Agreement (PSA). On behalf of myself and our shareholders, we thank them warmly for their contribution to the Company.

Chairman's Report (continued)

Mr. Brent Emmett as Technical Director, and Mr. Barry Dawes and Mr. Francis Douglas QC, as non-executive directors joined the Board in September and November 2020. All three new directors have extensive technical, operational, commercial, capital markets and litigation experience in the International oil and gas industry, see great potential in the Yemen assets and are committed to the regrowth of the Company. They are friends of the Company and on many occasions have guided the Company in terms of financing and commercial transactions, importantly they were engaged in the transaction to secure an operator for Block S-1. Their extensive experience and commercial understanding of the oil and gas industry will be most valuable in extracting shareholder value from the Yemen assets and in the acquisition of further reserves.

Sale of US Assets:

The Company had been active in the USA since 1989 and had explored, discovered and produced oil and gas, offshore in the Gulf of Mexico and onshore in Colorado, Louisiana, and Texas. The Company has drilled over 100 wells in the USA and had achieved a high level of commercial success of over 74%, resulting in the discovery of over 30 oil and gas fields, total reserves of 450 Bcfe, and production of 217 Bcfe.

Audited Proved and Probable (2P) reserves in the US at the end of 2019 were 2.8 MMboe, net to the Company, largely contained in the Hummer Project, Main Pass 270/273, in 200 feet of water in the Gulf of Mexico. While the net present value (NPV_{10}) of those reserves was estimated to be US$21.9 million using the forward swap prices in effect on 31 December 2019, production of the remaining reserves required an additional two wells. In excess of US$160 million had been spent by the joint venture on a platform, pipelines and 2 wells, both of which had been damaged during operations and soon to be non-productive. All costs were substantially over budget, the second well cost of the order of US$60 million, 3 times budget, and failed to reach target objectives. The operator's history of poor and expensive operations in the Hummer Project, the unknown costs and timing of recovering the remaining reserves, and the unknown period of pandemic caused low oil and gas prices, directed the Company to dispose of the U.S. assets and focus on the restart of the An Nagyah Oilfield in Yemen, at an estimated cost of US$5 million to reach 5,000 bopd.

The U.S. assets were sold and all associated liabilities transferred to the purchaser in October 2020 for US$600,000 with an effective date of 1 July 2020. The U.S. and Canadian subsidiary companies were wound up by year end 2020, bringing to an end the Company's 31 year exploration and production operational history in the USA, where it has enjoyed much past success.

Consequently, our long serving Chief Financial Officer, Ross Keogh, President of the U.S. operations, resident in the USA since 1994, resigned his position. Ross has been a loyal and important member of the senior management team of Petsec for the past 31 years. On behalf of myself, the Board and shareholders of Petsec, I wish to thank him warmly for his great dedication and service to the Company, and to share his disappointment of the closure of the U.S. business.

Mr. Paul Gahdmar will take on the position as Chief Financial Officer in addition to his current role of Company Secretary.

Block S-1: Securing an operator

The COVID Plan focussed on the restart of the developed An Nagyah Oilfield in Block S-1, Yemen, which production had started in 2004 and been suspended since 2014 for political reasons. Block S-1 also holds four undeveloped oilfields containing in excess of 34 million barrels of recoverable oil and 550 billion cubic feet of gas.

The An Nagyah Oilfield holds 25 million barrels of remaining recoverable oil, developed by 32 wells, with production facilities of 20,000 bopd capacity and connected to Block 5 by a 10 inch diameter 80,000 bopd pipeline which is in turn connected to the Block 5 to Block 4, 16 inch diameter pipeline which flows South to the Rudum Export Terminal at the port of Bir Ali, for export and sale.

Following our engineer's site review in June of 2019 with the blessing of the Oil Minister, it was estimated to cost less than US$5 million to restart oil production at 5,000 bopd from four wells within three months of being onsite. Within 12 months the objective was to increase production to 10,000 bopd once the Block 5 to Block 4 pipeline was operational. Unhappily the Company has not been able to restart oil production because of a lack of Yemen Government approvals to access the government's Block 4 export pipeline, which is the Company's right according to the Block S-1 PSA. In late 2019, the Yemen Oil Minister indicated that those approvals were predicated on the Company securing a financially strong and experienced Yemen oil producer to operate Block S-1.

Consequently, the Company focused its efforts during the 2020 year on securing a financially strong and experienced Yemen oil producing operator to be operator of Block S-1, as required by the Minister in order to acquire the necessary government approvals to access government owned export transport facilities, which would permit the restart of production at Block S-1.

Chairman’s Report (continued)

In October 2020, the Company secured a financially strong and experienced Yemen oil producer to operate Damis Block S-1, Yemen, satisfactory to and as required by the Yemen Minister for Oil, in order to receive approvals to access government export pipelines which would permit the restart of oil production from the An Nagyah Oilfield.

To secure such a partner, Petsec Energy sold 100% of the shares in Yemen (Block S-1), Inc., the approved and recognised operator of Damis (Block S-1) and owner of a 75% working interest in Damis (Block S-1), to Yung Holdings Limited, for US$2 million and a life of licence carry of all future costs (operating and development) of the remaining 25% working interest in Block S-1, held by the Company’s wholly owned subsidiary West Yemen Oil (Block S-1) Inc.

Yung Holdings Limited is a subsidiary of Octavia Energy Corporation, a UK company focused on oil and gas exploration and production in the MENA region, and active in Yemen since 2016. Octavia Energy Corporation has demonstrated the financial capacity and technical capabilities required to manage the resumption of oil production from Block S-1 through its’ extensive operating experience in the MENA region where its’ operated current production is in excess of 6,500 bopd.

Yemen (Block S-1) Inc. the operator of Damis Block S-1 has been renamed Octavia Yemen (Block S-1) Inc. which has recently established its Block S-1 operations offices in Cairo. Preparations are progressing to restart oil production from the An Nagyah Oilfield in 2021, hopefully by mid-year. Initially up to 5,000 bopd from some four wells to be trucked to the Block 4 pipeline and thence to Bir Ali for export and sale ,then, when the Block 5 to Block 4 pipeline is commissioned, expected in the fourth quarter of 2021, to increase production when the Block S-1 to Block 5 pipeline can be used. Currently OMV (Block S-2), SAFER (Block 18), and Calvalley (Block 9) are utilising the Block 4 sales export facilities, soon to be joined by Octavia (Block S-1) and Jana Hunt (Block 5).

Since concluding the agreement in October with Octavia, Petsec has been engaged with Octavia’s technical and operations team in providing all of our technical and restart documentation in order to hasten the restart of production at Block S-1. We find ourselves to be aligned with Octavia in our mutual objectives of restarting production in Block S-1 as soon as is practically possible, optimising and increasing production at earliest and increasing reserves through early development of the four undeveloped fields.

We have found the team at Octavia to be highly experienced oil production professionals with wide production experience in Yemen and the broader MENA area. They are committed to the early restart of operations in Block S-1 and we have every confidence in their engagement and capacity.

Block 7: Houthi illegal claim against LoC

The Company holds a 75% interest in Al Barqa, Block 7, Exploration Licence. Two wells were drilled on the Block by Oil Search Ltd in 2010 and 2011 which discovered the Al Meashar Oilfield, with target resources of 11 to 110 million barrels of oil. The block also has eight prospects and leads identified with 2D and 3D seismic, the larger four prospects range between 174 and 439 million barrels of oil potential.

In November 2019, an illegitimate claim was made by the Houthi controlled oil ministry in Sana’a against the Letter of Credit (“LoC”) held by Arab Bank, Sana’a, issued under the Production Sharing Agreement (PSA) on the Al Barqa, Block 7 Permit. The Block 7 LoC totalling US$4.2 million was established between the Block 7 joint venture partners and the Arab Bank on behalf of the Yemen Ministry of Oil and Minerals. The LoC guaranteed the remaining minimum exploration expenditure obligations on the block, which has been in Force Majeure since 2011. No claim can be made against the LoC while the licence is in Force Majeure.

Arab Bank acted on the illegal Houthi claim and called on the counterparty LoCs held on behalf of the Company by Qatar National Bank (QNB) and Mitsui by Commonwealth Bank of Australia (CBA). The banks responded to Arab Banks’ illegitimate claim in January 2020 such that US$2.73 million of the Company and Mitsui’s funds were transferred to Arab Bank, Amman, Jordan. The Company initiated a legal suit against the Arab Bank, Jordan to recover those funds. To date, the Jordan Court, has granted an injunction against Arab Bank to prevent transfer of the funds to the Houthi, and has determined that the Houthi claim against the Block 7 LoC was illegal and counterparty LoC funds received by Arab Bank could not be transferred to the Houthi. The Company is seeking a return of the US$2.73 million from Arab Bank, through the Courts in Jordan which could take another 6 to 8 months.

Chairman's Report (continued)

Convertible Note Facility: Renegotiation of the terms

The execution of the COVID Plan, which was supported by the Noteholders, of substantially reducing operating costs and demand for working capital, closing of the US business and securing an operator of Block S-1, Yemen, satisfactory to the Yemen Oil Minister, resulted in the ability to renegotiate the terms of the Convertible Note Facility, which was satisfactorily concluded in December 2020. The key variations included the extension of the redemption date for a 3-year period from 23 January 2021 to 23 January 2024 (effective 31 December 2020), reduction of the interest rate from 15% to 10% per annum, and the dedication of 80% of future cashflow to repay the Convertible Notes.

At current Brent oil prices of above US$60/bbl and a production rate of 10,000 bopd, the free cashflow from the Company's carried 25% interest in the An Nagyah Oilfield in Block S-1, according to the terms of the carried interest agreement, the Block S-1 PSA, and the 80% allocation to repay the Convertible Note Facility, should be sufficient to repay the entire Noteholder debt within 2 years. The Noteholders are supportive of the Company's actions and to help the Company regrow have offered other oil assets within their portfolio.

Financial results:

The Company recorded a profit after tax for the twelve months ended 31 December 2020 of US$1.3 million largely due to the recognition of a net gain on the divestiture of the U.S. and Yemen assets.

The divestiture of the U.S. and Yemen assets in October injected US$1.4 million (net of selling costs) into the Company with a further US$1.1 million in trailing payments expected to be received by year end 2021. In May 2020, the Company raised A$200,000 through a placement of 10 million ordinary shares at an offer price of $0.02 per share being the last price on voluntary suspension of the stock on 3 April 2020, to provide sufficient working capital through to the end of the 2020 year without drawing further debt.

The U.S. assets provided a modicum of income, largely affected by COVID-19, until sale at 1 July 2020. Net production of 111 MMcfe, was down 70%; gas equivalent average sales price realised was US$1.81/Mcfe, down 39%; and net oil and gas revenues (after royalties) were US$0.2 million, down 82%.

There were no acquisition, exploration and development expenditures in the year; cash (including restricted cash) at 31 December 2020 was US$0.9 million, up 32%; and of the US$15 million Convertible Note Facility, US$14.0 million was drawn at 31 December 2020.

The Company is expected to have sufficient funds to maintain the Company for the coming year and up to June 2022, while we await the restart of the An Nagyah Oilfield and its positive cashflow.

Outlook 2021:

Having substantially reduced operating costs and demands on working capital , secured a financially strong and experienced Yemen oil producer to operate Damis Block S-1 , Yemen, satisfactory to and as required by the Yemen Minister for Oil, in order to receive approvals to access government export pipelines which would permit the restart of oil production from the An Nagyah Oilfield, and a life of licence carry of all costs (operating and development) of the retained 25% working interest in Block S-1 held by the Company's wholly owned subsidiary West Yemen Oil (Block S-1) Inc., and extended the Convertible Note Facility for another 3 years, the Company has sufficient funds and assets with which to regrow.

The key focus of the Company for 2021 will be to support Octavia, the operator of the Damis (Block S-1) Production Licence towards the restart and optimisation of the 25 million barrel An Nagyah Oilfield, and the development of the 34 million barrels and 550 billion cubic feet of gas in the other 4 discovered but undeveloped fields on the block.

In closing, I would like to acknowledge and thank the management team and my Board colleagues for their resolve and commitment, for their stalwart and determined contribution in achieving our COVID Plan, the success of which was critical to the existence of the Company, in what has been a particularly difficult year for the oil and gas industry, and most people in general. A year to be remembered.

It is that same resolve and commitment which should secure the long-term success of the Company.

TN Fern
Chairman

Directors' Report

For the year ended 31 December 2020

The directors present their report together with the Financial Report of Petsec Energy Ltd ("the Group"), being Petsec Energy Ltd (the Company) and its subsidiaries, for the financial year ended 31 December 2020 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
Executive Chairman

Mr Fern has been a director since 1987 and has over 45 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.

Barry J Dawes
Non-executive Director
Chairman of the Audit Committee

Mr Dawes was appointed to the Board on 30 September 2020.

Mr Dawes is a graduate of Sydney University in Geology with studies in Economics and Geography at ANU and has over 40 years' experience in the resources investment sector. Mr Dawes has worked in senior executive roles in investment management with BT Australia, equities research for Deutsche Bank and equities research and corporate finance for Macquarie Bank. He is the founder and principal of Martin Place Securities, a specialised small cap resources stock broking firm set up in 2000, and has been a long term supporter of the Company.

Francis M Douglas
Non-executive Director
Chairman of the Nomination and Remuneration Committee

Mr Douglas was appointed to the Board on 30 September 2020.

Mr Douglas is a graduate of the University of Queensland and the University of Cambridge in Law. He has been a member of the NSW Bar since 1975 and a Q.C. since 1988. He has practiced in all areas of commercial law including international commercial arbitration. He has extensive experience in mineral and oil and gas related matters.

Brent D Emmett
Technical Director

Mr Emmett was appointed to the Board on 13 November 2020.

Mr Emmett holds a Bachelor of Science First Class Honours degree in physics and geophysics from Adelaide University. He has over 40 years' experience in petroleum exploration, exploration and production management and investment banking. He began work as an explorationist in Australia, Papua New Guinea and New Zealand for Esso (now ExxonMobil) and then Elf Aquitaine. He joined Ampolex as Exploration Manager in 1983 and filled general management roles in North and South America, International and Business Development, and was a member of the Executive Committee. From 1997 until 2001 Mr Emmett was Managing Director – Oil & Gas Advisory with the investment banking firm of CIBC World Markets. Mr Emmett was the Chief Executive Officer and Managing Director of Horizon Oil for 17 years, where he was a member of the risk management and disclosure committees. He retired as CEO of Horizon Oil in June 2018 and remains actively involved in the oil business as a senior advisor to industry participants. Mr Emmett is a Director of Australian Doctors International.

Mr Emmett was formerly a Director of ASX-listed Tubi Limited from 29 April 2019 until 1 April 2021.

David A Mortimer AO, FAICD
Non-executive Director
Chairman of the Audit Committee and the Nomination and Remuneration Committee

Mr Mortimer served as a director of the Company from 1985 until his resignation from the Board and its Committees on 30 April 2020.

1. Directors (continued)

Alan P Baden

Non-executive Director

Member of the Audit Committee and the Nomination and Remuneration Committee

Mr Baden served as a director of the Company from 2013 until his resignation from the Board and its Committees on 30 April 2020.

Syed W Bokhari

Managing Director

Mr Bokhari served as the Managing Director of the Company from April 2019 until his resignation on 30 April 2020.

2. Executive Officers

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.

Mr Keogh resigned from his position as Group Chief Financial Officer, effective from 31 December 2020.

Paul Gahdmar

Company Secretary and Chief Financial Officer

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 25 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. Mr Gahdmar took on the position of Chief Financial Officer in addition to his current role as Company Secretary, effective 1 January 2021.

3. Directors' meetings

The Board has a formally constituted Audit Committee and a Nomination and Remuneration Committee. Mr Mortimer and Mr Baden (non-executive directors) were members, and Mr Mortimer chaired both committees until 30 April 2020. Mr Douglas chairs the Nomination and Remuneration Committee and Mr Dawes the Audit Committee. Messrs Douglas, Dawes and Emmett are members of the two 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	***9***	**-**	***3***	***3***
T N Fern [1]	9	-	3	3
S W Bokhari [1, 2]	3	-	1	1
D A Mortimer [2]	4	-	1	1
A P Baden [2]	4	-	1	1
B J Dawes [3]	4	-	2	2
F M Douglas [3]	4	-	2	2
B D Emmett [4]	3	-	2	2

[1] *Mr Fern and Mr Bokhari attended the Audit and Nomination & Remuneration Committee meetings as invitees.*
[2] *Mr Bokhari, Mr Mortimer and Mr Baden resigned as Directors on 30 April 2020.*
[3] *Mr. Dawes and Mr Douglas were appointed as Non-executive Directors on 30 September 2020.*
[4] *Mr Emmett was appointed as Technical Director on 13 November 2020.*

4. Remuneration report

The Remuneration Report is set out on pages 26 to 34 and forms part of the Directors' Report for the financial year ended 31 December 2020.

5. Principal activities

The principal activities of the Group during the course of the year were oil and gas development and production onshore and coastal waters of the Louisiana Gulf Coast region, and the shallow waters of the Gulf of Mexico, USA and in the MENA region.

In April 2020, in response to the effects of the COVID-19 pandemic, particularly the significant decline in oil and prices, in order to effect a substantial reduction in the Company's cost of operation, restructure its' financing, and amend its' business plan in order to weather the economic storm caused by the COVID-19 pandemic.

The U.S. assets were sold and the USA and Canada subsidiary companies were dissolved during the second half of the year. Refer to "*Note 9 – Discontinued Operations*" in the notes to the consolidated financial statements for further details.

Voluntary Suspension

In early April 2020, the Company sought and was granted a voluntary suspension of trading of its shares on the ASX. The suspension was sought following the Board's consideration of the confluence of recent events affecting the Company, particularly the effects of the Coronavirus COVID-19 pandemic which has resulted in an unprecedented collapse in oil and gas prices and a lockdown of government administrative processes around the World. Further details are available in the announcement made to the ASX on 3 April 2020.

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

The Company had the support of its Noteholders such that it achieved:

- Closure of the Dubai, Sana'a, Houston and Sydney offices and release of staff.
- Divestment of the U.S. assets, extinguishing obligations and the wind up of the U.S. and Canadian business.
- An injunction to prevent Arab Bank from transferring Block 7 LoC funds to the Houthi and a court determination that the Houthi claim against the Block 7 Letter of Credit (total of US$4.2 million), was illegal and counterparty LoC funds received by Arab Bank could not be transferred to the Houthi. The Company is pursuing a legal suit against Arab Bank for the recovery of US$2.73 million of the Company and Mitsui's funds supporting counterparty LoCs wrongfully transferred to Arab Bank, Amman, Jordan.
- The securing of a financially strong and Yemen experienced oil producer in October 2020, satisfactory to the Yemen Minister for Oil and Minerals, to be operator of Block S- 1, so as to gain access to government owned export transportation facilities to allow restart of oil production from the An Nagyah Oilfield in Block S-1, through the sale of Yemen (BlockS-1) Inc. the operator and a 75% interest holder in the Damis (Block S-1) Production Licence in consideration of receiving a payment of US$2 million and a life of licence carry of all future costs (operating and development) in Block S-1 of the Company's wholly owned subsidiary, West Yemen Oil (Block S-1) Inc., which holds a 25% working interest in Block S-1.
- A variation of the terms of the Convertible Note Facility with the Redemption Date extended by three years to 23 January 2024 (effective 31 December 2020) and interest reduced from 15% to 10% per annum.

The Company proposes to apply to regain ASX listing pending the lodgement of its 2020 half-year and full-year financial reports and the convening of the Company's Annual General Meeting planned for 28 May 2021.

6. Financial review

The Group reported a profit after tax for the twelve months ended 31 December 2020 of US$1.3 million (previous corresponding period: net loss after tax of US$24.2 million) after the recognition of a net gain on disposal of assets and subsidiaries of US$9.4 million; offset by dry hole, impairment, and abandonment expense of US$3.7 million and net financial expense of US$3.6 million.

The net gain on disposal of assets and subsidiaries of US$9.4 million included a gain of US$8.6 million in respect of the sale of Yemen (Block S-1), Inc., largely due to the derecognition of certain provisions associated with the Damis (Block S-1) Production Licence as a consequence of the sales transaction, and a gain of US$0.8 million in relation to the sale of the U.S. assets and dissolution of the U.S business.

6. Financial review (continued)

Dry hole, impairment, and abandonment expense of US$3.7 million comprised the recognition of an impairment of US$3.6 million against the Hummer Gas/Oil Field, and abandonment expense of US$0.1 million relating to the relinquishment of the Main Pass Block 274 lease.

Financial expense of US$3.6 million related to interest expense incurred in connection with the Convertible Note Facility coupled with movements in the fair value of the financial derivative component of the Convertible Note liability.

Net oil and gas revenues of US$0.2 million were generated from production of 111 MMcfe at an average natural gas equivalent sales price of US$1.81/Mcfe. This was 82% lower than the net oil and gas revenues derived in the previous corresponding period of US$1.1 million, largely reflecting the effect of the sale of the U.S. assets.

Similarly, net production of 111 MMcfe was 70% lower than the previous corresponding period (368 MMcfe).

The Group realised an average net gas equivalent sales price of US$1.81/Mcfe in the current period. This was 39% lower than the US$2.96/Mcfe achieved for the previous corresponding period. The Group received average sales prices of US$1.24/Mcf and US$39.31/bbl for its natural gas and oil/condensation production, respectively. This compares to US$2.22/Mcf and US$58.87/bbl received respectively, in the previous corresponding period.

Operating expenses (i.e. lease operating and geological, geophysical and administrative ("GG&A") expense) of US$1.8 million were lower in the current period (previous corresponding period: US$4.5 million), reflecting the benefit of a number of cost cutting measures including: closure of the Dubai ,Sana'a, Lafayette, Houston and Sydney offices, and release of staff, divestment of the U.S. assets and wind up of the U.S. and Canadian subsidiaries , divestment of a 100% interest in Yemen (Block S-1) Inc., the operator and 75% interest holder in the Damis (Block S-1) Production Licence, for US$2 million and a carry of all future costs (operating and development) of the Company's wholly owned subsidiary West Yemen Oil (Block S-1) Inc., holder of a 25% interest in Block S-1.

The Group recorded negative earnings before interest, income tax, depreciation, depletion and amortisation, and exploration expense ("EBITDAX") of US$0.9 million for the current period (previous corresponding period: negative EBITDAX of US$3.6 million).

Depreciation, depletion and amortisation ("DD&A") expense was US$0.1 million in the current period (previous corresponding period: US$2.6 million).

Financial position

At 31 December 2020, the Group held cash deposits of US$912,000 (31 December 2019: US$691,000). The cash deposits are predominantly held in US dollars and include restricted cash amounts of US$50,000 (US$46,000 restricted cash at 31 December 2019).

On 19 May 2020, the Group completed a minimum placement of 10 million ordinary shares at an offer price of A$0.02 per share, raising A$200,000.

During the year, the Group also received cash proceeds of US$1.4 million from the sale of certain of its assets, including:

- US$0.6 million (US$0.5 million base cash payment plus a further US$0.1 million trailing payment due in October 2021) from the sale of its U.S. oil and gas assets. The transaction also involved the assumption of plug and abandonment obligations by the Purchaser. Refer to announcement made to ASX on 6 August 2020 for further details.
- US$2 million (US$1 million base cash payment plus a further US$1 million trailing payment due upon certain production hurdles being met) from the sale of all the shares in Yemen (Block S-1), Inc., which holds a 75% interest in the Damis (Block S-1) Production Licence and is the designated operator; plus the carry of all future costs (operating and development) by Yemen (Block S-1) Inc. associated with the production and development of Damis (Block S-1) for the Group's wholly owned subsidiary, West Yemen Oil (Block S-1), Inc., owner of a 25% interest in Block S-1.

As at 31 December 2020, the Group had a cash balance (excluding restricted deposits of US$50,000) of US$862,000 (31 December 2019: US$645,000) and current net assets of US$658,000 (31 December 2019: current net liabilities of US$647,000).

As at 31 December 2020, the Group had drawn down US$14 million under its US$15 million Convertible Note Facility ("Facility") Agreement. Subsequent to balance date, the Group entered into an agreement with the Registrar of the Facility to extend the redemption date of the Facility for a three-year period from 23 January 2021 to 23 January 2024 (effective 31 December 2020), and to vary certain of the other terms of the Facility. Refer "*Note 32 – Subsequent Events Disclosure*" in the notes to the consolidated financial statements for further details.

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). The Company has operations onshore in the Republic of Yemen.

USA

Production

During the year, the Company held interests in three production fields in the USA – the Hummer Gas/Oil Field offshore Gulf of Mexico, and the Mystic Bayou and Jeanerette Fields, onshore Louisiana.

The Company produced 111 MMcfe (net to its share) from the Main Pass Block 270 B-1 well on the Hummer Field and the Williams No.2 well on the Mystic Bayou Field, prior to the sale of all its U.S. oil and gas interests, effective 1 July 2020. Refer to announcement made to the ASX on 6 August 2020 for further details.

Main Pass Block 270 B-1 well – Hummer Gas/Oil Field (Main Pass 270/273/274)
Petsec: 12.5% working interest (10.7431% net revenue interest)

The Main Pass Block 270 B-1 well on the Hummer exploration prospect in 215 feet of water, offshore Louisiana (federal waters) was drilled during the second half of 2015 and brought into production on 21 November 2017.

The well contributed 90 MMcfe to production for the year, prior to being sold.

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

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

The well contributed 21 MMcfe to production for the year, prior to being sold.

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 and had been produced on an intermittent basis since that time. The well did not contribute to production for the year, prior to being sold.

MENA

Yemen

The Company holds rights to working interests in two blocks in Yemen, 80 kilometres apart in the Marib Basin - Damis Block S-1 Production Licence and Al Barqa, Block 7 Exploration Licence.

The Damis Block S-1 Production Licence in the Shabwah Governate contains five oil and gas fields, with target resources in excess of 54 million barrels of oil and 550 Bcf of natural gas. One field, the An Nagyah Oilfield is developed, with 32 wells, and has associated production facilities capable of producing 20,000 bopd, connected by an 80,000 bopd pipeline to Block 5 and the Marib Pipeline which terminates at the Ras Isa Oil Export Terminal on the Red Sea to the West. The Marib Pipeline and Ras Isa Oil Export Terminal have been shut since March 2015 due to the Saudi Coalition embargo on oil lifting from the Port of Hodeidah because of the Rebels' control of Hodeidah. In 2020, a pipeline between Block 5 and Block 4 was completed which when commissioned once Block 5 restarts production, expected in the fourth quarter of 2021, will allow An Nagyah oil to flow to Block 5 thence South through the Block 4 pipeline to the Rudum Export Terminal at Bir Ali, for export and sale.

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

Damis (Block S-1), Republic of Yemen

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

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

Damis (Block S-1) is located approximately 80 kilometres to the southwest of Block 7 and holds five sizeable oil and gas discoveries – the developed and productive (until suspended in 2014), An Nagyah Oilfield, and a further four undeveloped oil and gas fields – Osaylan, An Naeem, Wadi Bayhan, and Harmel.

The developed An Nagyah Oilfield has produced around 25 million barrels of oil since start of production in 2004 out of the original recoverable reserves of 50 million barrels of oil.

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

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

Late in the year, the Company secured a financially strong and experienced Yemen oil producer to operate Block S-1 satisfactory to and as required by the legitimate Yemen Minister for Oil, in order to receive government approvals to access export transport facilities which would permit the restart of oil production from the An Nagyah Oilfield in Block S-1.

To secure such a partner, Petsec Energy sold 100% of the shares in Yemen (Block S-1), Inc., the approved and recognised operator of Damis (Block S-1) and owner of a 75% working interest in Damis (Block S-1), to Yung Holdings Limited, a subsidiary of Octavia Energy Corporation, a UK company focused on oil and gas exploration and production in the MENA region, and active in Yemen since 2016. Octavia Energy Corporation has demonstrated the financial capacity and technical capabilities required to manage the resumption of oil production from Block S-1 through its extensive operating experience in the MENA region where its operated current production is in excess of 6,500 bopd.

Yemen (Block S-1) Inc. the operator of Damis Block S-1 has been renamed Octavia Yemen (Block S-1) Inc. and has recently established its Block S-1 operations offices in Cairo. Preparations are progressing to restart oil production from the An Nagyah Oilfield in 2021, hopefully by mid-year. Initially up to 5,000 bopd from some four wells to be trucked to the Block 4 pipeline and thence to Bir Ali for export and sale, then when the Block 5 to Block 4 pipeline is commissioned, expected in the fourth quarter of 2021, to increase production. Currently OMV (Block S-2), SAFER (Block 18), and Calvalley (Block 9) are utilising the Block 4 sales export facilities, soon to be joined by Octavia (Block S-1) and Jana Hunt (Block 5).

Block 7, Al Barqa Permit, Republic of Yemen

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

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

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

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

The two discovery wells of the Al Meashar Oilfield (target resource of 11 MMbbl to 110 MMbbl) in 2010 and 2011, are suspended for future production. In 2010/2011, short-term testing of the two Al Meashar wells delivered flow rates ranging from 200 to 1,000 bopd. The wells intersected an 800 metre oil column in the Kuhlan and Basement formations, the same formations and oil as OMV's Habban Oilfield, which has an oil column of 945 metres and is located14 kilometres to the West. The Habban Oilfield holds ultimate recoverable reserves of 350 million barrels of oil, and is producing oil at a rate of 14,000 bopd into the Block 4 export pipeline to the export port of Bir Ali to the South. Prior to March 2015 when all Yemen oilfields were shut-in because of the civil war, OMV was producing 30,000 bopd, trucked to Block 18 for pipeline transport West to Ras Isa on the Red Sea.

1 *Source: Wood Mackenzie Asia Pacific Pty Ltd*

Oil and Gas Reserves

Petsec Energy Group Net Reserves as of 1 January 2021

Oil Equivalent (Mboe [1])	Net Proved Reserves [4]	Net Probable Reserves [4]	Net Proved and Probable Reserves [4]
USA Reserves [2]			
Reserves as of 1 January 2020	2,075.4	739.6	2,815.0
Additions/(revisions)	-	-	-
Production	(18.6)	-	(18.6)
Sale of working interests	(2,056.8)	(739.6)	(2,796.4)
USA reserves as of 1 January 2021	-	-	-
Developed	-	-	-
Undeveloped	-	-	-
Yemen Reserves [3]			
Reserves as of 1 January 2020	4,540.0	1,108.0	5,648.0
Additions/(revisions)	-	-	-
Sale of working interests	(3,405.0)	(831.0)	(4,236.0)
Yemen reserves as of 1 January 2021	1,135.0	277.0	1,412.0
Developed	*1,135.0*	*277.0*	*1,412.0*
Undeveloped	-	-	-
Total Petsec Group Reserves			
Total Petsec Group Reserves as of 1 January 2021	**1,135.0**	**277.0**	**1,412.0**
Developed	***1,135.0***	***277.0***	***1,412.0***
Undeveloped	-	-	-

Footnotes

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. *As announced to the ASX on 6 August 2020, the Company sold all of its U.S. oil and gas reserves with an effective date of 1 July 2020.*
3. *The Yemen reserve assessments presented in the table above and throughout this report are consistent with the announcement released to the ASX on 24 February 2020. The reserves are stated only for oil in the An Nagyah Oilfield and are unchanged from the assessment announced to the ASX on 15 March 2016 using a Brent oil price of US$30/bbl and 5,000 bopd trucked 580 kilometres to PetroMasila's Block 14 truck unloading facilities. In October 2020, the Company sold 75% of the stated reserves.*

   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.
4. *Net reserves mean those reserves representing the Company's net revenue interest (or net economic interest). In the U.S., it is the Company's working interest less royalties payable. In Yemen, it is reserves net of those reserves used to meet all costs - operational, government taxes and government participation in Yemen, according to the terms of the Damis (Block S-1) Petroleum Sharing Agreement (PSA) with the Yemen government. The Yemen net reserves are free of all costs.*

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

- At least once a year, as part of the year-end reporting procedures, the Company's producing oil and gas reserves are to be reviewed by an external, independent expert. The independent 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.

8. Objectives, strategy and future performance

It is the Group'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 Group's strategy to meet the above objective is to produce its current reserves in Damis (Block S-1), Yemen and to explore opportunities to acquire other oil and gas reserves as they become available.

The Group's strategy takes into account the expected operating and market conditions, together with general economic conditions, which are inherently uncertain. The Group has in place, structured and proactive risk management and internal control systems to manage material risks. Certain of those risks are inherent to the Group's business, such as drilling for, producing and marketing oil and gas. Although the Group is committed to minimising its risk exposure, many risks are largely beyond the control of the Group 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 Group cannot control. 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 indeterminable 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, blow-outs 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.

8. Objectives, strategy and future performance Marketing and Sales Risks (continued)

Pricing 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 and foreign 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 U.S. dollar and the Australian dollar may impact upon cash balances held in Australian dollars. Since most of the Company's operations are conducted in U.S. dollars, the Company generally maintains a substantial portion of its cash balances in U.S. dollar accounts. Occasionally, however, it may have some cash deposits in Australian dollar accounts. Until these funds are converted into U.S. dollars, the U.S. 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 in the 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 countries in which the Company operates;
- Stock market conditions in Australia;
- Fluctuations in asset values; and
- Availability of and access to capital.

9. Dividends

Directors do not recommend the payment of a dividend for the financial year ended 31 December 2020. 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 Group's oil and gas exploration and production activities are subject to significant environmental regulation under legislation in the jurisdictions where it has operations.

The Group 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 Group's activities during the year.

12. Likely developments

The Group's primary focus in 2021 will be:

- Restructure of the terms of the Convertible Note Facility. This was achieved in January 2021.
- Support the operator of the Damis (Block S-1) Production Licence towards the optimisation of the An Nagyah Oilfield and the other discovered fields on the block. The restart of production from An Nagyah will permit the generation of cashflows which could then be directed towards, the pay down of the Convertible Note Facility, improving the balance sheet, and the potential development of Block 7.
- Pursuit of the recovery of the Block 7 Letter of Credit monies currently held by the Arab Bank.
- Continue to review other oil and gas opportunities, as they become available;

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	37,876,361	Nil
B J Dawes	6,473,579	Nil
F M Douglas	Nil	Nil
B D Emmett	Nil	Nil

14. Share options

Options granted to directors and officers of the Company

As at 31 December 2020, there were 8,200,000 options over ordinary shares (pursuant to Employee Option Plan) in Petsec Energy Ltd on issue.

14. Share options (continued)

Options granted to directors and officers of the Company (continued)

During or since the end of the financial year:

- 1,000,000 options over ordinary shares were issued in March 2021 outside the Employee Option Plan to Mr. Paul Gahdmar and Mr. Ross Keogh (2,000,000 options in total) as part of their remuneration and termination, respectively.

  Each option was issued for a consideration price of A$0.001 and has an exercise price of A$0.02.

  The options vest as follows (for each person):

  - 500,000 Options vest immediately upon the issue date; and
  - A further 500,000 Options vest 12 months after the issue date.

- No options over ordinary shares were granted to or forfeited by key management personnel under the Employee Option Plan.

The Company will issue a total of 12,000,000 options to its newly appointed Directors, Messrs. Barry Dawes, Francis Douglas and Brent Emmett, in lieu of the payment of director fees. The issue of options will be outside the Employee Option Plan and is subject to regulatory approvals and obtaining shareholder approval at its next General Meeting, currently scheduled for 28 May 2021. Refer to ASX Announcement dated 7 December 2020 for further details.

The Company has also agreed to issue 3,000,000 options to a consultant as part payment of the transaction fee agreed in relation to the executed agreement for the divestment of the 75% interest in Damis (Block S-1). The options have an exercise price of 2.1 cents per option over ordinary shares and an expiry date of 30 September 2022. The options had not been issued at the date of this report.

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

The Company's directors' and officers' liability insurance expired on 7 June 2020 at 4.00 p.m. The Company was not able to renew the policy for various reasons, including the financial circumstances of the Company at that time and the drastic change in the insurance market which resulted in insurers reducing capacity, increasing deductibles and significant increasing policy premiums.

16. Non-audit services

Details of the amounts paid or payable to the Company's auditor for non-audit services provided during the financial year are outlined in "*Note 7 – Auditor's Remuneration*" of the accompanying Financial Statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor or by another person or firm on the auditor's behalf, is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

17. Lead auditor's independence declaration

The Lead Auditor's Independence Declaration is set out on page 35 and forms part of the Directors' Report for the financial year ended 31 December 2020.

18. 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.

19. Events subsequent to balance date

Extension of Convertible Note Facility and variation of terms

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

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

Block 7 Letter of Credit Litigation Matter

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

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

This report is made with a resolution of the directors:

T N Fern
Director

Sydney, 26 April 2021

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 Group ("Petsec Energy Group") for the year ended 31 December 2020 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:

- The annual review of key management personnel performance.
- 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, and expertise 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 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:

- F M Douglas (Chairman) – Independent Non-executive Director (appointed on 30 September 2020)
- B J Dawes – Independent Non-executive Director (appointed on 30 September 2020)
- B D Emmett – Technical Director (appointed on 13 November 2020)

- D A Mortimer (Chairman) – Independent Non-executive Director (resigned on 30 April 2020)
- A P Baden – Independent Non-executive Director (resigned on 30 April 2020)

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

20. Remuneration Report – Audited (continued)

20.3 Nomination and Remuneration Committee (continued)

The Nomination and Remuneration Committee meets at least twice a year and as required. The Committee met three 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 U.S. based key management personnel to a voluntary savings plan under Section 401(k) of the U.S. 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 and employer matching contributions to voluntary savings plans under Section 401(k) of the U.S. tax code. Non-cash benefits comprise employer payments towards U.S. 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 17 May 2018 (see Note 18(b)). The maximum number of securities in aggregate that may be issued under the Employee Share and Option Plans is 21,033,215.

20. Remuneration Report – Audited (continued)

20.4 Principles of compensation (continued)

Short-term incentive

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

No short-term incentives were awarded to key management personnel during the year.

Long-term incentive

Certain 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, no shares or options over ordinary shares were issued to key management personnel as long-term incentive compensation under the Employee Share and Option Plans (previous corresponding period: nil).

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.

	2020	2019	2018	2017	2016
Profit/(loss) attributable to owners of the company	US$1,266,000	(US$24,241,000)	(US$10,050,000)	(US$11,964,000)	(US$13,024,000)
Dividend paid	-	-	-	-	-
Closing share price as at 31 December	A$0.021	A$0.056	A$0.105	A$0.105	A$0.17
Change in share price	(A$0.035)	(A$0.049)	-	(A$0.065)	A$0.092

Net profit/(loss) amounts for 2016 to 2020 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 and changes in the scope of the role performed by the executive and changes required to meet the principles of the compensation policy.

20. Remuneration Report – Audited (continued)

20.4 Principles of compensation (continued)

The Executive Chairman, Mr Fern, is engaged via Geofin Consulting Services Pty Limited ("Geofin"), 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.

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 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.

During the year, the newly appointed directors, Messrs. Barry Dawes, Francis Douglas and Brent Emmett accepted that there will be no cash remuneration paid until such times as the Company has substantial free cashflow and regains profitability. In lieu of director fees, the Company proposes to issue a total of 12,000,000 options to the directors subject to regulatory approvals and obtaining shareholder approval at the next General Meeting, currently scheduled for 28 May 2021.

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 Group 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/ 401K 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]	Executive Chairman	**2020**	**-**	**-**	**-**	**260,363**	**-**	**-**	**-**	**260,363**	**-**	**-**
(Note 1)		2019	-	-	29,694	359,962	-	-	-	389,656	-	-
B D Emmett [1]	Technical Director	**2020**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
(Note 2)		2019	-	-	-	-	-	-	-	-	-	-
S W Bokhari	Managing Director	**2020**	**89,744**	**-**	**8,444**	**-**	**3,625**	**-**	**-**	**101,813**	**-**	**-**
(Note 3)	*(resigned 30 April 2020)*	2019	233,333	-	20,549	-	8,458	-	-	262,340	-	-
Non-executive												
B J Dawes [1]	Director	**2020**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
(Note 4)		2019	-	-	-	-	-	-	-	-	-	-
F M Douglas [1]	Director	**2020**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
(Note 4)		2019	-	-	-	-	-	-	-	-	-	-
D A Mortimer [1]	Director	**2020**	**11,282**	**-**	**-**	**-**	**1,072**	**-**	**-**	**12,354**	**-**	**-**
(Note 5)	*(resigned 30 April 2020)*	**2019**	45,286	-	-	-	4,302	-	-	49,588	-	-
A P Baden	Director	**2020**	**12,500**	**-**	**-**	**-**	**-**	**-**	**-**	**12,500**	**-**	**-**
(Note 5)	*(resigned 30 April 2020)*	2019	50,000	-	-	-	-	-	-	50,000	-	-
Total directors remuneration		**2020**	**113,526**	**-**	**8,444**	**260,363**	**4,697**	**-**	**-**	**387,030**	**-**	**-**
		2019	328,619	-	50,243	359,962	12,760	-	-	751,584	-	-

[1] *Australian-based directors' remuneration amounts are actually paid in Australian dollars and presented in US dollars at the following average FX rates i) 2020 – 0.6943 ii) 2019 – 0.6967.*

20. Remuneration Report – Audited (continued)

20.5 Directors' and Executive Officers' Remuneration Report (continued)

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 Group are:

			Short-term benefits				Post-employment benefits		Share-based payment			
			Salary & fees US$ *Note 8*	Short-term incentive/ retention cash bonus US$ *Note 9*	Other benefits US$ *Note 10*	Service agreements US$	Super-annuation /401K benefits US$	Term-ination benefits US$	Accounting fair value US$ *Note 11*	Total US$	Proportion of remuneration performance related %	Accounting fair value as proportion of remuneration %
Executives												
R A Keogh *(Note 6)*	President, PEI and Group Chief Financial Officer *(resigned as Group Chief Financial Officer on 31 December 2020)*	**2020**	**236,000**	**-**	**35,840**	**-**	**11,800**	**250,000**	**888**	**534,528**		**0.2**
		2019	245,833	-	31,180	-	12,292	-	6,980	296,285	-	2.4
P Gahdmar [1]	Company Secretary, Group Financial Controller	**2020**	**177,737**	**-**	**-**	**-**	**11,059**	**-**	**8,504**	**197,300**	**-**	**4.3**
		2019	119,012	-	5,675	-	11,306	-	20,235	156,228	-	13.0
M Petkovski [1] *(Note 7)*	Chief Executive Officer of Petsec Energy (Middle Eastern) Limited *(resigned 30 April 2019)*	**2020**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
		2019	-	-	1,141	73,345	-	243,845	44,466	362,797	-	12.3
Total executive remuneration		**2020**	**413,737**	**-**	**35,840**	**-**	**22,859**	**250,000**	**9,392**	**731,828**		**1.3**
		2019	364,845	-	37,996	73,345	23,598	243,845	71,681	815,310	-	8.8
Total directors and executive officer remuneration		**2020**	**527,263**	**-**	**44,284**	**260,363**	**27,556**	**250,000**	**9,392**	**1,118,858**	**-**	**0.8**
		2019	693,464	-	88,239	433,307	36,358	243,845	71,681	1,566,894	-	4.6

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) 2020 – 0.6943 ii) 2019 – 0.6967.*

20. Remuneration Report – Audited (continued)

20.5 Directors' and Executive Officers' Remuneration Report (continued)

Notes

1) Included in service agreements above is an amount of US$260,363 (2019: US$359,962) 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. Emmett was appointed to the role of Technical Director of the Petsec Energy Ltd Board effective 13 November 2020.
Mr. Emmett will receive options over ordinary shares in Petsec Energy Ltd in lieu of director fees, subject to regulatory approvals and obtaining Shareholder approval at the next General Meeting.
3) Mr. Bokhari resigned from his position as Managing Director of Petsec Energy Ltd on 30 April 2020.
4) Messrs. Dawes and Douglas were appointed as Non-executive Directors to the Petsec Energy Ltd Board effective 30 September 2020.
Messrs. Dawes and Douglas will also receive options over ordinary shares in Petsec Energy Ltd in lieu of director fees, subject to regulatory approvals and obtaining Shareholder approval at the next General Meeting.
5) Messrs. Mortimer and Baden resigned as Non-executives of Petsec Energy Ltd on 30 April 2020.
6) Mr. Keogh resigned from his position of Group Chief Financial Officer, effective 31 December 2020.
7) Mr. Petkovski resigned from his position as CEO of Petsec Energy (Middle Eastern) Limited on 30 April 2019.
8) Salary and fees for certain specified executives includes the movement during the reporting period of accruals for annual leave and long service leave.
9) 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.
10) 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.
11) 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.

During the year, termination payments of US$250,000 were paid to key management personnel (2019: US$243,845).

The following table sets out the factors and assumptions used in determining the fair value of the shares or options issued to key management personnel.

Grant date	Expiry date	Average fair value per option	Exercise price	Price of shares on grant date	Weighted Average estimated volatility	Risk-free interest rate	Dividend yield
2/02/18 [1]	16/02/23	A$0.014	A$0.20	A$0.11	69.4%	2.165%	-
2/02/18 [2]	23/02/23	A$0.015	A$0.20	A$0.11	70.1%	2.165%	-
9/02/18 [3]	23/02/23	A$0.043	A$0.20	A$0.10	103.6%	2.165%	-

1 Issued to R. Keogh. Options vest between 1 March 2018 and 1 March 2020 at a minimum share price of A$0.20.
2 Issued to P. Gahdmar. Options vest between 1 March 2018 and 1 March 2020 at a minimum share price of A$0.20.
3 Issued to P. Gahdmar. Options vest between 1 March 2019 and 1 March 2021 at a minimum share price of A$0.20.

20. Remuneration Report – Audited (continued)

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 short-term incentives and bonus schemes for the 2020 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 2020, no options were granted to key management personnel under the Employee Option Plan (2019: nil).

The movement during the reporting period in the number of shares and options under the Employee Option Plan held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 January 2020	Granted as compensation	Exercised	Other changes [1]	Held at 31 December 2020	Vested during the year	Vested and exercisable at 31 December 2020
Directors							
T Fern	-	-	-	-	-	-	-
B Emmett	-	-	-	-	-	-	-
B Dawes	-	-	-	-	-	-	-
F Douglas	-	-	-	-	-	-	-
Executives							
R Keogh [2, 3]	2,500,000	-	-	-	2,500,000	-	2,500,000
P Gahdmar [2]	2,700,000	-	-	-	2,700,000	-	2,200,000

[1] *Other changes represent shares and options that expired or were forfeited during the year.*

[2] *Options exercisable at a share price of A$0.20.*

[3] *Mr. Keogh resigned from his position of Group Financial Officer, effective 31 December 2020. The Company has agreed for these options to remain on issue to Mr. Keogh until their expiry on 16 February 2023.*

No shares or options under the Employee Option Plan are held by key management personnel related parties.

Exercise of options granted as compensation

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

20. Remuneration Report – Audited (continued)

20.7 Equity instruments (continued)

Movements in fully paid ordinary 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 2020	Disclosure per ASX Appendix 3X	Granted as compensation	Purchases	Received on exercise of options	Disposal/ Removal of relevant interest	Held at 31 December 2020
Directors							
T Fern	37,876,361	-	-	-	-	-	37,876,361
B Dawes [1]	-	6,473,579	-	-	-	-	6,473,579
F Douglas [1]	-	-	-	-	-	-	-
B Emmett [2]	-	-	-	-	-	-	-
D Mortimer [3]	12,241,098					(12,241,098)	-
Executives							
R Keogh [4]	1,612,500	-	-	-	-	-	1,612,500
P Gahdmar	400,000	-	-	-	-	-	400,000

1. *Mr. Dawes and Mr. Douglas were appointed as Non-executive Directors to the Petsec Energy Ltd Board effective 30 September 2020. Refer to Appendix 3X – Initial Director's Interest Notice lodged with the ASX on 30 September 2020 for further details.*
2. *Mr. Emmett was appointed to the role of Technical Director of the Petsec Energy Ltd Board effective 13 November 2020. Refer to Appendix 3X – Initial Director's Interest Notice lodged with the ASX on 13 November 2020 for further details.*
3. *Mr. Mortimer resigned as a Director on 30 April 2020.*
4. *Mr. Keogh resigned from his position of Group Chief Financial Officer, effective 31 December 2020.*

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.

PETSEC ENERGY LTD
ABN 92 000 602 700
AND CONTROLLED ENTITIES

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

I declare that, to the best of my knowledge and belief, during the year ended 31 December 2020 there have been no contraventions of:

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

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

MNSA Pty Ltd

MNSA Pty Ltd

Mark Schiliro
Director

Sydney
Dated this 26th of April 2021

MNSA Pty Ltd
ABN 59 133 605 400

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GPO Box 2943 Sydney 2001

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Consolidated statement of profit and loss and other comprehensive income

For the year ended 31 December 2020

	Note	2020 US$'000	2019 [1] US$'000
Continuing operations			
Other income/(expenses)	5(a)	**720**	(179)
Lease operating expenses		**(151)**	(692)
Geological, geophysical and administrative expenses		**(888)**	(2,474)
Depreciation, depletion, amortisation and reclamation		**(22)**	(132)
Impairment expense		**-**	(117)
Gain on disposal of subsidiaries	5(b)	**8,700**	-
Financial income	8	**7**	6
Financial expenses	8	**(3,628)**	(2,691)
Net financial (expense)/income		**(3,621)**	(2,685)
Profit/(loss) before income tax		**4,738**	(6,279)
Income tax benefit/(expense)	10	**-**	-
Profit/(loss) from continuing operations		**4,738**	(6,279)
Discontinued operations			
Loss from discontinued operation, net of tax [2]	9	**(3,472)**	(17,962)
Profit/(loss) for the period		**1,266**	(24,241)
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Foreign exchange translation differences		**55**	80
Total comprehensive income/(loss) for the period		**1,321**	(24,161)

	Note	US Dollars 2020	2019
Earnings/(loss) per share – continuing and discontinued operations			
Basic and diluted earnings/(loss) per share	11	**0.003**	(0.063)
Earnings/(loss) per share – continuing operations			
Basic and diluted earnings/(loss) per share	11	**0.012**	(0.016)

1. *The previous corresponding period results have been restated in accordance with AASB 5 Discontinued Operations to reflect the classification of the results of the USA and Canada operations as "discontinued operations" following the sale of the Group's U.S. oil and gas assets and dissolution of the USA and Canada businesses.*

2. *The Group has elected to disclose a single amount of post-tax profit or loss from its discontinued USA and Canada operations in the statement of profit or loss and other comprehensive income for the current and previous corresponding period, and has analysed that single amount into revenue, expenses and pre-tax profit or loss in "Note 9 Discontinued Operations".*

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 40 to 73.

Consolidated statement of changes in equity

For the year ended 31 December 2020

In thousands of USD	Share capital US$'000	Translation Reserve US$'000	Share-based compensation US$'000	Option Reserve US$'000	Accumulated losses US$'000	Total Equity US$'000
Balance at 1 January 2019	197,855	1,779	123	406	(199,202)	961
Total comprehensive income for the period						
Profit/(loss) for the period	-	-	-	-	(24,241)	(24,241)
Other comprehensive income						
Foreign exchange translation differences	-	80	-	-	-	80
Total other comprehensive income/(loss)	-	80	-	-	-	80
Total comprehensive income/(loss) for the period	-	80	-	-	(24,241)	(24,161)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share issue/(cancelled)	3,109	-	-	-	-	3,109
Vesting of share options	135	-	(135)	-	-	-
Share-based payments expense	-	-	86	-	-	86
Total transactions with owners	3,244	-	(49)	-	-	3,195
Balance at 31 December 2019	201,099	1,859	74	406	(223,443)	(20,005)
Balance at 1 January 2020	**201,099**	**1,859**	**74**	**406**	**(223,443)**	**(20,005)**
Total comprehensive income/(loss) for the period						
Profit/(loss) for the period	**-**	**-**	**-**	**-**	**1,266**	**1,266**
Other comprehensive income/(loss)						
Foreign exchange translation differences	**-**	**16**	**-**	**39**	**-**	**55**
Total other comprehensive income/(loss)	**-**	**16**	**-**	**39**	**-**	**55**
Total comprehensive income/(loss) for the period	**-**	**16**	**-**	**39**	**1,266**	**1,321**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share issue/(cancelled)	**138**	**-**	**-**	**-**	**-**	**138**
Option issue	**-**	**-**	**-**	**1**	**-**	**1**
Vesting of share options	**53**	**-**	**(53)**	**-**	**-**	**-**
Share-based payments expense	**-**	**-**	**19**	**-**	**-**	**19**
Total transactions with owners	**191**	**-**	**(34)**	**1**	**-**	**158**
Balance at 31 December 2020	**201,290**	**1,875**	**40**	**446**	**(222,177)**	**(18,526)**

The statement of changes in equity is to be read in conjunction with the notes to the consolidated financial statements set out on pages 40 to 73.

Consolidated statement of financial position

As at 31 December 2020

	Note	2020 US$'000	2019 US$'000
ASSETS			
Current assets			
Cash and cash equivalents		**862**	645
Trade and other receivables	12	**236**	192
Prepayments		**3**	84
Total current assets		**1,101**	921
Non-current assets			
Restricted cash deposits		**50**	46
Other receivables	12	**1,000**	-
Property, plant and equipment		**4**	22
Right-of-use assets		**-**	134
Oil and gas properties	13	**-**	4,249
Total non-current assets		**1,054**	4,451
Total assets		**2,155**	5,372
LIABILITIES			
Current liabilities			
Trade and other payables	15	**286**	1,305
Lease liability		**-**	69
Employee benefits provisions		**157**	194
Total current liabilities		**443**	1,568
Non-current liabilities			
Secured borrowings	16	**20,238**	15,772
Fair value of derivative instruments	17	**-**	358
Provisions	19	**-**	7,428
Lease liability		**-**	68
Employee benefits provisions		**-**	183
Total non-current liabilities		**20,238**	23,809
Total liabilities		**20,681**	25,377
Net assets		**(18,526)**	(20,005)
EQUITY			
Issued capital	20	**201,290**	201,099
Reserves	20	**2,361**	2,339
Accumulated losses		**(222,177)**	(223,443)
Total equity		**(18,526)**	(20,005)

The statement of financial position is to be read in conjunction with the notes to the consolidated financial statements set out on pages 40 to 73.

Consolidated statement of cashflows

For the year ended 31 December 2020

	Note	2020 US$'000	2019 US$'000
Cashflows from operating activities			
Cash receipts from customers		**361**	1,620
Cash payments to suppliers and employees		**(2,286)**	(4,072)
Interest received		**1**	6
Alternative minimum tax refund		**169**	-
Restricted deposits		**-**	154
Net cash used in operating activities	29	**(1,755)**	(2,292)
Cashflows from investing activities			
Net cash received on disposal of subsidiaries		**970**	-
Proceeds from sale of oil and gas, exploration and evaluation properties		**387**	-
Proceeds from sale of property, plant and equipment		**20**	-
Payments for property, plant and equipment		**-**	(3)
Payments for oil and gas, exploration and evaluation properties		**-**	(3,485)
Net cash from (used in) investing activities		**1,377**	(3,488)
Cashflows from financing activities			
Proceeds from drawdown of convertible note facility		**500**	4,000
Proceeds from shares issued – net of transaction costs		**139**	-
Payments for lease liabilities		**(58)**	(172)
Net cash from financing activities		**581**	3,828
Net (decrease)/increase in cash and cash equivalents		**203**	(1,952)
Cash and cash equivalents at 1 January		**645**	2,597
Effects of exchange rate changes on cash held		**14**	-
Cash and cash equivalents at 31 December		**862**	645

The statement of cashflows is to be read in conjunction with the notes to the consolidated financial statements set out on pages 40 to 73.

1. Reporting entity

Petsec Energy Ltd (the "Company") is a company domiciled in Australia. The registered office of the Company is Level 7, Macquarie Business Centre, 167 Macquarie Street, Sydney NSW 2000. The consolidated financial statements of the Company as at and for the year ended 31 December 2020 comprise the Company and its subsidiaries (together referred to as the "Group").

The financial report is presented in United States dollars, which is the Group'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 onshore 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 Group 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 26 April 2021.

(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 Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that instrument, 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(l) 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 future asset impairments.

(d) Going concern basis of preparation

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

As at 31 December 2020, the Group had a cash balance (excluding restricted deposits of US$50,000) of US$862,000 (31 December 2019: US$645,000) and current net assets of US$658,000 (31 December 2019: current net liabilities of US$647,000).

The Group has a Convertible Note Facility of US$15.0 million excluding interest (refer Note 16). As at 31 December 2020, the Group has drawn down US$14.0 million from the Convertible Note Facility. Carrying value of the Convertible Note Facility at 31 December 2020 excluding the fair value of the conversion option (refer Note 17) and including accrued interest is US$20.2 million (31 December 2019: US$15.8 million) (refer Note 16). Effective 31 December 2020, the Group concluded negotiations with the Convertible Noteholders and agreed a three-year extension of the redemption date of the facility from 23 January 2021 to 23 January 2024 and the variation of certain other terms of the facility (refer Note 32).

(d) Going concern basis of preparation (continued)

The directors have approved cash flow projections which support the going concern basis of preparation. The preparation of these projections incorporate a number of assumptions and judgements, and we have concluded that the range of possible outcomes considered in arriving at this judgement do not give rise to a material uncertainty casting significant doubt on the Group's ability to continue as a going concern.

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 Group.

(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 Group.

In the Company's financial statements, investments in subsidiaries are carried at cost, less accumulated impairments.

(ii) Joint operating arrangements

Joint operating arrangements are those legal entities over whose activities the Group has joint control, whereby the Company has rights to the assets and obligations for the liabilities relating to the arrangement. The interest of the Group 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.

(iv) Loss of control

Upon the loss of control, the Group 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 Group 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 Group'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 Group believes the US dollar is the best measure of performance for Petsec Energy Ltd because oil and gas, the Group's dominant sources of revenue, are priced in US dollars and the Group'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 consolidated statement of financial position;
- 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);

3. Significant accounting policies (continued)

(b) Foreign currency (continued)

(i) Functional and presentation currency (continued)

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

The Group does not hold derivative financial instruments for speculative purposes.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and interest rates and certain derivatives and non-derivative financial liabilities as hedges of foreign exchange risk on a net investment in a foreign operation.

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

(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 profit or loss.

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 profit and loss.

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.

3. Significant accounting policies (continued)

(d) Exploration, evaluation properties and oil and gas properties

Exploration and evaluation expenditure is accumulated in respect of each separate area of interest. The Group'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 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(g)). 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) 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) 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 Group 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.

3. Significant accounting policies (continued)

(f) Property, plant and equipment (continued)

(iii) 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.

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:

	2020	2019
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

(g) Impairment - Non-financial assets

The carrying amounts of the Group'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 Group's exploration, evaluation and oil and gas properties expenditure requires significant estimation and judgement. Note 13 provides further details of the key assumptions adopted by the Group in measuring the recoverable amounts of exploration, evaluation and oil and gas properties 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.

(h) Trade and other receivables

Trade receivables, which generally have 30 to 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.

Notes to the consolidated financial statements

For the year ended 31 December 2020

3. Significant accounting policies (continued)

(i) 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.

(j) 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.

(k) Borrowing costs

Borrowing costs comprise interest payable on borrowings calculated using the effective interest rate method, lease finance charges, amortisation of discounts or premiums relating to borrowings, and the unwinding of discounts on the rehabilitation provisions. Borrowing costs relating to oil and gas properties under development are capitalised as a cost of development up to the date production commences. The actual borrowing costs are capitalised where funds are borrowed specifically for oil and gas properties under development. Borrowing costs on general funding are capitalised based on the weighted average borrowing rate.

(l) Provisions

A provision is recognised if, as a result of a past event, the Group 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 Group 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 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 a borrowing cost. 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 Group monitors the estimates and judgements involved in measuring this provision.

(m) Employee benefits and director benefits

(i) Short-term employee benefits

Liabilities for employee benefits for wages, salaries, annual leave, sick leave and bonuses 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 Group expects to pay as at reporting date including related on-costs, such as workers' compensation insurance and payroll tax.

3. Significant accounting policies (continued)

(m) Employee benefits and director benefits (continued)

(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) Share-based compensation transactions

Share-based compensation benefits are provided to employees of the Group, 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.

(n) Leases

The Group has applied AASB 16 using the modified retrospective approach and therefore comparative information has not been restated.

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group amortises the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

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

(o) Revenue and other income recognition

Revenue is recognised when (or as) the Group transfers control of goods or services to a customer at a point in time and at the amount to which the entity expects to be entitled. The following specific recognition criteria must also be met before revenue is recognised:

Sale of oil and gas

Revenues from the sale of oil and gas is 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.

3. Significant accounting policies (continued)

(o) Revenue and other income recognition (continued)

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.

(p) Finance income and finance expense

The Group's finance income and finance expenses include interest income, interest expense, the remeasurement to fair value of financial liabilities, and facility fees in relation to financial liabilities.

Interest income or expense is recognised using the effective interest method, which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument to the amortised cost of the financial liability.

(q) Earnings per share

The Group 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.

(s) Segment reporting

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

(t) Changes in accounting policies

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the Group's financial statements as at and for the year ended 31 December 2019.

4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. The Company has applied fair value methodologies that 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.

4. Determination of fair values (continued)

Derivative Instruments

The fair values of derivative instruments are initially recognised at fair value on the date at which the derivative contracts are entered into and subsequently remeasured to fair value. On subsequent revaluation the derivatives are carried as assets when their fair value is positive and liabilities when their fair value is negative.

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

Equity securities

The fair value of equity securities (level 3 category instruments) is determined using an option pricing model – the Black-Scholes-Merton formula – in arriving at an expected present value for options granted by the Group at period end. Measurement inputs include observable inputs, such as the share price on the measurement date, the exercise price of the instrument, share price target 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

	2020	2019
	US$'000	US$'000
(a) Other income/(expenses)		
Derecognition of restricted cash	**-**	(1,680)
Reversal of MENA provisions and payables [1]	**619**	1,575
Gain/(loss) on sale of assets	**8**	(81)
Gain on derecognition of operating lease	**5**	14
Net foreign exchange gains/(losses)	**(15)**	(7)
Fringe benefits tax refund due in respect of prior years	**90**	-
Other	**13**	-
	720	(179)

[1] These are non-cash transactions which are not reflected in the cash flow statement.

	2020	2019
	US$'000	US$'000
(b) Gain on disposal of subsidiaries		
Yemen (Block S-1), Inc.	**8,598**	-
USA subsidiary companies	**102**	-
	8,700	-

During the current period, the Group sold all the shares of its wholly owned subsidiary Yemen (Block S-1), Inc. which holds a 75% interest in the Damis (Block S-1) Production Licence in Yemen and is the designated operator.

The sale consideration price comprised US$2,000,000 cash (base cash payment of US$1,000,000 plus a US$1,000,000 trailing payment due upon on certain production hurdles being met) and the free carry of all expenses associated with the production and development of Damis (Block S-1) for the Group's wholly owned subsidiary, West Yemen Oil (Block S-1), Inc., owner of a 25% working interest in Block S-1. The effective date of the transaction was 1 January 2020.

Accordingly, the Group recorded a net gain of US$8,598,000 in relation to the transaction, comprising the sale consideration price and the write-back of provisions and liabilities associated with Damis (Block S-1) which had previously been brought to account.

The Group also recognised a net gain of US$102,000 in relation to the dissolution of its U.S. subsidiary companies.

Notes to the consolidated financial statements

For the year ended 31 December 2020

6. Personnel expenses

	2020 US$'000	2019 US$'000
Wages and salaries	**648**	1,110
Service agreements for executives	**260**	471
Contract labour	**81**	289
Termination payments	**250**	244
Superannuation & 401(k) plans	**34**	50
Share-based payment compensation	**17**	84
Other employee-related expenses	**26**	82
	1,316	2,330

7. Auditor's remuneration

	2020 US$	2019 US$
Audit services:		
Auditors of the Company		
MNSA Pty Ltd		
Audit and review of financial reports	**20,830**	-
KPMG Australia		
Audit and review of financial reports	**-**	108,000
Non-audit services:		
Auditors of the Company		
MNSA Pty Ltd		
Agreed upon procedures	**-**	-
KPMG Australia		
Agreed upon procedures	**-**	-
	20,830	108,000

8. Finance income and expense

	2020 US$'000	2019 US$'000
Interest income – Other parties	**7**	6
Financial income	**7**	6
Interest expense	**(3,977)**	(1,568)
Interest expense on lease liabilities	**(5)**	(36)
Facility fees	**-**	(3,100)
Remeasurement to fair value of financial liabilities	**354**	2,013
Financial expense	**(3,628)**	(2,691)
Net financial income/(expense)	**(3,621)**	(2,685)

9. Discontinued operations

In April 2020, management committed to a strategic plan to wind up and close down both its USA and Canada businesses.

In July 2020, the Group entered into a Purchase and Sale Agreement for the sale of all of its U.S. Oil and Gas interests to a privately held U.S. exploration and production company based in Houston. The agreement comprised the sale of the Company's interests in the Hummer, Mystic Bayou and Jeanerette Fields for a consideration price of US$600,000 (base cash payment of US$500,000 plus a US$100,000 trailing payment due in October 2021) plus assumption of plug and abandonment obligations. The transaction had an effective date of 1 July 2020 and was completed in October 2020.

The Canada segment did not hold any assets or liabilities.

The Group's USA and Canada subsidiary companies were subsequently dissolved in October 2020 and December 2020, respectively.

A. Results from discontinued operations

The U.S. oil and gas interests sold during the current period formed part of the Company's USA segment. The following table presents details of the contribution of both the discontinued operations in the USA and Canada.

	USA		Canada		Total	
	2020 US$'000	2019 US$'000	**2020 US$'000**	2019 US$'000	**2020 US$'000**	2019 US$'000
Revenue	**201**	1,088	**-**	-	**201**	1,088
Other income/(expenses)	**(7)**	4	**-**	-	**(7)**	4
Lease operating expenses	**(259)**	(409)	**-**	-	**(259)**	(409)
GG&A expenses	**(518)**	(972)	**-**	-	**(518)**	(972)
DD&A and reclamation expense	**(98)**	(2,966)	**10**	-	**(88)**	(2,966)
Dry hole, impairment and abandonment expense	**(3,711)**	(13,714)	**-**	-	**(3,711)**	(13,714)
Gain on sale of assets	**747**	-	**-**	-	**747**	-
Financial income/(expense)	**(6)**	(993)	**-**	-	**(6)**	(993)
Results from operating activities	**(3,651)**	(17,962)	**10**	-	**(3,641)**	(17,962)
Income tax benefit	**169**	-	**-**	-	**169**	-
Loss from discontinued operations, net of tax	**(3,482)**	(17,962)	**10**	-	**(3,472)**	(17,962)
Basic and diluted loss per share (US$)	**(0.009)**	(0.047)	**-**	-	**(0.009)**	(0.047)

B. Dry hole, impairment and abandonment expense

Impairment losses of US$3,668,000 recognised against the Hummer Gas/Oil Field, offshore Gulf of Mexico USA have been included in the current period "Dry holes, impairment and abandonment expense" amount of US$3,711,000. The impairment losses were applied to reduce the carrying amount of the Hummer Gas/Oil Field to its estimated fair value less costs to sell.

C. Gain on sale of assets

Gain on sale of assets of US$747,000 primarily related to the assignment of the plug and abandonment obligations as part of the sale transaction.

D. Cash flows from (used in) discontinued operation

	2020 US$000's	2019 US$000's
Net cash from (used in) operating activities	**(496)**	(180)
Net cash from (used in) investing activities	**387**	(3,485)
Net cash from (used in) financing activities	**(38)**	(41)
Net cash flows for the period	**(147)**	(3,706)

10. Income tax expense

	2020 US$'000	2019 US$'000
Recognised in the statement of comprehensive income – continuing operations		
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)	2020 US$'000	2019 US$'000
Profit/(loss) before tax	**4,738**	(6,279)
Income tax expense/(benefit) using the Australian corporation tax rate of 30% (2019: 30%)	**1,421**	(1,884)
Increase/(decrease) in income tax expense due to:		
Non-deductible expenses	**66**	841
Deferred tax movements not brought to account in current year	**(1,487)**	1,043
Income tax expense/(benefit) on pre-tax net profit/(loss)	**-**	-

11. Earnings per share

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

In addition to the ordinary shares, the Group had 18,200,000 options outstanding as at 31 December 2020, comprising:

- 10,000,000 options (2019: 10,000,000) on issue to Sing Rim Pte Ltd (Registrar of the Convertible Note Facility) and exercisable at 2 cents each on or before 23 January 2022; and
- 8,200,000 options (2019: 8,200,000) on issue under the Employee Option Plan (“EOP”).

During the year, no options over ordinary shares were granted (2019: 1,500,000) under the EOP, no options were forfeited (2019: 6,100,000), and no options were exercised.

In determining potential ordinary shares, none of the options are dilutive for the twelve months to 31 December 2020 (2019: Nil).

Basic earnings/ (loss) per share – continuing and discontinued operations

The calculation of basic earnings/ (loss) per share at 31 December 2020 was based on the profit attributable to ordinary shareholders of US$1,266,000 (2019: Loss of US$24,241,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2020 of 404,779,705 (2019: 385,263,026), calculated as follows:

Profit/ (loss) attributable to ordinary shareholders

	2020 US$’000	2019 US$’000
Loss from continuing operations	**4,738**	(6,279)
Loss from discontinued operations	**(3,472)**	(17,962)
Profit/(loss) for the period	**1,266**	(24,241)

11. Earnings per share (continued)

Share capital

In thousands of shares	As at 2020	2019
On issue at 1 January	**398,588**	333,588
Shares issued	**10,000**	65,000
Shares cancelled	**-**	-
On issue at 31 December	**408,588**	398,588

Weighted average number of shares (basic)

In thousands of shares	2020	2019
Issued ordinary shares at 1 January	**398,588**	333,588
Effect of shares issued in 2020 and 2019, respectively	**6,192**	51,675
Weighted average number of ordinary shares at 31 December	**404,780**	385,263

Weighted average number of shares (basic and diluted)

In thousands of shares	As at 31 December 2020	31 December 2019
Weighted average number of ordinary shares (basic and diluted)	**404,780**	385,263

Earnings/(loss) per share – continuing and discontinued operations

In USD dollars	2020 US$	2019 US$
Basic and diluted earnings/(loss) per share	**0.003**	(0.063)

Represented by:

Earnings/(loss) per share – continuing operations

In USD dollars	2020 US$	2019 US$
Basic and diluted loss per share	**0.012**	(0.016)

Loss per share – discontinued operations

In USD dollars	2020 US$	2019 US$
Basic and diluted loss per share	**(0.009)**	(0.047)

12. Trade and other receivables

	2020 US$'000	2019 US$'000
Current		
Trade receivables	**-**	160
Other receivables	**236**	32
Balance at 31 December	**236**	192
Non-current		
Other receivables	**1,000**	-
Balance at 31 December	**1,000**	-

13. Oil and gas, and exploration and evaluation properties

	2020 US$'000	2019 US$'000
Balance at 1 January	**4,249**	17,952
Additions	**-**	2,320
Sale of interests [1]	**(474)**	-
Capitalised interest [2]	**-**	288
Dry hole, impairment and abandonment expense [3]	**(3,711)**	(13,964)
Current year amortisation expense	**(64)**	(2,347)
Balance at 31 December	**-**	4,249

1. *Represents the fair value (less costs to sell) of certain of the U.S. oil and gas interests that were sold during the current period. Refer to "Note 9 – Discontinued Operations" for further details.*
2. *In the previous corresponding period, interest had been capitalised on specific borrowings in respect of the Hummer Gas/Oil Field that was under development at that time.*
3. *Current period dry hole, impairment and abandonment expense of US$3,711,000 comprised the recognition of an impairment of US$3,667,000 against the Hummer Gas/Oil Field and abandonment expense of US$44,000 relating to the relinquishment of the Main Pass Block 274 lease.*

Recoverable amount

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas.

The estimated recoverable amount of all cash generating units in the development and production phases is determined by discounting the estimated future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. The Group utilises discounted future cash flows as estimated by independent petroleum engineers for this assessment. The key assumptions used include:

- Estimated proved and probable reserves (2P reserves);
- Hydrocarbon prices that the Group estimates to be reasonable taking into account historical prices, current prices, and prices used in making its exploration and development decisions;
- Operating costs directly applicable to the leases or wells and allocation of corporate overheads;
- Development costs based on authorisations for expenditure for the proposed work or actual costs for similar projects;
- Pre-tax discount rate of 10%.

Risk of future impairments

- The determination of the estimated recoverable amount of Petsec's producing oil and gas properties is highly sensitive to a change in estimated recoverable reserves, oil and gas prices, discount rates and cost allocations.
- 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.

At 31 December 2020, the carrying amount of the Group's oil and gas properties was nil (2019: US$4,249,000) following the sale of its U.S. oil and gas interests during the current period. The carrying amount of the Group's MENA oil assets had been reduced to nil in prior periods due to the inability to recommence production and activities in Yemen as a result of the ongoing conflict.

13. Oil and gas, and exploration and evaluation properties (continued)

(a) Dry hole, impairment and abandonment expense

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

During the current period, the Group recognised total dry hole, impairment and abandonment expense of US$3,711,000. This comprised the recognition of an impairment of US$3,667,000 against the Hummer Gas/Oil Field and abandonment expense of US$44,000 relating to the relinquishment of the Main Pass Block 274 lease. Refer to *"Note 9 – Discontinued Operations"* for further details.

In the previous corresponding period, the Group recognised total dry hole and impairment expense of US$13,714,000 against its U.S. oil and gas properties. This comprised the dry hole cost of the Main Pass Block 273 B-2 well of US$6,366,000 and the recognition of an impairment expense of US$7,348,000 against the Hummer Gas/Oil Field due to a reduction of reserves, based on the results of the Main Pass Block 273 B-2 well.

14. Deferred tax assets

Deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2020 US$'000	2019 US$'000	**2020 US$'000**	2019 US$'000	**2020 US$'000**	2019 US$'000
Oil and gas, and exploration and evaluation properties [1]	**-**	3,229	**-**	-	**-**	3,229
Other items [1]	**-**	140	**-**	-	**-**	140
Deferred tax balances not brought to account [1]	**-**	(3,369)	**-**	-	**-**	(3,369)
Deferred tax assets/(liabilities)	**-**	-	**-**	-	**-**	-

Unrecognised deferred tax assets

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

	2020 US$'000	2019 US$'000
Deductible temporary differences in USA [1]	**-**	3,369
Tax operating loss carry-forwards in USA [1]	**-**	27,673
Deductible temporary differences in Canada [1]	**-**	1,717
Tax operating loss carry-forwards in Canada [1]	**-**	246
Tax operating loss carry-forwards in Australia	**4,439**	3,843
	4,439	36,848

1. *The Group's USA and Canada subsidiary companies were dissolved during the current period. Refer to "Note 9 – Discontinued Operations" for further details.*

14. Deferred tax assets (continued)

Under Australian Accounting Standards, the Group is required to assess at each reporting period, the extent to which deferred tax assets in respect of the carry-forward of unused tax losses and temporary differences qualify for recognition on the balance sheet based on current facts and circumstances, including projected future taxable profits.

Historically, no deferred tax assets have been recognised in relation to the 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.

Movement in temporary differences during the year

	Balance 1 Jan 19 US$'000	Recognised in income US$'000	Recognised in equity US$000	Balance 31 Dec 19 US$'000
Oil and gas, and exploration and evaluation properties	1,824	1,405	-	3,229
Other items	35	105	-	140
Deferred tax balances not brought to account	(1,859)	(1,510)	-	(3,369)
	-	-	-	-

	Balance 1 Jan 20 US$'000	**Recognised in income US$'000**	**Recognised in equity US$000**	**Balance 31 Dec 20 US$'000**
Oil and gas, and exploration and evaluation properties [1]	**3,229**	**(3,229)**	**-**	**-**
Other items [1]	**140**	**(140)**	**-**	**-**
Deferred tax balances not brought to account [1]	**(3,369)**	**3,369**	**-**	**-**
	-	**-**	**-**	**-**

1. *The Group's USA and Canada subsidiary companies were dissolved during the current period. Refer to "Note 9 – Discontinued Operations" for further details.*

15. Trade and other payables

Current	**2020 US$'000**	2019 US$'000
Trade and other payables, stated at cost		
Trade payables	**58**	157
Oil and gas, and exploration and evaluation accruals	**-**	619
Operational and administration accruals	**228**	407
Related party payables	**-**	122
	286	1,305

16. Interest bearing loans and borrowings

Non-current	**2020 US$'000**	2019 US$'000
Secured borrowings – convertible notes	**20,238**	15,772
	20,238	15,772

16. Interest bearing loans and borrowings (continued)

Secured borrowings – convertible notes

Secured borrowings represent the outstanding balance at 31 December 2020 under a convertible note facility with Republic Investment Management and associates in Singapore, managed through the registrar Sing Rim Pte Ltd of Singapore ("Registrar"). The Group entered into a US$15 million facility in August 2016.

The key terms and conditions of the convertible note facility have been varied subsequent to the initial terms agreed in the secured convertible notes Deed Poll dated 23 August 2016. The terms have been amended by a Deed of Variation dated 14 September 2016, Letter of Variation dated 28 December 2016, Letter of Variation dated 30 March 2017, Letter of Variation dated 17 August 2017, Letter of Variation dated 18 February 2018, Letter of Variation dated 26 March 2018, Letter of Variation dated 9 May 2018, Letter of Variation dated 20 August 2018, Letter of Variation dated 6 September 2018, Letter of Variation dated 19 December 2018, the Amended and Restated Secured Convertible Note Deed Poll dated 5 March 2019, Letter of Variation dated 8 April 2019, and Letter of Variation dated 28 June 2019. The specific details of each of these variations are outlined within the announcements lodged with the ASX.

The key terms and conditions of the convertible note facility (Tranches 1, 2 & 3) as varied on 28 June 2019 are as follows:

(a) Facility amount – US$15 million.

(b) Facility drawdown – available in three tranches of US$5 million each.

- Tranche 1 fully drawn as at 31 December 2018 (US$5 million);
- Tranche 2 drawn down to US$3.5 million as at 31 December 2019 (US$5 million).
- Tranche 3 fully drawn as at 31 December 2019 (US$5 million).

(c) Facility term – redemption date of 23 January 2021.

(d) Interest – interest accrues daily at 12.5% per annum for the period of 1 January 2018 through to the 23 January 2019, and thereafter increasing to 15% compounding monthly.

(e) Security – the convertible notes constitute unsubordinated and secured obligations of the Company. The Company and the registrar entered into a general security deed on 23 August 2016 under which the Company granted the registrar a general security interest over all of the Company's assets as security for the Company's obligations under the convertible notes. In addition, the Company granted the registrar mortgages over certain assets of its U.S. subsidiaries.

The Noteholders have agreed to a forbearance till 23 January 2021 in the exercise of their rights under the Secured Convertible Note Deed Poll and associated Collateral, such that they will either exercise their rights of conversion or limit any claim they may have to the Secured Collateral only.

(f) Conversion to Petsec Energy Ltd shares – the noteholder will be entitled to convert up to 50% of the outstanding amount of the convertible notes into shares, by delivering a conversion notice at any time prior to the maturity date. The maximum number of shares issued on conversion is restricted to 170 million shares.

(g) Conversion price – 12.5 cents per share or reducing to the net issue price of stock in the period to redemption should that price be less than 12.5 cents per share.

(h) 40 million ordinary shares in Petsec Energy Ltd to be granted to the Registrar as a facility variation fee subject to shareholder approval.

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

As at 31 December 2020, US$14 million has been drawn down under the US$15 million facility.

Effective 31 December 2020, the Group entered into a further agreement with the Registrar to extend the redemption date of the facility for a three-year period from 23 January 2021 to 23 January 2024, and to vary certain of the other terms of the Facility. Refer *"Note 32 – Subsequent Events Disclosure"* for further details.

17. Fair value of financial derivative instruments

	2020 US$'000	2019 US$'000
Non-current		
Fair value of financial derivatives	-	358
	-	358

The fair value of the financial derivative instrument representing the embedded derivative component within the secured convertible note (refer note 16) was nil as at 31 December 2020 (2019: US$358,000).

Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Derivatives are initially valued at fair value; subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised in profit and loss.

The fair value of the financial derivative was determined at initial recognition and subsequent reporting dates using a Monte Carlo model.

18. Employee benefits

(a) Superannuation/pension plans

The Group contributes to several defined contribution employee superannuation plans in Australia. Employer contributions are based on various percentages of their gross salaries. The Group 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$12,000 for the year ended 31 December 2020 (2019: US$30,000).

U.S. based employees are eligible to participate in a voluntary retirement savings plan under Section 401(k) of the US tax code (“401(k) plan”). Employer matching contributions under the 401(k) plan recognised as an expense was US$16,000 for the year ended 31 December 2020 (2019: US$20,000).

(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

No new shares were granted under the Company’s Employee Share Plan (“ESP”) as long term incentive compensation during the year (2019: nil) and no shares were outstanding.

Employee Option Plan

The following sets forth the share-based compensation transactions under the Company’s Employee Option Plan (“EOP”). The number and weighted average exercise prices of options over ordinary shares, is as follows:

	Weighted average exercise price 2020	Number of options 2020	Weighted average exercise price 2019	Number of options 2019
Outstanding at the beginning of the period	A$0.20	8,200,000	A$0.20	12,800,000
Granted during the period	A$0.20	-	A$0.20	1,500,000
Exercised during the period	-	-	-	-
Forfeited during the period	A$0.20	-	A$0.20	(6,100,000)
Outstanding at the end of the period	A$0.20	8,200,000	A$0.20	8,200,000
Exercisable at the end of the period	A$0.20	6,450,000	A$0.20	3,900,000

18. Employee benefits (continued)

(b) Share-based payments (continued)

Employee Option Plan (continued)

At 31 December 2020, there were 8,200,000 options over ordinary shares outstanding (2019: 8,200,000) under the EOP.

During the year:

- No options were granted (2019: 1,500,000);
- No options were forfeited (2019: 6,100,000); and
- No options were exercised (2019: nil).

Share and option grants to key management personnel

No options over ordinary shares were granted to key management personnel during the year ended 31 December 2020 (2019: nil).

The following table summarises the fair value assumptions of options and shares granted to key management personnel during the years ended 31 December 2020 and 2019, respectively.

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

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

19. Provisions

	MENA [1]		Rehabilitation [2]		Total	
	2020 US$'000	2019 US$'000	**2020 US$'000**	2019 US$'000	**2020 US$'000**	2019 US$'000
Non-current						
Balance at 1 January	**6,712**	7,617	**716**	198	**7,428**	7,815
Sale of interests	**(6,712)**	-	**(719)**	-	**(7,431)**	-
Changes in provision estimate	**-**	(2,100)	**-**	505	**-**	(1,595)
Provisions made during the year	**-**	1,195	**-**	-	**-**	1,195
Unwind of discount	**-**	-	**3**	13	**3**	13
Balance at 31 December	**-**	6,712	**-**	716	**-**	7,428

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

2. *Refer to note 3 (l) for details of the Group's accounting policy on rehabilitation.*

20. Capital and reserves

Share capital

In thousands of shares	Ordinary Shares	
	2020	2019
On issue at 1 January	**398,588**	333,588
Shares issued	**10,000**	65,000
On issue at 31 December – fully paid	**408,588**	398,588

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.

Option reserve

The option reserve comprises the fair value of options to be issued as an underwriting fee in relation to the fully underwritten rights issue.

Share-based compensation

The share-based compensation represents the value of unvested options issued under the Company's Employee Option Plan. The value of vested options are transferred to share capital on vesting.

21. Risk management framework and additional financial instruments disclosures

Capital management

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

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

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. There is no separate risk management committee.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The forecast financial position of the Group is continually monitored and derivative financial instruments can be used to hedge exposure to fluctuations in commodity prices (refer to *Commodity Price Risk* below for further details).

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

21. Risk management framework and additional financial instruments disclosures (continued)

Additional financial instruments disclosures

Overview

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

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group'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.

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 Group that have been recognised is the carrying amount, net of any provision for doubtful debts. The Group 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 Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	Consolidated	
	2020	2019
	US$'000	US$'000
Cash and restricted cash deposits	**912**	691
Trade and other receivables	**236**	192
	1,148	883

As at 31 December 2020, exposure to credit risk in relation to cash held by banks was managed with the majority of the US$0.9 million in cash and restricted cash deposits being held with Australian financial institutions rated AA.

Where possible, the Group manages its credit risk on trade receivables by dealing with only large reputable customers for its oil and gas sales. At balance date, the Group had no trade receivables amounts due (2019: 100% of trade receivable were due from three such customers).

The Group's credit risk is limited to the carrying value of its financial assets. None of the Group's receivables are materially past due (2019: is consistent with 2020).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group'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 Group's reputation.

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

21. Risk management framework and additional financial instruments disclosures (continued)

Liquidity risk (continued)

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

31 December 2020

		Contractual cashflows				
	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	**286**	**286**	**-**	**-**	**-**	**-**
Secured borrowings [1]	**20,238**	**-**	**-**	**-**	**20,520**	**-**
Total	**20,524**	**286**	**-**	**-**	**20,520**	**-**

[1] *Secured borrowings relate to the Group's Convertible Note Facility which had a redemption date of 23 January 2021. Effective 31 December 2020, the redemption date was extended for a further three-year period to 23 January 2024. Refer to "Note 32 – Subsequent Events Disclosure" for further details.*

31 December 2019

		Contractual cashflows				
	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	1,305	1,305	-	-	-	-
Secured borrowings	15,772	-	-	19,952	-	-
Total	17,077	1,305	-	19,952	-	-

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, interest rates will affect the Group'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 2019 and 2020, operating costs were incurred in US, Australian and Canadian dollars, Arab Emirates Dirham and Yemeni Rials.

Throughout 2019 and 2020, the Group 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 Group. The Group'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. The impact of Arab Emirates Dirham, Canadian dollars and Yemeni Rials was not material.

Commodity price risk

The revenue and income of the Group 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 Group 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 Group 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.

21. Risk management framework and additional financial instruments disclosures (continued)

Commodity price risk (continued)

Swaps

In a natural gas swap agreement the Group 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 Group 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 Group. If the quoted reference prices at the specified date are higher than the ceiling price, then the Group pays the price difference multiplied by the notional quantity to the counterparty.

At 31 December 2020, the Group had no outstanding oil or natural gas hedges in place (previous corresponding period: Nil).

Interest rate risk

The Group’s exposure to market interest rates primarily relates to the Group’s cash holdings.

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

	2020 US$'000	2019 US$'000
Financial assets		
Cash and restricted cash deposits	**912**	691
	912	691

Sensitivity analysis

In managing commodity price and interest rate risks the Group aims to reduce the impact of short-term fluctuations on the Group’s earnings. However, credit considerations limit the amount of hedging with derivative instruments that the Group can enter into. The Group 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 2020 would have increased or decreased the Group’s profit or loss by US$20,000 (2019: US$109,000) excluding potential impact of impairments. The estimated impact of a change of 100 basis points in interest rates would have increased or decreased the Group’s profit or loss by US$1,000 (2019: US$1,000). The estimated impact of a 10 per cent change in the USD/AUD and USD/CAD exchange rates would have increased or decreased the Group’s profit or loss by a total of US$44,000 (2019: US$74,000).

Fair values of financial assets and liabilities

The carrying values of financial assets and liabilities of the Group approximate their fair values.

The Group measures and recognises in the statement of financial position on a recurring basis certain assets and liabilities at fair value in accordance with AASB13 Fair value measurement. The fair value must be estimated for recognition and measurement or for disclosure purposes in accordance with the following hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as priced) or indirectly (derived from prices); and

Level 3: Inputs for the asset or liability which are not based on observable market data (unobservable inputs).

21. Risk management framework and additional financial instruments disclosures (continued)

Fair values of financial assets and liabilities (continued)

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

	2020		2019	
	Carrying amount US$'000	**Fair value US$'000**	Carrying amount US$'000	Fair value US$'000
Trade and other receivables	**1,236**	**1,236**	192	192
Cash and restricted cash deposits	**912**	**912**	691	691
Trade and other payables	**(286)**	**(286)**	(1,305)	(1,305)
Secured borrowings	**(20,238)**	**(20,238)**	(15,772)	(15,772)
Financial derivative instruments [1]	**-**	**-**	(358)	(358)
	(18,376)	**(18,376)**	(16,552)	(16,552)

[1] *Financial derivative instruments are a level 2 instrument. Refer to note 4 for the determination of fair values.*

22. Capital and other commitments

The Group had no capital commitments outstanding at 31 December 2020.

23. Contingencies and legal matters

The Group is a defendant from time to time in legal proceedings. Where appropriate the Group takes legal advice. The Group does not consider that the outcome of any current proceedings is likely to have a material effect on its operations or financial position.

Historically, the production, handling, storage, transportation and disposal of oil and natural gas, by-products thereof and other substances and materials produced or used in connection with oil and natural gas operations were subject to regulation under U.S. federal, state and local laws and regulations primarily relating to protection of human health and environment. To date, expenditure related to complying with these laws and for remediation of existing environmental contamination has not been significant in relation to the results of operations of the Company. During the current period, the Group sold all its U.S. oil and gas interests and no longer has any operations in the USA (refer to *"Note 9 – Discontinued Operations"* for further details).

From time to time, the Group is required to provide bonding or security for the benefit of regulatory authorities in certain jurisdictions, where it has operations, in relation to its obligations to pay lease rentals and royalties, the plugging and abandonment of oil and natural gas wells, the removal of related facilities, and to meet minimum exploration expenditure commitments. As at 31 December 2020, the Group had no guarantees in place to meet minimum exploration expenditure commitments (December 2019: US$1.7 million).

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

As announced to the ASX on 19 February 2020, an illegitimate claim was made on the Letter of Credit (LoC) in November 2019, issued under the Production Sharing Agreement on the Al Barqa, Block 7 Exploration Permit. The Block 7 LoC's totalling US$4.2 million were established between the Block 7 joint venture partners and the Arab Bank on behalf of the Yemen Ministry of Oil and Minerals and guaranteed the remaining minimum expenditure requirements on the block, which has been in Force Majeure since 2011. No claim can be made against the LoC while the licence is in Force Majeure.

Arab Bank acted on the Houthi claim and called on the counterparty LoCs held on behalf of the Company by Qatar National Bank (QNB) and Mitsui by Commonwealth Bank of Australia (CBA). Despite concerted efforts by Petsec to prevent any action on the claim, warning the claim was illegal and fraudulent, the banks responded to the Houthi and Arab Bank's illegitimate claim such that US$2.73 million of the Company and Mitsui's funds were transferred to Arab Bank, Amman, Jordan. Kuwait National Bank has not released the US$1.05 million counterparty LoC funds to Arab Bank on behalf of KUFPEC, a 25% working interest holder of Block 7, acting on advice that the claim was fraudulent, supported by advice from the legitimate Minister of Oil in Aden that there was no claim on the LoC.

The Company has initiated legal suits against the Arab Bank, Jordan to recover those funds illegally transferred to Arab Bank. To date, the Jordan Court has granted an injunction against Arab Bank to prevent transfer of the funds to the Houthi, and has determined that the Houthi claim against the Block 7 LoC was illegal and counterparty LoC funds received by Arab Bank could not be transferred to the Houthi. The Company is seeking a return of the US$2.73 million from Arab Bank, through the Courts in Jordan.

24. Deed of cross guarantee

Pursuant to ASIC Corporations Instrument 2016/785, 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
- Petsec America Pty Limited
- Petroleum Securities Pty. Limited
- Petroleum Securities Share Plan Pty Limited
- Najedo Pty. Ltd [1]
- Laurel Bay Petroleum Limited [1]
- Ginida Pty. Limited [1]
- Western Medical Products Pty. Limited [1]

[1] *These entities were dissolved and deregistered with ASIC on 28 October 2020.*

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 2020 and 2019, is set out below and on the following page:

Summarised consolidated statement of profit or loss & other comprehensive income & accumulated losses

	2020 US$000	2019 US$000
Other income and expenses	**1,117**	5,276
Operating expenses	**(565)**	(1,193)
Finance income/(expense)	**(3,621)**	(2,686)
Net movement in provisions against loans and investments in controlled entities	**1,314**	(51,584)
Profit/(loss) before tax	**(1,755)**	(50,187)
Income tax benefit/(expense)	**-**	-
Profit/(loss) after tax	**(1,755)**	(50,187)
Other comprehensive income	**-**	-
Total comprehensive income/(loss) for the period	**(1,755)**	(50,187)
Accumulated losses at beginning of year	**(238,812)**	(188,625)
Accumulated losses at end of year	**(240,567)**	(238,812)

24. Deed of cross guarantee (continued)

Balance sheet

	2020 US$000	2019 US$000
Assets		
Cash and cash equivalents	**836**	420
Other receivables	**235**	21
Prepayments	**1**	25
Total current assets	**1,072**	466
Restricted deposits	**50**	46
Right-of-use assets	**-**	98
Property, plant and equipment	**4**	7
Total non-current assets	**54**	151
Total assets	**1,126**	617
Liabilities		
Trade and other payables	**104**	230
Lease liability	**-**	30
Employee benefits provision	**157**	22
Total current liabilities	**261**	282
Secured borrowings	**20,238**	15,772
Fair value of derivative instruments	**-**	358
Employee benefits provision	**-**	183
Lease liability	**-**	69
Total non-current liabilities	**20,238**	16,382
Total liabilities	**20,499**	16,664
Net assets	**(19,373)**	(16,047)
Equity		
Issued capital	**201,290**	201,099
Reserves	**19,904**	21,666
Retained earnings/(accumulated losses)	**(240,567)**	(238,812)
Total equity	**(19,373)**	(16,047)

25. Consolidated entities

	Country of Incorporation	Ownership interest 2020 %	Ownership interest 2019 %
Parent entity			
Petsec Energy Ltd			
Significant subsidiaries			
Petsec Investments Pty. Limited	Australia	**100**	**100**
Petroleum Securities Pty. Limited	Australia	**100**	**100**
Petroleum Securities Share Plan Pty. Limited	Australia	**100**	**100**
Petsec America Pty. Limited	Australia	**100**	**100**
Najedo Pty. Limited [1]	Australia	**-**	**100**
Laurel Bay Petroleum Limited [1]	Australia	**-**	**100**
Ginida Pty. Limited [1]	Australia	**-**	**100**
Western Medical Products Pty. Limited [1]	Australia	**-**	**100**
Petsec (U.S.A.) Inc. [2]	USA	**-**	**100**
Petsec Energy Inc. [2]	USA	**-**	**100**
Petsec Exploration and Production LLC [2]	USA	**-**	**100**
Petsec Energy Resources Inc. [2]	USA	**-**	**100**
Petsec Energy Canada Ltd [3]	Canada	**-**	**100**
Petsec Energy Yemen Ltd	British Virgin Islands	**100**	**100**
Petsec Energy (Middle Eastern) Limited	British Virgin Islands	**100**	**100**
Oil Search (ROY) Limited	British Virgin Islands	**100**	**100**
West Yemen Oil (Block S-1), Inc.	Turks and Caicos Islands	**100**	**100**
Yemen (Block S-1), Inc. [4]	Cayman Islands	**-**	**100**

1. *These entities were dissolved and deregistered with ASIC on 28 October 2020.*
2. *The Group's USA entities were dissolved on 29 October 2020 (refer to "Note 9 – Discontinued Operations" for further details).*
3. *Petsec Energy Canada Ltd was dissolved on 21 December 2020 (refer to "Note 9 – Discontinued Operations" for further details).*
4. *The Group sold all of the shares held in Yemen (Block S-1), Inc. on 19 October 2020.*

With the exception of Petsec Energy (Middle Eastern) Limited, Petsec Energy Yemen Ltd, West Yemen Oil (Block S-1), Inc., and Oil Search (ROY) Limited, all entities carry on business in the country where they were incorporated.

26. Segment reporting

The Group operates in the oil and gas industry.

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

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. 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.

During the current period, the Group sold all of its U.S. oil and gas interests and dissolved both its USA and Canada segments. Refer to "*Note 9 – Discontinued Operations*" for further details.

	Continuing Operations				Discontinued Operations					
	Australia		MENA		USA		Canada		Consolidated	
	2020 US$'000	2019 US$'000	**2020 US$'000**	2019 US$'000	**2020 US$'000**	2019 US$'000	**2020 US$'000**	2019 US$'000	**2020 US$'000**	2019 US$'000
Oil and gas sales	**-**	-	**-**	-	**201**	1,088	**-**	-	**201**	1,088
Net revenues after royalties *	**-**	-	**-**	-	**201**	1,088	**-**	-	**201**	1,088
Segment net profit/(loss) before tax	**(3,992)**	(3,952)	**8,730**	(2,327)	**(3,651)**	(17,962)	**10**	-	**1,097**	(24,241)
Income tax benefit/(expense)	**-**	-	**-**	-	**169**	-	**-**	-	**169**	-
Profit/(loss) after tax	**(3,992)**	(3,952)	**8,730**	(2,327)	**(3,482)**	(17,962)	**10**	-	**1,266**	(24,241)
Depreciation, depletion, amortisation & reclamation	**21**	126	**1**	6	**98**	2,461	**(10)**	-	**110**	2,593
Change in rehabilitation provision	**-**	-	**-**	-	**-**	505	**-**	-	**-**	505
Dry hole, impairment and abandonment expense	**-**	-	**-**	117	**3,711**	13,714	**-**	-	**3,711**	13,831
Segment assets	**1,126**	616	**1,029**	116	**-**	4,640	**-**	-	**2,155**	5,372
Acquisition of property, plant and equipment and exploration, evaluation and development assets	**-**	3	**-**	-	**-**	3,485	**-**	-	**-**	3,488

** There are no inter-segment sales*

*** 100% of the Group's oil and gas sales and royalties are derived from three customers.*

26. Segment reporting (continued)

	Continuing Operations				Discontinued Operations					
	Australia		MENA		USA		Canada		Consolidated	
	2020 US$'000	2019 US$'000	**2020 US$'000**	2019 US$'000	**2020 US$'000**	2019 US$'000	**2020 US$'000**	2019 US$'000	**2020 US$'000**	2019 US$'000
Segment liabilities	**20,499**	16,663	**182**	7,608	**-**	1,095	**-**	11	**20,681**	25,377
Cash (used in)/ from operating activities	**(859)**	(1,079)	**(400)**	(1,033)	**(496)**	(180)	**-**	-	**(1,755)**	(2,292)
Cash (used in)/ from investing activities	**-**	(3)	**990**	-	**387**	(3,485)	**-**	-	**1,377**	(3,488)
Cash from financing activities	**619**	3,869	**-**	-	**(38)**	(41)	**-**	**-**	**581**	3,828

27. Interests in unincorporated joint operating arrangements

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

Assets	2020 US$'000	2019 US$'000
Oil and gas properties:		
Production leases – at cost	**683**	19,468
Less: accumulated amortisation and impairment	**(683)**	(15,219)
	-	4,249
Represented by the following lease carrying values:		
- Offshore Gulf of Mexico [1]	**-**	4,233
- Onshore Louisiana [1]	**-**	16
- MENA [2]	**-**	-
Total oil and gas properties	**-**	4,249

Liabilities	2020 US$'000	2019 US$'000
Rehabilitation provision:		
- Offshore Gulf of Mexico [1]	**-**	501
- Onshore Louisiana [1]	**-**	215
	-	716

The contribution of the Group's joint operating arrangements to EBIT (including exploration write-offs and impairments; and excluding the effects of hedging and any gain on sale of interests):	2020 US$'000	2019 US$'000
- Offshore Gulf of Mexico [1]	**(3,781)**	(14,672)
- Onshore Louisiana [1]	**(47)**	(1,355)
- Onshore Canada	**10**	-
- MENA [2]	**2,221**	(455)
	(1,597)	(16,482)

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

	Interest held 2020	Interest held 2019
- Offshore Gulf of Mexico [1]	**-**	12.50%
- Onshore Louisiana [1]	**-**	12.50% to 25.00%
- MENA [2]	**25.00% to 75.00%**	75.00% to 100.00%

1. *The Group sold all its U.S. offshore Gulf of Mexico and onshore Louisiana working interests effective 1 July 2020.*
2. *During the current period, the Group divested a 75% interest in Damis (Block S-1).*
   Consequently, the remaining 25% interest in Damis (Block S-1) has been disclosed within "Note 27 – Interests in Unincorporated Joint Operating Arrangements" in the current period (2019: 100% interest was disclosed within "Note 28 – Wholly Owned Areas of Interest").

In respect of the joint operating arrangements listed above, the voting powers of the Group align with its ownership percentages listed in all cases. Management has determined that the Group has joint control of these arrangements by virtue of the agreements it has with its other partners. The Group 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 Group are the following items which represent the Group's wholly owned areas of interest:

Assets	2020 US$'000	2019 US$'000
Oil and gas properties:		
Producing leases – at cost	-	3,556
Less: accumulated amortisation and impairments	-	(3,556)
	-	-
Represented by the following lease carrying values:		
- MENA [1]	-	-
	-	-

Liabilities	2020 US$'000	2019 US$'000
Rehabilitation provision:		
- MENA [1]	-	-
	-	-

	2020 US$'000	2019 US$'000
The contribution of the Group's areas of interest to EBIT (including exploration write-offs and impairments; and excluding the effects of hedging):		
- MENA [1]	-	(872)
	-	(872)

1. *During the current period, the Group divested a 75% interest in Damis (Block S-1).*

Consequently, the remaining 25% interest in Damis (Block S-1) has been disclosed within "Note 27 – Interests in Unincorporated Joint Operating Arrangements" in the current period (2019: 100% interest was disclosed within "Note 28 – Wholly Owned Areas of Interest").

29. Reconciliation of cash flows from operating activities

	2020 US$'000	2019 US$'000
Cash flows from operating activities		
Profit/(loss) for the period	1,266	(24,241)
Adjustments for:		
Depreciation, depletion and amortisation	110	2,593
Dry-hole and impairment expense	3,711	13,831
Change in rehabilitation provision	-	505
Derecognition of restricted cash	-	1,680
Reversal of MENA provisions and payables	(619)	(1,575)
(Profit)/loss on disposal of assets	(755)	81
(Profit)/loss on disposal of subsidiaries	(8,700)	
Net foreign exchange losses	16	7
Share-based payment expenses	19	86
Operating loss before changes in working capital and provisions	(4,952)	(7,033)
Decrease/(increase) in restricted cash deposits	-	154
Decrease/(increase) in receivables and prepayments	(963)	710
Increase/(decrease) in payables and provisions	4,160	3,877
Net cash used in operating activities	(1,755)	(2,292)

30. Related parties

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

Non-executive director	***Executive director***
B J Dawes [1]	T N Fern (Chairman)
F M Douglas [1]	B D Emmett (Technical Director) [2]
D A Mortimer [3]	S W Bokhari (Managing Director) [3]
A P Baden [3]	

1. *Messrs. Dawes and Douglas were appointed as Non-executive Directors of Petsec Energy Ltd effective from 30 September 2020.*
2. *Mr. Emmett was appointed as Technical Director of Petsec Energy Ltd effective from 13 November 2020.*
3. *Messrs Mortimer, Baden and Bokhari resigned as Directors of the Petsec Energy Ltd on 30 April 2020.*

Executives
R A Keogh (President, Petsec Energy Inc. and Group Chief Financial Officer) [1]
P Gahdmar (Company Secretary and Chief Financial Officer, Petsec Energy Ltd) [2]

1. *Mr. Keogh resigned as Group Chief Financial Officer on 31 December 2020.*
2. *Mr. Gahdmar took on the role of Chief Financial Officer in addition to his role as Company Secretary effective from 1 January 2021.*

Key management personnel compensation

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

	2020	2019
	US$	US$
Wages and salaries	**527,263**	693,464
Service agreements	**260,363**	433,307
Termination benefits	**250,000**	243,845
Post-employment benefits	**27,556**	36,358
Share-based payment compensation	**9,392**	71,681
Other benefits [1]	**44,284**	88,239
	1,118,858	1,566,894

1. *Other benefits represent amounts paid on behalf of key management personnel in respect of insurance, car parking, and fringe benefits.*

Individual directors and executive compensation disclosures

Information regarding individual directors' and executives' compensation and some equity instruments disclosures as required by Corporations Act s300A and Corporations Regulations 2M.3.03 are provided in the Remuneration Report section of the Directors' Report on pages 26 to 34.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or Group 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$150,000 in total (2019: US$137,000).

Transactions with key management personnel

Key management personnel of the Company and their immediate relatives control approximately 11.3 percent of the voting shares of the Company.

During the year, no options were issued by the Company under its shareholder approved Employee Option Plan ("EOP") to key management personnel as long term incentive compensation (2019: nil).

The aggregate amounts recognised in service agreements during the year relating to key management personnel and their personally related entities, were a total expense of US$260,000 (2019: US$433,000). Refer to Remuneration Report for further details.

30. Related parties (continued)

Assets and liabilities arising from the above related party transactions

	2020 US$'000	2019 US$'000
Current assets		
Related party receivables	**-**	-
Current liabilities		
Related party payables	**-**	122

Other related party disclosures

Information relating to subsidiaries is set out in "*Note 25 – Consolidated Entities*".

31. Parent entity disclosures

As at, and throughout, the financial year ending 31 December 2020 the parent entity of the consolidated group was Petsec Energy Ltd.

	2020 US$'000	2019 US$'000
Result of parent entity		
Profit/(loss) for the period	**(1,755)**	(50,186)
Other comprehensive income	**(1,767)**	(506)
Total comprehensive income/(loss) for the period	**(3,522)**	(50,692)
Financial position of parent entity at year end		
Current assets	**1,073**	465
Total assets	**1,127**	616
Current liabilities	**261**	252
Total liabilities	**20,499**	16,663
Total equity of the parent entity comprising of:		
Share capital	**201,290**	201,099
Share-based payment compensation reserve	**40**	74
Foreign currency translation reserve	**19,766**	21,534
Option reserve	**446**	405
Accumulated losses	**(240,914)**	(239,159)
Total equity	**(19,372)**	(16,047)

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 – Deed of Cross Guarantee*".

Parent entity contingencies and capital commitments

The parent entity had no contingent liabilities and capital commitments outstanding at 31 December 2020.

32. Subsequent events disclosure

Extension of Convertible Note Facility and variation of terms

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

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

Block 7 Letter of Credit Litigation Matter

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

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

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 26 to 73, 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 Group as at 31 December 2020 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 25 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 Corporations Instrument 2016/785.

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 2020.

Signed in accordance with a resolution of the directors:

Terrence N. Fern
Director

Sydney, 26 April 2021

PETSEC ENERGY LTD
ABN 92 000 602 700
AND CONTROLLED ENTITIES

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Petsec Energy Ltd (the Company), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration.

The Group consists of the Company and the entities it controlled at the year end or from time to time during the financial year.

In our opinion the accompanying financial report of the Company 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 2020 and of its performance for the year then ended; and
ii. complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with *Australian Auditing Standards*. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Material Uncertainty Related to Going Concern

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
Disposal of Assets and Investments	
During the period the Group executed significant transactions in the disposal of assets and liquidation of subsidiaries. These transactions had significant impact to the financial statements of the group resulting in a gain on disposals, discontinued operations and the elimination of significant historical assets and liabilities. Significant judgement by management was used in the treatment of these transactions and disclosures within the financial statements.	We evaluated the appropriateness of managements judgement applied to the accounting treatment of the transactions executed. This included reviewing agreements entered into during the period and assessing calculations in support of the disclosed movements and questioning management on the resulting disclosures.
Discontinued operations	
As a result of the above-mentioned disposals, the group recognised significant discontinued operations impacting the current year and prior year financial results. These have been disclosed within Note 9 to the financial reports.	We evaluated the appropriateness of the disclosures made within the financial reports and the supporting schedules prepared for both the current year and prior year results allocated to discontinued operations. This included questioning management on amounts included within the discontinued operations and assessing the accuracy of the calculations.

There were no restrictions on our reporting of Key Audit Matters.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion.
- Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 26 to 34 of the Directors' report for the year ended 31 December 2020.

In our opinion the Remuneration Report of Petsec Energy Ltd for the year ended 31 December 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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 Australian Auditing Standards.

MNSA Pty Ltd

MNSA Pty Ltd

Mark Schiliro
Director

Sydney
Dated this 26th of April 2021

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Petsec Energy

Exploration and Production Interests

MENA Region				
Geographical Location	**Licence**	**Status**	**Working Interest**	**Participating Interest**
Yemen				
Damis (Block S-1), Production Licence				
Shabwah Basin	Block S-1, Damis Production Licence [1]	Shut-in	25.0%	20.625%
Al Barqa, Block 7 Exploration Licence				
Shabwah Basin	Block 7, Al Barqa Permit	Evaluation	35.0%	29.75%
	Block 7, Al Barqa Permit	Evaluation	40.0%	34.00%

1. *During the current period, the Company divested a 75% interest in the Damis (Block S-1) Production Licence.*

Shareholder Information

Number of Shareholders

Issued capital was 408,587,924 ordinary shares held by 1,728 shareholders.

All issued shares carry equal voting rights on a one for one basis.

Size of Holding	No. of Holders
1 – 1,000	171
1,001 – 5,000	254
5,001 – 10,000	382
10,001 – 100,000	679
100,001 and over	242
Total number of shareholders	**1,728**
Number holding less than a marketable parcel	*99*

Largest Twenty Shareholders

The largest twenty shareholders held 291,175,076 ordinary shares being 71.264% of the issued ordinary capital.

Name of Shareholder	Number of Shares Held	% of Issued Capital
Martin Place Securities Nominees Pty Ltd	152,340,331	37.285
Canning Oil Pty Ltd	25,709,116	6.292
Citicorp Nominees Pty Limited	12,315,073	3.014
Arc Investments Inc.	11,602,679	2.840
Mr David A Mortimer & Mrs Barbara L Mortimer	11,335,339	2.774
HSBC Custody Nominees (Australia) Limited	10,626,533	2.601
BNP Paribas Nominees Pty Ltd	9,823,136	2.404
Geofin Consulting Services Pty Limited	8,989,610	2.200
Martin Place Securities Nominees Pty Ltd <Gulf Stream A/c>	8,228,187	2.014
Mr Edward Gacka & Mrs Beryl Gacka	7,218,425	1.767
Alcardo Investments Limited	6,933,095	1.697
Mangaroo Pty Ltd	4,000,000	0.979
Mr Peter Gacka & Mrs Jenny Gacka	3,800,000	0.930
Hestian Pty Ltd	3,127,843	0.766
Den Duyts Corporation Pty Ltd	3,057,635	0.748
Ms Dan Luo	2,649,943	0.649
Calveston Worldwide Ltd	2,460,000	0.602
Sino Champion Development Limited	2,459,579	0.602
Asian Corporate Advisers (BVI) Limited	2,250,000	0.551
Solus Consultants Pty Ltd	2,248,552	0.550

Substantial shareholders disclosed in substantial shareholder notices given to the Company are as follows:

Canning Oil Pty Ltd including its associates	37,876,361	9.270

5 Year Comparative Data Summary

		2016	2017	2018	2019	2020	% change
Financial Performance							
Net Production (MMcfe) [1]		313	347	796	368	**111**	(70%)
Average Gas Equiv. Price Received	(US$/Mcfe)	$3.48	$3.79	$3.93	$2.96	**$1.81**	(39%)
US$ million							
Net Revenue	(US$m)	$1.1	$1.3	$3.1	$1.1	**$0.2**	(82%)
Net Profit/(Loss) after Tax	(US$m)	($13.0)	($12.0)	($10.1)	($24.2)	**$1.3**	n/a
Depreciation, depletion & amortisation	(US$m)	$0.8	$1.4	$1.8	$2.6	**$0.1**	(96%)
Exploration write-offs, impairments, abandonment and work-over expenses	(US$m)	$2.1	$4.0	$0.5	$13.8	**$3.7**	(73%)
Net financial expense	(US$m)	$0.8	$0.3	$4.9	$3.7	**$3.6**	(3%)
Change in rehabilitation provision	(US$m)	-	($0.5)	-	$0.5	**-**	n/a
Gain on disposal of assets and subsidiaries	(US$m)	-	-	-	-	**($9.4)**	n/a
Income tax (benefit)/expense	(US$m)	-	-	-	-	**($0.2)**	n/a
EBITDAX [2]	(US$m)	($9.3)	($6.8)	($2.9)	($3.6)	**($0.9)**	n/a
EBITDAX Margin/Mcfe	(US$/Mcfe)	($29.84)	($19.53)	($3.69)	($9.85)	**($8.20)**	n/a
Balance Sheet							
Total Assets	(US$m)	$35.4	$20.2	$23.5	$5.4	**$2.2**	(59%)
Cash [3]	(US$m)	$13.1	$3.5	$4.5	$0.7	**$0.9**	29%
Debt	(US$m)	$3.3	$5.6	$9.5	$15.8	**$20.2**	28%
Shareholders' Equity	(US$m)	$18.1	$7.0	$1.0	($20.0)	**($18.5)**	n/a
Cashflow and Capital Expenditures							
Net cashflow from:							
Operations	(US$m)	($6.8)	($4.9)	($3.8)	($2.3)	**($1.8)**	n/a
Investing	(US$m)	($2.8)	($4.3)	($1.3)	($3.5)	**$1.4**	n/a
Financing	(US$m)	$10.0	$2.5	$4.5	$3.8	**$0.6**	(84%)
		$0.4	($6.7)	($0.6)	($2.0)	**$0.2**	n/a
Capital Expenditures [4]							
Exploration	(US$m)	$1.3	-	-	-	**-**	-
Development	(US$m)	$1.2	$5.0	$4.0	$2.6	**-**	(100%)
Acquisition	(US$m)	$3.0	$0.1	$0.2	-	**-**	-
		$5.5	$5.1	$4.2	$2.6	**-**	
A$ million							
EBITDAX [2]	(A$m)	($12.5)	($8.9)	($3.9)	($5.2)	**($1.3)**	n/a
Net Profit/(Loss) after Tax	(A$m)	($17.5)	($15.7)	($13.5)	($34.7)	**$1.9**	n/a
USD/AUD exchange rate		0.7420	0.7655	0.7476	0.6967	**0.6943**	0%
Operating Margins & Costs							
Average Gas Price Received	(US$/Mcfe)	$3.48	$3.79	$3.93	$2.96	**$1.81**	(39%)
+ Other Income	(US$/Mcfe)	$0.63	$0.07	$0.04	($0.48)	**$6.35**	n/a
- Operating Costs (GG&A + LOE)	(US$/Mcfe)	$33.95	$23.39	$7.66	$12.36	**$16.36**	32%
= EBITDAX [2] Margin	(US$/Mcfe)	($29.84)	($19.53)	($3.69)	($9.88)	**($8.20)**	n/a
Depreciation, Depletion & Amortisation	(US$/Mcfe)	$2.53	$4.08	$2.27	$7.05	**$0.99**	(86%)
Proved and Probable Reserves (2P) [5]							
USA [6]	(MMboe)	3.9	3.8	3.5	2.8	**-**	(100%)
Yemen [7]	(MMboe)	5.6	5.6	5.6	5.6	**1.4**	(75%)
		9.5	9.4	9.1	8.4	**1.4**	(83%)

1 *MMcfe = million cubic feet of gas equivalent. Mcfe = thousand cubic feet of gas equivalent. Conversion ratio: 1 barrel of oil = 6 Mcf of gas.*

2 *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). EBITDAX is a non-IFRS number and is unaudited.*

3 *FY2020 includes US$0.1 million of restricted cash deposits.*

4 *Excludes minor (non-oil & gas) property, plant & equipment expenditure and investments.*

5 *2P reserve estimates are based on independent reserve assessments.*

6 *USA 2P reserves were sold during FY2020.*

7 *An Nagyah Oilfield (Yemen) reserves as attributed by DeGolyer and McNaughton Canada Limited as of 1 January 2016. This is unchanged from the initial reserves assessment prepared by DeGolyer and McNaughton Canada, and announced to the ASX on 15 March 2016.*

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
Participating Interest	Working interest less any net profit interest held by another entity. In Yemen, normally a government owned entity.
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 – Executive Chairman
Brent D Emmett – Technical Director
Barry J Dawes – Non-executive Director
Francis M Douglas – Non-executive Director

Company Secretary
Paul Gahdmar

Corporate Management
Terrence N Fern – Executive Chairman
Brent D Emmett – Technical Director
Paul Gahdmar – Chief Financial Officer and Company Secretary

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

Corporate Governance Statement
http://www.petsec.com.au/about-us/corporate-governance/

For further information
Web: www.petsec.com.au