



Petsec Energy Ltd

ACN 000 602 700

Annual Report for the financial year ended
31 December 2022



Annual Report

For the year ended 31 December 2022

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Petsec Energy Ltd

ABN 92 000 602 700

The Company is an unlisted public company, and its registered office is located at Level 7, Macquarie Business Centre, 167 Macquarie Street Sydney, NSW 2000 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, 5 May 2023, at Level 7, Macquarie Business Centre, 167 Macquarie Street Sydney, NSW Australia.

Capital Structure

On 24 February 2023, the Company had 461,071,218 shares on issue.



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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 Middle East & North African (MENA) region, specifically in Yemen:

- During a period of low oil prices and difficult political climate which prohibits much larger companies from operating, and where our network of contacts and relationships could advance projects.
- With near-term production capacity, which hold the potential to substantially increase the value of the Company.

Yemen, located on the Arabian Plate, contains geology comparable to that of Saudi Arabia, comprising the equivalent Petroleum Systems to those of Saudi Arabia. Yemen is under explored and underdeveloped holding the potential for the discovery of large oilfields.

Company Profile and History

Petsec Energy Ltd is an independent oil and gas exploration and production company.

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

The Company was listed on the Australian Securities Exchange ("ASX") from 1980 until 4 April 2022 when its shares were removed from the ASX Official List in accordance with Listing Rule 17.2 as the shares had been in voluntary suspension from trading for a continuous period of two years.

The Company's shares were initially placed in voluntary suspension on 3 April 2020, following the Board's consideration of the confluence of events that affected the Company at the time, particularly the effects of the Coronavirus COVID-19 pandemic, which resulted in an unprecedented collapse in oil and gas prices and a lockdown of government administrative processes around the World. The voluntary suspension provided the time to allow the Company to effectively resolve its cost structure, financing, and business plan to protect and enhance shareholder value during the period of the pandemic.

Unfortunately, the Company was unable to meet the ASX requirements for reinstatement before the two-year anniversary date of entering voluntary suspension and was removed from the official list of ASX.

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 billion cubic feet of natural gas equivalent ("Bcfe"), and production of 217 Bcfe.

The Company sold its U.S. oil and gas interests in October 2020 and dissolved its U.S. subsidiaries.

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

The Company currently holds interests onshore in the Republic of Yemen through its wholly owned subsidiary companies West Yemen Oil (Block S-1), Inc., Oil Search (ROY) Limited, and Petsec Energy Yemen 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 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.

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For the year ended 31 December 2022

Company Profile and History (continued)

Al Barqa, Block 7 Exploration Licence

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 undeveloped target resources of 11 to 110 million barrels (“MMbbl”) 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 MMbbl 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.

Damis Block S-1 Production Licence

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 more than 60 MMbbl of recoverable oil and 600 Bcf of gas. One of the fields, the An Nagyah Oilfield, is developed by 32 wells, with production facilities of 20,000 barrels of oil per day (“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 at the An Nagyah Oilfield 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 then Yemen Oil Minister indicated that approvals would be granted subject to our securing a financially strong Yemen oil producing company to be operator.

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

All the shares of Yemen (Block S-1), Inc., the designated operator of Block S-1 and owner of a 75% working interest, were acquired by Yung Holdings Limited, a Hong Kong domiciled company and subsidiary of the Octavia Energy Corporation, a UK company focused on oil and gas exploration and production in the MENA region. Octavia Energy is financed by members of the Hayel Saeed Anam family, owners of the HSA Group of Companies, one of the Middle East’s most successful family enterprises, and Yemen’s largest, with over 35,000 employees and a multi-billion dollar annual turnover.

Yung Holdings Limited was established in 2016 to acquire Calvalley Petroleum (Cyprus) Ltd which holds a 50% interest and is the operator of Malik Block 9 in the Masila Basin of Yemen. The block was returned to production in 2019 following an investment of US\$45 million, and until recently was producing 6,500 bopd, which was trucked to the Block 4 pipeline thence to Bir Ali for export. The Block 9 joint venture includes Hood Oil, owning a 25% interest since 2002, a subsidiary of Hayel Saeed Anam and Co. (H.S.A.), and Medco Energi, an Indonesian listed company, holding a 25% interest.

Following the acquisition, the operator of Damis Block S-1 renamed Yemen (Block S-1), Inc. to Octavia Energy (Block S-1), Inc. (the “Operator”) and established its Block S-1 operations offices in Cairo, Egypt and Aden, Yemen.

The Company has since focussed all its efforts on supporting the Operator towards securing the necessary government approvals with the objective of achieving the restart of oil production from the An Nagyah Oilfield.

Refer to section 7. *Operations Review of the Directors’ Report* for further details.

Annual Report

For the year ended 31 December 2022

2022 Year in Review

Corporate

- **Minimum Holding Share Buy-back** – On 31 March 2022, the Company bought back and cancelled a total of 27,516,706 fully paid ordinary shares under its Minimum Holdings Share Buy-back offer which was announced to the ASX on 11 February 2022 and concluded at 5.00 p.m. on 25 March 2022.

Refer to “*note 5. Principal Activities*” within the Directors’ Report for further details.

- **Removal from ASX Official List** – The Company’s shares (ASX ticker: PSA), which had been in voluntary suspension since 3 April 2020, were delisted from the ASX Official List on 4 April 2022 in accordance with ASX Listing Rule 17.12, as the shares had been suspended from trading for two years. The removal was carried out in accordance with the policy outlined in section 3.4 of the ASX Listing Rules (Guidance Note 33 - Removal of Entities from the ASX Official List).

The Company was removed from the ASX Official List after failing to meet the ASX requirements for reinstatement before the two-year anniversary of entering voluntary suspension. Following the completion of its Minimum Holding Share Buy-back prior to delisting, the Company is now an unlisted public company with 682 remaining shareholders.

Refer to “*note 5. Principal Activities*” within the Directors’ Report for further details.

- **YEMEN: Al Barqa Block 7 Letter of Credit (“LoC”) litigation** – The Company progressed its legal suits against the Arab Bank in Amman, Jordan to recover the US\$2.73 million in counterparty Letter of Credit (“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 (US\$1.68 million) and Commonwealth Bank of Australia (CBA) acting for Mitsui (US\$1.05 million).

To date, the Jordan Court had granted an injunction against Arab Bank to prevent transfer of the funds to the Houthi and had 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.

On 29 December 2021, the Jordan Court of Appeals delivered its final verdict in relation to the Company’s US\$1.68 million share of the LoC funds, declaring the call on the Block 7 counterparty LoCs was illegal and requiring Arab Bank to transfer the monies back to the Company’s QNB bank account and awarding compensation for legal fees and expenses incurred by the Company. The Arab Bank had 30 days to appeal the decision in the Jordan Court of Cassation, which it did on 25 January 2022.

The Company defended this appeal by the Arab Bank with the Court of Cassation delivering its decision in early December 2022. The Court rejected the appeal filed by the Arab Bank to revoke the earlier judgement issued in favour of the Company by the Court of Appeals and ordered that the Arab Bank return the Company’s Counter LoC funds of US\$1.68 million to its QNB bank account.

Refer to “*note 21. Contingencies and Legal Matters*” within the Notes to the Consolidated Financial Statements for further details.

Operations

- **Damis (Block S-1) Production Licence, Yemen** – Operations at the Company’s Damis (Block S-1) Production License, Yemen remained shut-in and under Force Majeure during the year.

The Operator was actively engaged with the Yemen Ministry of Oil and Minerals (“Ministry”) and all Block S-1 stakeholders during the year, with the objective of securing the necessary government approvals and commencing preparations and planning for the return of oil production from the An Nagyah Oilfield.

These efforts were enhanced, firstly in April 2022, with the ceding of power by President Abdo Rabbu Hadi to a Saudi-backed eight-man body, known officially as the Presidential Command Council (“PCC”). The PCC is headed by Rashad al-Alimi, a former interior minister, and seven other members from various factions with the anti-Houthi alliance. Then in July 2022, with the appointment of a new Energy Minister, Dr Said al-Shamasi, who replaced Aws Abdullah Al-Awd.

The Operator is engaged with the Oil Ministry and the Petroleum Exploration and Production Authority (PEPA) to re-establish the Block S-1 Operating Committee, the necessary administrative entity prescribed by the Block S-1 PSA, to advise the Ministry on acceptability of annual work programme and budgets and production restart approvals.

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For the year ended 31 December 2022

2022 Year in Review (continued)

Operations (continued)

The 2023 Work Programme & Budget (“WP&B”), a restart budget, was submitted to the Ministry of Oil and Minerals for approval in December 2022. The 2023 WP&B plans for the reopening of the field camp within one month of site access, resumption of production from initially one well at a rate of 1,000 bopd within three months of site access, and the resumption of production from five wells at a rate of 5,000 bopd within eight months of site access.

The produced oil will be trucked to the Block 4 pipeline and then onto the Bir Ali Oil Terminal for export and sale.

- **Block 7, Al Barqa Permit, Yemen** – Block 7 remained under Force Majeure throughout the year.

No activities are planned for the block until such times as the LoC matter is resolved, Damis Block S-1 is returned to production, and the security situation in Yemen has improved.

Financial

- Net production: nil (previous corresponding period: nil).
- Net oil and gas revenues (after royalties): nil (previous corresponding period: nil).
- EBITDAX: negative US\$0.2 million (previous corresponding period: negative US\$0.6 million).
- Net profit after tax: loss after tax of US\$1.7 million (previous corresponding period: loss after tax of US\$3.0 million).
- Cash at 31 December 2022: US\$0.2 million (previous corresponding period: US\$0.4 million including restricted cash).
- US\$15 million Convertible Note Facility: US\$14.0 million drawn at 31 December 2022.



Annual Report

For the year ended 31 December 2022

Chairman's Report

Dear Shareholder

I am pleased to present Petsec Energy's Annual Report for the fiscal year 2022, which summarises our progress and accomplishments for the year.

After meeting the objectives of the Company's COVID Plan ("Plan"), which was established in 2020 to reorganise the Company, suspend the Company's shares on the ASX to allow the Company to enter a period of hibernation and focus solely on the monetisation of its major asset, the An Nayah Oilfield, in Block S-1, Yemen, the Company, with the continued support of its Convertible Noteholders, is optimistic that the long awaited restart of oil production from the An Nayah Oilfield, may well occur in the 2023 year.

Removal from Official List of ASX

The Company's shares, which had been suspended from trading for two years, were removed from the Official List of the ASX on 4 April 2022, in accordance with ASX Listing Rule 17.12.

The Company was removed from the ASX Official List after failing to meet the ASX requirements for reinstatement before the two-year anniversary of entering voluntary suspension. Following the completion of its Minimum Holding Share Buy-back prior to delisting, the Company is now an unlisted public company with currently 682 remaining shareholders.

Delisting from the ASX provided an opportunity for the Company to further reduce its administrative costs while it continued to work with the Operator to restart production from the An Nayah Oilfield in Block S-1.

Damis Block S-1 Production Licence, Yemen

The Operator of Damis Block S-1 Production Licence in Yemen, Octavia Energy (Block S-1), Inc., has spent the past two years preparing for the restart of oil production by establishing operations offices in Cairo, Egypt and Aden, Yemen, engaging with the Yemen Ministry of Oil and Minerals ("Ministry"), local tribes, contractors, and staff, and securing testing equipment.

These efforts were bolstered, first, in April 2022, when President Abdo Rabbu Hadi handed over power to a Saudi-backed eight-man body known officially as the Presidential Command Council ("PCC"). Rashad al-Alimi, a former interior minister, leads the PCC, which includes seven other members from various anti-Houthi alliance factions. The PCC then appointed a new Energy Minister, Dr Said al-Shamasi, in July 2022, to replace former Energy Minister Aws Abdullah Al-Awd.

The appointment of Dr Said al-Shamsi as the new Energy Minister was well received as he is well known to us, having previously been the Deputy Oil Minister since 2017 and provided his support to the Company on occasion.

The Operator is engaged with the Oil Ministry and the Petroleum Exploration and Production Authority (PEPA) to re-establish the Block S-1 Operating Committee, the necessary administrative entity prescribed by the Block S-1 PSA, to advise the Ministry on acceptability of annual work programme and budgets and production restart approvals.

The 2023 WP&B, a restart budget, was submitted to the Ministry of Oil and Minerals for approval in December 2022. The 2023 WP&B plans for the reopening of the field camp within one month of site access, resumption of oil production from one well at a rate of 1,000 bopd within three months of site access, and the resumption of production from five wells at a rate of 5,000 bopd within eight months of site access. The oil will be trucked to the Block 4 pipeline and then to Bir Ali for export and sale.

Block 7: Fraudulent claim against Letter of Credit supporting Block 7 exploration obligations

The Company persisted with its legal action against the Arab Bank through the Jordanian Courts in Amman, Jordan, throughout the year in order to recoup the US\$2.73 million in counterparty Letter of Credit ("LoC") funds claimed and transferred to the Arab Bank by Qatar National Bank (QNB) acting for the Company and Commonwealth Bank of Australia (CBA) acting for Mitsui.

The master LoC issued under the Production Sharing Agreement (PSA) on the Al Barqa, Block 7 permit was held by Arab Bank, Sana'a. The Arab Bank had acted upon an illegitimate claim made in November 2019 by the Houthi-controlled oil ministry in Sana'a and called on the counterpart LoCs held on behalf of the Company and Mitsui by QNB and CBA, respectively. In response to Arab Banks' illegitimate claim, the counterparty banks transferred US\$2.73 million from the Company and Mitsui to Arab Bank in Amman, Jordan, in January 2020.

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 legal claim can be made against the LoC while the licence is in Force Majeure.

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Chairman's Report (continued)

To date, the Jordan Court had given an injunction against Arab Bank to stop the transfer of the monies to the Houthi and had ruled that the Houthi claim against the Block 7 LoC was unlawful, meaning that the counterparty LoC funds that Arab Bank had received could not be transferred to the Houthi.

The Appeals Court issued its final ruling regarding the Company's US\$1.68 million share of the LoC funds in late December 2021. In it, it ruled that Arab Bank's call on the Block 7 counterparty LoCs was unlawful, demanded that it transfer the funds back to the Company's QNB bank account, and granted the Company reimbursement for the costs of its legal representation. The Arab Bank had 30 days to file an appeal with the Supreme Court against the Appeals Court's ruling, which it did on January 25, 2022.

The Company responded to the Arab Bank's appeal, and the Court of Cassation issued its ruling in early December 2022. The Court dismissed the Arab Bank's request to have the Court of Appeals reverse the earlier decision in favour of the Company, and ordered the Arab Bank to transfer the US\$1.68 million in counterparty LoC monies back to the Company's QNB bank account.

The Court determined that the Company had the right to ask for the return of its cash to QNB since Arab Bank had not properly exercised its rights under the counterparty LoC.

The Company is presently waiting for the return of its LoC funds from Arab Bank and plans to pursue further legal action against Arab Bank to recoup Mitsui's portion of the counterparty LoC funds held by the Arab Bank.

Minimum Holding Share Buy-back

The Company initiated a Minimum Holding Buy-back during the March 2022 quarter to allow shareholders the opportunity to sell their shares prior to the Company's anticipated delisting in early April 2022. The buy-back also provided the opportunity for the Company to clean up its share registry in order to reduce administration costs even further.

The Company acquired 27,516,706 fully paid ordinary shares from 1,038 shareholders for a total consideration payable of \$27,516.98. The bought-back shares were cancelled on March 31, 2022, in accordance with the *Corporations Act 2001* (Cth). The Company currently has 461,071,218 shares on issue.

Financial results

The Company reported a loss after tax of US\$1.7 million for the twelve months ended 31 December 2022 after the recognition of interest expense in relation to the convertible note facility of US\$1.5 million.

Following the sale of the Company's U.S. oil and gas production interests in the 2020 fiscal year, no oil and gas production or revenues were generated during the current or previous corresponding period.

The restart of oil production at the Company's An Nagyah Oilfield in Block S-1, Yemen, at current oil prices should over the field life be sufficient to meet repayment of the Company's debt and provide additional income. The Company holds a 25% interest in Block S-1, held by the Company's West Yemen Oil (Block S-1) Inc., for which it will receive a life of licence carry of all costs from the Operator.

The Company continued to focus its efforts throughout the year on reducing its operating costs and demands on the Company's working capital. Operating costs incurred in the current period totalled US\$0.2 million.

No acquisition, exploration and development expenditures were incurred during the year.

The Company held cash deposits of US\$0.2 million as of 31 December 2022, with the amount drawn under its US\$15 million Convertible Note Facility remaining unchanged from the previous year at US\$14 million.

The Company is due a further US\$1 million trailing payment from the sale of Yemen (Block S-1), Inc., conditional on 10 days continuous production at 3,000 bopd from Block S-1. This amount is currently reflected in the Consolidated Statement of Financial Position as a non-current receivable.

The Company expects to have sufficient funds to meet its existing commitments and obligations without incurring additional debt through to the end of December 2023.



Annual Report

For the year ended 31 December 2022

Chairman's Report (continued)

Outlook 2023

Our primary focus in 2023 is to continue to support Octavia, the operator of the Damis Block S-1 Production Licence, in restarting and optimising the 25 MMbbl An Nagyah Oilfield, and to develop the 35 MMbbl and 600 bcf of gas in the block's other four discovered but undeveloped fields. We will also pursue the recovery of the Block 7 LoC funds currently held by Arab Bank which is instructed by the Jordanian courts to repay the monies.

In closing, I'd like to thank the Board for their valued advice and their commitment to the Company, and to thank our shareholders for your patience during this difficult period in the Company's history. I would also wish to thank our Convertible Noteholders for their continued support which underpins the viability of the Company.

The return of the An Nagyah Oilfield to production and the continued support of the Noteholders is critical to the Company's future and long-term success.

TN Fern
Chairman

Directors' Report

For the year ended 31 December 2022

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 2022 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 and member of the Nomination and Remuneration Committee

Mr Dawes has been a director since September 2020 and 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.

Mr Dawes 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 and member of the Audit Committee

Mr Douglas has been a director since September 2020 and 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 Kings Counsel (K.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

Member of the Audit and Nomination and Remuneration Committees

Mr Emmett has been a director since November 2020 and has over 45 years' experience in petroleum exploration, exploration and production management and investment banking. He holds a Bachelor of Science First Class Honours degree in physics and geophysics from Adelaide University.

Mr Emmett 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.

2. Executive Officers

Paul Gahdmar

Chief Financial Officer and Company Secretary

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 30 years of experience in corporate accounting and finance in listed companies within the mining and resources industry. Mr Gahdmar took on the position of Chief Financial Officer in addition to his current role as Company Secretary, effective 1 January 2021.

Directors' Report

For the year ended 31 December 2022

2. Executive Officers (continued)

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.

3. Directors' meetings

The Board has a formally constituted Audit Committee and a Nomination and Remuneration Committee. Mr Dawes chairs the Audit Committee and Mr Douglas the Nomination and Remuneration 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 as follows:

| | Regular Board Meetings | Additional Board Meetings | Audit Committee Meetings | Nomination & Remuneration Committee Meetings |
|--|------------------------|---------------------------|--------------------------|--|
| Total number held during the year | 8 | - | 4 | 2 |
| T N Fern ¹ | 8 | - | 4 | 2 |
| B J Dawes | 8 | - | 4 | 2 |
| F M Douglas | 7 | - | 4 | 2 |
| B D Emmett | 7 | - | 3 | 1 |

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

4. Remuneration report

The Remuneration Report is set out on pages 21 to 28 and forms part of the Directors' Report for the financial year ended 31 December 2022.

5. Principal activities

The principal activities of the Group during the course of the year were focused on securing and progressing its oil interests in two lease blocks, onshore in the Republic of Yemen – the Damis Block S-1 Production Licence and the Al Barqa, Block 7 Exploration Permit.

Minimum Holding Share Buy-back

On 11 February 2022, the Company instituted a buy-back of ordinary shares for holders of unmarketable parcels of shares. Under the ASX Listing Rules, an unmarketable parcel is a shareholding valued at less than \$500 ("Minimum Holding").

Based on the last registered sale price of \$0.001 per share, which took place in July 2021 through an off-market transfer, the Minimum Holding was determined to be less than 500,000 shares. The Company had 1,726 shareholders of which 1,652 owned a Minimum Holding.

The purpose of the buy-back which closed at 5.00 p.m. on 25 March 2022 was two-fold:

1. It provided shareholders the opportunity to sell their shares prior to the Company's anticipated removal from the ASX Official List in early April 2022; and
2. It allowed the Company to clean up its share register to further reduce its administration costs.

A total of 27,516,706 fully paid ordinary shares, held by 1,038 shareholders, were acquired by the Company for a total consideration payable of \$27,516.98.

All shares bought back by the Company under the offer were cancelled in accordance with the *Corporations Act 2001* (Cth) on 31 March 2022.

The Company currently has 461,071,218 shares on issue.

Directors' Report

For the year ended 31 December 2022

5. Principal activities (continued)

Removal from ASX Official List

On 4 April 2022, the Company's shares (PSA) were removed from the ASX Official List in accordance with Listing Rule 17.12 as the shares had been suspended from trading for a continuous period of two years. The removal was undertaken in accordance with the policy set out in section 3.4 of ASX Listing Rules "Guidance Note 33 – Removal of Entities from the ASX Official List".

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

The voluntary suspension provided the time to allow the Company to effectively resolve its cost structure, financing, and business plan to protect and enhance shareholder value during the period of the pandemic. The Company had initiated the process for re quotation on the ASX in July 2021 with the submission of a 'Formal Request for Reinstatement'. The Company engaged and worked through this process with the ASX to determine the terms required for its reinstatement. The Company's objective was for reinstatement to occur once the An Nayah Oilfield in Block S-1, Yemen was returned to production.

In November 2021, the ASX determined that the Company did not currently meet the ASX Listing Rule requirements under ASX Listing Rules 12.1 and 12.2 regarding considerations specific to the level of operations and financial condition of the Company. The ASX advised that it would reconsider the Company's compliance with Listing Rules 12.1 and 12.2 once it received confirmation that the Operator has received clearance to recommence field operations and has restarted production from Block S-1; and should the Company be able to demonstrate that it has a minimum working capital of \$1.5 million at the point of reinstatement. However, the Company was unable to satisfy the ASX requirements for reinstatement prior to the completion of the two-year anniversary of entering voluntary suspension and was removed from the ASX Official List.

Following the completion of its Minimum Holding Share Buy-back, which was completed prior to delisting, the Company is now an unlisted public company with currently 682 remaining shareholders.

6. Financial review

The Group incurred a net loss after tax of US\$1.7 million for the twelve months ended 31 December 2022 (previous corresponding period: net profit after tax of US\$3.0 million) after the recognition of net financial expense of US\$1.5 million.

Net financial expense of US\$1.5 million (previous corresponding period: US\$2.4 million) comprised expenditure incurred in connection with the Convertible Note Facility ("Facility"), including Facility fees, interest expense and the remeasurement to fair value of the financial derivative component of the Facility.

No oil and gas production or revenues were generated during the current or previous corresponding period following the sale of the Company's U.S. oil and gas production interests in the 2020 financial year.

Lease operating and geological, geophysical, and administrative expense of US\$0.2 million for the current period (previous corresponding period of US\$0.5 million), included the write-back of lease operating provisions in connection with Block 7, Yemen.

The Group reported negative earnings before interest, income tax, depreciation, depletion and amortisation, and exploration expense ("EBITDAX") of US\$0.2 million for the current period (previous corresponding period: negative EBITDAX of US\$0.6 million).

Financial position

Cash Deposits

As at 31 December 2022, the Company held cash deposits of US\$173,000 (31 December 2021: US\$434,000 including restricted cash amounts of US\$47,000). The cash deposits were held in US and Australian dollars.

Convertible Note Facility

At 31 December 2022, the Company had drawn down US\$14 million under its US\$15 million Convertible Note Facility Agreement. Refer "Note 15 – Interest bearing loans and borrowings" in the notes to the consolidated financial statements for further details.

Directors' Report

For the year ended 31 December 2022

7. Operations review

Petsec Energy Ltd (the "Company") is an independent oil and gas exploration and production company. 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.

Middle East and North Africa ("MENA")

Yemen

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

The Damis Block S-1 Production Licence in the Shabwah Governate contains five oil and gas fields, with target resources of approximately 60 million barrels of oil and 600 Bcf of natural gas. One field, the An Nagyah Oilfield is developed, with 32 wells, and has associated production facilities capable of producing 20,000 bopd, connected by an 80,000 bopd pipeline to Block 5 and the Marib Pipeline which terminates at the Ras Isa Oil Export Terminal on the Red Sea to the West. The Marib Pipeline and Ras Isa Oil Export Terminal have been shut since March 2015 due to the Saudi Coalition embargo on oil lifting from the Port of Hodeidah because of the Rebels' control of Hodeidah.

In 2020, a pipeline between Block 5 and Block 4 was completed which when commissioned, once Block 5 restarts production, 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 Exploration Licence 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.¹

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

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

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

All of the shares of Yemen (Block S-1), Inc., the designated operator of Block S-1 and owner of a 75% working interest, were acquired by Yung Holdings Limited, a Hong Kong domiciled company and subsidiary of the Octavia Energy Corporation, a UK company focused on oil and gas exploration and production in the MENA region. Octavia Energy is financed by members of the Hayel Saeed Anam family, owners of the HSA Group of Companies, one of the Middle East's most successful family enterprises, and Yemen's largest, with over 35,000 employees and a multi-billion dollar annual turnover.

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

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

Directors' Report

For the year ended 31 December 2022

7. Operations review (continued)

MENA (continued)

Damis (Block S-1), Republic of Yemen (continued)

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

Yung Holdings Limited was established in 2016 to acquire Calvalley Petroleum (Cyprus) Ltd which holds a 50% interest and is the operator of Malik Block 9 in the Masila Basin of Yemen. The block was returned to production in 2019 following an investment of US\$45 million, and until recently was producing 6,500 bopd, which was trucked to the Block 4 pipeline thence to Bir Ali for export. The Block 9 joint venture includes Hood Oil, owning a 25% interest since 2002, a subsidiary of Hayel Saeed Anam and Co. (H.S.A.), and Medco Energi, an Indonesian listed company, holding a 25% interest.

Following the acquisition, the Operator of Damis Block S-1 renamed Yemen (Block S-1) Inc. to Octavia Energy (Block S-1), Inc. and has established its Block S-1 operations offices in Cairo, Egypt and Aden, Yemen.

The Operator has spent the past two years preparing for the restart of oil production by establishing operations offices in Cairo, Egypt and Aden, Yemen, engaging with the Yemen Oil Ministry, local tribes, contractors, unions, and staff, and securing testing equipment.

The Operator is engaged with the Oil Ministry and the Petroleum Exploration and Production Authority (PEPA) to re-establish the Block S-1 Operating Committee, the necessary administrative entity prescribed by the Block S-1 PSA, to advise the Ministry on acceptability of annual work programme and budgets and production restart approvals.

The 2023 WP&B, a restart budget, was submitted to the Ministry of Oil and Minerals for approval in December 2022. The 2023 WP&B plans for the reopening of the field camp within one month of site access, resumption of oil production from one well at a rate of 1,000 bopd within three months of site access, and the resumption of production from five wells at a rate of 5,000 bopd within eight months of site access. The oil will be trucked to the Block 4 pipeline and then to Bir Ali for export and sale.

Block 7, Al Barqa Permit, Republic of Yemen

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

Petsec Energy acquired its interest in the Al Barqa (Block 7) Exploration Licence in Yemen 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 in Block S-2 which holds ultimate recoverable reserves of 350 million barrels of oil.

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

The two discovery wells of the Al Meashar Oilfield (target resource of 11 MMbbl to 110 MMbbl) in 2010 and 2011, are suspended for future production. In 2010/2011, short-term testing of the two Al Meashar wells delivered flow rates ranging from 200 to 1,000 bopd. The wells intersected an 800-metre oil column in the Kuhlan and Basement formations, the same formations and oil as OMV's Habban Oilfield, which has an oil column of 945 metres and is located 14 kilometres to the West.

The Habban Oilfield holds estimated ultimate recoverable reserves of 350 million barrels of oil and over the past two years has variously produced between 4,000 bopd and 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.

Directors' Report

For the year ended 31 December 2022

Oil and Gas Reserves

Petsec Energy Group Net Reserves as of 1 January 2023

| <i>Oil Equivalent (Mboe ¹)</i> | Net Proved Reserves ³ | Net Probable Reserves ³ | Net Proved and Probable Reserves ³ |
|--|---|---|--|
| Yemen Reserves ² | | | |
| Reserves as of 1 January 2022 | 1,135.0 | 277.0 | 1,412.0 |
| Additions/(revisions) | - | - | - |
| Total Petsec Energy Group Reserves as of 1 January 2023 | 1,135.0 | 277.0 | 1,412.0 |
| Developed | 1,135.0 | 277.0 | 1,412.0 |
| Undeveloped | - | - | - |

Footnotes

- Mboe = One thousand barrels of oil equivalent (using a ratio of approximately six thousand cubic feet of natural gas to one barrel of oil).*
- The reserve assessments presented in the table above and throughout this report are consistent with that disclosed in the section "Oil and Gas Reserves" in the Company's 2021 Annual Report released to the ASX on 25 February 2022.*
The reserves are stated only for oil in the An Nagyah Oilfield and are unchanged from the initial 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. The reported reserves represent the Company's 25% interest share. The Company intends to commission a new reserves report after the resumption of production at the An Nagyah Oilfield.
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.
- Net reserves mean those reserves representing the Company's net revenue interest (or net economic interest). 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.

Director's Report

For the year ended 31 December 2022

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 considers 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.

Directors' Report

For the year ended 31 December 2022

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.

Directors' Report

For the year ended 31 December 2022

9. Dividends

Directors do not recommend the payment of a dividend for the financial year ended 31 December 2022. 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 2023 will be to:

- Continue to support the operator of the Damis (Block S-1) Production Licence towards the restart of the An Ngyah Oilfield in Block S-1. The restart of production from the An Ngyah Oilfield should generate cashflow with which the Company could repay the Convertible Note Facility, improve the Group's balance sheet, providing funds to potentially development Block 7.
- Pursue 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 | 77,194,372 | Nil |
| B J Dawes | 6,473,579 | 3,000,000 |
| F M Douglas | Nil | 3,000,000 |
| B D Emmett | Nil | 6,000,000 |

Directors' Report

For the year ended 31 December 2022

14. Share options

Options granted to directors and officers of the Company (key management personnel)

Employee Option Plan

During or since the end of the financial year, no options over ordinary shares in Petsec Energy Ltd were granted to or exercised by key management personnel under the Employee Option Plan (2021: nil). 8,200,000 unlisted options over ordinary shares were forfeited under the Employee Option Plan (2021: nil).

Options outside the Employee Option Plan

During or since the end of the financial year, 1,000,000 unlisted options over ordinary shares in Petsec Energy Ltd were granted outside the Employee Option Plan to the Company's Chief Financial Officer and Company Secretary, Mr. Paul Gahdmar, as part of his remuneration

Each option was issued to Mr. Gahdmar for a consideration price of A\$0.001 and are exercisable at a price of A\$0.02 per option. The options were issued on 8 August 2022 and will expire on 8 August 2024.

In the previous corresponding period, key management personnel were granted a total of 13,000,000 unlisted options outside the Employee Option Plan.

Option grants to persons other than key management personnel

No options over ordinary shares in Petsec Energy Ltd were granted to persons other than key management personnel ((2021: 4,000,000). No options were forfeited or exercised (2021: nil).

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 due to a number of factors, 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 29 and forms part of the Directors' Report for the financial year ended 31 December 2022.

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.

Directors' Report

For the year ended 31 December 2022

19. Events subsequent to balance date

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

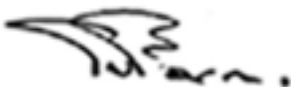
Arab Bank was instructed by the Court of Cassation, the highest court of Jordan, to repay the Letter of Credit ("LoC") monies illegally called by Arab Bank in January 2020. Arab Bank had to the end of January 2023 to repay the monies. In late January 2023, the Arab Bank filed a motion to the Execution Judge attempting to mislead the judge that the Company (i.e. Oil Search (ROY) Limited or OSROY) did not have the authority to execute the judgement of the Court of Cassation which was delivered in December 2022 because the judgement was in favour of QNB, not OSROY, and hence the Attorney did not have proper representation from QNB to request execution of the judgement.

The Execution Judge initially accepted Arab Bank's argument and ruled that OSROY could not enforce the award against Arab Bank because QNB should have been the party requesting execution. The Company immediately filed a motion to revoke the decision of the Execution Judge, claiming that the Arab Bank misled the Execution Judge by falsifying the language of the judgement. This motion was granted, resulting in the revocation of the Execution Judge's earlier decision and instructions that Arab Bank to proceed with the execution of the Court of Cassation's judgement, and pay OSROY the LoC monies. Regrettably, but not unexpected, the Arab Bank filed a further Execution appeal on 7 February 2023. The Company will vigorously defend this appeal. A final result is expected within three weeks of lodgement of Arab Bank's appeal.

Arab Bank having illegally called the Company's LoC, causing three years of unnecessary court action and third party costs to the Company in excess of US\$250,000, has had free use of the Company's and Mitsui's money for three years, and despite the Jordan Courts declaring that the Houthi claim on the Block 7 LoC and Arab Bank's claim on the counterparty LoCs to be illegal, and the legitimate Minister for Oil in Yemen, recognised by the government and courts of Jordan, had given a written statement that there was no claim on the Block 7 LoCs, Arab Bank continues to use the court system to delay or indeed attempts to avoid, repaying our and Mitsui's LoC funds.

Other than as disclosed, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction, or event of a material and unusual nature likely, in the opinion of the sole director of the Company, to significantly affect 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:

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

T N Fern
Director

Sydney, 24 February 2023

Directors' Report

For the year ended 31 December 2022

20. Remuneration Report

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 2022 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
- B J Dawes – Independent Non-executive Director
- B D Emmett – Technical Director

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

The Nomination and Remuneration Committee meets at least twice a year and as required. The Committee met twice 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.

Directors' Report

For the year ended 31 December 2021

20. Remuneration Report (continued)

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 consider:

- 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 post-employment defined contribution superannuation plans in Australia.

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. Non-cash benefits comprise employer payments towards 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 marketplace.

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 28 May 2021 (see Note 17(b)). The maximum number of securities in aggregate that may be issued under the Employee Share and Option Plans is 21,033,215.

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).

Directors' Report

For the year ended 31 December 2022

20. Remuneration Report (continued)

20.4 Principles of compensation (continued)

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.

| | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|-----------------|-----------------|---------------|------------------|------------------|
| Loss attributable to owners of the company ¹ | (US\$1,694,000) | (US\$3,021,000) | US\$1,266,000 | (US\$24,241,000) | (US\$10,050,000) |
| Dividend paid | - | - | - | - | - |
| Closing share price as at 31 December ² | n/a | A\$0.021 | A\$0.021 | A\$0.056 | A\$0.105 |
| Change in share price | n/a | - | (A\$0.035) | (A\$0.049) | - |

1. Net profit/(loss) amounts for 2018 to 2022 have been calculated in accordance with Australian Accounting Standards (AASBs).
2. Petsec Energy Ltd was removed from the Official List of the ASX on 4 April 2022.

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.

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.

In 2020, the current directors, Messrs. Barry Dawes, Francis Douglas, and Brent Emmett, accepted that there would be no cash remuneration paid until such times as the Company has substantial free cashflow and regains profitability. In lieu of the cash payment of director fees, the Company issued a total of 12,000,000 options to the directors, with shareholder approval for the issue of these options obtained at the Annual General Meeting held on 28 May 2021.

Directors' Report

For the year ended 31 December 2022

20. Remuneration Report (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 payments | Total US\$ | Proportion of remuneration performance related % | Accounting fair value as proportion of remuneration % |
|--------------------------------------|--------------------|------|---------------------|--|---------------------|-------------------------|------------------------------|---------------------------|----------------------------|------------|--|---|
| | | | Salary & fees US\$ | Short-term incentive/retention cash bonus US\$ | Other benefits US\$ | Service agreements US\$ | Superannuation benefits US\$ | Termination benefits US\$ | Accounting fair value US\$ | | | |
| Directors ¹ | | | | | | | | | | | | |
| Executive | | | | | | | | | | | | |
| T N Fern ¹ | Executive Chairman | 2022 | - | - | - | - | - | - | - | - | - | |
| (Note 1) | | 2021 | - | - | - | 172,270 | - | - | - | 172,270 | - | |
| B D Emmett ¹ | Technical Director | 2022 | - | - | - | - | - | - | 1,811 | 1,811 | - | |
| | | 2021 | - | - | - | - | - | - | 1,553 | 1,553 | - | |
| Non-executive | | | | | | | | | | | | |
| B J Dawes ¹ | Director | 2022 | - | - | - | - | - | - | 772 | 772 | - | |
| | | 2021 | - | - | - | - | - | - | 698 | 698 | - | |
| F M Douglas ¹ | Director | 2022 | - | - | - | - | - | - | 772 | 772 | - | |
| | | 2021 | - | - | - | - | - | - | 698 | 698 | - | |
| Total directors' remuneration | | 2022 | - | - | - | - | - | - | 3,355 | 3,355 | - | |
| | | 2021 | - | - | - | 172,270 | - | - | 2,949 | 175,219 | - | |

¹ Australian-based directors' remuneration amounts are actually paid in Australian dollars and presented in US dollars at the following average FX rates i) 2022 – 0.6957 ii) 2021 – 0.7490.

Directors' Report

For the year ended 31 December 2022

20. Remuneration Report (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 payments | Total US\$ | Proportion of remuneration related % | Accounting fair value as proportion of remuneration % | |
|---|--|-------------------------------------|---|--------------------------------------|-------------------------|------------------------------|---------------------------|---|------------|--------------------------------------|---|-----|
| | | Salary & fees US\$ <i>Note 3</i> | Short-term incentive/retention cash bonus US\$ <i>Note 4</i> | Other benefits US\$ <i>Note 5</i> | Service agreements US\$ | Superannuation benefits US\$ | Termination benefits US\$ | Accounting fair value US\$ <i>Note 6</i> | | | | |
| Executives | | | | | | | | | | | | |
| P Gahdmar ¹ <i>(Note 2)</i> | Company Secretary, Group Financial Controller | 2022 | 38,145 | - | - | 75,087 | 3,216 | - | 146 | 116,594 | - | 0.1 |
| | | 2021 | 125,304 | - | - | - | 12,216 | - | 1,439 | 138,959 | - | 1.0 |
| Total executive remuneration | | 2022 | 38,145 | - | - | 75,087 | 3,216 | - | 146 | 116,594 | - | 0.1 |
| | | 2021 | 125,304 | - | - | - | 12,216 | - | 1,439 | 138,959 | - | 1.0 |
| Total directors and executive officer remuneration | | 2022 | 38,145 | - | - | 75,087 | 3,216 | - | 3,501 | 119,949 | - | 2.9 |
| | | 2021 | 125,304 | - | - | 172,270 | 12,216 | - | 4,388 | 314,178 | - | 1.4 |

^{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) 2022 – 0.6957 ii) 2021 – 0.7490.

Directors' Report

For the year ended 31 December 2022

20. Remuneration Report (continued)

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

Notes

- 1) Included in service agreements above are amounts which are paid or are 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.
Mr Fern did not receive a fee for his services as Executive Chairman of Petsec Energy Ltd during the year (2021: US\$172,270).
- 2) During the year, Mr Gahdmar's employment was transferred from Petsec Energy Ltd to a company of which Mr Fern is a director, effective 4 March 2022. Mr Gahdmar continues in his role of Chief Financial Officer and Company Secretary of Petsec Energy Ltd.
Included in service agreements above is an amount of US\$75,087 (2021: nil) which was paid or is payable to, a company of which Mr Fern is a director and through which Mr Gahdmar provided services.
- 3) Salary and fees for certain specified executives includes the movement during the reporting period of accruals for annual leave and long service leave.
- 4) Short-term incentive/retention cash bonuses represent discretionary bonus amounts granted based on a number of factors including personal performance, the achievement of strategic objectives, retention, and motivation of employees.
- 5) Other benefits represent amounts paid on behalf of key management personnel in respect of insurance, car parking, fringe benefits.
- 6) The fair value of options and shares is calculated at the date of the grant using the Black-Scholes model and allocated to each reporting period over the period from grant date to vesting date.

No termination payments were paid to key management personnel during the year (2021: nil).

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 | 23/02/23 | A\$0.015 | A\$0.20 | A\$0.11 | 70.1% | 2.165% | - |
| 9/02/18 ² | 23/02/23 | A\$0.043 | A\$0.20 | A\$0.10 | 103.6% | 2.165% | - |
| 16/11/20 ³ | 14/05/23 | A\$0.001 | A\$0.02 | A\$0.021 | 2.3% | 0.11% | - |
| 28/05/21 ⁴ | 15/06/24 | A\$0.001 | A\$0.02 | A\$0.021 | 2.7% | 0.09% | - |
| 28/05/21 ⁵ | 15/06/24 | A\$0.001 | A\$0.02 | A\$0.021 | 2.7% | 0.09% | - |
| 28/05/21 ⁶ | 15/06/24 | A\$0.001 | A\$0.02 | A\$0.021 | 2.7% | 0.09% | - |
| 28/05/21 ⁷ | 15/06/25 | A\$0.001 | A\$0.02 | A\$0.021 | 3.6% | 0.09% | - |
| 25/02/22 ⁸ | 8/08/24 | A\$0.001 | A\$0.02 | A\$0.021 | 0.0% | 2.96% | - |

¹ Issued to P. Gahdmar. 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 2019 and 1 March 2021 at a minimum share price of A\$0.20.

³ Issued to P. Gahdmar. Options vest between 14 May 2021 and 14 May 2022 at a minimum share price of A\$0.02.

⁴ Issued to B. Emmett. Options vest between 15 June 2021 and 15 June 2023 at a minimum share price of A\$0.02.

⁵ Issued to B. Dawes. Options vest between 15 June 2021 and 15 June 2023 at a minimum share price of A\$0.02.

⁶ Issued to F. Douglas. Options vest between 15 June 2021 and 15 June 2023 at a minimum share price of A\$0.02.

⁷ Issued to B. Emmett. Options vest between 15 June 2022 and 15 June 2024 at a minimum share price of A\$0.02.

⁸ Issued to P. Gahdmar. Options vest between 8 August 2022 and 8 August 2023 at a minimum share price of A\$0.02.

Directors' Report

For the year ended 31 December 2022

20. Remuneration Report (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 2022 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 unlisted options over ordinary shares of Petsec Energy Ltd, which are exercisable on a one-for-one basis.

During 2022, no options were granted to key management personnel pursuant to the Employee Option Plan (2021: nil).

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

| | Held at 1 January 2022 | Granted as compensation | Exercised | Other changes ² | Held at 31 December 2022 | Vested during the year | Vested and exercisable at 31 December 2022 |
|------------------------|------------------------------|----------------------------|-----------|-------------------------------|--------------------------------|------------------------------|---|
| Directors | | | | | | | |
| T Fern | - | - | - | - | - | - | - |
| B Emmett | - | - | - | - | - | - | - |
| B Dawes | - | - | - | - | - | - | - |
| F Douglas | - | - | - | - | - | - | - |
| Executives | | | | | | | |
| P Gahdmar ¹ | 2,700,000 | - | - | - | 2,700,000 | - | 2,700,000 |

¹ Options exercisable at a share price of A\$0.20.

² Other changes represent shares and options that expired or were forfeited during the year.

During 2022, 1,000,000 options were granted to key management personnel outside the Employee Option Plan (2021: 13,000,000).

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

| | Held at 1 January 2022 | Granted as compensation ¹ | Exercised | Other changes ² | Held at 31 December 2022 | Vested during the year | Vested and exercisable at 31 December 2022 |
|-------------------|------------------------------|---|-----------|-------------------------------|--------------------------------|------------------------------|---|
| Directors | | | | | | | |
| T Fern | - | - | - | - | - | - | - |
| B Emmett | 6,000,000 | - | - | - | 6,000,000 | 2,000,000 | 3,000,000 |
| B Dawes | 3,000,000 | - | - | - | 3,000,000 | 1,000,000 | 2,000,000 |
| F Douglas | 3,000,000 | - | - | - | 3,000,000 | 1,000,000 | 2,000,000 |
| Executives | | | | | | | |
| P Gahdmar | 1,000,000 | 1,000,000 | - | - | 2,000,000 | 1,000,000 | 1,500,000 |

¹ Options exercisable at a share price of A\$0.02.

² Other changes represent shares and options that expired or were forfeited during the year.

Directors' Report

For the year ended 31 December 2022

20. Remuneration Report (continued)

20.7 Equity instruments (continued)

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).

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 2022 | Granted as compensation | Purchases | Received on exercise of options | Disposal/ Removal of relevant interest | Held at 31 December 2022 |
|-------------------|------------------------------|----------------------------|-----------|---------------------------------------|---|-----------------------------|
| Directors | | | | | | |
| T Fern | 77,194,372 | - | - | - | - | 77,194,372 |
| B Dawes | 6,473,579 | - | - | - | - | 6,473,579 |
| F Douglas | - | - | - | - | - | - |
| B Emmett | - | - | - | - | - | - |
| Executives | | | | | | |
| P Gahdmar | 400,000 | - | - | - | - | 400,000 |

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.



**AUDITOR'S INDEPENDENCE DECLARATION UNDER S 307C OF THE
CORPORATIONS ACT 2001
TO THE DIRECTORS OF PETSEC ENERGY LTD AND CONTROLLED ENTITIES
ABN 92 000 602 700**

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Petsec Energy Ltd.

As the auditor for the audit of the financial report of Petsec Energy Limited for the year ended 31 December 2022, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- i. the auditor independence requirements of 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 24th of February 2023

Consolidated statement of profit and loss and other comprehensive income

For the year ended 31 December 2022

| | Note | 2022 US\$'000 | 2021 US\$'000 |
|---|------|------------------|------------------|
| Continuing operations | | | |
| Other expenses | 5 | (47) | (45) |
| Lease operating expenses | | 135 | (36) |
| Geological, geophysical, and administrative expenses | | (301) | (498) |
| Depreciation, depletion, amortisation, and reclamation | | (1) | (1) |
| Financial income | 8 | 1 | - |
| Financial expenses | 8 | (1,481) | (2,441) |
| Net financial expense | | (1,480) | (2,441) |
| Loss before income tax | | (1,694) | (3,021) |
| Income tax benefit/(expense) | 9 | - | - |
| Loss for the period | | (1,694) | (3,021) |
| Other comprehensive income/(loss) | | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Foreign exchange translation differences | | 67 | (15) |
| Total comprehensive loss for the period | | (1,627) | (3,036) |
| US Dollars | | | |
| | Note | 2022 | 2021 |
| Loss per share | | | |
| Basic and diluted loss per share | 10 | (0.004) | (0.007) |

The consolidated 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 34 to 63.

Consolidated statement of changes in equity

For the year ended 31 December 2022

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 2021 | 201,290 | 1,875 | 40 | 446 | (222,177) | (18,526) |
| Total comprehensive income for the period | | | | | | |
| Profit/(loss) for the period | - | - | - | - | (3,021) | (3,021) |
| Other comprehensive income | | | | | | |
| Foreign exchange translation differences | - | 11 | - | (26) | - | (15) |
| Total other comprehensive income/(loss) | - | 11 | - | (26) | - | (15) |
| Total comprehensive income/(loss) for the period | - | 11 | - | (26) | (3,021) | (3,036) |
| Transactions with owners, recorded directly in equity | | | | | | |
| Contributions by and distributions to owners | | | | | | |
| Share issue/(cancelled) | 615 | - | - | - | - | 615 |
| Write back of prior period accrual of share issue | (1,067) | - | - | - | - | (1,067) |
| Section 258F capital reduction | (195,503) | - | - | - | 195,503 | - |
| Option issue | - | - | - | 10 | - | 10 |
| Vesting of share options | 42 | - | (42) | - | - | - |
| Share-based payments expense | - | - | 6 | - | - | 6 |
| Total transactions with owners | (195,913) | - | (36) | 10 | 195,503 | (436) |
| Balance at 31 December 2021 | 5,377 | 1,886 | 4 | 430 | (29,695) | (21,998) |
| Balance at 1 January 2022 | 5,377 | 1,886 | 4 | 430 | (29,695) | (21,998) |
| Total comprehensive income/(loss) for the period | | | | | | |
| Profit/(loss) for the period | - | - | - | - | (1,694) | (1,694) |
| Other comprehensive income/(loss) | | | | | | |
| Foreign exchange translation differences | - | 93 | - | (26) | - | 67 |
| Total other comprehensive income/(loss) | - | 93 | - | (26) | - | 67 |
| Total comprehensive income/(loss) for the period | - | 93 | - | (26) | (1,694) | (1,627) |
| Transactions with owners, recorded directly in equity | | | | | | |
| Contributions by and distributions to owners | | | | | | |
| Share buy-back, including costs | (36) | - | - | - | - | (36) |
| Option issue | - | - | - | 1 | - | 1 |
| Vesting of share options | 5 | - | (5) | - | - | - |
| Share-based payments expense | - | - | 4 | - | - | 4 |
| Total transactions with owners | (31) | - | (1) | 1 | - | (31) |
| Balance at 31 December 2022 | 5,346 | 1,979 | 3 | 405 | (31,389) | (23,656) |

The consolidated statement of changes in equity is to be read in conjunction with the notes to the consolidated financial statements set out on pages 34 to 63.

Consolidated statement of financial position

As at 31 December 2022

| | Note | 2022 US\$'000 | 2021 US\$'000 |
|--------------------------------------|------|------------------|------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | 173 | 387 |
| Trade and other receivables | 11 | 42 | 142 |
| Prepayments | | 12 | 18 |
| Total current assets | | 227 | 547 |
| Non-current assets | | | |
| Restricted cash deposits | | - | 47 |
| Other receivables | 11 | 1,000 | 1,000 |
| Property, plant, and equipment | | 2 | 3 |
| Oil and gas properties | 12 | - | - |
| Total non-current assets | | 1,002 | 1,050 |
| Total assets | | 1,229 | 1,597 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 14 | 123 | 285 |
| Employee benefits provisions | | - | 7 |
| Total current liabilities | | 123 | 292 |
| Non-current liabilities | | | |
| Trade and other payables | | 49 | - |
| Secured borrowings | 15 | 24,580 | 21,971 |
| Fair value of derivative instruments | 16 | - | 1,187 |
| Employee benefits provisions | | 133 | 145 |
| Total non-current liabilities | | 24,762 | 23,303 |
| Total liabilities | | 24,885 | 23,595 |
| Net assets | | (23,656) | (21,998) |
| EQUITY | | | |
| Issued capital | | 5,346 | 5,377 |
| Reserves | | 2,387 | 2,320 |
| Accumulated losses | | (31,389) | (29,695) |
| Total equity | | (23,656) | (21,998) |

The consolidated statement of financial position is to be read in conjunction with the notes to the consolidated financial statements set out on pages 34 to 63.

Consolidated statement of cashflows

For the year ended 31 December 2022

| | 2022 | 2021 |
|---|--------------|--------------|
| Note | US\$'000 | US\$'000 |
| Cashflows from operating activities | | |
| Cash payments to suppliers and employees | (309) | (479) |
| Restricted cash deposits | 44 | - |
| Net cash used in operating activities | (265) | (479) |
| | | |
| Cashflows from investing activities | | |
| Proceeds from sale of oil and gas, exploration, and evaluation properties | 95 | - |
| Net cash from investing activities | 95 | - |
| | | |
| Cashflows from financing activities | | |
| Proceeds from issue of options – net of transaction costs | 1 | 10 |
| Payments for share purchased under buybacks | (36) | - |
| Net cash (used in)/from financing activities | (35) | 10 |
| | | |
| Net (decrease)/increase in cash and cash equivalents | (205) | (469) |
| Cash and cash equivalents at 1 January | 387 | 862 |
| Effects of exchange rate changes on cash held | (9) | (6) |
| Cash and cash equivalents at 31 December | 173 | 387 |

The consolidated statement of cashflows is to be read in conjunction with the notes to the consolidated financial statements set out on pages 34 to 63.

Notes to the consolidated financial statements

For the year ended 31 December 2022

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 2022 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 24 February 2023.

(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 2022, the Group had a cash balance of US\$173,000 (31 December 2021: US\$387,000 excluding restricted deposits of US\$47,000) and current net assets of US\$104,000 (31 December 2021: current net assets of US\$255,000).

In addition, the group incurred a loss from continuing operations of US\$1,694,000 (31 December 2021: loss of US\$3,021,000) and had net cash outflows from operating activities of US\$265,000 during the period (31 December 2021: US\$479,000).

The Group has a Convertible Note Facility ("Facility") of US\$15.0 million excluding interest (refer Note 16 for further details).

As at 31 December 2022, the Group had drawn down US\$14.0 million under the Facility. The carrying value of the Facility at 31 December 2022 including accrued interest and excluding the fair value of the conversion option is US\$24.6 million (31 December 2021: US\$22.0 million).

Notes to the consolidated financial statements

For the year ended 31 December 2022

(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 incorporates 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).

Notes to the consolidated financial statements

For the year ended 31 December 2022

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.

Notes to the consolidated financial statements

For the year ended 31 December 2022

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.

Notes to the consolidated financial statements

For the year ended 31 December 2022

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:

| | 2022 | 2021 |
|---------------------------------------|-------------|-------------|
| <i>Property, plant, and equipment</i> | | |
| 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 12 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 2022

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 considering 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.

Notes to the consolidated financial statements

For the year ended 31 December 2022

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.

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.

Notes to the consolidated financial statements

For the year ended 31 December 2022

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 2021.

4. Determination of fair values

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

Notes to the consolidated financial statements

For the year ended 31 December 2022

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

(a) Other expenses

Net foreign exchange losses
Payment in lieu of makegood obligation in lease premise

| | 2022 US\$'000 | 2021 US\$'000 |
|--|------------------|------------------|
| | (4) | (45) |
| | (43) | - |
| | (47) | (45) |

6. Personnel expenses

Wages and salaries
Service agreements for executives
Contract labour
Superannuation
Share-based payment compensation

| | 2022 US\$'000 | 2021 US\$'000 |
|--|------------------|------------------|
| | 38 | 125 |
| | 75 | 172 |
| | - | 1 |
| | 3 | 12 |
| | 4 | 6 |
| | 120 | 316 |

7. Auditor's remuneration

Audit services:

Auditors of the Company

MNSA Pty Ltd
Audit and review of financial reports

Non-audit services:

Auditors of the Company

MNSA Pty Ltd
Agreed upon procedures

| | 2022 US\$ | 2021 US\$ |
|--|--------------|--------------|
| | 6,957 | 22,470 |
| | - | - |
| | 6,957 | 22,470 |

Notes to the consolidated financial statements

For the year ended 31 December 2022

8. Finance income and expense

| | 2022 US\$'000 | 2021 US\$'000 |
|--|------------------|------------------|
| Interest income – Other parties | 1 | - |
| Financial income | 1 | - |
| Interest expense | (2,619) | (2,477) |
| Facility fees ¹ | - | 539 |
| Remeasurement to fair value of financial liabilities | 1,138 | (503) |
| Financial expense | (1,481) | (2,441) |
| Net financial expense | (1,480) | (2,441) |

¹ The previous corresponding period amount represents the net effect of facility fees incurred in respect of the issue of 40 million shares to Sing Rim Pte Ltd (“Sing Rim”) in accordance with the terms of the 18 January 2021 Facility Variation Agreement offset by the write-back of a prior period over accrual of facility fees incurred in relation to the 40 million shares issued to Sing Rim in accordance with the terms of the 28 June 2019 Facility Variation Agreement.

9. Income tax expense

| | 2022 US\$'000 | 2021 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) | | |
| Profit/(loss) before tax | (1,694) | (3,021) |
| Income tax expense/(benefit) using the Australian corporation tax rate of 25% (2021: 30%) | (424) | (906) |
| Increase/(decrease) in income tax expense due to: | | |
| Non-deductible expenses | 10 | 41 |
| Deferred tax movements not brought to account in current year | 414 | 865 |
| Income tax expense/(benefit) on pre-tax net profit/(loss) | - | - |

Notes to the consolidated financial statements

For the year ended 31 December 2022

10. 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 24,700,000 unlisted options over ordinary shares outstanding as at 31 December 2022, comprising:

- 6,700,000 unlisted options on issue pursuant to the Employee Option Plan (2021: 8,200,000); and
- 18,000,000 unlisted options on issue outside the Employee Option Plan (2021: 17,000,000).

Options pursuant to Employee Option Plan

During the year, 1,500,000 options were forfeited pursuant to the Employee Option Plan (2021: nil). No options were granted or exercised (2021: nil)

Options issued outside the Employee Option Plan

During the year, 1,000,000 options were granted outside the Employee Option Plan (2021: 17,000,000). No options were forfeited or exercised (2021: nil)

In determining potential ordinary shares, none of the options are dilutive for the twelve months to 31 December 2022 (2021: nil).

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

The calculation of basic earnings/ (loss) per share at 31 December 2022 was based on the loss attributable to ordinary shareholders of US\$1,694,000 (2021: loss of US\$3,021,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2022 of 466,517,562 (2021: 455,492,034), calculated as follows:

Loss attributable to ordinary shareholders

| | 2022 US\$'000 | 2021 US\$'000 |
|---------------------|------------------|------------------|
| Loss for the period | (1,694) | (3,021) |

Share capital

In thousands of shares

| | As at | |
|-------------------------|----------|---------|
| | 2022 | 2021 |
| On issue at 1 January | 488,588 | 408,588 |
| Shares issued | - | 80,000 |
| Shares cancelled | (27,517) | - |
| On issue at 31 December | 461,071 | 488,588 |

Weighted average number of shares (basic)

In thousands of shares

| | 2022 | 2021 |
|---|----------|---------|
| Issued ordinary shares at 1 January | 488,588 | 408,588 |
| Effect of shares issued in 2022 and 2021, respectively | (22,070) | 46,904 |
| Weighted average number of ordinary shares at 31 December | 466,518 | 455,492 |

Weighted average number of shares (basic and diluted)

In thousands of shares

| | As at | |
|--|------------------|------------------|
| | 31 December 2022 | 31 December 2021 |
| Weighted average number of ordinary shares (basic and diluted) | 466,518 | 455,492 |

Loss per share

In USD dollars

| | 2022 US\$ | 2021 US\$ |
|----------------------------------|--------------|--------------|
| Basic and diluted loss per share | (0.004) | (0.007) |

Notes to the consolidated financial statements

For the year ended 31 December 2022

11. Trade and other receivables

| | 2022 US\$'000 | 2021 US\$'000 |
|------------------------|------------------|------------------|
| Current | | |
| Other receivables | 42 | 142 |
| Balance at 31 December | 42 | 142 |
| Non-current | | |
| Other receivables | 1,000 | 1,000 |
| Balance at 31 December | 1,000 | 1,000 |

12. Oil and gas, and exploration and evaluation properties

| | 2022 US\$'000 | 2021 US\$'000 |
|---|------------------|------------------|
| Balance at 1 January | - | - |
| Additions | - | - |
| Dry hole, impairment, and abandonment expense | - | - |
| Current year amortisation expense | - | - |
| Balance at 31 December | - | - |

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 considering 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 2022, the carrying amount of the Group's MENA oil and gas properties was nil (2021: nil).

The carrying amount of the Group's MENA oil and gas properties had been fully impaired in prior periods as a result of the inability to recommence operations and oil production in Yemen due to the following factors:

- Government support and clearance to recommence field operations which is necessary to access the Block S-1 CPF and restart production, and to access government-owned export transport facilities.
- The security situation in country due to the ongoing conflict.

Notes to the consolidated financial statements

For the year ended 31 December 2022

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

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.

13. Deferred tax assets

Unrecognised deferred tax assets

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

| | 2022 US\$'000 | 2021 US\$'000 |
|--|------------------|------------------|
| Tax operating loss carry forwards in Australia | 3,386 | 4,363 |

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.

14. Trade and other payables

Current

Trade and other payables, stated at cost

Trade payables

Operational and administration accruals

Related party payables

Non-current

Trade and other payables, stated at cost

Related party payables

| | 2022 US\$'000 | 2021 US\$'000 |
|---|------------------|------------------|
| Trade payables | 26 | 43 |
| Operational and administration accruals | 88 | 242 |
| Related party payables | 9 | - |
| | 123 | 285 |
| Related party payables | 49 | - |

15. Interest bearing loans and borrowings

Non-current

Secured borrowings – convertible notes

| | 2022 US\$'000 | 2021 US\$'000 |
|--|------------------|------------------|
| Secured borrowings – convertible notes | 24,580 | 21,971 |

Notes to the consolidated financial statements

For the year ended 31 December 2022

15. Interest bearing loans and borrowings (continued)

Secured borrowings – convertible notes

Secured borrowings represent the outstanding balance at 31 December 2022 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 and Variation to the Secured Convertible Note Deed Poll dated 8 April 2019, Letter of Variation dated 28 June 2019, and Letter of Variation dated 18 January 2021. The specific details of each of these variations are outlined within the announcements previously lodged with the ASX (available on the Company website).

The key terms and conditions of the convertible note facility (Tranches 1, 2 & 3) as varied on 18 January 2021 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\$4.0 million as at 31 December 2021 (US\$5 million).
 - Tranche 3 fully drawn as at 31 December 2019 (US\$5 million).
- (c) Facility term: Extended for a three-year period from 23 January 2021 to 23 January 2024.
- (d) Interest: The interest rate has been reduced from 15% per annum to 10% per annum monthly compounding for the period commencing 23 January 2021.
- (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 the Secured Convertible Note Deed Poll dated 8 April 2019, the Noteholders agreed to a forbearance 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 conversion price is 2 cents per share and conversion of debt is limited to 170 million shares – approved by shareholders at the Annual General Meeting held on 28 May 2021.
- (g) 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.
- (h) Approval of Expenditure: Material expenditures to be under the control of the Noteholders directed through the Chairman.
- (i) 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.
- (j) Consent Terms: 40 million fully paid ordinary shares in Petsec Energy Ltd to be granted to the Noteholders as a facility variation fee – approved by shareholders at the Company’s General Meeting held on 28 May 2021 and issued on 1 June 2021.

As at 31 December 2022, US\$14 million has been drawn down under the US\$15 million facility.

Notes to the consolidated financial statements

For the year ended 31 December 2022

16. Fair value of financial derivative instruments

| Non-current | 2022 | 2021 |
|-------------------------------------|-----------------|----------|
| | US\$'000 | US\$'000 |
| Fair value of financial derivatives | - | 1,187 |

The fair value of the financial derivative instrument representing the embedded derivative component within the secured convertible note (refer Note 15) was nil as at 31 December 2022 (2021: US\$1,187,000).

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.

17. Employee benefits

(a) Superannuation 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\$3,000 for the year ended 31 December 2022 (2021: US\$12,000).

(b) Share-based payments

The Employee Option and Employee Share 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 Option Plan

During the year, no options were granted to or exercised by key management personnel under the Employee Option Plan during the year (2021: nil). 1,500,000 options were forfeited under the Employee Option Plan (2021: nil).

At 31 December 2022, there were 6,700,000 options outstanding under the Employee Option Plan (2021: 8,200,000).

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

| | Weighted average exercise price 2022 | Number of options 2022 | Weighted average exercise price 2021 | Number of options 2021 |
|--|---|---------------------------------------|---|---------------------------------------|
| Outstanding at the beginning of the period | A\$0.20 | 8,200,000 | A\$0.20 | 8,200,000 |
| Granted during the period | - | - | - | - |
| Exercised during the period | - | - | - | - |
| Forfeited during the period | A\$0.20 | (1,500,000) | A\$0.20 | - |
| Outstanding at the end of the period | A\$0.20 | 6,700,000 | A\$0.20 | 8,200,000 |
| Exercisable at the end of the period | A\$0.20 | 6,700,000 | A\$0.20 | 8,200,000 |

Notes to the consolidated financial statements

For the year ended 31 December 2022

17. Employee benefits (continued)

(b) Share-based payments (continued)

Employee Share Plan

During the year, no shares were granted to key management personnel under the Company's Employee Share Plan as long term incentive compensation and no shares were outstanding (2021: nil).

Option grants to key management personnel outside the Employee Option Plan

During the current period, 1,000,000 options over ordinary shares were granted to key management personnel outside the Employee Option Plan (2021: 13,000,000).

The following table summarises the fair value assumptions of options and shares granted to key management personnel during the years ended 31 December 2022 and 2021, respectively.

| | Key management personnel 2022 | Key management personnel 2021 |
|--|-------------------------------------|-------------------------------------|
| Consideration price | A\$0.001 | A\$0.001 |
| Weighted average fair value at measurement date | n/a | A\$0.001 |
| Weighted average share price | n/a | A\$0.021 |
| Weighted average exercise price | A\$0.02 | A\$0.02 |
| Expected volatility (expressed as weighted average used in the modelling under Black-Scholes model) | 0% | 2.881% |
| Expected option life (expressed as weighted average used in the modelling under Black-Scholes model) | 1.5 years | 2.65 years |
| Expected dividends | - | - |
| Risk-free interest rate (based on national government bonds) | 2.96% | 0.09% - 0.11% |

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

Notes to the consolidated financial statements

For the year ended 31 December 2022

18. Capital and reserves

Share capital

In thousands of shares

On issue at 1 January
 Shares issued
 Shares cancelled ¹
 On issue at 31 December – fully paid

| Ordinary Shares | |
|-----------------|---------|
| 2022 | 2021 |
| 488,588 | 408,588 |
| - | 80,000 |
| (27,517) | - |
| 461,071 | 488,588 |

¹ On 31 March 2022, the Company bought back and cancelled 27,516,706 shares pursuant to its Minimum Holding Share Buy-back.

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.

Section 258F Share Capital Reduction

In the previous corresponding period, the Company reduced its share capital by US\$196 million in accordance with section 258F of the *Corporations Act 2001*, reducing accumulated losses deemed to be of a permanent nature by the same amount. The capital reduction had the effect of reducing the share capital account and reducing the Company's accumulated accounting losses.

There was no impact on shareholders from the capital reduction as no shares were cancelled or rights varied, there was no change in the net asset position of the Group, and there was no impact on the availability of the Company's tax losses from this capital reduction.

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 is transferred to share capital on vesting.

19. 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.

Notes to the consolidated financial statements

For the year ended 31 December 2022

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

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.

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 | |
|-----------------------------------|------------------|------------------|
| | 2022 US\$'000 | 2021 US\$'000 |
| Cash and restricted cash deposits | 173 | 434 |
| Trade and other receivables | 42 | 142 |
| | 215 | 576 |

As at 31 December 2022, exposure to credit risk in relation to cash held by banks was managed with all of the US\$0.2 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 (2021: nil).

The Group's credit risk is limited to the carrying value of its financial assets.

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.

Notes to the consolidated financial statements

For the year ended 31 December 2022

19. 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 2022

| | Contractual cashflows | | | | | |
|--------------------------|----------------------------|-----------------------------|--------------------------|------------------------|------------------------|----------------------------|
| | Carrying amount US\$000 | 6 months or less US\$000 | 6 – 12 months US\$000 | 1 – 2 years US\$000 | 2 – 5 years US\$000 | 5 years or more US\$000 |
| Trade and other payables | 172 | 123 | - | 49 | - | - |
| Secured borrowings | 24,580 | - | - | 27,693 | - | - |
| Total | 24,752 | 123 | - | 27,742 | - | - |

31 December 2021

| | Contractual cashflows | | | | | |
|--------------------------|----------------------------|-----------------------------|--------------------------|------------------------|------------------------|----------------------------|
| | Carrying amount US\$000 | 6 months or less US\$000 | 6 – 12 months US\$000 | 1 – 2 years US\$000 | 2 – 5 years US\$000 | 5 years or more US\$000 |
| Trade and other payables | 285 | 285 | - | - | - | - |
| Secured borrowings | 21,971 | - | - | - | 27,693 | - |
| Total | 22,256 | 285 | - | - | 27,693 | - |

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 2021 and 2022, operating costs were incurred in Australian and US dollars, and Arab Emirates Dirham.

Throughout 2021 and 2022, the Group held its liquid funds in US and Australian 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 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.

Notes to the consolidated financial statements

For the year ended 31 December 2022

19. 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 2022, 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:

| | 2022 US\$'000 | 2021 US\$'000 |
|-----------------------------------|------------------|------------------|
| Financial assets | | |
| Cash and restricted cash deposits | 173 | 434 |

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 2022 would have had no impact upon the Group’s profit or loss as the Group did not generate any production (2021: nil). 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\$58 (2021: US\$34). 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\$18,000 (2021: US\$32,000).

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).

Notes to the consolidated financial statements

For the year ended 31 December 2022

19. 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:

| | 2022 | | 2021 | |
|---|-----------------------------|------------------------|-----------------------------|------------------------|
| | Carrying amount US\$'000 | Fair value US\$'000 | Carrying amount US\$'000 | Fair value US\$'000 |
| Trade and other receivables | 1,042 | 1,042 | 1,142 | 1,142 |
| Cash and restricted cash deposits | 173 | 173 | 434 | 434 |
| Trade and other payables | (172) | (172) | (285) | (285) |
| Secured borrowings | (24,580) | (24,580) | (21,971) | (21,971) |
| Financial derivative instruments ¹ | - | - | (1,187) | (1,187) |
| | (23,537) | (23,537) | (21,867) | (21,867) |

¹ Financial derivative instruments are a level 2 instrument. Refer to Note 4 for the determination of fair values.

20. Capital and other commitments

The Group had no capital commitments outstanding at 31 December 2022.

21. 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.

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 2022, the Group had no guarantees in place to meet minimum exploration expenditure commitments (December 2021: nil).

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

In November 2019, an illegitimate claim was made on the Letter of Credit (LoC) 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 initiated legal suits against the Arab Bank, Jordan to recover those funds illegally transferred to Arab Bank. The Company is seeking a return of the US\$2.73 million and consequent damages, from Arab Bank, through the Courts in Jordan.

To date, the Jordan Court had granted an injunction against Arab Bank to prevent transfer of the funds to the Houthi and had 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.

On 29 December 2021, the Appeals Court delivered its final verdict in relation to the Company's US\$1.68 million share of the LoC funds, declaring the call on the Block 7 counterparty LoCs was illegal and requiring the Arab Bank to transfer the monies back to the Company's QNB bank account and awarding compensation for legal fees and expenses incurred by the Company. The Arab Bank had 30 days to appeal the decision of the Appeals Court in the Jordan Court of Cassation, which it did on 25th January 2022.

Notes to the consolidated financial statements

For the year ended 31 December 2022

21. Contingencies and legal matters (continued)

The Company defended this appeal by the Arab Bank with the Court of Cassation delivering its decision in early December 2022. The Court rejected the appeal filed by the Arab Bank to revoke the earlier judgement issued in favour of the Company by the Court of Appeals and ordered that the Arab Bank return the Company's Counter LoC funds of US\$1.68 million to its QNB bank account.

Arab Bank has had free use of the Company's and Mitsui's money for three years, and despite the Jordan Court of First Instance and the Appeals Court declaring the Houthi claim on the Block 7 LoC and Arab Bank's claim on the counterparty LoCs to be illegal, and the legitimate Minister for Oil in Yemen, recognised by the government and courts of Jordan, had given a written statement that there was no claim on the Block 7 LoCs, Arab Bank has used the court system to delay repaying our and Mitsui's LoC funds.

The Company currently awaits the return of its Counter LoC monies and intends to proceed with its legal action to recover Mitsui's share of the LoC funds held by the Arab Bank, should Arab Bank refuse to release Mitsui's funds.

22. 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

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 2022 and 2021, is set out below and on the following page:

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

| | 2022 US\$000 | 2021 US\$000 |
|---|-----------------|-----------------|
| Other income and expenses | (524) | (236) |
| Operating expenses | (254) | (425) |
| Finance expense | (1,480) | (2,441) |
| Net movement in provisions against loans and investments in controlled entities | (978) | (1,111) |
| Loss before tax | (3,236) | (4,213) |
| Income tax benefit/(expense) | - | - |
| Profit/(loss) after tax | (3,236) | (4,213) |
| Other comprehensive income | - | - |
| Total comprehensive loss for the period | (3,236) | (4,213) |
| Accumulated losses at beginning of year | (49,278) | (240,567) |
| S258F capital reduction | - | 195,502 |
| Accumulated losses at end of year | (52,514) | (49,278) |

Notes to the consolidated financial statements

For the year ended 31 December 2022

22. Deed of cross guarantee (continued)

Statement of Financial Position

| | 2022 US\$000 | 2021 US\$000 |
|--|-----------------|-----------------|
| Assets | | |
| Cash and cash equivalents | 155 | 365 |
| Other receivables | - | 100 |
| Prepayments | 1 | 11 |
| Total current assets | 156 | 476 |
| Restricted deposits | - | 47 |
| Property, plant, and equipment | 2 | 3 |
| Total non-current assets | 2 | 50 |
| Total assets | 158 | 526 |
| Liabilities | | |
| Trade and other payables | 30 | 46 |
| Employee benefits provision | - | 7 |
| Total current liabilities | 30 | 53 |
| Trade and other payables | 49 | - |
| Secured borrowings | 24,580 | 21,971 |
| Fair value of derivative instruments | - | 1,187 |
| Employee benefits provision | 133 | 145 |
| Total non-current liabilities | 24,762 | 23,303 |
| Total liabilities | 24,792 | 23,356 |
| Net assets | (24,634) | (22,830) |
| Equity | | |
| Issued capital | 5,346 | 5,377 |
| Reserves | 22,536 | 21,071 |
| Retained earnings/(accumulated losses) | (52,516) | (49,278) |
| Total equity | (24,634) | (22,830) |

Notes to the consolidated financial statements

For the year ended 31 December 2022

23. Consolidated entities

| | Country of Incorporation | Ownership interest | |
|--|--------------------------|--------------------|-----------|
| | | 2022 % | 2021 % |
| 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 |
| 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 |

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.

Notes to the consolidated financial statements

For the year ended 31 December 2022

24. 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 are 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.

| | Australia | | MENA | | Consolidated | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2022 US\$'000 | 2021 US\$'000 | 2022 US\$'000 | 2021 US\$'000 | 2022 US\$'000 | 2021 US\$'000 |
| Oil and gas sales | - | - | - | - | - | - |
| Net revenues after royalties * | - | - | - | - | - | - |
| Segment net profit/(loss) before tax | (1,781) | (2,881) | 87 | (140) | (1,694) | (3,021) |
| Income tax benefit/(expense) | - | - | - | - | - | - |
| Profit/(loss) after tax | (1,781) | (2,881) | 87 | (140) | (1,694) | (3,021) |
| Depreciation, depletion, amortisation & reclamation | 1 | 1 | - | - | 1 | 1 |
| Segment assets | 158 | 525 | 1,071 | 1,072 | 1,229 | 1,597 |
| Acquisition of property, plant and equipment and exploration, evaluation, and development assets | - | - | - | - | - | - |

* There are no inter-segment sales

Notes to the consolidated financial statements

For the year ended 31 December 2022

24. Segment reporting (continued)

| | Australia | | MENA | | Consolidated | |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2022 US\$'000 | 2021 US\$'000 | 2022 US\$'000 | 2021 US\$'000 | 2022 US\$'000 | 2021 US\$'000 |
| Segment liabilities | 24,792 | 23,356 | 93 | 239 | 24,885 | 23,595 |
| Cash (used in)/ from operating activities | (261) | (476) | (4) | (3) | (265) | (479) |
| Cash (used in)/ from investing activities | 95 | - | - | - | 95 | - |
| Cash from financing activities | (35) | 10 | - | - | (35) | 10 |

Notes to the consolidated financial statements

For the year ended 31 December 2022

25. 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:

| | 2022 US\$'000 | 2021 US\$'000 |
|---|------------------|------------------|
| Assets | | |
| Oil and gas properties: | | |
| Production leases – at cost | 683 | 683 |
| Less: accumulated amortisation and impairment | (683) | (683) |
| | - | - |
| Represented by the following lease carrying values: | | |
| - MENA | - | - |
| Total oil and gas properties | - | - |
| Liabilities | | |
| Rehabilitation provision: | | |
| - MENA | - | - |
| 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): | | |
| - MENA | 90 | (114) |

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 2021 | Interest held 2020 |
|--------|-----------------------|-----------------------|
| - MENA | 25.00% to 75.00% | 25.00% to 75.00% |

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.

Notes to the consolidated financial statements

For the year ended 31 December 2022

26. Reconciliation of cash flows from operating activities

| | 2022 US\$'000 | 2021 US\$'000 |
|--|------------------|------------------|
| Cash flows from operating activities | | |
| Loss for the period | (1,694) | (3,021) |
| <i>Adjustments for:</i> | | |
| Depreciation, depletion, amortisation, and reclamation | 1 | 1 |
| Net foreign exchange losses | 4 | 45 |
| Share-based payment expenses | 4 | 6 |
| Operating loss before changes in working capital and provisions | (1,685) | (2,969) |
| Decrease/(increase) in receivables and prepayments | 106 | 79 |
| Increase/(decrease) in payables and provisions | 1,314 | 2,411 |
| Net cash used in operating activities | (265) | (479) |

27. 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:

| <i>Non-executive director</i> | <i>Executive director</i> |
|---|--|
| B J Dawes F M Douglas | T N Fern (Chairman) B D Emmett (Technical Director) |
| Executive Officer | |
| P Gahdmar (Chief Financial Officer and Company Secretary) | |

Key management personnel compensation

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

| | 2022 US\$ | 2021 US\$ |
|----------------------------------|----------------|----------------|
| Wages and salaries | 38,145 | 125,304 |
| Service agreements | 75,087 | 172,270 |
| Post-employment benefits | 3,216 | 12,216 |
| Share-based payment compensation | 3,501 | 4,388 |
| | 119,949 | 314,178 |

Individual directors and executive compensation disclosures

Information regarding individual directors' and executives' compensation and some equity instruments disclosures are provided in the Remuneration Report section of the Directors' Report on pages 21 to 28.

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.

Notes to the consolidated financial statements

For the year ended 31 December 2022

27. Related parties (continued)

Individual directors and executive compensation disclosures (continued)

Non-executive directors appointed prior to 2003 were previously 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\$133,000 in total (2021: US\$141,000). These obligations relate entirely to Mr. David Mortimer who had served as a non-executive director of the Company since 1985 until his resignation from the Board and its Committees on 30 April 2020. Mr. Mortimer has agreed not to seek repayment of this amount until after 1 January 2024, on the understanding that payment could be made earlier as such times the Company generates positive cashflow sufficient to meet this obligation. Consequently, this obligation is reflected as a non-current liability in the Consolidated Statement of Financial Position.

Transactions with key management personnel

Key management personnel of the Company and their immediate relatives control approximately 18.2 percent of the voting shares of the Company.

During the year, no shares or options were issued by the Company to key management personnel as long-term incentive compensation under its shareholder approved Employee Share Plan or Employee Option Plan (2021: nil).

During the year, 1,000,000 options were issued by the Company to key management personnel as long-term incentive compensation outside the Employee Option Plan (2021: 13,000,000).

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\$75,000 (2021: US\$172,000). Refer to Remuneration Report for further details.

Assets and liabilities arising from the above related party transactions

| | 2022 US\$'000 | 2021 US\$'000 |
|--------------------------------|------------------|------------------|
| Current assets | | |
| Related party receivables | - | - |
| Current liabilities | | |
| Related party payables | 9 | - |
| Non-current liabilities | | |
| Related party payables | 49 | - |

Other related party disclosures

Information relating to subsidiaries is set out in "Note 23 – Consolidated entities".

28. Parent entity disclosures

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 22 – Deed of cross guarantee".

Notes to the consolidated financial statements

For the year ended 31 December 2022

28. Parent entity disclosures (continued)

Parent entity contingencies and capital commitments

The parent entity had no contingent liabilities and capital commitments outstanding at 31 December 2022.

As at, and throughout, the financial year ending 31 December 2022 the parent entity of the consolidated group was Petsec Energy Ltd.

| | 2022 US\$'000 | 2021 US\$'000 |
|---|------------------|------------------|
| Result of parent entity | | |
| Profit/(loss) for the period | (3,236) | (4,213) |
| Other comprehensive income | 1,463 | 1,234 |
| Total comprehensive income/(loss) for the period | (1,773) | (2,979) |
| Financial position of parent entity at year end | | |
| Current assets | 156 | 476 |
| Total assets | 158 | 526 |
| Current liabilities | 30 | 52 |
| Total liabilities | 24,792 | 23,158 |
| Total equity of the parent entity comprising of: | | |
| Share capital | 5,346 | 5,377 |
| Share-based payment compensation reserve | 4 | 4 |
| Foreign currency translation reserve | 22,475 | 20,985 |
| Option reserve | 403 | 430 |
| Accumulated losses | (52,861) | (49,625) |
| Total equity | (24,633) | (22,829) |

29. Events subsequent to balance date

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

Arab Bank was instructed by the Court of Cassation, the highest court of Jordan, to repay the Letter of Credit ("LoC") monies illegally called by Arab Bank in January 2020. Arab Bank had to the end of January 2023 to repay the monies. In late January 2023, the Arab Bank filed a motion to the Execution Judge attempting to mislead the judge that the Company (i.e. Oil Search (ROY) Limited or OSROY) did not have the authority to execute the judgement of the Court of Cassation which was delivered in December 2022 because the judgement was in favour of QNB, not OSROY, and hence the Attorney did not have proper representation from QNB to request execution of the judgement.

The Execution Judge initially accepted Arab Bank's argument and ruled that OSROY could not enforce the award against Arab Bank because QNB should have been the party requesting execution. The Company immediately filed a motion to revoke the decision of the Execution Judge, claiming that the Arab Bank misled the Execution Judge by falsifying the language of the judgement. This motion was granted, resulting in the revocation of the Execution Judge's earlier decision and instructions that Arab Bank to proceed with the execution of the Court of Cassation's judgement, and pay OSROY the LoC monies. Regrettably, but not unexpected, the Arab Bank filed a further Execution appeal on 7 February 2023. The Company will vigorously defend this appeal. A final result is expected within three weeks of lodgement of Arab Bank's appeal.


Arab Bank having illegally called the Company's LoC, causing three years of unnecessary court action and third party costs to the Company in excess of US\$250,000, has had free use of the Company's and Mitsui's money for three years, and despite the Jordan Courts declaring that the Houthi claim on the Block 7 LoC and Arab Bank's claim on the counterparty LoCs to be illegal, and the legitimate Minister for Oil in Yemen, recognised by the government and courts of Jordan, had given a written statement that there was no claim on the Block 7 LoCs, Arab Bank continues to use the court system to delay or indeed attempts to avoid, repaying our and Mitsui's LoC funds.

Other than as disclosed, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction, or event of a material and unusual nature likely, in the opinion of the sole director of the Company, to significantly affect 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 set out on pages 30 to 63, 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 2022 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 23 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 2022.

Signed in accordance with a resolution of the directors:



Terrence N. Fern
Director

Sydney, 24 February 2023



**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PETSEC ENERGY LTD AND CONTROLLED ENTITIES
ABN 92 000 602 700**

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 2022, 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 2022 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; and
- Reviewing the existing convertible note and repayment terms agreed upon.

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 2022, 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.
- 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.



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.

MNSA Pty Ltd

MNSA Pty Ltd

Mark Schiliro

Director

Sydney

Dated this 24th of February 2023

Exploration and Production Interests

| Geographical Location | Licence | Status | Working Interest | Participating Interest |
|---|--|------------|--|------------------------|
| Yemen | | | | |
| <i>Damis (Block S-1), Production Licence</i> | | | | |
| Shabwah Basin | Block S-1, Damis Production Licence | Shut-in | 25.0% | 20.625% |
| <i>Al Barqa, Block 7 Exploration Licence</i> | | | | |
| Shabwah Basin | Block 7, Al Barqa Permit | Evaluation | 35.0% | 29.75% |
| | Block 7, Al Barqa Permit | Evaluation | 40.0% | 34.00% |
| Geographical Location | Licence | Status | Overriding Royalty Interest | |
| Australia | | | | |
| Gunnedah Basin | NSW Petroleum Exploration Licence No 6 (PEL 6) | Evaluation | 1.75% ¹ 3.50% ² | |

¹ 1.75% overriding royalty interest of all petroleum recovered from the Edendale Area.

² 3.5% overriding royalty interest of all petroleum recovered from the Remainder Area.



Shareholder Information

Number of Shareholders

Issued capital was 461,071,218 ordinary shares held by 682 shareholders.

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

| Size of Holding | No. of Holders |
|---|----------------|
| 1 – 1,000 | 66 |
| 1,001 – 5,000 | 90 |
| 5,001 – 10,000 | 85 |
| 10,001 – 100,000 | 258 |
| 100,001 and over | 183 |
| Total number of shareholders | 682 |
| <i>Number holding less than a marketable parcel</i> | <i>n/a</i> |

Largest Twenty Shareholders

The largest twenty shareholders held 374,608,578 ordinary shares being 81.247% of the issued ordinary capital.

| Name of Shareholder | Number of Shares Held | % of Issued Capital |
|--|-----------------------|---------------------|
| Martin Place Securities Nominees Pty Ltd | 201,527,053 | 43.708 |
| Heliotrope Holdings Pty Ltd | 41,720,000 | 9.048 |
| Canning Oil Pty Ltd | 25,497,713 | 5.530 |
| Citicorp Nominees Pty Limited | 22,826,013 | 4.951 |
| Arc Investments Inc. | 11,602,679 | 2.516 |
| Mr David A Mortimer & Mrs Barbara L Mortimer | 11,040,026 | 2.394 |
| HSBC Custody Nominees (Australia) Limited | 10,086,608 | 2.188 |
| Geofin Consulting Services Pty Limited | 8,989,610 | 1.950 |
| Mr Edward Gacka & Mrs Beryl Gacka | 7,218,425 | 1.566 |
| Alcardo Investments Limited | 6,656,919 | 1.444 |
| Mangaroo Pty Ltd | 4,000,000 | 0.868 |
| Mr Peter Gacka & Mrs Jenny Gacka | 3,800,000 | 0.824 |
| Hestian Pty Ltd | 3,127,843 | 0.678 |
| Ms Dan Luo | 2,799,943 | 0.607 |
| Calveston Worldwide Ltd | 2,460,000 | 0.534 |
| Sino Champion Development Limited | 2,459,579 | 0.533 |
| Asian Corporate Advisers (BVI) Limited | 2,250,000 | 0.488 |
| Solus Consultants Pty Ltd | 2,248,552 | 0.488 |
| Mr Nigel Pilcher & Mrs Frances Pilcher | 2,234,417 | 0.485 |
| Evelind Pty Ltd | 2,063,198 | 0.447 |

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

| | | |
|--|------------|--------|
| Canning Oil Pty Ltd including its associates | 77,194,372 | 16.742 |
|--|------------|--------|

5 Year Comparative Data Summary

| | | 2018 | 2019 | 2020 | 2021 | 2022 | % change |
|--|------------|----------|----------|----------|----------|----------|----------|
| Financial Performance | | | | | | | |
| Net Production (MMcfe) ¹ | | 796 | 368 | 111 | - | - | - |
| Average Gas Equiv. Price Received | (US\$/Mcf) | \$3.93 | \$2.96 | \$1.81 | n/a | n/a | n/a |
| US\$ million | | | | | | | |
| Net Revenue | (US\$m) | \$3.1 | \$1.1 | \$0.2 | - | - | - |
| Net Profit/(Loss) after Tax | (US\$m) | (\$10.1) | (\$24.2) | \$1.3 | (\$3.0) | (\$3.0) | n/a |
| Depreciation, depletion & amortisation | (US\$m) | \$1.8 | \$2.6 | \$0.1 | - | - | n/a |
| Exploration write-offs, impairments, abandonment, and work-over expenses | (US\$m) | \$0.5 | \$13.8 | \$3.7 | - | - | - |
| Net financial expense | (US\$m) | \$4.9 | \$3.7 | \$3.6 | \$2.4 | \$1.5 | (38%) |
| Change in rehabilitation provision | (US\$m) | - | \$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) | (\$2.9) | (\$3.6) | (\$0.9) | (\$0.6) | (\$0.2) | n/a |
| EBITDAX Margin/Mcfe | (US\$/Mcf) | (\$3.69) | (\$9.85) | (\$8.20) | n/a | n/a | n/a |
| Balance Sheet | | | | | | | |
| Total Assets | (US\$m) | \$23.5 | \$5.4 | \$2.2 | \$1.6 | \$1.2 | (25%) |
| Cash ³ | (US\$m) | \$4.5 | \$0.7 | \$0.9 | \$0.4 | \$0.2 | (50%) |
| Debt | (US\$m) | \$9.5 | \$15.8 | \$20.2 | \$22.0 | \$24.6 | 12% |
| Shareholders' Equity | (US\$m) | \$1.0 | (\$20.0) | (\$18.5) | (\$22.0) | (\$23.7) | n/a |
| Cashflow and Capital Expenditures | | | | | | | |
| Net cashflow from: | | | | | | | |
| Operations | (US\$m) | (\$3.8) | (\$2.3) | (\$1.8) | (\$0.5) | (\$0.3) | n/a |
| Investing | (US\$m) | (\$1.3) | (\$3.5) | \$1.4 | - | \$0.1 | 100% |
| Financing | (US\$m) | \$4.5 | \$3.8 | \$0.6 | - | - | - |
| | | (\$0.6) | (\$2.0) | \$0.2 | (\$0.5) | (\$0.2) | n/a |
| Capital Expenditures ⁴ | | | | | | | |
| Exploration | (US\$m) | - | - | - | - | - | - |
| Development | (US\$m) | \$4.0 | \$2.6 | - | - | - | - |
| Acquisition | (US\$m) | \$0.2 | - | - | - | - | - |
| | | \$4.2 | \$2.6 | - | - | - | - |
| A\$ million | | | | | | | |
| EBITDAX ² | (A\$m) | (\$3.9) | (\$5.2) | (\$1.3) | (\$0.8) | (\$0.3) | n/a |
| Net Profit/(Loss) after Tax | (A\$m) | (\$13.5) | (\$34.7) | \$1.9 | (\$4.0) | (\$2.4) | n/a |
| USD/AUD exchange rate | | 0.7476 | 0.6967 | 0.6943 | 0.7490 | 0.6957 | (7%) |
| Operating Margins & Costs | | | | | | | |
| Average Gas Price Received | (US\$/Mcf) | \$3.93 | \$2.96 | \$1.81 | n/a | n/a | n/a |
| + Other Income | (US\$/Mcf) | \$0.04 | (\$0.48) | \$6.35 | n/a | n/a | n/a |
| - Operating Costs (GG&A + LOE) | (US\$/Mcf) | \$7.66 | \$12.36 | \$16.36 | n/a | n/a | n/a |
| = EBITDAX ² Margin | (US\$/Mcf) | (\$3.69) | (\$9.88) | (\$8.20) | n/a | n/a | n/a |
| Depreciation, Depletion & Amortisation | (US\$/Mcf) | \$2.27 | \$7.05 | \$0.99 | n/a | n/a | n/a |
| Proved and Probable Reserves (2P) ⁵ | | | | | | | |
| USA ⁶ | (MMboe) | 3.5 | 2.8 | - | - | - | - |
| Yemen ⁷ | (MMboe) | 5.6 | 5.6 | 1.4 | 1.4 | 1.4 | - |
| | | 9.1 | 8.4 | 1.4 | 1.4 | 1.4 | - |

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 FY2018 - FY2021 include restricted cash deposit amounts.

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 effective 1 July 2020.

⁷ Represents the Company's 25% share of the 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

Registered Office and Principal Business Office

Level 7
Macquarie Business Centre
167 Macquarie Street
Sydney NSW 2000
Telephone: + 61 2 9247 4605
Facsimile: + 61 2 9251 2410

Share Register

Boardroom Pty Limited
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Telephone: 1300 737 760
International: + 61 2 9290 9600
Facsimile: 1300 653 459
International: + 61 2 9279 0664
Email: enquiries@boardroomlimited.com.au

Auditors

MNSA Pty Ltd
Level 1, 283 George Street
Sydney NSW 2000 Australia
Telephone: + 61 2 9299 0901
Facsimile: + 61 2 9299 8104

Corporate Governance Statement

<http://www.petsec.com.au/about-us/corporate-governance/>

For further information

Web: www.petsec.com.au