PETSEC ENERGY LTD

APPENDIX 4D & CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

(Current period: Six months ended 30 June 2013; Previous corresponding period: Six months ended 30 June 2012)

Results for announcement to the market – Presented in US dollars

Petsec Energy achieved significant increases in production, up 88% to 1,957 MMcfe, and revenues, up 167% to US$8.8 million, and operating cashflows (EBITDAX[1]), up US$6.1 million in the six months to 30 June 2013, compared to the corresponding six months of 2012. The solid operating performance was generated by increased production from the Marathon gas/condensate field and the Main Pass 270 field, in combination with higher natural gas prices and reduced operating costs.

The Marathon field was further developed in the first half of the year, with a fourth well completed and brought into production and a fifth well drilled and expected to be brought on-stream in late August/September 2013, and the completion of pipelines and other production facilities.

In Alberta Canada, completion operations continued on the wells previously drilled in the two shale oil project areas. Testing of the vertical well did not result in oil production and the well has been plugged & abandoned since technical issues with the wellbore limited further testing. The horizontal well, in which the Company earned 2,200 net acres, has been suspended pending future operations. There are 10 remaining stages of a 15 stage completion that can be hydraulically fractured and tested.

At 30 June 2013, the Company held total cash deposits of US$24.2 million (including US$5.3 million of restricted deposits).

Key points – Six months ended 30 June 2013 compared to the six months ended 30 June 2012

	Six Months to 30 June 2013	Six Months to 30 June 2012	% Increase/ (Decrease)
Key Operating/Financial Data			
Net production (MMcfe)	**1,957**	1,042	88%
Net revenues after royalties (US$m)	**8.8**	3.3	167%
Net loss after tax (US$m)	**(5.3)**	(5.2)	2%
Add: Depreciation, depletion and amortisation (“DD&A”) expense (US$m)	**3.7**	1.8	106%
Add: Impairment, abandonment and exploration expense (US$m)	**5.4**	2.3	135%
Add: Net financial expense (US$m)	**0.1**	0.2	(50%)
Add/(Less): Derivative gains (US$m)	**0.9**	(0.4)	n/a
EBITDAX (US$m) [1]	**4.8**	(1.3)	n/a
Key Performance Indicators			
Average net sales price/Mcfe (US$)	**4.51**	3.16	43%
Add: Other revenue/Mcfe (US$)	**0.04**	0.19	(79%)
Less: Operating costs/Mcfe (US$) [2]	**(2.07)**	(4.56)	(55%)
EBITDAX/Mcfe (US$)	**2.48**	(1.21)	n/a
Gross margin [3]	**55%**	(39%)	n/a
DD&A/Mcfe (US$)	**1.88**	1.76	7%
Other Financial Data			
Acquisition, exploration and development expenditure (US$m) **Plug and abandonment expenditures (US$m)**	**4.9**	4.9	-
USD/AUD average exchange rate	**1.0086**	1.0336	(2%)

1 Earnings before interest (financial income and expense), income tax, depreciation, depletion, and amortisation and exploration (including dry hole, impairment and abandonment expense; seismic and repair expense). EBITDAX is a non-IFRS number and is unaudited.

2 Operating costs comprise lease operating expense plus geological, geophysical and administration expenses.

3 Gross margin is EBITDAX as a percentage of sales.

Commentary on results

General

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

Key Operating/Financial Data

- Net production for the six months ended 30 June 2013 increased 88% to 1,957 MMcfe (six months ended 30 June 2012: 1,042 MMcfe). The significant increase from the previous corresponding period was primarily attributable to higher production rates from the Marathon field following the completion of an additional two development wells and new pipeline/production facilities, coupled with the recommencement of production from the Main Pass 270 A-3 well in late 2012 following a successful work-over of the well.
- Net revenues (after royalties and realised hedge gains) for the current period were US$8.8 million, up 167% on that generated in the previous corresponding period due to the increase in production in combination with higher average sales price in the current period of US$4.51/Mcfe (HY2012: US$3.16/Mcfe). Refer to "*Key Performance Indicators"* below for further details.
- Current period EBITDAX was US$4.8 million, reflecting the improved overall operating performance. This is a strong turnaround from the negative EBITDAX of US$1.3 million reported in the previous corresponding period.
- A net loss after tax for the half year of US$5.3 million (HY2012: US$5.2 million) was recorded after write-offs and impairment provisions totalling US$6.0 million in relation to the Company's interests in the Canadian and U.S. shale oil projects (refer to the *"Review of Operations: Unconventional"* section of the Directors' Report for further details). The impact of these charges was offset to some extent by the recognition of an impairment reversal of US$0.7 million in relation to the Main Pass 270 field (see "*note 5 – Impairment and abandonment expense"* of the notes to the consolidated interim financial statements for further details).

Key Performance Indicators

- The Company realised an average gas equivalent sales price of US$4.51/Mcfe (including hedging) for the current period, up 43% on the US$3.16/Mcfe realised in the previous corresponding period. The average prices received for natural gas and oil/condensate production for the current period were US$3.94/Mcf and US$107.89/bbl, respectively (previous corresponding period: US$2.63/Mcf and US$110.66/bbl). Approximately 16% of natural gas production volumes for the first half of the year were hedged at an average price of US$3.91/MMBtu (equivalent to US$4.03/Mcf).
- Unit operating costs of US$2.07/Mcfe (HY2012: US$4.56/Mcfe) were lower due to higher production volumes in combination with reduced lease operating costs and geological, geophysical and administrative expense. Lease operating expense was US$0.84/Mcfe (HY2012: US$1.84/Mcfe) and GG&A expense was US$1.23/Mcfe (HY2012: US$2.73/Mcfe).
- EBITDAX margin of US$2.48/Mcfe (HY2012: negative US$1.21/Mcfe) and gross margin of 55% (HY2012: negative 39%) was higher due to the higher production and prices.
- Unit depreciation, depletion, amortisation and rehabilitation (DD&A) expense for the current period increased to US$1.88/Mcfe (HY2012: US$1.76/Mcfe), reflecting the additional expenditures incurred in the development of the Marathon field.

Other Financial Data

- Exploration and development expenditures for the six months to 30 June 2013 totalled US$4.9 million, primarily in relation to the Company's share of costs associated with the completion for production of the fourth well and drilling of a fifth well in the Marathon field; and the hydraulic fracturing of the first horizontal well in Alberta, Canada.

Dividend

Petsec Energy Ltd does not propose the payment of a dividend in respect of the six months ended 30 June 2013.

Directors' Report and Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2013

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This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2012 and any public announcements made by Petsec Energy Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Directors' Report

For the six months ended 30 June 2013

The directors present their report together with the consolidated financial report for the six months ended 30 June 2013 and the independent auditor's review report thereon.

1. Directors

The directors of the Company at any time during or since the six months ended 30 June 2013 are:

Name	Period of directorship
Non-executive	
Mr David A. Mortimer AO	Appointed in 1985
Mr Alan P. Baden	Appointed on 23 May 2013
Mr Mark S. Lober	Appointed on 23 May 2013
Mr Michael L. Harvey	Retired on 29 May 2013
Executive	
Mr Terrence N. Fern	Appointed as Director and Chief Executive Officer in 1987 Appointed Chairman in 1999

2. Operating results

The Company generated net oil and gas revenues (after royalties) from its U.S. Gulf of Mexico and onshore Louisiana operations of US$8.8 million for the six months to 30 June 2013, from production of 1,957 million cubic feet of gas equivalent ("MMcfe") at an average gas equivalent sales price of US$4.51/Mcfe. This represents an increase of 167% on net oil and gas revenues achieved in the previous corresponding period (HY2012: US$3.3 million) due to higher production and higher average sales price realised for the current period.

Net production of 1,957 MMcfe (HY2012: 1,042 MMcfe) was 88% higher than the previous corresponding period, largely due to increased production rates from the Marathon field following the completion of a further two development wells (total number of producing wells for the field increased to four) and new pipeline and production facilities. In addition, production volumes for the first half 2013 benefited from the recommencement of production from the Main Pass 270 A-3 well, in late 2012, following a successful work-over of the well.

The average gas equivalent sales price received for the current period was US$4.51/Mcfe (including hedging), up 43% on the US$3.16/Mcfe realised in the previous corresponding period. The average prices received for natural gas and oil/condensate production for the current period were US$3.94/Mcf and US$107.89/bbl, respectively (previous corresponding period: US$2.63/Mcf and US$110.66/bbl). Approximately 296 MMcf (16%) of the total production volume of natural gas (1,879 MMcf) in the first half of the year were hedged at an average price of US$3.91/MMBtu (equivalent to US$4.03/Mcf).

Lease operating expense of US$1.6 million (HY2012: US$1.9 million) and geological, geophysical and administrative expense of US$2.4 million (HY2012: US$2.8 million) were both lower than in the previous corresponding period, reflecting cost reductions in the consolidated entity's U.S. Gulf of Mexico operations.

Earnings before interest, income tax, DD&A and exploration expense ("EBITDAX") for the current period increased significantly to US$4.8 million (HY2012: negative EBITDAX of US$1.3 million), reflecting a major turnaround on the previous corresponding period due to the improved overall operating performance.

The EBITDAX margin for the current period improved significantly to US$2.48/Mcfe (HY2012: negative US$1.21/Mcfe) due to the solid overall operating performance, representing a 55% (HY2012: negative 39%) gross operating margin.

Depreciation, depletion and amortisation ("DD&A") expense for the six months to 30 June 2012 increased to US$3.7 million (HY2012: US$1.8 million), reflecting the increase in production.

The consolidated entity recognised total impairment and abandonment expense of US$5.3 million for the current period. This amount comprised impairment and abandonment expense of US$6.0 million against the Canadian and U.S. shale oil project interests (refer to "*Review of Operations - Unconventional*" section on page 6 within the Directors' Report for further details) offset by an impairment reversal of US$0.7 million in relation to the Main Pass 270 field due to favourable impact of the higher oil price.

The consolidated entity incurred a net loss after tax for the half year of US$5.3 million (HY2012: loss of US$5.2 million).

3. Financial position

At 30 June 2013, Petsec Energy had no debt and held cash deposits of US$24.2 million including US$5.3 million of cash deposits held in an escrow account to fully secure operator bonds that are on issue to the Bureau of Ocean Energy Management ("BOEM"). At 31 December 2012, the Company held cash deposits of US$28.4 million including US$5.4 million of cash deposits held in escrow.

4. Review of operations

Petsec Energy Ltd is an independent oil and gas exploration and production company listed on the Australian Stock Exchange (ASX Ticker: PSA) with operations in the shallow waters of the Gulf of Mexico and state waters of the Louisiana Gulf Coast region of the United States of America ("USA"), and exploration activities in shale oil projects in Canada and the USA.

For the remainder of 2013, the Company will focus on maximising production and cash flow from its existing producing properties, evaluate conventional exploration opportunities that potentially can be drilled this year, and proceed with its joint venture partners to prepare certain of its undrilled leases for testing in 2014. The Company will also pursue the acquisition of oil and gas reserves with low risk exploitation and development potential, which may include corporate acquisition and merger opportunities that have the potential to increase the size and scope of the Company and its operations, and that could be expected to lead to a growth in shareholder value.

The Company will put on hold its Canadian shale oil projects in the near term so that it can gather and evaluate additional information from nearby operations. The disappointing results of shale oil exploration to date compared to the expenditure, has caused the Company to re-evaluate its previously advised strategy of pursuing North American shale oil opportunities.

Production

Petsec Energy produced 1,879 million cubic feet of gas and 13,069 barrels of oil/condensate (the equivalent of 1,957 MMcfe) for the six months to 30 June 2013 from its producing field in state waters of the Louisiana Gulf Coast and in the shallow waters of the Gulf of Mexico – Marathon (Atchafalaya Bay), Main Pass Block 270, Main Pass Blocks 18/19, and Chandeleur Blocks 31/32.

Exploration and development

Conventional

Marathon gas/condensate field

The Marathon gas/condensate field is located in the shallow waters of the Atchafalaya Bay on the Louisiana Gulf Coast, USA. The field is the Company's largest producing field, comprising four separate proven gas and condensate reservoirs. Each reservoir has a different geological and engineering specification which requires it to be produced separately. In addition, the field size is such that multiple wells are required to produce the reserves within a reasonable time frame. To date, four wells have been completed on the field and all are in production.

A fifth well (State Lease No. 20369 No. 3 well) was spud on 3 May 2013 and reached a total depth of 18,650 feet (5,686 metres) in July 2013. Wireline logging confirmed the presence of hydrocarbon reserves, protective casing was run,and the well has been completed as a producer. The well is expected to be brought on stream in late August/September 2013.

The Marathon field reached a peak production rate (gross) in mid May 2013 of approximately 150 million cubic feet of gas per day (MMcfpd) and 550 barrels of oil per day (bopd) from the four existing producing wells in the field. Shortly after peak production was reached in May, two of these wells, which produce from the same reservoir, commenced making water causing the operator of the field to restrict the production rates for these wells in order to manage the water. At the end of June, additional water handling capacity was being added at third party facilities and production from the four wells in the field was approximately 100 MMcfpd and 300 bopd.

In July, the fifth well drilled on the Marathon field determined a gas/water contact in the same reservoir that had recently commenced making water. This information provided limits to the maximum extent of the reservoir area and resulted in a reduction to our internal estimate of the probable and possible reserves in that particular reservoir. As a result, the Company remapped the field and as a consequence revised its internal estimates of the remaining proved plus probable reserves for the Marathon field to be 110 Bcfe gross, a reduction of 73 Bcfe of probable reserves, at 1 July 2013. The Marathon field has produced a gross 40 Bcfe to date of which 20 Bcfe was produced in the first half of 2013.

4. Review of Operations (continued)

Exploration leases

Preparations are progressing for the drilling of a number of the Company's Gulf of Mexico exploration lease blocks that expire in mid 2015. The Company expects that the first of these lease blocks will be tested during first quarter 2014. The Company is also currently investigating a number of prospects in the Gulf Coast that are available for farm-in as well as other opportunities onshore to acquire oil & gas reserves with further exploitation and exploration potential.

Unconventional

Shale oil projects – Alberta, Canada

Petsec Energy has participated in the drilling of a well in each of two shale oil joint venture projects in the Western Canadian Sedimentary Basin of Alberta, Canada. Activity to date has earned Petsec an average 25% working interest in 11,360 acres (2,827 net acres).

The first well (vertical) was drilled on a 17,280 acre farm-out where the Company could earn a 24.5% working interest in the acreage by participating in the drilling and testing of up to four wells. Alternatively, the Company could earn an interest in just a portion of the acreage by drilling fewer wells. Drilling and testing of the well earned Petsec a 24.5% working interest in 2,560 acres (627 net acres). The joint venture had planned to perform an additional frac test of the well following the Spring break-up, however technical issues associated with the well bore made the test no longer feasible. The well has been plugged and abandoned and no further drilling is contemplated in this particular farm-out area. As a consequence, the Company will not elect to exercise its option to earn additional acreage within the farm-out area and will write off during the current period a total of US$1.9 million incurred to-date.

The second well (horizontal) was spud in November 2012 in a separate project area covering 8,800 acres. The Company has earned a 25% working interest in the area (2,200 net acres) by participating in the drilling and completion of this horizontal well to test for oil productivity in the target shale oil reservoir. The well reached its total measured depth of 3,754 metres, which included a 1,000 metre horizontal section, in early January 2013. Multi stage hydraulic fracturing and completion of the well commenced in March 2013. The initial plan to test the well included hydraulic fracturing of only 5 stages out of a potential 15 stage completion, with the intent of observing the results and modifying the frac design for subsequent stages. Flow back of the initial frac stages was insufficient to unload enough total fluid from the well to cause appreciable oil flows, indicating the initial frac design was not effective. The well is currently shut-in while results are evaluated and additional information is gained from completion work being carried out by offset operators in nearby wells. No additional operations on this well are scheduled in the near future. Consequently, the Company is making an impairment provision of approximately US$3.0 million against the drilling and completion cost of the well incurred to date. The Company's further participation in this shale oil project is predicated on advances made in completions by other operators which have recently become involved in the exploration of this oil shale nearby to the Company's operations.

Shale oil projects – USA

The Company had commenced major studies and technical evaluation over a number of shale plays areas in the USA in early 2011. This work was carried out in conjunction with NuTech and was completed in 2012. A few of the projects are being reviewed and marketed for potential farm-out. Notwithstanding this farm-out effort by the Company, an impairment provision of approximately US$1.1 million will be made against the land evaluation costs incurred to-date.

4. Review of Operations (continued)

Oil and gas reserves – USA

Petsec Energy internally estimated proved and probable (2P) oil and gas reserves at 30 June 2013 were 9.1 Bcfe, after production of 2.0 Bcfe for the six months to 30 June 2013. The estimated PV10 value of these reserves was approximately US$25.7 million as at 30 June 2013 using the prevailing gas and oil forward strip prices as shown below:

	Henry Hub Gas US$/MMBtu	WTI Oil US$/bbl
2nd Half 2013	$3.55	$102.00
2014	$3.85	$ 95.00
2015	$4.10	$ 89.00
2016	$4.25	$ 85.00
2017 and thereafter	$4.40	$ 83.00

The table below provides a summary of the Petsec Energy internally estimated reserve estimates and movements.

Gas Equivalent (Bcfe [1])	**Petsec Energy** Estimated Recoverable Proved and Probable Reserves
USA Reserves	
Reserves at 1 January 2013	**11.1**
Production	(2.0)
Reserves at 30 June 2013	**9.1**

1 Billion cubic feet of gas equivalent using ratio of six thousand cubic feet of natural gas to one barrel of oil.

Competent Person Statement

In accordance with ASX Listing Rules, the Petsec Energy Inc., USA internal reserve estimates information in this report is based upon information compiled, reviewed and signed off by Mr Ron Krenzke, Executive Vice President Exploration, a full-time employee of Petsec Energy Inc. Mr Krenzke has at least five years' relevant experience within the sector and consents to the disclosure of this information in the form and context in which it appears.

5. Events subsequent to balance date

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

6. Lead auditor’s independence declaration

The Lead Auditor’s Independence Declaration is set out on page 8 and forms part of the Directors’ Report for the six months ended 30 June 2013.

7. Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the Financial Report and Directors’ Report have been rounded off to the nearest one thousand dollars, unless otherwise stated.

This report is made with a resolution of the directors:

T N Fern,
Director
Sydney, 27 August 2013

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

To: the directors of Petsec Energy Ltd

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 30 June 2013 there have been:

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

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

KPMG

KPMG

Anthony Jones
Partner

Sydney

27 August 2013

Consolidated interim statement of comprehensive income

For the six months ended 30 June 2013

	Note	Six months to 30 June 2013 US$'000	30 June 2012 US$'000
Revenues from sale of oil & gas		**9,557**	3,906
Royalties paid		**(740)**	(610)
Net revenues after royalties		**8,817**	3,296
Other income and expenses		**82**	200
Lease operating expenses		**(1,642)**	(1,914)
Geological, geophysical and administrative expenses		**(2,416)**	(2,842)
Depreciation, depletion, and amortisation		**(3,670)**	(1,831)
Exploration expense		**(97)**	(720)
Impairment and abandonment expense	5	**(5,310)**	(1,543)
Derivative gains/(losses)	6	**(940)**	408
Financial income		**44**	64
Financial expenses		**(114)**	(271)
Net financial income/(expense)		**(70)**	(207)
Profit/(loss) before income tax		**(5,246)**	(5,153)
Income tax benefit/(expense)	7	**-**	-
Profit/(loss) for the period		**(5,246)**	(5,153)
Other comprehensive income/(loss)			
Foreign exchange translation differences		**(740)**	(55)
Cash flow hedges, net of tax		**558**	-
Total comprehensive income/(loss) for the period		**(5,428)**	(5,208)
		US$	US$
Earnings/(loss) per share			
Basic and diluted earnings/(loss) per share		**(0.022)**	(0.022)

The consolidated interim statement of comprehensive income is to be read in conjunction with the notes to the consolidated financial statements set out on pages 13 to 22.

Petsec Energy

Consolidated interim statement of changes in equity

For the six months ended 30 June 2013

In thousands of USD	Share capital US$'000	Translation reserve US$'000	Cashflow hedge reserve US$'000	Share-based compensation US$'000	Accumulated losses US$'000	Total Equity US$'000
Balance at 1 January 2012	185,793	2,898	-	54	(131,443)	57,302
Total comprehensive income/loss for the period						
Loss for the period	-	-	-	-	(5,153)	(5,153)
Other comprehensive income						
Foreign exchange translation differences	-	(55)	-	-	-	(55)
Total other comprehensive income/(loss)	-	(55)	-	-	-	(55)
Total comprehensive income/(loss) for the period	-	(55)	-	-	(5,153)	(5,208)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Shares issued	81	-	-	-	-	81
Vesting of share options	44	-	-	(44)	-	-
Share-based payments expense	-	-	-	25	-	25
Total transactions with owners	125	-	-	(19)	-	106
Balance at 30 June 2012	185,918	2,843		35	(136,596)	52,200
Balance at 1 January 2013	186,375	2,743	-	111	(137,301)	51,928
Total comprehensive income/(loss) for the period						
Loss for the period	-	-	-	-	(5,246)	(5,246)
Other comprehensive income/(loss)						
Foreign exchange translation differences	-	(740)	-	-	-	(740)
Cash flow hedges, net of tax	-	-	558	-	-	558
Total other comprehensive income/(loss)	-	(740)	558		-	(182)
Total comprehensive income/(loss) for the period	-	(740)	558		(5,246)	(5,428)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Vesting of share options	66	-	-	(66)	-	-
Share-based payments expense	-	-	-	26	-	26
Total transactions with owners	66	-	-	(40)	-	26
Balance at 30 June 2013	186,441	2,003	558	71	(142,547)	46,526

The consolidated interim statement of changes in equity is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 13 to 22.

Consolidated interim balance sheet

As at 30 June 2013

	Note	30 June 2013 US$'000	31 December 2012 US$'000
ASSETS			
Current assets			
Cash and cash equivalents		**18,885**	23,019
Trade and other receivables		**3,523**	2,558
Fair value of derivative financial instruments		**470**	-
Prepayments		**653**	552
Total current assets		**23,531**	26,129
Non-current assets			
Restricted deposits [1]		**5,300**	5,425
Receivables		**1,196**	1,350
Fair value of derivative financial instruments		**102**	-
Other financial assets		**1,192**	2,178
Property, plant and equipment		**91**	85
Exploration, evaluation and development expenditure – Tangible	12, 13	**21,104**	25,509
Exploration and evaluation expenditure – Intangible	12, 13	**3,687**	3,580
Intangible assets – Software		**16**	21
Total non-current assets		**32,688**	38,148
Total assets		**56,219**	64,277
LIABILITIES			
Current liabilities			
Trade and other payables		**3,275**	5,996
Rehabilitation provisions	12, 13	**175**	147
Employee benefits provisions		**145**	203
Total current liabilities		**3,595**	6,346
Non-current liabilities			
Rehabilitation provisions	12, 13	**5,878**	5,756
Employee benefits provisions		**220**	247
Total non-current liabilities		**6,098**	6,003
Total liabilities		**9,693**	12,349
Net assets		**46,526**	51,928
EQUITY			
Issued capital		**186,441**	186,375
Reserves		**2,632**	2,854
Accumulated losses		**(142,547)**	(137,301)
Total equity		**46,526**	51,928

[1] Relates to cash used to guarantee certain future rehabilitation obligations.

The consolidated interim balance sheet is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 13 to 22.

Consolidated interim statement of cashflows

For the six months ended 30 June 2013

	Note	30 June 2013 US$'000	30 June 2012 US$'000
Cashflows from operating activities			
Cash receipts from customers		**8,374**	3,913
Cash payments for royalties		**(623)**	(723)
Cash payments to suppliers and employees		**(3,670)**	(5,529)
Interest received		**35**	59
Interest paid		**(1)**	(1)
Restricted deposits[1]		**125**	1,200
Net cash from operating activities		**4,240**	(1,081)
Cashflows from investing activities			
Payments for property, plant and equipment		**(31)**	(39)
Payments for exploration, evaluation and development expenditure		**(7,766)**	(5,140)
Payments for investments		**(313)**	-
Net cash from investing activities		**(8,110)**	(5,179)
Cashflows from financing activities			
		-	-
Net cash from financing activities		**-**	-
Net increase/(decrease) in cash and cash equivalents		**(3,870)**	(6,260)
Cash and cash equivalents at 1 January		**23,019**	34,954
Effects of exchange rate changes on cash held		**(264)**	7
Cash and cash equivalents at 30 June		**18,885**	28,701

[1] Relates to cash used to guarantee certain future rehabilitation obligations.

The consolidated interim statement of cashflows is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 13 to 22.

Condensed notes to the consolidated interim financial statements
For the six months ended 30 June 2013

1. Reporting entity

Petsec Energy Ltd (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company for the six months ended 30 June 2013 comprises the Company and its subsidiaries (together referred to as the "consolidated entity").

The consolidated annual financial report of the consolidated entity for the year ended 31 December 2012 is available upon request from the Company's registered office at Level 13, 1 Alfred St, Sydney NSW 2000 or at http://www.petsec.com.au.

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

2. Statement of compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: *Interim Financial Reporting* and the Corporations Act 2001. The consolidated interim financial report also complies with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the consolidated entity as at and for the year ended 31 December 2012.

This consolidated interim financial report was approved by the Board of Directors on 27 August 2013.

The consolidated entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

3. Significant accounting policies

The accounting policies applied by the consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 31 December 2012.

From 1 January 2013, the consolidated entity adopted AASB 11 Joint Arrangements. The change in the accounting policy has not had a material impact on the financial statements for the current period.

4. Estimates

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

In preparing this consolidated interim financial report, the basis on which significant judgements are made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 31 December 2012.

5. Impairment and abandonment expense

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

The consolidated entity recognised total impairment and abandonment expense of US$5,310,000 for the current period. This amount comprised impairment and abandonment expense of US$6.0 million against the consolidated entity's Canadian and U.S. shale oil project interests (refer to "*Review of Operations - Unconventional*" section on page 6 within the Directors' Report for further details). The impact of which was offset to some extent by an impairment reversal of US$0.7 million in relation to the Main Pass 270 field due to the effect of the higher oil price at the time of the periodical review of the carrying value of the consolidated entity's oil and gas properties.

5. Impairment and abandonment expense

In the previous corresponding period, the consolidated entity recognised total impairment and abandonment expense of US$1,543,000 primarily in respect to the Main Pass 18/19 field due to a reduction in the estimates of recoverable reserves coupled with lower operating margins for the field.

6. Derivative gains

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

	Six months to	
	30 June 2013 US$'000	30 June 2012 US$'000
Change in fair value of options held in unrelated entities	**(940)**	408
	(940)	408

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

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

7. Income tax expense

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

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

No income tax expense was recognised during the current and comparative period.

8. Earnings per share

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

In addition to the ordinary shares, the Company has 552,500 options outstanding under the Employee Option Plan. In determining potential ordinary shares, none of the options are dilutive for the six months to 30 June 2013.

During the current period, 1,455,000 options were forfeited. No options were granted and no options were exercised and converted to ordinary shares.

Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share at 30 June 2013 was based on the loss attributable to ordinary shareholders of US$5,246,000 (Six months to 30 June 2012: Loss of US$5,153,000) and a weighted average number of ordinary shares outstanding during the six months ended 30 June 2013 of 237,683,622 (Six months ended 30 June 2012: 235,496,809), calculated as follows:

Profit/(loss) attributable to ordinary shareholders	**Six months to**	
	30 June 2013 US$'000	30 June 2012 US$'000
Profit/(loss) for the period	**(5,246)**	(5,153)

Weighted average number of shares (basic)	**Six months to**	
In thousands of shares	**30 June 2013**	30 June 2012
Issued ordinary shares at 1 January	**237,684**	235,284
Effect of shares issued during the half year	**-**	213
Weighted average number of ordinary shares at 30 June	**237,684**	235,497

Weighted average number of shares (diluted)	**As at**	
In thousands of shares	**30 June 2013**	30 June 2012
Weighted average number of ordinary shares (basic)	**237,684**	235,497
Effect of share options on issue	**-**	-
Weighted average number of ordinary shares (diluted)	**237,684**	235,497

Earnings per share	**Six months to**	
In USD dollars	**30 June 2013**	30 June 2012
Basic and diluted earnings/(loss) per share	**(0.022)**	**(0.022)**

9. Share-based payments

The Employee Share and Employee Option Plans, established by shareholder resolutions on 29 November 1994, provide for employees, executives and directors to be granted ordinary shares or options over ordinary shares at the discretion of the Nomination and Remuneration Committee. The terms and conditions of the share and option programmes are disclosed in the consolidated financial report as at and for the year ended 31 December 2012.

The vesting conditions for shares and options granted include six months to four years of service and satisfaction of minimum share price hurdles.

During the six months ended 30 June 2013, no share or option grants were made to key management personnel.

Fair value of share options and assumptions for key management personnel grants	**Six months to**	
	30 June 2013	30 June 2012
Weighted average fair value at measurement date	-	A$0.02
Weighted average share price	-	A$0.19
Weighted average exercise price	-	A$0.20
Expected volatility (expressed as weighted average used in the modelling under Black-Scholes model)	-	100.52%
Expected option life (expressed as weighted average used in the modelling under Black-Scholes model)	-	4.0 years
Expected dividends	-	-
Risk-free interest rate (based on national government bonds)	-	3.56% - 3.64%

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2013

10. Segment reporting

The consolidated entity operates in the oil and gas industry.

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

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. In presenting information on the basis of geographical segments, segment revenue and net profit/(loss) before tax are based on the geographical location of operations.

	Australia		**USA**		**Canada**		**Consolidated**	
	30 June 2013 US$'000	30 June 2012 US$'000	**30 June 2013 US$'000**	30 June 2012 US$'000	**30 June 2013 US$'000**	30 June 2012 US$'000	**30 June 2013 US$'000**	30 June 2012 US$'000
Oil & gas sales and royalties [1]	-	-	**9,557**	3,906	**-**	-	**9,557**	3,906
Royalties paid	-	-	**(740)**	(610)	**-**	-	**(740)**	(610)
Segment net revenues after royalties	-	-	**8,817**	3,296	**-**	-	**8,817**	3,296
Segment net profit/(loss) before tax	**(1,937)**	(475)	**1,585**	(4,376)	**(4,894)**	(302)	**(5,246)**	(5,153)
Income tax benefit/(expense)							**-**	-
Net profit/(loss) for the period							**(5,246)**	(5,153)
Depreciation, depletion and amortisation	**5**	5	**3,665**	1,826	**-**	-	**3,670**	1,831
Impairment and abandonment expense	**-**	-	**438**	1,543	**4,872**	-	**5,310**	1,543
Exploration expense	**-**	-	**97**	424	**-**	296	**97**	720
Segment assets	**16,796**	32,443	**37,501**	30,814	**1,922**	1,020	**56,219**	64,277
Acquisition of property, plant and equipment and exploration, evaluation and development assets	**31**	5	**5,738**	3,900	**2,029**	1,274	**7,798**	5,179

[1] There are no inter-segment sales

Petsec Energy

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2013

10. Segment reporting (continued)

	Australia		USA		Canada		Consolidated	
	30 June 2013 US$'000	30 June 2012 US$'000	**30 June 2013 US$'000**	30 June 2012 US$'000	**30 June 2013 US$'000**	30 June 2012 US$'000	**30 June 2013 US$'000**	30 June 2012 US$'000
Segment liabilities	**625**	511	**8,683**	7,522	**385**	42	**9,693**	8,075
Cash flows from operating activities	**(856)**	(1,019)	**5,119**	(55)	**(23)**	(7)	**4,240**	(1,081)
Cash flows from investing activities	**(343)**	(5)	**(5,738)**	(3,900)	**(2,029)**	(1,274)	**(8,110)**	(5,179)
Cash flows from financing activities	**-**	-	**-**	-	**-**	-	**-**	-

12. Interests in unincorporated joint operating arrangements

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

Assets	As at 30 June 2013 US$'000	As at 31 December 2012 US$'000
Exploration, evaluation and development expenditure – Tangible:		
Leases now in production		
Producing leases – at cost	**91,626**	88,817
Less: accumulated amortisation and impairment	**(70,909)**	(63,977)
	20,717	24,840
Represented by the following lease carrying values:		
- Main Pass 270	**11,914**	12,769
- Main Pass 19	**598**	1,033
- Onshore and coastal Louisiana	**8,205**	7,589
- Onshore Canada	**-**	3,449
Total exploration, evaluation and development expenditure – Tangible	**20,717**	24,840
Exploration and evaluation expenditure – Intangible:		
Not in production		
- Onshore Canada	**1,883**	805
- Other Gulf of Mexico leases	**1,804**	1,695
Total exploration, evaluation and development expenditure – Intangible	**3,687**	2,500

Liabilities	As at 30 June 2013 US$'000	As at 31 December 2012 US$'000
Rehabilitation provision:		
- Main Pass 19	**1,747**	1,662
- Main Pass 270	**399**	377
- Onshore and coastal Louisiana	**187**	177
- Onshore Canada	**28**	-
	2,361	2,216

12. Interests in unincorporated joint operating arrangements (continued)

The contribution of the consolidated entity's joint operating arrangements to EBIT (including exploration write-offs and impairments; and excluding the effects of hedging):	Six months to 30 June 2013 US$'000	Six months to 30 June 2012 US$'000
- Main Pass 19	**(244)**	(2,143)
- Main Pass 270	**1,000**	24
- Onshore and coastal Louisiana	**3,021**	242
- Onshore Canada	**(4,894)**	(302)
- Onshore Texas	**(1,080)**	-
	(2,197)	(2,179)

The principal activity of all the joint operating arrangements is oil & gas exploration and production. Listed below is the name of each of the joint operating arrangements and the percentage interest held in the joint operating arrangement by the consolidated entity as at and during the six months ended 30 June 2013:

	Interest Held 30 June 2013	Interest Held 30 June 2012
- Main Pass 19	55.00%	55.00%
- Main Pass 270	22.50%	22.50%
- Onshore and coastal Louisiana	8.00%	8.00% to 80.00%
- Onshore Canada	24.50% to 25.00%	24.5%
- Other Gulf of Mexico leases	37.50% to 75.00%	37.50% to 75.00%

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2013

13. Wholly owned areas of interest

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

	As at	
Assets	**30 June 2013 US$'000**	31 December 2012 US$'000
Exploration, evaluation and development expenditure – Tangible:		
Leases now in production		
Producing leases – at cost	**48,429**	48,429
Less: accumulated amortisation	**(48,042)**	(47,759)
	387	670
Represented by the following lease carrying values:		
- Main Pass 18	**387**	670
- Chandeleur 31/32	**-**	-
	387	670
Not in production		
- Spare equipment	**-**	-
	-	-
Total exploration, evaluation and development expenditure – Tangible	**387**	670
Exploration and evaluation expenditure - Intangible :		
Not in production		
- Onshore Texas	**-**	1,080
Total exploration and evaluation expenditure – Intangible	**-**	1,080

	As at	
	30 June 2013 US$'000	31 December 2012 US$'000
Liabilities		
Rehabilitation provision:		
- Main Pass 18	**167**	162
- Chandeleur 31/32	**3,525**	3,525
	3,692	3,687

13. Wholly owned areas of interest (continued)

	Six months to	
	30 June 2013 US$'000	30 June 2012 US$'000
The contribution of the consolidated entity's areas of interest to EBIT (including exploration write-offs and impairments; and excluding the effects of hedging):		
- Chandeleur 31/32	**32**	(84)
- Main Pass 18	**382**	(41)
	414	(125)

14. Legal matters and contingencies

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

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

The Company's U.S. subsidiary, Petsec Energy Inc. ("PEI") is required to provide bonding or security for the benefit of U.S. regulatory authorities and certain lease operators in relation to its obligations to pay lease rentals and royalties, the plugging and abandonment of oil and natural gas wells, and the removal of related facilities. As of 30 June 2013, PEI was contingently liable for US$5,300,000 of surety and supplemental bonds (December 2012: US$5,300,000) issued through a surety company to secure those obligations. At balance date US$5,300,000 of these bonds were collateralised by cash (December 2012: US$5,300,000).

15. Related Parties

Arrangements with related parties continue to be in place. For details on these arrangements refer to the 2012 Financial Report.

16. Dividends

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

17. Subsequent Events

Other than any matter disclosed, there have been no other events subsequent to balance date that would have a material effect on the consolidated entity's financial statements at 30 June 2013.

Directors' Declaration

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

(1) the financial statements and notes set out on pages 9 to 22, are in accordance with the Corporations Act 2001 including:

(i) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2013 and of its performance, as represented by the results of its operations and cashflows for the six months ended on that date; and

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

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

Signed in accordance with a resolution of the directors:

Terrence N. Fern
Director

Sydney, 27 August 2013

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

Report on the financial report

We have reviewed the accompanying interim financial report of Petsec Energy Ltd, which comprises the consolidated balance sheet as at 30 June 2013, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the interim period ended on that date, notes 1 to 17 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the interim period.

Directors' responsibility for the interim financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2013 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Petsec Energy Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2013 and of its performance for the interim period ended on that date; and

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

KPMG

KPMG

Anthony Jones
Partner

Sydney

27 August 2013