

PETSEC ENERGY LTD

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27 August 2009

APPENDIX 4D & INTERIM FINANCIAL STATEMENTS FOR HALF YEAR ENDED 30 JUNE 2009

Attached is the Company's Appendix 4D and Interim Financial Statements for the half year ended 30 June 2009.

A short teleconference to discuss the results will be hosted by Ross Keogh, President of Petsec Energy's US operations, with members of senior management at 11am today.

A question and answer segment will be included as part of the teleconference.

Date & Time: Thursday, 27 August 2009 at 11.00 a.m. AEST

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We invite you to participate in this call.

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APPENDIX 4D & CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2009

(Current period: Six months ended 30 June 2009; Previous corresponding period: Six months ended 30 June 2008)

Results for announcement to the market – Presented in US dollars

Petsec Energy (“PSA”) generated US\$21.2 million of operating cashflow (EBITDAX^{1 & 2}) in the period, US\$12.2 million of which was applied to debt reduction. Net debt stood at US\$22.1 million on 30 June 2009.

Focus of the Company in the USA was to seek the acquisition of producing assets in the Gulf of Mexico while service costs are high, gas prices are low and credit is tight, and also to high grade and de-risk the Company’s prospects in readiness for drill testing starting late in 2009/early 2010 when it is expected drilling costs will be sufficiently low and gas prices will have stabilised.

On the Company’s China Block 22/12 oil fields, a great deal of work has been directed to the completion of feasibility studies, selection of the preferred development option, preparation for lodgement of an Overall Development Plan, expected to be lodged late in the third quarter, and Final Investment Decision late in the year which is expected to deliver first oil production in the fourth quarter of 2011.

Key points – Six months ended 30 June 2009 compared to the six months ended 30 June 2008

	Six months to June 2009	Six months to June 2008	% Increase/ (Decrease)
Key Operating/Financial Data			
Net production (MMcfe)	4,126	7,804	(47%)
Net revenues after royalties (US\$m)	31.8	68.5	(54%)
EBITDAX ^{1 & 2} (US\$m)	21.2	54.2	(61%)
Underlying net profit ³	6.1	11.2	(46%)
Net loss after tax (US\$m)	(9.1)	(18.1)	(50%)
Key Performance Indicators			
Average net sales price/Mcfe (US\$)	7.70	8.77	(12%)
Operating costs/Mcfe (US\$) ⁴	(2.55)	(1.73)	47%
Other expense/Mcfe (US\$)	(0.01)	(0.10)	(90%)
EBITDAX/Mcfe (US\$)	5.14	6.94	(26%)
DD&A/Mcfe (US\$)	2.72	4.92	(45%)
Gross margin ⁵	67%	79%	(12%)
Other Financial Data			
Net debt (excluding bank transaction costs) – US\$m	22.1	41.1	(46%)
Acquisition, exploration and development expenditure (US\$m) ²	2.4	31.5	(92%)
USD/AUD average exchange rate	0.7153	0.9256	

1 Earnings before interest (financial income and expense), income tax, depreciation, depletion, amortisation, rehabilitation and exploration (including dry hole, impairment and abandonment expense; seismic and repair expense).

2 Accrual-based amounts.

3 Underlying net profit reflects earnings before exploration write-offs, provisions and tax.

4 Operating costs are lease operating expense plus geological, geophysical and administration expenses.

5 Gross margin is EBITDAX as a percentage of sales.

Commentary on results

General

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

Key Operating/Financial Data

- Net production for the six months to 30 June 2009 was 4.1 Bcfe, 47% lower than the previous corresponding period of 7.8 Bcfe due to the cessation of production from the Vermilion 258 field, which was reported in the March 2009 quarter, and the natural decline of other fields. The previous corresponding period had benefited from an initial boost to production from the seven producing gas fields acquired in late 2007.
- Net revenues after royalties for the current period of US\$31.8 million (2008: US\$68.5 million) reflect both lower production and lower average gas equivalent sales prices received (US\$7.70/Mcfe, 2008 US\$8.77/Mcfe). Markedly reduced industrial demand and subsequent high storage volumes have significantly reduced the price of natural gas in the USA. Average spot prices received were US\$4.29/Mcfe in the half year, and average spot prices for the remainder of the year are currently indicated at approximately US\$3.89/Mcfe.
- EBITDAX decreased 61% to US\$21.2 million (2008: US\$54.2 million) largely due to reduced revenues.

Net loss after tax of US\$9.1 million (2008: Loss of US\$18.1 million) incurred after impairment and abandonment expense of US\$10.1 million (see "Note 5 – Dry hole, impairment and abandonment expense" for further details) and income tax expense of US\$5.0 million due to the revised assessment of recovery of deferred tax assets (see "Note 6 – Income Tax Expense" for further details).

Key Performance Indicators

- Average net gas equivalent sales price received of US\$7.70/Mcfe (2008: US\$8.77/Mcfe). Average spot sales were US\$4.29/Mcfe while the average price received on hedged volumes for the period was US\$8.34/Mcfe.
- Operating costs of US\$2.55/Mcfe (2008: US\$1.73/Mcfe) comprised lease operating expense of US\$1.26/Mcfe and geological, geophysical and administrative expenses ("GG&A") of US\$1.29/Mcfe.
- EBITDAX margin/Mcfe of US\$5.14/Mcfe (2008: US\$6.94/Mcfe) and gross operating margin of 67% (2008:79 %) contracted with the lower average net gas equivalent sales price received for the current period.
- Depreciation, depletion, amortisation and rehabilitation ("DD&A")/Mcfe decreased 31% to US\$2.72/Mcfe (2008: US\$4.92/Mcfe) reflecting the lower carrying value of the oil & gas properties following the substantial impairments recognised in the 2008 financial year.

Other Financial Data

- Acquisition, exploration and development expenditure (on an accrual basis) of US\$2.4 million (2008: US\$31.5 million), included US\$0.2 million on lease acquisition, US\$1.3 million on exploration and US\$0.9 million on development. Exploration and development has been curtailed since the second quarter of 2008 in response to abnormally high service costs and falling gas prices.
- Net debt fell to US\$22.1 million at 30 June 2009 (US\$41.1 million at 30 June 2008), a 46% reduction on the previous corresponding period.

Dividend

Petsec Energy Ltd does not propose the payment of a dividend in respect of the six months ended 30 June 2009.



Directors' Report and Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2009

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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 2008 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 2009

The directors present their report together with the consolidated financial report for the six months ended 30 June 2009 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 2009 are:

Name	Period of directorship
Non-executive	
Mr David A. Mortimer AO	Appointed in 1985
Dr Peter E. Power	Appointed in 1999
Mr Michael L. Harvey	Appointed in 2008
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 revenues after royalties for the six months to 30 June 2009 of US\$31.8 million from production of 4.1 Bcfe at an average gas equivalent sales price of US\$7.70/Mcfe. This represents a 54% decrease on net revenues after royalties for the previous corresponding period of US\$68.5 million (2008: Production of 7.8 Bcfe; and average gas equivalent sales price of US\$8.77/Mcfe) which benefited from the initial boost to production provided by the acquisition of the seven producing US gas fields in late 2007 and a generally higher commodity price environment. 2009 first half production was also impacted by the cessation of production from the Vermilion 258 field, which was reported during the March 2009 quarter.

Depreciation, depletion, amortisation and rehabilitation ("DD&A") for the six months to 30 June 2009 was US\$11.2 million, down 71% on the previous corresponding period charge of US\$38.4 million reflecting the lower carrying values of the US oil and gas properties following the substantial impairments recognised at 31 December 2008.

Earnings before interest, income tax, DD&A and exploration expense ("EBITDAX") was US\$21.2 million, 61% less than the previous corresponding period EBITDAX of US\$54.2 million, reflecting a 47% reduction in production and a 12% reduction in the received sales price of gas.

The EBITDAX (cash operating) margin of US\$5.14/Mcfe (2008: US\$6.94/Mcfe) for the current period, represents a solid 67% gross operating margin.

Earnings before dry hole, impairment and abandonment expense and income tax for the year ("Underlying Earnings") were US\$6.1 million (2008: US\$11.2 million), down 46% due to lower revenues offset to some extent by lower DD&A, lease operating costs and GG&A.

Net loss after tax of US\$9.1 million (2008: Loss of US\$18.1 million) was incurred after impairment and abandonment expense of US\$10.1 million and income tax expense of US\$5.0 million.

The Company periodically reviews the carrying values ("book value") of its oil and gas properties and, in accordance with accounting standards and Company policy, is required to demonstrate the carrying value of its properties are no less than the estimated future cash flow to be generated from the expected production from these properties.

Accordingly, the Company recognised dry hole, impairment and abandonment expense of US\$10.1 million (2008: US\$32.8 million) for the current period. This comprised US\$2.4 million in relation to the write-off of the remaining carrying value of the Vermilion 258 field which ceased production; US\$3.1 million for a reduction in Petsec Energy estimated recoverable reserves from our onshore wells, and US\$1.7 million due to commodity prices at 30 June 2009 being lower than at 31 December 2008. The Company also incurred a US\$1.0 million expense relating to the relinquishment of its interest in the Main Pass 7 lease where the prospects were determined to be not economic. The Company also increased its rehabilitation provision by US\$1.9 million following a reassessment of future plug and abandonment cost estimates.

Directors' Report (continued)

For the six months ended 30 June 2009

2. Operating results (continued)

Under Australian Accounting Standards, the Company is also 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.

Consequently, the Company has recognised a provision of US\$5.9 million against deferred tax assets due to the impact of lower gas prices on current projections of future taxable profits, including US\$0.9 million against the tax benefit derived within the current period and US\$5.0 million in respect of deferred tax assets previously brought to account.

3. Financial position

Available cash together with US\$22.2 million of net cash generated from operating activities for the six months to 30 June 2009 was used to repay US\$12.2 million of debt and to fund US\$8.4 million of acquisition, exploration and development expenditure.

The Company's cash position at 30 June 2009 was US\$16.3 million compared to US\$26.7 million at 30 June 2008.

The Company's revolving credit facility with Guaranty Bank was confirmed at US\$23 million, effective 1 June 2009. The facility reduces by US\$1.35 million per month commencing 1 July 2009 with the next semi-annual redetermination by the bank of the borrowing base expected to occur in November 2009.

At 30 June 2009, the total amount utilised under the Guaranty Bank revolving credit facility was US\$15.4 million, comprising US\$8.8 million in outstanding loans and US\$6.6 million in letters of credit that support the Company's bonding requirements with the US Minerals Management Service.

The Company also has a US\$29.6 million subordinated fixed term facility which matures in late 2011.

Total outstanding debt at 30 June 2009 was US\$38.4 million, down 43% on the US\$67.9 million outstanding at 30 June 2008.

Net debt (total outstanding debt less cash) fell 46% to US\$22.1 million at 30 June 2009 (30 June 2008: US\$41.1 million).

4. Review of operations

USA, Gulf of Mexico/Onshore Louisiana

Production

The Company currently produces oil and gas only in the USA, in the Gulf Coast of Louisiana and offshore shallow waters. The Company has interests in 16 fields of which Main Pass 18/19, Main Pass 270, Chandeleur 31\32 and Vermilion 258 are the main fields. During the half year, the Vermilion 258 field ceased production in late March 2009, as all commercial reserves had been produced and the Main Pass 270 gas field, which had been shut-in since April 2008 pending completion of third party pipeline repairs, was restored to production in early March 2009.

Acquisitions and Exploration

During the six months to 30 June 2009, the Company has been actively pursuing US Gulf of Mexico acquisitions of producing fields which possess good quality, high rate production which lend themselves to hedging, and have exploration and exploitation potential that can be readily accessed from existing infrastructure. High cost of services and declining gas prices have dictated that acquisitions should generate a more certain return than exploration. The Company has reviewed a number of opportunities and made a number of unsuccessful bids. It is anticipated that better quality assets will become available in the second half of the year as gas prices decrease and banks become less accommodating.

The Company ceased drilling in the second quarter of 2008 in response to high service costs, declining gas prices and the incipient instability of financial markets. Exploration in the first half of the year have been directed to further high grading and de-risking of our exploration prospects and the preparation for drilling. The Company expects that it will recommence exploratory drilling later in the year/early in 2010 at which time it can take advantage of lower industry and service costs. Rig utility and consequently daily rig rates for the Gulf of Mexico shelf are dropping significantly and are expected soon to approach those levels which the Company believes would make it economically feasible to recommence drilling.

Directors' Report (continued)

For the six months ended 30 June 2009

4. Review of operations (continued)

Development

For the six months to 30 June 2009, the development activities of the USA operations have been limited, a reflection of the Company ceasing exploratory drilling for the past year. The only development in the half year was that of the Miles Timber #1 well, a gas/condensate discovery in July 2008, which was brought into production in February 2009.

China, Beibu Gulf

Development of the 6.12, 6.12 South & 12.8 West Oil Fields

As reported in the consolidated financial report for the year ended 31 December 2008, the China National Offshore Oil Corporation ("CNOOC") declared development areas over the Wei 6.12, 6.12 South, 12.8 West, 12.8 East and 12.3.1 oil fields, for the Block 22/12, Beibu Gulf Joint Venture ("JV"). These five oil fields contain oil in place of 185 to 262 million barrels of oil (P50 to P10) and potentially recoverable reserves of 43 to 124 million barrels of oil. Feasibility studies have been completed on all five fields and the JV has decided to proceed with the development of the 6.12, 6.12 South and 12.8 West oil fields which are estimated to hold P50 recoverable reserves of 27.2 million barrels of oil, and P10 recoverable reserves of 52 million barrels of oil.

Feasibility studies undertaken by CNOOC in conjunction with the JV, investigated two development options – a stand alone production platform at 6.12 South; and shared facilities with CNOOC adjacent to its 12.1.1 platform. The results of these studies were presented to the Chinese Expert Review Committee in June 2009, which made a recommendation to CNOOC and the JV to proceed with an Overall Development Plan ("ODP") on the preferred development option using a shared production facility with CNOOC adjacent to its 12.1.1 platform.

An ODP for the preferred option for development of the 6.12, 6.12 South and 12.8 West oil fields is expected to be lodged late in third quarter 2009 with approval expected to be granted within 90 days of lodgement. A Final Investment Decision ("FID") is likely to be made in late 2009 followed immediately by the commencement of development. CNOOC's current schedule for the development indicates initial production from these three fields to commence in the fourth quarter of 2011.

Exploration prospects adjacent to the 6.12 South oil field are expected to be tested at the time of development drilling in 2010. Development of the 12.8 East and 12.3.1 oil fields, which are estimated to hold recoverable reserves ranging from 15 to 72 million barrels of oil (P50 to P10), is anticipated after the start of production from the 6.12, 6.12 South and 12.8 West oil fields.

Oil and gas reserves – USA and China

Petsec Energy's estimated proved and probable (2P) USA oil and gas reserves at 30 June 2009 were 24.4 Bcfe. China reserves remain unchanged from previous estimates of 3.6 million barrels of oil (or 21.5 Bcfe) for the 6.12, 6.12 South and 12.8 West oil fields based on the assumption that CNOOC would back-in for its full entitlement of 51% leaving Petsec Energy with a 12.25% interest.

During the current period, the Company recorded downward reserve revisions of 1.9 Bcfe against the Petsec Energy estimates of 2P reserves in the USA, resulting from the early cessation of production from the Vermilion 258 gas field in March 2009 and in response to lower than predicted well performance from the onshore wells. The resultant impairments have been recognised in the financial statements at 30 June 2009.

Directors' Report (continued)

For the six months ended 30 June 2009

4. Review of operations (continued)

	Petsec Energy Estimated Recoverable Proved and Probable Reserves
Gas Equivalent Bcfe	
USA Reserves	
Reserves at 1 January 2009	30.4
Net additions	-
Revisions	(1.9)
Production	(4.1)
USA Reserves at 30 June 2009	24.4

Competent Person Statement

In accordance with ASX Listing Rules, the Petsec Energy USA internal reserve estimates information in this report is based upon information compiled, reviewed and signed off by Mr Dana Westphal, Reservoir Engineer a full time employee of Petsec Energy. Mr Westphal 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 six months ended 30 June 2009 and the date of the 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 Company, the results of those operations, or the state of affairs of the Company, 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 2009.

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 2009



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 six months ended 30 June 2009 there has 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

Paul Zammit

Paul Zammit
Partner

Sydney

27 August 2009

Consolidated interim statement of comprehensive income

For the six months ended 30 June 2009

	Note	Six months to	
		30 June 2009 US\$'000	30 June 2008 US\$'000
Revenues from sale of oil & gas and royalties		34,553	81,116
Royalties paid		(2,789)	(12,655)
Net revenues after royalties		31,764	68,461
Other income and expenses		(50)	(823)
Lease operating expenses		(5,195)	(6,316)
Geological, geophysical and administrative expenses		(5,331)	(7,156)
EBITDAX ¹		21,188	54,166
Depreciation, depletion, amortisation and rehabilitation		(11,238)	(38,368)
EBITX ²		9,950	15,798
Seismic and repair expense		(1,028)	(420)
Dry hole, impairment and abandonment expense	5	(10,091)	(32,840)
EBIT ³		(1,169)	(17,462)
Financial income		76	473
Financial expenses		(2,940)	(4,673)
Net financial income/(expense)		(2,864)	(4,200)
Profit/(loss) before income tax		(4,033)	(21,662)
Income tax benefit/(expense)	6	(5,017)	3,593
Profit/(loss) for the period		(9,050)	(18,069)
Other comprehensive income/(loss)			
Foreign exchange translation differences		530	1,535
Cash flow hedges, net of tax		(1,970)	(22,824)
Total comprehensive income/(loss) for the period		(10,490)	(39,358)

1 Earnings before interest (financial income and expense), income tax, depreciation, depletion, amortisation, rehabilitation and exploration (including dry hole, impairment and abandonment expense; seismic and repair expense).

2 Earnings before interest (financial income and expense), income tax and exploration (including dry hole, impairment and abandonment expense; seismic and repair expense).

3 Earnings before interest (financial income and expense) and income tax.

Consolidated interim statement of comprehensive income (continued)

For the six months ended 30 June 2009

	Six months to	
	30 June 2009 US\$'000	30 June 2008 US\$'000
Loss attributable to owners of the Company	(9,050)	(18,069)
Total comprehensive income/(loss) for the period	(10,490)	(39,358)
	US Cents	US Cents
Earnings/(loss) per share		
Basic earnings/(loss) per share	(0.06)	(11.7)
Diluted earnings/(loss) per share	(0.06)	(11.7)

The statement of comprehensive income is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 14 to 21.

Consolidated interim statement of changes in equity

For the six months ended 30 June 2009

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 2008	169,829	1,077	2,228	1,021	(50,858)	123,297
Total comprehensive income for the period						
Profit or loss	-	-	-	-	(18,069)	(18,069)
Other comprehensive income						
Foreign exchange translation differences	-	1,535	-	-	-	1,535
Cashflow hedges, net of tax	-	-	(22,824)	-	-	(22,824)
Total other comprehensive income/(loss)	-	1,535	(22,824)	-	-	(21,289)
Total comprehensive income/(loss) for the period	-	1,535	(22,824)	-	(18,069)	(39,358)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share options exercised by employees	12	-	-	-	-	12
Vesting of share options	404	-	-	(404)	-	-
Share-based payments expense	-	-	-	233	-	233
Total transactions with owners	416	-	-	(171)	-	245
Balance at 30 June 2008	170,245	2,612	(20,596)	850	(68,927)	84,184
Balance at 1 January 2009	170,276	1,658	8,344	951	(95,341)	85,888
Total comprehensive income/(loss) for the period						
Profit or loss	-	-	-	-	(9,050)	(9,050)
Other comprehensive income/(loss)						
Foreign exchange translation differences	-	530	-	-	-	530
Cashflow hedges, net of tax	-	-	(1,970)	-	-	(1,970)
Total other comprehensive income/(loss)	-	530	(1,970)	-	-	(1,440)
Total comprehensive income/(loss) for the period	-	530	(1,970)	-	(9,050)	(10,490)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Vesting of share options	339	-	-	(339)	-	-
Share-based payments expense	-	-	-	173	-	173
Total transactions with owners	339	-	-	(166)	-	173
Balance at 30 June 2009	170,615	2,188	6,374	785	(104,391)	75,571

The statement of changes in equity is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 14 to 21.

Consolidated interim balance sheet

As at 30 June 2009

	Note	30 June 2009 US\$'000	31 December 2008 US\$'000
ASSETS			
Current assets			
Cash and cash equivalents		16,255	13,735
Trade and other receivables		4,593	8,034
Fair value of derivative financial instruments		9,321	12,153
Prepayments		5,173	1,004
Total current assets		35,342	34,926
Non-current assets			
Property, plant and equipment		436	373
Exploration, evaluation and development expenditure – Tangible		81,095	98,064
Exploration and evaluation expenditure – Intangible		8,075	8,636
Intangible assets – Software		73	121
Deferred tax assets		13,368	17,325
Fair value of derivative financial instruments		1,094	2,213
Total non-current assets		104,141	126,732
Total assets		139,483	161,658
LIABILITIES			
Current liabilities			
Trade and other payables		10,280	12,896
Fair value of derivative financial instruments		527	868
Loans and borrowings	8	9,100	2,475
Rehabilitation provisions		1,483	674
Employee benefits provisions		144	150
Total current liabilities		21,534	17,063
Non-current liabilities			
Loans and borrowings	8	27,902	46,307
Rehabilitation provisions		14,148	12,126
Employee benefits provisions		328	274
Total non-current liabilities		42,378	58,707
Total liabilities		63,912	75,770
Net assets		75,571	85,888
EQUITY			
Issued capital		170,615	170,276
Reserves		9,347	10,953
Accumulated losses		(104,391)	(95,341)
Total equity		75,571	85,888

The balance sheet is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 14 to 21.

Consolidated interim statement of cashflows

For the six months ended 30 June 2009

	30 June 2009 US\$'000	30 June 2008 US\$'000
Cashflows from operating activities		
Cash receipts from customers	35,881	80,803
Cash payments for royalties	(2,428)	(11,784)
Cash payments to suppliers and employees	(9,050)	(9,915)
Interest received	79	474
Interest paid	(2,274)	(4,549)
Net cash from operating activities	22,208	55,029
Cashflows from investing activities		
Payments for property, plant and equipment	(222)	(100)
Payments for exploration, evaluation and development expenditure	(8,362)	(20,253)
Payments for investments	-	(36)
Proceeds from sale of assets	391	442
Net cash from investing activities	(8,193)	(19,947)
Cashflows from financing activities		
Debt facility repayments	(12,150)	(36,150)
Debt facility establishment fees	-	(181)
Proceeds from share options exercised by employees	-	12
Net cash from financing activities	(12,150)	(36,319)
Net increase/(decrease) in cash and cash equivalents	1,865	(1,237)
Cash and cash equivalents at 1 January	13,735	27,214
Effects of exchange rate changes on cash held	655	770
Cash and cash equivalents at 30 June	16,255	26,747

The statement of cashflows is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 14 to 21.

Condensed notes to the consolidated interim financial statements

For the six months ended 30 June 2009

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 2009 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 2008 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 2008.

This consolidated interim financial report was approved by the Board of Directors on 27 August 2009.

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 2008.

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 significant judgements made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 31 December 2008.

5. Dry hole, impairment and abandonment expense

The estimated recoverable amount of all 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. Accordingly impairment losses are sensitive to reasonable possible changes in the key assumptions.

For the six months ended 30 June 2009, the consolidated entity recognised US\$10,091,000 in dry hole, impairment and abandonment expense, comprising:

- US\$7,174,000 in relation to the write-off of the remaining carrying value of the Vermilion 258 field; a reduction in Petsec Energy estimated recoverable reserves from our onshore wells, and commodity prices at 30 June 2009 being lower than at 31 December 2008.
- US\$956,000 relating to the relinquishment of the Main Pass 7 lease;
- US\$1,961,000 increase in the rehabilitation provision following a reassessment of future plug and abandonment cost estimates of certain fields.

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2009

5. Dry hole, impairment and abandonment expense (continued)

During the previous corresponding period, the consolidated entity reported US\$32,840,000 in dry hole, impairment and abandonment expense comprising exploration write-offs associated with two wells drilled in Block 22/12, Beibu Gulf, the West Cameron 379 #1 well drilled in the Gulf of Mexico, USA, the CL&F#30-1 well (Triple Play prospect) drilled in the Terrebonne Parish, onshore Louisiana USA totalling US\$14,212,000; and impairment provisions recognised mainly in relation to the Moonshine Project, South Sunrise, Main Pass 20 and E. Laurent fields totalling US\$18,628,000.

6. Income tax expense

The consolidated entity reported an income tax expense of US\$5,017,000 for the six months ended 30 June 2009 (2008: Tax benefit of US\$3,593,000). This non-cash charge predominantly relates to the US operations.

The decline in natural gas prices since 31 December 2008 has impacted upon the consolidated entity's current projection of future taxable profits from Petsec Energy's US proved and probable reserves resulting in a provision of US\$5,870,000 against net deferred tax assets, including US\$853,000 provision against the tax benefit derived for the six months ended 30 June 2009 and US\$5,017,000 in relation to deferred tax assets previously brought to account.

Any subsequent movement in natural gas prices and/or other factors may impact upon the assessment of the amount of deferred tax assets recognised in future periods. For instance, an increase in natural gas prices may result in the reversal of part or all of the provision recognised within the current period and conversely a further decline in prices may result in an increase in the provision.

7. 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 5,776,000 options outstanding under the Employee Option Plan. In determining potential ordinary shares 4,939,500 are not dilutive.

During the current period, 836,500 options were granted and 300,000 options were forfeited. 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 2009 was based on the loss attributable to ordinary shareholders of US\$9,050,000 (2008: Loss of US\$18,069,000) and a weighted average number of ordinary shares outstanding during the six months ended 30 June 2009 of 154,188,841 (2008: 154,169,423), calculated as follows:

Profit/(loss) attributable to ordinary shareholders

	Consolidated	
	Six months to 30 June	
	2009	2008
	US\$'000	US\$'000
Profit/(loss) for the period	(9,050)	(18,069)

Weighted average number of shares (basic)

	Consolidated	
	Six months to 30 June	
	2009	2008
<i>In thousands of shares</i>		
Issued ordinary shares at 1 January	154,189	154,151
Effect of shares issued during the half year	-	18
Weighted average number of ordinary shares at 30 June	154,189	154,169

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2009

7. Earnings per share (continued)

Weighted average number of shares (diluted)

In thousands of shares

Weighted average number of ordinary shares (basic) at 30 June
 Effect of share options on issue
 Weighted average number of ordinary shares (diluted) at 30 June

Consolidated	
2009	2008
154,189	154,169
113	2
154,302	154,171

Earnings per share

In USD cents

Basic earnings/(loss) per share
 Diluted earnings/(loss) per share

Consolidated	
2009	2008
(0.06)	(11.7)
(0.06)	(11.7)

8. Loans and borrowings

At 30 June 2009, the consolidated entity had available debt facilities of US\$52.6 million, under which US\$38.4 million of loans were outstanding (excluding transaction costs) and US\$6.6 million supported letters of credit (December 2008: US\$50.5 million of loans outstanding and US\$8.4 million supported letters of credit).

The following table provides a summary of the outstanding loans of the consolidated entity:

	30 June 2009 US\$'000	31 December 2008 US\$'000
Current liabilities		
Revolving credit facility loan	8,800	2,175
2 nd lien term loan	300	300
Reported loans and borrowings	9,100	2,475
Non-current liabilities		
Revolving credit facility loan	-	18,625
2 nd lien term loan	29,250	29,400
	29,250	48,025
Original issue discount	(165)	(206)
Transaction costs	(1,183)	(1,512)
Reported loans and borrowings	27,902	46,307
Total loans and borrowings	37,002	48,782

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2009

9. Share-based payments

The Employee option plan provides for employees, executives and directors to be granted options over ordinary shares at the discretion of the Nomination and Remuneration Committee. The terms and conditions of the share option programme are disclosed in the consolidated financial report as at and for the year ended 31 December 2008.

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

During the six months ended 30 June 2009, grants of 435,000 options were made to key management personnel.

Fair value of share options and assumptions for key management personnel grants	Key management Personnel	Key management Personnel
	Six months to 30 June 2009	Six months to 30 June 2008
Weighted average fair value at measurement date	A\$0.02	-
Weighted average share price	A\$0.14	-
Weighted average exercise price	A\$0.20	-
Expected volatility (expressed as weighted average used in the modelling under Black-Scholes model)	92.35%	-
Expected option life (expressed as weighted average used in the modelling under Black-Scholes model)	3.4 years	-
Expected dividends	-	-
Risk-free interest rate (based on national government bonds)	2.90% - 3.27%	-

The basis of measuring fair value is consistent with that disclosed in the consolidated financial report as at and for the year ended 31 December 2008.

10. Segment reporting

The consolidated entity comprises the following main business segments:

- Australia – head office activities;
- USA – oil and natural gas exploration, evaluation and development activities in the Gulf of Mexico and onshore Louisiana.
- China – oil and natural gas exploration, evaluation and development activities in the Beibu Gulf, China.

The following segment information is presented as part of the consolidated interim financial statements:

	Australia		USA		China		Consolidated	
	30 June 2009	30 June 2008	30 June 2009	30 June 2008	30 June 2009	30 June 2008	30 June 2009	30 June 2008
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Oil & gas sales and royalties	-	-	34,553	81,116	-	-	34,553	81,116
Royalties paid	-	-	(2,789)	(12,655)	-	-	(2,789)	(12,655)
Segment net revenues after royalties	-	-	31,764	68,461	-	-	31,764	68,461
Segment net profit/(loss) before tax	(1,268)	(1,904)	(2,488)	(9,889)	(277)	(9,869)	(4,033)	(21,662)
Income tax benefit/(expense)							(5,017)	3,593
Net profit/(loss) for the period							(9,050)	(18,069)

* There are no inter-segment sales.

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2009

11. Interests in unincorporated joint operating arrangements (continued)

	Six months to	
	30 June 2009 US\$'000	30 June 2008 US\$'000
The contribution of the consolidated entity's joint operating arrangements to EBIT (including exploration write-offs and impairments; and excluding the effects of hedging):		
- Main Pass 19	217	5,853
- Mobile Bay Area	(3,398)	(1,707)
- Main Pass 270	(542)	3,046
- Block 22/12 Beibu Gulf, China	(277)	(9,869)
- West Cameron 379	-	(3,111)
- Onshore Louisiana	(3,967)	(13,036)
- Other Gulf of Mexico leases	(314)	(757)
	(8,281)	(19,581)

The principal activity of all the joint operating arrangements is oil & gas exploration. Listed below is the name of each of the joint operating arrangements and the percentage interest held in the joint operating arrangement by the consolidated entity as at and during the six months ended 30 June 2009:

	Interest held 30 June 2009	Interest held 30 June 2008
- Main Pass 19	55.00%	55.00%
- Mobile Bay Area	40.00% to 50.00%	40.00% to 50.00%
- Main Pass 270	25.00%	25.00%
- Block 22/12 Beibu Gulf, China	25.00%	25.00%
- Onshore Louisiana	46.21% to 87.50%	46.25% to 87.50%
- Other Gulf of Mexico leases	25.00% to 54.00%	25.00% to 54.00%

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2009

12. 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	
	30 June 2009 US\$'000	31 December 2008 US\$'000
Assets		
Exploration, evaluation and development expenditure – Tangible:		
<i>Leases now in production</i>		
Producing leases – at cost	106,356	105,624
Less: accumulated amortisation	(89,834)	(82,265)
	16,522	23,359
Represented by the following lease carrying values:		
- Main Pass 18	9,758	10,826
- Chandeleur 31/32	6,764	9,808
- Vermilion 258 ¹	-	2,653
- Main Pass 20	-	72
	16,522	23,359
<i>Not in production</i>		
- Spare equipment	1,030	1,030
- Other Gulf of Mexico leases	12	7
	1,042	1,037
Total exploration, evaluation and development expenditure – Tangible	17,564	24,396
Exploration and evaluation expenditure - Intangible :		
<i>Not in production</i>		
- Main Pass 7	-	952
- Main Pass 91	1,230	1,198
- Other Gulf of Mexico leases	2,440	1,971
Total exploration and evaluation expenditure - Intangible	3,670	4,121
Non-current liabilities		
Rehabilitation provision:		
- Vermilion 258	2,864	2,589
- Main Pass 18	122	119
- Main Pass 20	3,987	3,393
- Chandeleur 31/32	2,479	2,222
	9,452	8,323

¹ The Vermilion 258 gas field ceased production in March 2009.

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2009

12. Wholly owned areas of interest (continued)

	Six months to	
	30 June 2009 US\$'000	30 June 2008 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	2,970	13,184
- Vermilion 258	(4,113)	4,213
- Main Pass 18	(729)	(240)
- Main Pass 20	(924)	(3,489)
- Main Pass 7	(956)	-
	(3,752)	13,668

13. Legal matters and contingencies

Based on information available as at the date of signing of the accounts, the consolidated entity does not consider the outcome of any of the 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 lease owners 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 2009, PEI was contingently liable for US\$12,200,000 of surety bonds (2008: US\$12,550,000) issued through a surety company to secure those obligations. US\$6,625,000 of these bonds was collateralised by letters of credit. In the corresponding period, US\$6,975,000 of these bonds was collateralised by letters of credit and a further US\$1,750,000 in letters of credit collateralised PEI's obligations to a joint venture partner.

14. Dividends

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

15. Subsequent Events

There have been no events subsequent to balance date which would have a material effect on the consolidated entity's financial statements at 30 June 2009.

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 21, 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 2009 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:

A handwritten signature in black ink, appearing to read "Terrence N. Fern", with a stylized flourish at the end.

Terrence N. Fern
Director

Sydney, 27 August 2009



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

We have reviewed the accompanying interim financial report of Petsec Energy Ltd, which comprises the consolidated interim balance sheet as at 30 June 2009, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the interim period ended on that date, a description of accounting policies and other explanatory notes 1 to 15 and the directors' declaration set out on page 22 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 and fair presentation of the interim financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the interim financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 Interim and Other Financial Reports 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 2009 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 2009 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



Paul Zammit
Partner

Sydney

27 August 2009