PETSEC ENERGY LTD

APPENDIX 4D &
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2010
(Current period: Six months ended 30 June 2010; Previous corresponding period: Six months ended 30 June 2009)

Results for announcement to the market – Presented in US dollars

In the Gulf of Mexico, USA, the tragic explosion and blow out of the BP operated Macondo deep water oil well, in April 2010, in which 11 people died, has dominated the operating agenda in the Gulf of Mexico. The moratorium on all drilling in greater than 500 feet of water has essentially caused a stop to all drilling in the Federal waters while Federal and State regulators determine drilling and operating procedures for the future. This has caused considerable delays in operating approvals and uncertainty as to future operations in the Gulf of Mexico. Meanwhile, production from the Company's largest field, Main Pass 270, has been shut-in since April due to third party oil pipeline issues. Consequently production for the June 2010 half year of 2.1 Bcfe was less than anticipated, generating revenues of US$15.7 million, and cash flow[2] of US$8.0 million resulting in an underlying loss[3] for the Company of US$0.8 million. The current difficult investment environment in the Gulf of Mexico and reserves revisions resulted in the recognition of impairments of US$13.5 million and an income tax expense of US$13.3 million resulting in the reporting of an after tax loss of US$30.7 million.

The suspension of drilling in the Gulf has delayed the Company's proposed three to five well Gulf of Mexico programme for 2010, with only one well drilled in the first half. The Main Pass 20 #4 well intersected 100 feet of gas filled but low permeability sands not capable of producing hydrocarbons at commercial rates. The well was plugged and abandoned and US$3.1 million expensed. Interests in eight new leases at a cost to the Company of US$1.6 million were awarded by the MMS following the Company's winning bids at the March lease sale. All leases contain drillable prospects ranging in size from 20 to 100 Bcfe.

In China, the commencement of development of the 6.12, 6.12 South and 12.8 West oil fields in Block 22/12, Beibu Gulf, China, draws closer, following the conclusion of commercial negotiations with China National Offshore Oil Corporation (CNOOC) for access to CNOOC's adjacent 12.1.1 oil fields processing, transportation, storage and sales facilities, which culminated in the signing of a Commercial Negotiation Memorandum on 18 June 2010 and the Supplemental Development Agreement to the Block 22/12 Petroleum Contract on 24 August 2010. CNOOC has declared it will take its full participation interest of 51% in the project and has accepted the role of operator for development and production. The Overall Development Plan (ODP) for the three oil fields has been completed and CNOOC approval is anticipated shortly. The joint venture will then be in a position to agree to a Final Investment Decision (FID) and the ODP can be lodged for formal Chinese Government approval. Start of development is anticipated in the fourth quarter of 2010 with first production in 2nd half 2012.

Key points – Six months ended 30 June 2010 compared to the six months ended 30 June 2009

	Six months to June 2010	Six months to June 2009	% Increase/ (Decrease)
Key Operating/Financial Data			
Net production (MMcfe)	**2,103**	4,126	(49%)
Net revenues after royalties (US$m)	**15.7**	31.8	(51%)
EBITDAX [1 & 2] (US$m)	**8.0**	21.2	(62%)
Underlying net profit/(loss) [3]	**(0.8)**	6.1	n/a
Net loss after tax (US$m)	**(30.7)**	(9.1)	n/a
Key Performance Indicators			
Average net sales price/Mcfe (US$)	**7.46**	7.70	(3%)
Operating costs/Mcfe (US$) [4]	**4.01**	2.55	57%
Other revenue/(expense)/Mcfe (US$)	**0.37**	(0.01)	n/a
EBITDAX/Mcfe (US$)	**3.82**	5.14	(26%)
DD&A/Mcfe (US$)	**3.61**	2.72	33%
Gross margin [5]	**51%**	67%	(16%)
Other Financial Data			
Acquisition, exploration and development expenditure (US$m) [2]	**7.4**	2.4	**208%**
USD/AUD average exchange rate	**0.8885**	0.7153	24%

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) and derivative gains.

2 Accrual-based amounts.

3 Underlying net profit/(loss) reflects earnings/(loss) before exploration write-offs, provisions, derivative gains and tax.

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

5 Gross margin is EBITDAX as a percentage of sales.

Petsec Energy

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 from the Company's U.S. operations of 2,103 million cubic feet of gas equivalent (MMcfe) for the six months to 30 June 2010 was 49% lower than the 4,126 MMcfe achieved in the previous corresponding period, reflecting natural decline in field production and the shut-in of the Company's largest field, Main Pass 270, from early April 2010 due to damage to an onshore third-party pipeline which carries Main Pass 270 oil (see section 4 – "Review of Operations" of the Directors Report for further details)
- Net revenues after royalties decreased 51% to US$15.7 million (2009: US$31.8 million) largely due to the lower production. Gas prices received were only 3% lower due to a high level (85%) of hedging.
- EBITDAX for the current period of US$8.0 million was 62% lower than the previous corresponding period (US$21.2 million), largely reflecting lower net revenues.
- The first-half net loss after tax of US$30.7 million (2009: US$9.1 million) was incurred after dry hole, impairment, and abandonment expense of US$16.7 million (see note 5 – "Dry hole, impairment and abandonment expense" of the condensed notes to the consolidated interim financial statements for further details) and income tax expense of US$13.3 million (see note 6 – "Income Tax Expense" of the condensed notes to the consolidated interim financial statements for further details).

Key Performance Indicators

- The average net gas equivalent sales price received for the six months to 30 June 2010 was US$7.46 /Mcfe, only 3% lower than the US$7.70/Mcfe realised in the previous corresponding period. In both periods, a high level of hedging gave protection from much lower spot gas prices which averaged US$5.03/Mcfe in the June half and US$4.29/Mcfe in the 2009 June half. Approximately 85% of gas production was hedged for the current period at an average gas swap price of US$7.55/Mcfe. Petsec Energy received an average price of US$75/bbl on oil production.
- Operating unit costs of US$4.01/Mcfe (2009: US$2.55/Mcfe) comprising lease operating expense of US$1.84/Mcfe (2009: US$1.26/Mcfe) and geological, geophysical and administrative expense of US$2.17/Mcfe (2009: US$1.29/Mcfe), increased on a unit-basis reflecting the decrease in production from the 2009 June half.
- Equally, EBITDAX margin of US$3.82/Mcfe (2009: US$5.14/Mcfe) and gross margin of 51% (2009: 67%) were reduced due to lower production.
- Depreciation, depletion, amortisation and rehabilitation (DD&A)/Mcfe increased to US$3.61/Mcfe (2009: US$2.72/Mcfe) due to downward reserve adjustments, both within the current period and the latter half of 2009.

Other Financial Data

- Acquisition, exploration and development expenditure for the six months to 30 June 2010 of US$7.4 million comprised: US$1.6 million for eight lease blocks acquired at the Central Gulf of Mexico lease sale held in March 2010; US$5.4 million for exploration (including US$3.1 million dry hole costs of the Main Pass Block 20 #4 exploration well and US$1.9 million relating to seismic acquisition costs); and US$0.4 million (including US$0.2 million for development of the South Sunrise field oil zone and US$0.2 million of costs related to the Overall Development Plan for the development of the 6.12, 6.12 South and 12.8 West oil fields in Block 22/12, Beibu Gulf, China).

Dividend

Petsec Energy Ltd does not propose the payment of a dividend in respect of the six months ended 30 June 2010.

Petsec Energy

Directors' Report and Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2010

Contents	Page

Directors' report 4
Condensed consolidated interim financial statements 10

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 2009 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*.

Petsec Energy

Directors' Report
For the six months ended 30 June 2010

The directors present their report together with the consolidated financial report for the six months ended 30 June 2010 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 2010 are:

Name	Period of directorship
Non-executive	
Mr David A. Mortimer AO	Appointed in 1985
Dr Peter E. Power	Appointed in 1999. Retired from the Board on 21 May 2010
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 derived net revenues after royalties of US$15.7 million for the six months to 30 June 2010 (2009: US$31.8 million), from production of 2,103 MMcfe (2009: 4,126 MMcfe) at an average gas equivalent sales price of US$7.46/Mcfe (2009: US$7.70/Mcfe). This represents a 51% decrease on net revenues after royalties for the previous corresponding period, resulting largely from lower production due to natural field decline and the shut-in of the Main Pass Block 270 field because of third party oil pipeline issues (refer to "section 4 Review of Operations" set out on page 5 of the Directors' report for further details).

Earnings before interest, income tax, DD&A, exploration expense and derivative gains ("EBITDAX") was US$8.0 million, 62% less than the previous corresponding period EBITDAX of US$21.2 million, primarily reflecting lower net revenues.

Depreciation, depletion, amortisation and rehabilitation (DD&A) expense for the current period was US$7.6 million, 32% lower than the previous corresponding period charge of US$11.2 million due to the combined effect of lower production and prior period impairments recognised against the carrying values of the U.S. oil and gas properties.

The underlying net loss (i.e. Earnings/(loss) before dry hole, impairment and abandonment expense, derivative gains and income tax) for the six months to 30 June 2010 was US$0.8 million, significantly down on the previous corresponding period underlying net profit of US$6.1 million, mainly due to the lower net revenues. Lease operating, GG&A, DD&A and financial expense was lower than in the corresponding half, reflecting a reduction in the size of the Company's U.S. operations, further cost cutting and a reduced level of borrowings following the repayment of the principal loan balance in December 2009 of the Company's revolving credit facility.

The Company periodically reviews the carrying values (i.e. 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 discounted cash flow to be generated from the expected production from these properties.

During the current period, the Company recognised dry hole, impairment and abandonment expense of US$16.7 million (2009: US$10.1 million). This comprised US$3.1 million in relation to Petsec Energy's share of dry hole costs of the Main Pass Block 20 #4 exploration well; US$13.5 million in impairment provisions against producing properties and undrilled leases due to reserve revisions and the difficult current Gulf of Mexico investment climate; and US$0.1 million increase in rehabilitation provisions (see note 5 – "Dry hole, impairment and abandonment expense" for further details).

The Company has also recognised impairment of its deferred tax assets of US$13.3 million due to current uncertainty and poor investment climate in the Gulf of Mexico and the Company's capacity to achieve growth in the Gulf in the near to medium term. The net loss after tax of US$30.7 million for the six months to 30 June 2010 compares to the previous corresponding period net loss after tax of US$9.1 million, due to the aforementioned factors.

3. Financial position

At 30 June 2010, the Company held total cash deposits of US$28.0 million (31 December 2009: US$25.4 million). The cash deposits included US$5.2 million of restricted cash deposits used to collateralise letters of credit which currently total US$9.2 million that guarantee certain of Petsec Energy Inc.'s future rehabilitation obligations with the U.S. Minerals Management Service*.

** Now named BOEMRE following a restructuring of the US Federal government's offshore oil and gas regulatory agency due to the Macondo well oil spill– see below.*

Total outstanding debt at 30 June 2010 amounted to US$29.3 million (31 December 2009: US$29.4 million) comprised of subordinated term debt held by Petsec Energy Inc. (PEI), maturing in 2011.

At current gas prices PEI's remaining reserves cannot be produced at a rate that will generate sufficient cash to satisfy its obligations to repay the subordinated term debt within the existing repayment schedule. The Company has appointed financial advisors in the USA and Australia to assist with financing strategies in relation to the refinancing or restructuring of the subordinated term debt that is due in equal quarterly instalments over 2011 and to assist with securing debt financing for the Company's share of the development cost of the 6.12, 6.12 South and 12.8 West oil fields in the Beibu Gulf, China.

4. Review of operations

USA, Gulf of Mexico/Onshore Louisiana

Gulf of Mexico

The deep water (5,000 feet) BP-operated Macondo well blew out on 20 April 2010, causing an explosion and fire which killed 11 people and sank the drillship, releasing oil to surface until the well was capped in mid July 2010. The oil spill caused the Federal U.S. Government to require operators to suspend all deep water wells at an appropriate point in the drilling activities, which affected 33 wells. The Federal US Government also announced a moratorium suspending any further deep water drilling (greater than 500 feet of water), and cancelled the Texas Offshore Lease Sale that was scheduled for August 2010. The US Federal Government drilling regulatory body in the Gulf of Mexico, the Minerals Management Service (MMS), has been restructured as a consequence of the oil spill, and is now called the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE). The Federal Government has announced that changes to operating and approval procedures will be made for offshore USA oil and gas drilling, development and production, including increased oil spill liability, insurance cover and bonding requirements.

While the spill has not directly affected Petsec Energy's production operations to-date, it has affected the timing of approval of repairs, development and drilling permits. The resultant changes in the permitting of wells by both U.S. Federal and Louisiana State regulatory authorities is expected to continue to cause general delays in the issue of new drilling permits for the Gulf of Mexico shelf (less than 300 feet of water), where the Company operates. Consequently, a resumption of drilling by the Company in the Gulf of Mexico is unlikely to recommence before first quarter 2011. In the interim, the Company has taken advantage of an opportunity to participate in the drilling of the already permitted State Lease 20221 No. 1 well on the Marathon Prospect in Atchafalaya Bay, Louisiana, USA (refer to the "Exploration" section set out on page 6 of the Directors' Report for further details).

Operations

Petsec Energy currently produces oil and gas only in the USA, in the offshore shallow waters the Gulf of Mexico and onshore Gulf Coast of Louisiana. It holds interests in 10 producing leases of which Main Pass Blocks 18/19, Main Pass Block 270, and Chandeleur Block 31/32 are the main fields.

The Main Pass Block 270 field was shut-in in early April 2010 due to damage to an onshore oil pipeline which is owned and operated by a third-party. Although the pipeline operator has recently advised that repairs and testing are progressing it cannot commit to a firm date for the resumption of pipeline operations. In addition to repairing its pipeline, the pipeline operator is investigating the feasibility of connecting to another pipeline system to avoid future shut-ins by providing an alternative transport route for the oil.

4. Review of Operations (continued)

USA, Gulf of Mexico/Onshore Louisiana (continued)

Operations (continued)

The production interruption has deferred approximately 0.4 Bcfe of net production from the Main Pass 270 field and reduced the Company's full year production guidance from 4.4 Bcfe to 4.0 Bcfe.

In June 2010, the Company completed the abandonment of the Vermilion Block 258 wells and platform and the site has been cleared.

At current low gas prices the Mobile Bay Area 900 series wells reached their economic limits and production was suspended in the second quarter, in the expectation the wells will be plugged and abandoned in mid 2011.

Acquisitions

The Company was the successful bidder on eight lease blocks at the Central Gulf of Mexico Lease Sale 213 held in New Orleans, Louisiana USA on 17 March 2010. The Company submitted four sole bids (100% working interest) and four joint bids with another company for a total amount of US$1,602,980, net to Petsec Energy.

The BOEMRE, formerly the MMS, has since awarded the Company all eight lease blocks.

The lease blocks contain prospects mapped by the Company ranging in size from 20 – 100 Bcfe.

Exploration

Petsec Energy's proposed 2010 drilling programme of three to five wells in 2010, targeting a total of 20 – 50 Bcfe net to the Company, was designed to test the new suite of prospects generated by the Company which are located on the Gulf of Mexico shelf (in less than 300 feet of water) in the geologic section of 12,000 to 18,000 feet and are estimated to hold potential reserves of 20 – 100 Bcfe each.

The first well of the drill programme was spud in mid April 2010 targeting potential reserves of 20 – 45 Bcfe. The well was drilled to a total depth of 3,900 metres (12,800 feet) in early June 2010, intersecting a thick channelised reservoir sequence confirming the targets predicted by the Company's 3D seismic analysis. Log analysis indicated the presence of 100 feet of gas-charged, fine grained sand reservoir which correlated to the strong seismic amplitude response. Further petrophysical analyses, however, indicated that the reservoir had very low permeability and was incapable of producing hydrocarbons at commercial rates. Consequently, the well was plugged and abandoned at a cost of US$3.1 million, net to Petsec Energy.

Whilst the low permeability was disappointing, the geologic model and seismic interpretation were confirmed and the log results will provide valuable information to support the potential of the nearby prospects. Of the Company's five prospects in closest proximity to this well, only one has been impaired by this result.

The Company does not expect to resume drilling in the Gulf of Mexico before early 2011 due to the current operating uncertainty in the Gulf, following the Macondo deep water oil spill. In the interim period the Company has been and continues to review already permitted wells, which may be available to the Company for farm-in.

On 11 August 2010, the Company announced that it had taken a 10% working interest in the drilling of the Louisiana State Lease 20221 No. 1 well on the Marathon Prospect being drilled in shallow waters along the Louisiana Gulf Coast, USA, with Phoenix Exploration as operator. The 18,800 feet (5,730 metre) exploratory well, which was already permitted prior to the deep water oil spill incident, commenced drilling on 8th August 2010 and is located in the Atchafalaya Bay in south Louisiana in approximately 8 feet (2.4 metre) water depth. Drilling operations commenced on 8 August 2010 and are expected to take 75 days to reach total depth and log. Petsec's estimated net costs for drilling and logging are US$1.2 million.

The reserve potential for the Marathon Prospect ranges from 20 to 78 billion cubic feet of gas (Bcfg).

4. Review of operations (continued)

USA, Gulf of Mexico/Onshore Louisiana (continued)

Exploration (continued)

The Marathon Prospect is adjacent to the Potomac well, a significant discovery that was recently drilled and tested by Phoenix Exploration and is being developed with a production facility capable of handling 100 million cubic feet of gas per day (MMcfgd). First production from the Potomac well is expected in September 2010 at a rate of 25 MMcfgd.

The Marathon Prospect is located in an adjacent and separate fault block, along the same structural fault trap as the Potomac discovery. If the Marathon well is successful, it will utilise the aforementioned production facilities.

China, Block 22/12 Beibu Gulf

Block 22/12 is a substantial asset of the Company, represented not only by its existing oil reserves but also the remaining high exploration potential.

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

Petsec Energy owns a 25% working interest in five oil fields in Block 22/12, Beibu Gulf, China. The fields have been estimated to hold potentially recoverable reserves in the range of 43 – 124 million barrels of oil (P50 – P10) of which the Company's share is 5 – 15 million barrels of oil (MMbbl). Eight undrilled prospects in Block 22/12 have been estimated to hold an additional 100 MMbbl gross potential.

As previously reported, CNOOC in conjunction with the joint venture (JV) completed a feasibility study in April 2009 for the development of the 6.12, 6.12 South and 12.8 West oil fields, which have been estimated to hold 27 – 52 MMbbl gross recoverable oil (P50 – P10), based on sharing production, pipeline and oil storage facilities with CNOOC on its adjacent 12.1.1 oil field. The technical section, of the overall development plan (ODP) that was commenced by CNOOC in June 2009, was completed and delivered to the JV in December 2009.

Commercial negotiations between the JV and CNOOC over access terms to CNOOC's 12.1.1 oil fields processing, transport, storage and sales facilities were concluded in June 2010 with the signing of a Commercial Negotiation Memorandum, which specifies the terms and conditions for the joint development of the three oil fields. These terms were incorporated into a Supplemental Development Agreement (SDA) which will attach to the Block 22/12 Petroleum Contract (PC). The PC controls operations in the block and the relationship of the JV with CNOOC, who has accepted operatorship of development and production of the three fields and has elected, according to the PC, to participate in the development, backing-in for its full 51% share of the project. Consequently, the Company's share of the development will be 12.25%. On 24 August 2010, the JV participants in conjunction with CNOOC signed the Supplemental Development Agreement (SDA).

The agreed commercial terms have been incorporated into a revised ODP which has been subject to Chinese Expert Review. CNOOC approval of the ODP is anticipated shortly which will allow the JV to make a Final Investment Decision (FID) and lodgement of the ODP for formal Chinese Government approval. Start of development is then expected to commence resulting in first oil in the second half of 2012.

The Company's share of the likely development cost is estimated to be in the order of US$35 million, a large portion of which is anticipated to be debt financed. The Company has commenced discussions with potential financiers with positive early indications.

Exploration prospects with 20 MMbbl gross potential that can be accessed from the 6.12 South platform are expected to be tested at the time of development drilling in 2011/2012.

Development of the 12.8 East & 12.3.1 Oil Fields

Preliminary feasibility studies for the development of the 12.8 East and 12.3.1 oil fields, which have been estimated to contain recoverable reserves ranging from 15 – 72 MMbbl (P50 – P10), commenced in December 2009 and development of these two oil fields is anticipated to commence in 2011/2012.

Petsec Energy

Directors' Report (continued)

For the six months ended 30 June 2010

Oil and gas reserves – USA and China

Petsec Energy's estimated proved and probable (2P) USA oil and gas reserves net to the Company at 30 June 2010 were 14.0 Bcfe, adjusted for the LP Theriot well in the South Sunrise field, which loaded up and ceased production on 11 August 2010. Installation of a compressor is planned in late August to attempt to bring the well back into production.

Estimates of China proved and probable (2P) reserves for the 6.12, 6.12 South and 12.8 West oil fields under the current ODP, net to the Company, following CNOOC's decision to participate for 51%, (Petsec 12.25%), are expected to be in the range of 3.1 to 3.4 MMbbl and up to 6.4 MMbbl on a 3P basis.

USA Reserves	**Petsec Energy Inc.** Estimated Recoverable Proved and Probable Reserves *Gas Equivalent Bcfe*
Reserves at 1 January 2010	**18.9**
Net additions	-
Revisions	(2.8)
Production	(2.1)
USA Reserves at 30 June 2010	**14.0**

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

On 11 August 2010, the Company announced that it had taken a 10% working interest in the drilling of the State Lease 20221 No. 1 well on the Marathon Prospect. The 18,800 feet (5,730 metres) exploratory well is located in Atchafalaya Bay in South Louisiana in approximately 8 feet (2.4 metres) water depth. Drilling operations commenced on 8 August 2010 and are expected to take 75 days to reach total depth and log. The net costs to the Company for drilling and logging are estimated at US$1.2 million.

6. Lead auditor's independence declaration

The Lead Auditor's Independence Declaration is set out on page 9 and forms part of the Directors' Report for the six months ended 30 June 2010.

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, 31 August 2010

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 2010 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

Paul Zammit

Paul Zammit
Partner

Sydney

31 August 2010

Petsec Energy

Consolidated interim statement of comprehensive income

For the six months ended 30 June 2010

	Note	Six months to 30 June 2010 US$'000	30 June 2009 US$'000
Revenues from sale of oil & gas and royalties		**17,936**	34,553
Royalties paid		**(2,252)**	(2,789)
Net revenues after royalties		**15,684**	31,764
Other income and expenses		**785**	(50)
Lease operating expenses		**(3,868)**	(5,195)
Geological, geophysical and administrative expenses		**(4,562)**	(5,331)
EBITDAX [1]		**8,039**	21,188
Depreciation, depletion, amortisation and rehabilitation		**(7,599)**	(11,238)
EBITX [2]		**440**	9,950
Seismic and repair expense		**(511)**	(1,028)
Dry hole, impairment and abandonment expense	5	**(16,658)**	(10,091)
EBIT [3]		**(16,729)**	(1,169)
Derivative gains [4]		**708**	-
Financial income		**277**	76
Financial expenses		**(1,719)**	(2,940)
Net financial income/(expense)		**(1,442)**	(2,864)
Profit/(loss) before income tax		**(17,463)**	(4,033)
Income tax benefit/(expense)	6	**(13,278)**	(5,017)
Profit/(loss) for the period		**(30,741)**	(9,050)
Other comprehensive income/(loss)			
Foreign exchange translation differences		**(1,116)**	530
Cash flow hedges, net of tax		**(1,421)**	(1,970)
Total comprehensive income/(loss) for the period		**(33,278)**	(10,490)
		US$	US$
Earnings/(loss) per share			
Basic and diluted earnings/(loss) per share		**(0.13)**	(0.06)

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) and derivative gains.

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

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

4 Derivative gains relate to 2011 gas collar hedge contracts that are not hedge accounted.

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

Petsec Energy

Consolidated interim statement of changes in equity

For the six months ended 30 June 2010

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 2009	170,276	1,658	8,344	951	(95,341)	85,888
Total comprehensive income for the period						
Profit/(loss)	-	-	-	-	(9,050)	(9,050)
Other comprehensive income						
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
Balance at 1 January 2010	**184,027**	**2,632**	**2,744**	**789**	**(110,240)**	**79,952**
Total comprehensive income/(loss) for the period						
Profit/(loss)	**-**	**-**	**-**	**-**	**(30,741)**	**(30,741)**
Other comprehensive income/(loss)						
Foreign exchange translation differences	**-**	**(1,116)**	**-**	**-**	**-**	**(1,116)**
Cashflow hedges, net of tax	**-**	**-**	**(1,421)**	**-**	**-**	**(1,421)**
Total other comprehensive income/(loss)	**-**	**(1,116)**	**(1,421)**	**-**	**-**	**(2,537)**
Total comprehensive income/(loss) for the period	**-**	**(1,116)**	**(1,421)**	**-**	**(30,741)**	**(33,278)**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Vesting of share options	**582**	**-**	**-**	**(582)**	**-**	**-**
Share-based payments expense	**-**	**-**	**-**	**124**	**-**	**124**
Total transactions with owners	**582**	**-**	**-**	**(458)**	**-**	**124**
Balance at 30 June 2010	**184,609**	**1,516**	**1,323**	**331**	**(140,981)**	**46,798**

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

Petsec Energy

Consolidated interim balance sheet

As at 30 June 2010

	Note	30 June 2010 US$'000	31 December 2009 US$'000
ASSETS			
Current assets			
Cash and cash equivalents		**22,763**	25,356
Restricted deposits [1]		**2,082**	-
Trade and other receivables		**1,747**	4,302
Fair value of derivative financial instruments		**1,960**	4,222
Prepayments		**2,013**	1,630
Total current assets		**30,565**	35,510
Non-current assets			
Restricted deposits [1]		**3,118**	-
Property, plant and equipment		**321**	328
Exploration, evaluation and development expenditure – Tangible		**58,334**	75,272
Exploration and evaluation expenditure – Intangible		**7,573**	6,917
Intangible assets – Software		**25**	48
Deferred tax assets		**-**	12,513
Fair value of derivative financial instruments		**229**	69
Total non-current assets		**69,600**	95,147
Total assets		**100,165**	130,657
LIABILITIES			
Current liabilities			
Trade and other payables		**10,767**	6,278
Loans and borrowings	8	**14,599**	300
Rehabilitation provisions		**3,881**	3,624
Employee benefits provisions		**171**	184
Total current liabilities		**29,418**	10,386
Non-current liabilities			
Loans and borrowings	8	**14,061**	28,134
Rehabilitation provisions		**9,529**	11,808
Employee benefits provisions		**359**	377
Total non-current liabilities		**23,949**	40,319
Total liabilities		**53,367**	50,705
Net assets		**46,798**	79,952
EQUITY			
Issued capital		**184,609**	184,027
Reserves		**3,170**	6,165
Accumulated losses		**(140,981)**	(110,240)
Total equity		**46,798**	79,952

[1] Relates to cash used to collateralise letter of credit amounts in excess of the Company's bank borrowing base facility.

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

Petsec Energy

Consolidated interim statement of cashflows

For the six months ended 30 June 2010

	Note	30 June 2010 US$'000	30 June 2009 US$'000
Cashflows from operating activities			
Cash receipts from customers		**21,090**	35,881
Cash payments for royalties		**(2,385)**	(2,428)
Cash payments to suppliers and employees		**(11,013)**	(9,050)
Interest received		**277**	79
Interest paid		**(1,198)**	(2,274)
Restricted deposits[1]		**(5,200)**	-
Net cash from operating activities		**1,571**	22,208
Cashflows from investing activities			
Payments for property, plant and equipment		**(122)**	(222)
Payments for exploration, evaluation and development expenditure		**(3,046)**	(8,362)
Proceeds from sale of assets		**5**	391
Net cash from investing activities		**(3,163)**	(8,193)
Cashflows from financing activities			
Debt facility repayments		**(150)**	(12,150)
Net cash from financing activities		**(150)**	(12,150)
Net increase/(decrease) in cash and cash equivalents		**(1,742)**	1,865
Cash and cash equivalents at 1 January		**25,356**	13,735
Effects of exchange rate changes on cash held		**(851)**	655
Cash and cash equivalents at 30 June		**22,763**	16,255

[1] Relates to cash used to collateralise letter of credit amounts in excess of the Company's bank borrowing base facility.

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

Condensed notes to the consolidated interim financial statements

For the six months ended 30 June 2010

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 2010 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 2009 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 2009.

This consolidated interim financial report was approved by the Board of Directors on 31 August 2010.

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 2009.

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 2009.

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 2010, the consolidated entity recognised total dry hole, impairment and abandonment expense of US$16,658,000 comprising:

- US$3,105,000 predominantly in relation to the Company's share of dry hole costs of the Main Pass Block 20 #4 well;
- US$10,432,000 net impairment provision recognised mainly against the Main Pass 18/19 and the Main Pass 270 fields following reductions in internal reserve estimates based on well performance;
- US$3,043,000 net impairment provision recognised against a number of undrilled leases reflecting the current difficult investment environment in the Gulf of Mexico;
- US$78,000 net increase in rehabilitation provisions.

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

During the previous corresponding period, 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 the Petsec Energy estimate of recoverable reserves from the 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.

6. Income tax expense

Under Australian Accounting Standards, the Company 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, the Company has recognised deferred tax assets in respect of its USA operations. No deferred tax assets have been recognised to-date in relation to either the Australia or China 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.

During the current period, the Company determined that a provision of US$13,278,000 was required against the remaining deferred tax balance previously brought to account until such time that the US operations can regain sustained profitability.

In the previous corresponding period, the Company recognised a provision of US$5,870,000 against deferred tax assets due to the impact of lower gas prices on current projections of future taxable profits, including US$853,000 against the tax benefit derived within the current period and US$5,017,000 in respect of deferred tax assets previously brought to account.

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 6,245,500 options outstanding under the Employee Option Plan. In determining potential ordinary shares, 5,607,500 are not dilutive.

During the current period, 2,146,000 options were granted and 1,600,000 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 2010 was based on the loss attributable to ordinary shareholders of US$30,741,000 (2009: Loss of US$9,050,000) and a weighted average number of ordinary shares outstanding during the six months ended 30 June 2010 of 231,283,622 (2009: 154,188,841), calculated as follows:

Profit/(loss) attributable to ordinary shareholders

	Consolidated Six months to 30 June	
	2010	2009
	US$'000	US$'000
Loss for the period	**(30,741)**	(9,050)

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2010

7. Earnings per share (continued)

Weighted average number of shares (basic)

	Consolidated Six months to 30 June	
In thousands of shares	**2010**	2009
Issued ordinary shares at 1 January	**231,284**	154,189
Effect of shares issued during the half year	**-**	-
Weighted average number of ordinary shares at 30 June	**231,284**	154,189

Weighted average number of shares (diluted)

	Consolidated	
In thousands of shares	**2010**	2009
Weighted average number of ordinary shares (basic) at 30 June	**231,284**	154,189
Effect of share options on issue	**71**	113
Weighted average number of ordinary shares (diluted) at 30 June	**231,355**	154,302

Earnings per share

	Consolidated	
In USD dollars	**2010**	2009
Basic and diluted earnings/(loss) per share	**(0.13)**	(0.06)

8. Loans and borrowings

Funding for proposed development of Block 22/12, Beibu Gulf, China

During the half year management commenced discussions with various financial institutions in relation to financing alternatives in respect of the Group's share of development costs. These discussions are on-going.

Funding for U.S. operations

All of the consolidated entity's borrowings have been incurred by Petsec Energy Inc. (PEI), a wholly owned subsidiary. These borrowings are secured over the assets of PEI. Petsec Energy Ltd has not provided any guarantee or security in respect of the borrowings.

As of 30 June 2010, PEI had available debt facilities of US$33.25 million (December 2009: US$44.3 million) comprised of a US$4.0 million (December 2009: US$14.9 million) revolving facility and a US$29.25 million (December 2009: US$29.4 million) secured term loan under a second lien debt facility.

The following table provides a summary of the outstanding term loan:

	30 June 2010 US$'000	31 December 2009 US$'000
Current liabilities		
Secured bank loans	**14,700**	300
Transaction costs	**(101)**	-
Reported loans and borrowings	**14,599**	300

8. Loans and borrowings (continued)

Non-current liabilities		
Secured bank loans	**14,550**	29,100
Original issue discount	**(84)**	(124)
Transaction costs	**(405)**	(842)
Reported loans and borrowings	**14,061**	28,134
Total loans and borrowings	**28,660**	28,434

At balance date, there were no funds drawn down under the revolving facility and it is used solely as security to support US$4.0 million of outstanding letters of credit (December 2009: US$8.3 million). In addition, PEI has issued a further US$5.2 million of letters of credit that are fully secured by restricted cash on deposit. All letters of credit support PEI's future plug and abandonment obligations and other contingent obligations, including environmental contingencies, in connection with PEI's oil and gas operations.

All amounts outstanding under the debt facilities are secured by mortgages over all of PEI's oil and gas properties.

As at 30 June 2010, PEI was in compliance with all covenants under both the revolving and second lien debt facilities.

The revolving facility matures on 8 November 2010. In the absence of entering into a new or amended facility with sufficient credit capacity, PEI expects that it will be required to deposit an additional US$4.0 million restricted cash to fully support the US$9.2 million in outstanding Letters of Credit.

The second lien debt facility matures on 8 November 2011. This loan has scheduled repayments of US$75,000 on 30 September 2010 and 31 December 2010, with the balance of US$29.1 million payable in equal quarterly instalments on 31 March, 30 June, 30 September and 8 November 2011. At current gas prices PEI's remaining reserves cannot be produced at a rate that will generate sufficient cash to satisfy its obligations to repay the second lien debt facility within the existing repayment schedule. Accordingly, PEI is preparing for discussions with the second lien lender to reschedule or restructure these debt repayments and has appointed a financial advisor to assist it with these negotiations. Restructuring of the facility might involve rescheduling the repayment period, or sourcing alternative financing by way of debt, equity or sale of assets or a combination of each. Whilst the carrying value of PEI's oil and gas properties are supported by projections of future cash flows from operations, the disposal of such an asset may be at an amount that is less than the carrying value as at 30 June 2010.

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 2009.

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 2010, grants of 600,000 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 2010	Six months to 30 June 2009
Weighted average fair value at measurement date	$0.03	A$0.02
Weighted average share price	$0.22	A$0.14
Weighted average exercise price	A$0.23	A$0.20
Expected volatility (expressed as weighted average used in the modelling under Black-Scholes model)	62.83%	92.35%
Expected option life (expressed as weighted average used in the modelling under Black-Scholes model)	3.5 years	3.4 years
Expected dividends	-	-
Risk-free interest rate (based on national government bonds)	4.66%	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 2009.

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.

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		China		Consolidated	
	30 June 2010 US$'000	30 June 2009 US$'000	30 June 2010 US$'000	30 June 2009 US$'000	30 June 2010 US$'000	30 June 2009 US$'000	30 June 2010 US$'000	30 June 2009 US$'000
Oil & gas sales and royalties	-	-	17,936	34,553	-	-	17,936	34,553
Royalties paid	-	-	(2,252)	(2,789)	-	-	(2,252)	(2,789)
Segment net revenues after royalties	-	-	15,684	31,764	-	-	15,684	31,764
Segment net profit/(loss) before tax	(574)	(1,268)	(16,658)	(2,488)	(231)	(277)	(17,463)	(4,033)
Income tax benefit/(expense)							(13,278)	(5,017)
Net profit/(loss) for the period							(30,741)	(9,050)

* There are no inter-segment sales.

Petsec Energy

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2010

11. 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 2010 US$'000	As at 31 December 2009 US$'000
Exploration, evaluation and development expenditure – Tangible:		
Leases now in production		
Producing leases – at cost	**142,368**	141,307
Less: accumulated amortisation and impairment	**(102,833)**	(91,389)
	39,535	49,918
Represented by the following lease carrying values:		
- Main Pass 19	**8,401**	15,205
- Mobile Bay Area	**-**	354
- Main Pass 270	**30,920**	34,359
- Onshore Louisiana	**214**	-
	39,535	49,918
Leases not yet in production		
- Block 22/12 Beibu Gulf, China	**11,834**	11,630
- Other Gulf of Mexico leases	**97**	-
	11,931	11,630
Total exploration, evaluation and development expenditure – Tangible	**51,466**	61,548
Exploration and evaluation expenditure – Intangible:		
Not in production		
- Block 22/12 Beibu Gulf, China	**1,301**	1,301
- Onshore Louisiana	**2,814**	2,814
- Other Gulf of Mexico leases	**3,443**	314
Total exploration, evaluation and development expenditure – Intangible	**7,558**	4,429

Liabilities	As at 30 June 2010 US$'000	As at 31 December 2009 US$'000
Rehabilitation provision:		
- Main Pass 19	**1,278**	1,217
- Mobile Bay Area	**4,517**	3,463
- Main Pass 270	**318**	300
- Onshore Louisiana	**730**	588
- Other Gulf of Mexico leases	**-**	57
	6,843	5,625

Petsec Energy

Condensed notes to the consolidated interim financial statements (continued)
For the six months ended 30 June 2010

11. 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 2010 US$'000	30 June 2009 US$'000
- Main Pass 19	**(5,436)**	217
- Mobile Bay Area	**(978)**	(3,398)
- Main Pass 270	**(2,127)**	(542)
- Block 22/12 Beibu Gulf, China	**(231)**	(277)
- Onshore Louisiana	**493**	(3,967)
- Other Gulf of Mexico leases	**124**	(314)
	(8,155)	(8,281)

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 2010:

	Interest held 30 June 2010	Interest held 30 June 2009
- 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 80.00%**	46.21% to 87.50%
- Other Gulf of Mexico leases	**50.00% to 75.00%**	25.00% to 54.00%

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	
Assets	**30 June 2010 US$'000**	31 December 2009 US$'000
Exploration, evaluation and development expenditure – Tangible:		
Leases now in production		
Producing leases – at cost [1]	**64,301**	107,379
Less: accumulated amortisation [1]	**(57,582)**	(94,175)
	6,719	13,204
Represented by the following lease carrying values:		
- Main Pass 18	**5,408**	9,826
- Chandeleur 31/32	**1,311**	3,378
	6,719	13,204
Not in production		
- Spare equipment	**144**	503
- Other Gulf of Mexico leases	**5**	17
	149	520
Total exploration, evaluation and development expenditure – Tangible	**6,868**	13,724
Exploration and evaluation expenditure - Intangible :		
Not in production		
- Main Pass 91	**-**	1,247
- North Padre Island 929/934	**-**	1,241
- Other Gulf of Mexico leases	**15**	-
Total exploration and evaluation expenditure – Intangible	**15**	2,488

	As at	
	30 June 2010 US$'000	31 December 2009 US$'000
Non-current liabilities		
Rehabilitation provision:		
- Vermilion 258	**170**	3,081
- Main Pass 18	**130**	126
- Main Pass 20 [2]	**3,525**	3,996
- Chandeleur 31/32	**2,742**	2,604
	6,567	9,807

1 Reflects the removal of costs and associated amortisation of the Vermilion 258 gas field which ceased production in March 2009 and was plugged and abandoned in June 2010.

2 The Main Pass 20 gas field ceased production in August 2009 and is expected to be plugged and abandoned by the end of 2011.

12. Wholly owned areas of interest (continued)

	Six months to	
	30 June 2010 US$'000	30 June 2009 US$'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	**57**	2,970
- Vermilion 258	**(30)**	(4,113)
- Main Pass 18	**(2,458)**	(729)
- Main Pass 20	**(190)**	(924)
- Main Pass 91	**(1,291)**	-
- North Padre 929/934	**(1,241)**	-
- Spare equipment	**(359)**	-
- Main Pass 7	**-**	(956)
	(5,512)	(3,752)

13. 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 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 2010, PEI was contingently liable for US$10,175,000 of surety and supplemental bonds (2009: US$12,200,000) issued through a surety company to secure those obligations. US$9,184,000 of these bonds were collateralised by letters of credit (2009: US$6,625,000).

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

On 11 August 2010, the Company announced that it had taken a 10% working interest in the drilling of the State Lease 20221 No. 1 well on the Marathon Prospect. The 18,800 feet (5,730 metres) exploratory well is located in Atchafalaya Bay in South Louisiana in approximately 8 feet (2.4 metres) water depth. Drilling operations commenced on 8 August 2010 and are expected to take 75 days to reach total depth and log. The net costs to the Company for drilling and logging are estimated at US$1.2 million.

Petsec Energy

Directors' Declaration

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

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

(i) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2010 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, 31 August 2010

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 2010, consolidated interim statement of comprehensive income, consolidated interim statement of changes in equity and consolidated interim statement of cash flows for the interim period ended on that date, notes 1 to 15 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the interim period.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such 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 2010 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 a 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 2010 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
31 August 2010