

PETSEC ENERGY LTD

ACN 000 602 700

Annual General Meeting 18 May 2011

Good morning ladies and gentlemen, welcome to the 2011 Annual General Meeting of Petsec Energy Ltd.

We are all very much aware that the past three years have been a difficult time for the Company's US operations in the Gulf of Mexico, due to the Global Financial Crisis, a halving of US natural gas prices, the impact of Hurricane Ike and the consequences of the Macondo oil spill. As a result of these negative impacts, our prior business plan in the Gulf of Mexico shelf of exploration and production of small natural gas targets generally in the 5 to 10 Bcfe range in shallow water and shallow geologic section has become uneconomic and the value of our past discoveries deeply eroded.

The Company's response to these major changes in trading conditions has been to repay all debt, increase the size of our exploration targets, increase our exposure to oil, transition our exploration and production focus to the Gulf Coast and onshore Louisiana and Texas and engage in the unconventional resource play of shale oil.

Removal of debt

Over the past three years the Company has become debt free through the elimination of US\$100 million of debt, comprised of approximately US\$70 million of short term debt paid out of cash flow, and an agreement to settle the US\$29.2 million of term debt due over 2011. The consideration is a payment of US\$12 million cash and a small interest in a number of our producing and non producing leases. Completion of the settlement is anticipated to take place in late May 2011.

Big/ deep conventional gas/ condensate/ oil targets

We have set a minimum prospect target size of 20 Bcfe and have relinquished all exploration prospects smaller than that minimum. Consequently we have reduced our lease inventory from sixty to the current eighteen. We now hold ten high quality, high impact prospects each of which range in size from 20 to 200 Bcfe and are rich in hydrocarbon liquids. Total mapped potential for these prospects ranges from 400 to 750 Bcfe. These larger prospects are to be found much deeper than the 3,000 to 12,000 feet of geologic section we had previously explored. Our prospects are now generally located in 15,000 to 22,000 feet of geologic section. The sizeable Marathon gas/condensate discovery the Company participated in during the 2nd half 2010, onshore Louisiana was drilled to 18,800 feet and the Marathon #2 well, currently drilling ahead at 15,000 feet, has a target depth of 21,000 feet.

Transition to Oil

The US natural gas price over the past two years has halved from approximately US\$8/Mcf to less than US\$4/Mcf, mainly because of the success of new technologies in horizontal drilling in extracting gas from shales. The price ratio of oil to gas is now 25:1 while the energy equivalent ratio is 6:1. Historically, pricing of gas was close to its energy equivalence to oil. We take the view that gas is unlikely to move much above the US\$4 to US\$5/Mcf price range within the next three years so we are directing our attention more to oil.

Oil-Conventional

We have restricted our selection of new conventional gas targets to those which are likely to have higher hydrocarbon liquids content and hold associated oil. We have also developed a number of potentially large oil subsalt plays in the Gulf Coast and near onshore areas which we hope to test later in 2012.

Oil-Unconventional

However, we believe the quickest and least risky acquisition of sizeable oil reserve additions is through shale oil, onshore Louisiana and Texas. The advance of horizontal drilling, fracking and completion technologies which has given us a glut of gas, has in recent years allowed the investigation of profitable extraction of oil from shales.

We have formed a joint venture with an experienced Eagle Ford shale player and have been conducting a regional review over the past 9 months to identify areas of shale oil potential which are not being actively explored. The Eagle Ford has developed into a viable oil play only over the past two years, indicating reserves of 250,000 to 400,000 bbl/well for each 120 acre spacing, highly repeatable success, finding and development costs of US\$20/bbl, and operating cost of less than US\$3/bbl. Acreage leased at US\$100 to US\$200/acre two years ago have been on sold in recent times at US\$10,000 to US\$12,000/acre.

Our strategy is to be an “early mover” in areas where the shale source rocks are liquid rich and to acquire high quality acreage before it becomes extremely competitive and costly to lease. Initial leasing in a trend may take place at rates of US\$100/acre (more or less), but once a play has been proven and competition becomes heated, rates can climb to US\$10,000/acre (or more).

We expect to be in a position to start acquiring leases in the next few months and to be drilling within six months. Clearly the play and location of the acreage is not something that we can discuss openly until our position is secured.

Strategy for Growth

New Business Plan 2011-2013

The board has decided that the US\$37 million of funding required for the China development of a net 2.94 Mm bbl in the 6.12/12.8W oil fields, would most likely deliver superior and earlier returns if applied to shale oil operations in the USA. Consequently, the Company

proposes to put the China asset up for sale, the process and completion of which could take four months. For the shale oil plays in the USA we have set ourselves the target objective of adding net reserves of greater than 35 million barrels of oil in the period.

For the US conventional plays, we hold ten prospects with mapped potential of 400 to 750 Bcfe which we intend to test over the next three years. These and the subsalt plays we are developing will provide us with the potential to achieve our target objective for the period of adding net reserves of greater than 100 Bcfe.

2011 Plan

We expect to participate in three to five conventional wells in 2011 in the Gulf Coast and the Gulf of Mexico shelf, mainly in the 4th quarter, exposing the Company to a net 10 to 30 Bcfe of gas/condensate. One to two wells will be drilled on the Marathon gas/condensate discovery made in October of last year, and at least one high impact Gulf of Mexico well. With the shale oil plays we expect to begin acquiring leaseholds in the 3rd quarter and drilling in the 4th quarter with the target of determining reserves of some 15 million bbls of oil.

In conclusion, we believe that execution of our new business strategy will restore significant value to the Company's shareholders, and we earnestly look forward to an early realisation of that value.

Thank you, ladies and gentlemen.

Terrence N Fern

Chairman