PETSEC ENERGY LTD

ACN 000 602 700

Annual General Meeting
20 May 2009

Good morning ladies and gentlemen, welcome to the 2009 Annual General Meeting of Petsec Energy Ltd.

The 2008 global financial crisis has had a resounding impact on all sectors of the economy, contributing to a collapse in oil and gas prices and a corresponding drop in the share price of all energy companies.

Oil prices have fallen some 75% from their July 2008 peak of US$150/bbl for West Texas Intermediate crude oil to a low of US$32/bbl in late 2008. The price then fluctuated around US$40/bbl in 2009 until last month, when a relief rally in stock markets took oil to the high $50s per barrel.

Current world oil inventories are high and consumption has fallen as world economies contract. OPEC has made significant production cuts over the past six months which appear to be stabilising oil prices. So far, they are reasonably maintaining quotas and may well stabilize oil in the $40-50/bbl range.

The extent of the current world recession will in large part dictate the demand and therefore the price of oil. Current industry thinking has oil at US$40/bbl average for 2009, rising thereafter to perhaps US$60/bbl.

Natural gas in the USA did not follow the price of oil to the same extent, being more closely related to US gas supply and the state of the US economy. The gas price peaked at US$14/Mcf at the time that oil peaked at US$150/bbl. Currently Nymex, Henry Hub delivery gas is trading at 2003 prices of around US$4/Mcf, having tested the low US$3's /Mcf.

The supply of natural gas in the USA has significantly increased in the past year because of the success of non-conventional sources of gas, particularly gas from shale. Further supply is coming from LNG. The fall in the gas price has mirrored the decline in demand for electricity due to the fall in manufacturing demand.

The US energy industry response to these much lower oil and gas prices, limited credit and equity, is reflected in a general stoppage of drilling. The number of operating drilling rigs in the USA has declined from 2,100 last year to below 900 currently, the level seen in 2002. This dramatic reduction of drilling will translate into a reduction in supply which, despite the reduction in demand, is anticipated to support a gas price of US$3.50 to US$4/Mcf until the US economy recovers, which may be two plus years. While spot Nymex gas may fall to as low as US$2.50/Mcf in this Northern summer, the forward curve over the past few months has been showing prices just above the US$6/Mcf mark for 2010/2011.

Petsec Energy strategy for 2009

We hedged our US production in 2007/2008 to the maximum amount our bankers would allow, stopped drilling in the second half of 2008, reduced our expenditures as best we could while maintaining our core team of people, and applied our excess cashflow to repaying debt. Our net debt was down to US$36.8 million at the end of 2008, a 52% reduction from US$76.8 million at the end of 2007, and our net debt currently is about US$27 million.

We will conserve our capital and apply our energies to the acquisition of producing properties predominately in the US where the market, infrastructure and administrative rules allow profitable operations at current commodity prices. We plan to have our best prospects drill-ready when service costs have fallen to allow profitable exploration with current gas prices. We don't expect to drill until late 2009, but we have a number of very good sized prospects ready to drill.

USA acquisitions

Our acquisition targets would be less than US$100 million, funded in large part by our banking facilities, underwritten by hedging. We will seek to extend our reach to larger targets, of the order of US$200 to US$500 million, by forming a joint venture of like-minded entities that see that the current state of the market will offer many compelling opportunities to acquire producing reserves in the Gulf of Mexico.

Petsec Energy established an acquisitions team in 2007 and set up an office in Houston in response to escalating service costs which had risen at a higher rate than oil and gas prices, rendering our typical exploration plays on the Gulf of Mexico Shelf uneconomic. Since the collapse of oil prices in the second half of last year we have strengthened our team with a VP of Business Development and have added a highly experienced, entrepreneurial Houston based oil man to the board, Mike Harvey. The members of our acquisitions team and our technical team in Lafayette have over 30 years experience in the Gulf of Mexico and Gulf Coast, all with demonstrable success in profitable acquisitions.

We made our first acquisition of producing assets in November 2007 of 25 Bcfe of developed reserves for US$104 million. The acquisition from LLOG, a very successful Gulf of Mexico player who was moving off the Shelf into deeper waters of the Gulf, was predominately in the Main Pass area, next to existing Petsec Energy production. We have been pleased with the overall performance of the acquisition, which to date has returned 70% of its purchase price with about 60% of the reserves still to be produced.

We are looking in those areas offshore Louisiana over which we have data and technical experience: West Cameron, Vermilion, Ship Shoal and Main Pass. We are seeking good quality, high rate production, which lends itself to hedging, with exploitation and exploration potential that can be accessed from the existing platforms.

While we are seeing a reasonable deal flow now, with lower gas prices expected in the US summer, possibly as low as US$2.50/Mcf, and the bi-annual redetermination of borrowing bases in May/June (which will reflect lower bank accepted gas prices than in late 2008), we expect that a large number of properties will become available.

China developments

While acquisition of producing properties is the current strategy for the USA, China provides the opportunity of development of a significant amount of oil at a time when service costs will be low.

Petsec Energy owns a 25% working interest in five oil fields covered by development areas in Block 22/12, Beibu Gulf, China, representing 10.6 to 31 million barrels of oil. Three of these fields, 6-12, 6-12 South and 12-8 West hold 27.2 to 52 million barrels of recoverable oil and have been subject to a feasibility study conducted by CNOOC and the JV which supports the lodgement of an overall development plan (ODP) in June, expected approval in September, a final investment decision in the second half of 2009, with a start of development in the fourth quarter of 2009 and first production in early 2011.

The fields had been declared commercial in February 2007, and studies using a floating production storage and offloading vessel (FPSO) were progressed as CNOOC (China National Offshore Oil Corporation) stated it had no excess capacity in its nearby 12-1-1 processing platform. In September 2008, due to the number of exploration successes CNOOC had enjoyed to the north west of our block, CNOOC proposed that the development of a shared processing platform and pipeline to Weizhou Island may be the best economic outcome for all parties. CNOOC in concert with the JV commenced a feasibility study which was completed last month.

Even though oil prices have collapsed, so too have costs of steel, construction and services. The estimated capex of US$200 million in February 2007 to construct two well head platforms, drill 11 wells and connect by pipeline to a processing facility for this development of initial production rates of 14,500 barrels of oil per day, rose to US$450 million by June 2008. Petsec estimates that in the current environment, the development cost is of the order of US$150 to US$200 million, which should accommodate an economic development at oil prices of US$40/bbl.

It is our expectation that CNOOC will participate to its full 51% right of back-in interest which would reduce Petsec Energy’s net interest to 12.25%. The Company would receive its past expenditure of some US$28 million out of 62.5% of CNOOC’s future cashflow.

2008 performance review

Having outlined our strategies for 2009, I will conclude with a quick appraisal of our performance for 2008, which you can read in detail in the Director’s Report.

2008 was our strongest year for production and cashflow since restarting our operations in the Gulf of Mexico in 2002. Production was up 50% on the previous year to 12.1 Bcfe, net revenues of US$105.3 million were up 65% and cashflow (EBITDAX) of US$79.6 million was up 73%, reflecting a 10% increase in received gas prices of US$8.70/Mcf for the year. The increase in production came from the start of production from the six discoveries in Mobile Bay and the purchase of producing properties in November 2007.

The operations side of the equation was satisfactory, but growth of reserves was not. We drilled six wells for a reserves addition of 1.3 Bcfe, and suffered downward revisions in existing reserves of 6.6 Bcfe because of poor reservoir performance. The two wells drilled in China discovered no economic oil and incurred significant cost overruns. One well was drilled in the Gulf of Mexico and found gas; however, the cost structure at the time would not permit economic development therefore the well was plugged and abandoned. Three wells were drilled onshore Louisiana, two of which were successful in discovering gas and oil in the Moonshine Project area and were completed for production; again, the cost structure at the time necessitated taking an impairment on the carrying value of both these discoveries. The fall in gas and oil prices has caused us to book impairments at 31 December 2008 for some of our producing assets and for most of the Focus JV leases and Moonshine Project leases.

Petsec Energy estimated 2P reserves booked at year-end were 51.9 Bcfe, being 30.4 Bcfe of developed reserves in the USA and 21.5 Bcfe (3.6 million barrels) undeveloped in China, assuming CNOOC backs-in for its full entitlement of 51% for the proposed development of the 6-12, 6-12 South and 12-8 West oil fields. Petsec Energy’s 25% interest in the 15.4 million barrels recoverable in the 12-8 East and 12-3-1 oil fields in China have not been booked.

We anticipate and are hopeful that the development of the 6-12, 6-12 South and 12-8 West fields is likely to commence late in 2009.

In the USA we expect to produce some 7 Bcfe of gas in 2009, much of which is hedged at an average price of the order of US$8/Mcfe, so if spot gas averages US$4/Mcfe, this would generate revenues in the order of US$50 million and cashflows in excess of US$32 million.

It is intended that much of our cashflow will be used in 2009 to further reduce our net debt, which stood at US$36.8 million at year end, and currently about US$27 million unless required for the acquisition of producing properties.

We have expectation of sufficient cash flow this year, banking accommodation, a dedicated team of accomplished professionals, and a determination to make a meaningful acquisition which will result in agreeable growth for the Company.

We are also looking forward to resuming drilling of some of our larger sized prospects towards the end of this year when rig and associated service prices are lower.

I am looking forward to 2009 with a positive expectation that Petsec Energy will prosper in these challenging times.

Thank you, ladies and gentlemen.

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T N Fern
Chairman