

# PETSEC ENERGY LTD

## MARCH 2011 QUARTER RESULTS



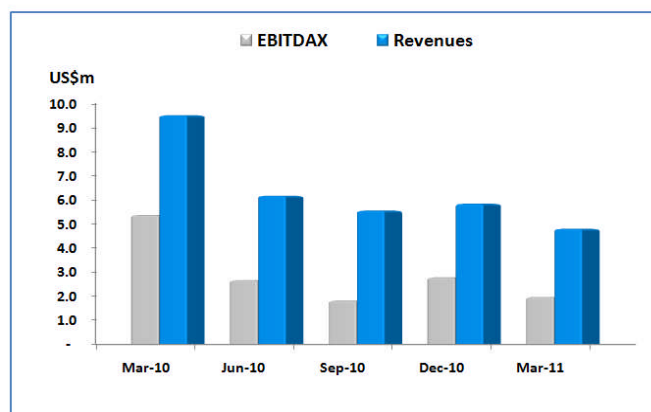
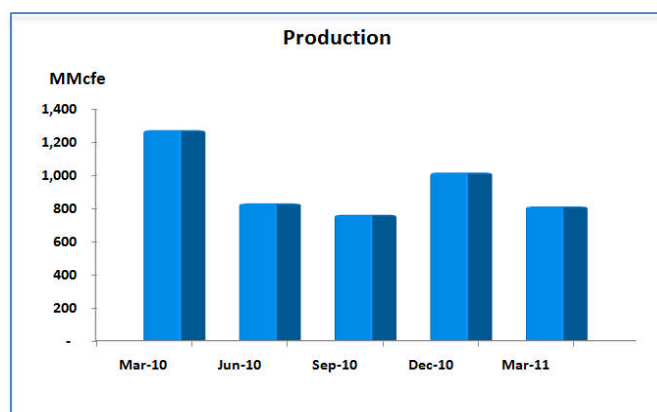
### Financials (to be read in conjunction with “Financial Summary & Production Data” table on page 6)

Comparative Performance versus		Current Quarter Mar 11	Previous Quarter Dec 10	% Change	Corresponding Quarter Mar 10	% Change
<b>Production</b>	<b>MMcfe</b>	<b>812</b>	1,017	(20%)	1,273	(36%)
<b>Average sales price</b>	<b>US\$/Mcf</b>	<b>5.91</b>	5.74	3%	7.47	(21%)
<b>Net revenue</b>	<b>US\$m</b>	<b>4.8</b>	5.8	(18%)	9.5	(50%)
<b>EBITDAX</b>	<b>US\$m</b>	<b>2.0</b>	2.8	(29%)	5.4	(63%)
<b>Outstanding debt</b> <sup>1</sup>	<b>US\$m</b>	<b>29.2</b>	29.2	-	29.3	(1%)
<b>Cash</b> <sup>2</sup>	<b>US\$m</b>	<b>24.2</b>	23.1	(5%)	29.4	(17%)
<b>AE&amp;D expenditure</b> <sup>3</sup>	<b>US\$m</b>	<b>0.1</b>	1.7	(93%)	2.2	(95%)

<sup>1</sup> Formal completion of settlement of the outstanding debt is expected to occur once the lender has received regulatory approval to register the company that will receive the various working interests to be conveyed.

<sup>2</sup> Mar 2011 amount includes restricted cash amounts of US\$8.2 million (Dec 10: US\$5.2 million; Mar 10: US\$1.1 million) used to support letters of credit amount in excess of the Company's bank borrowing base facility plus amounts held in escrow to fund certain abandonment obligations; and US\$12.0 million that is required to complete the settlement of the outstanding debt.

<sup>3</sup> Acquisition, Exploration & Development expenditure (accrual-based amounts).



## Highlights

### USA

#### Operations

- Production of 812 million cubic feet of gas equivalent (“MMcfe”) for the March 2011 quarter. Daily net production for the quarter averaged 6.9 MMcfe/day offshore and 2.1 MMcfe/day onshore.
- Drilling of Marathon #2 well commenced on 5<sup>th</sup> April 2011.

#### Term Debt

- Agreement reached in March 2011 to settle US\$29.2 million term debt.

### CHINA

#### Development: Block 22/12, Beibu Gulf, South China Sea – Wei 6.12, 6.12 South and 12.8 West oil fields

- CNOOC approved the Overall Development Plan (“ODP”) for the development of the Wei 6.12, 6.12 South and 12.8 West oil fields in late January 2011. Final Investment Decision (“FID”) was declared by the Block 22/12 joint venture in February 2011 and the ODP was lodged for Chinese Government approval.



## March 2011 Quarter Activity

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### Production and Cashflow

Production from Petsec Energy's U.S. operations for the March 2011 quarter of 812 MMcfe was in line with expectation. On a comparative basis, current period production was 20% lower than December 2010 quarter production of 1,017 MMcfe due to natural decline in production rates from all fields except the Marathon field, which commenced production in late December 2010.

Petsec Energy received an average gas equivalent sales price for the March 2011 quarter of US\$5.91/Mcfe (including hedging), slightly above the US\$5.74/Mcfe realised for the previous quarter largely due to the effect of higher oil and gas prices received on unhedged production volumes. The Company received an average price of US\$4.43/Mcf and US\$94.93/bbl for the March 2011 quarter (December 2010 quarter: US\$3.88/Mcf and US\$81.94/bbl) for unhedged gas and oil/condensate production volumes for the current quarter, respectively.

The Company reported net revenues of US\$4.8 million for the current quarter, 18% lower than the US\$5.8 million generated in the December 2010 quarter mainly due to the decline in production.

EBITDAX for the March 2011 quarter fell by 29% to US\$2.0 million (December 2010 quarter: US\$2.9 million) due to the decline in revenues from production and lower other revenues, the effect of which was offset to some extent by lower geological, geophysical and administrative expenses.

The EBITDAX margin for the March 2011 quarter of US\$2.43/Mcfe was 11% lower than the December 2010 quarter margin of US\$2.73/Mcfe. On a unit-basis lease operating expense of US\$1.86/Mcfe and geological, geophysical & administrative expense of US\$2.05/Mcfe (December 2010: US\$1.52/Mcfe and US\$1.97/Mcfe, respectively) increased as a result of the lower production volumes for the current period.

Acquisition, exploration and development expenditures for the March 2010 quarter amounted to US\$0.1 million mostly comprising the Company's share of acreage acquisition in the Marathon prospect area.

### Cash and Debt Facilities

As announced to ASX on 11 March 2011, the Company reached an agreement to settle all outstanding amounts under the subordinated term loan owed by its US subsidiary, Petsec Energy Inc. ("PEI"). The amount of the term loan of US\$29.2 million will be fully extinguished in exchange for US\$12 million in cash, a 2.5% working interest in the Company's Main Pass 270 producing wells, a 2.0% working interest in the Company's leases in the Atchafalaya Bay area (Marathon discovery), Louisiana, and 25% of the Company's working interest in 10 non-producing leases in the Gulf of Mexico, USA.

The lender has made the required regulatory filing to register the company that will receive the various working interests and upon approval, formal completion of the settlement will occur.

At 31 March 2011, the Company held total cash deposits of US\$24.2 million – equivalent to A\$23.5 million using the period end closing rate of 1.0319 (31 December 2010: US\$23.1 million or A\$22.7 million at 1.0163), including US\$8.2 million of restricted cash deposits used to guarantee certain of the Company's future rehabilitation obligations and US\$12.0 million that is required to complete the settlement of the subordinated term loan.

## March 2011 Quarter Activity (continued)

### Gas Price and Hedging

At 31 March 2011, the Company had the following natural gas hedges in place:

Production period	Hedge types	Total MMBtu volume	Weighted average US\$ Price *
April – December 2011	Collars	519,000	6.00 – 7.57
<b>Total hedged volume</b>		<b>519,000</b>	<b>6.00 – 7.57</b>

\* Floor/cap prices

U.S. natural gas prices have remained weak due to the high level of gas in storage and the return of milder weather towards the end of the first quarter. Following a period of very cold weather in December 2010 and January 2011 where NYMEX prices rose to approximately US\$4.72/MMBtu, milder weather in March 2011 saw a retreat to approximately US\$3.70/MMBtu.

The NYMEX 12 month forward strip price for gas at the close of business on 6 April 2011 was approximately US\$4.57/MMBtu and the 36 month forward strip price for gas was approximately US\$5.04/MMBtu. This compares to US\$4.87/MMBtu and US\$5.09/MMBtu for the respective 12 and 36 month forward strip prices for gas on 20 January 2011, as reported in the December 2010 quarter report.

The EIA reports that U.S. working natural gas in storage was 1,579 Bcf on 1 April 2011, 5.2% lower than the level recorded for the corresponding period last year (1,665 Bcf) and only 0.6% above the 5-year average (1,569 Bcf).

### Operations

#### USA Gulf of Mexico/Onshore Louisiana

##### **Marathon #2 well**

*Petsec: 8% working interest (5.84% net revenue interest)*

The Marathon #2 well was spud on 5<sup>th</sup> April 2011 in the shallow waters of the Atchafalaya Bay along the Louisiana Gulf Coast, USA. Phoenix Exploration is the operator and the well is being drilled with the Parker 54B drilling rig.

The second Marathon well is a follow up to the successful #1 well which was brought into production in late 2010 and is consistently producing at rates of over 20 million cubic feet of gas and 120 barrels of condensate per day.

The 21,000 feet (6,500 metres) Marathon #2 well is situated in approximately 8 feet (2.4 metres) water depth and is located approximately 900 metres from the #1 well location. The #2 well is designed to serve as a development well for the field and also to test deeper exploratory reserve potential on the Marathon structure. Drilling operations are expected to take 121 days to reach total depth, log and case. Petsec's estimated net cost to drill, log and case is US\$1.3 million.

Further details relating to the Marathon #2 well are contained within the media release made to ASX on 8 April 2011.



## March 2011 Quarter Activity (continued)

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### Operations (continued)

#### China, Block 22/12, Beibu Gulf, South China Sea

*Petsec: 25% working interest (12.25 % net revenue interest should China National Offshore Oil Corporation (CNOOC) back-in for 51%). Operator: Roc Oil Company Limited*

#### **Development – Wei 6.12, 6.12 South and 12.8 West oil fields**

*Petsec: 12.25% working interest. Operator: CNOOC*

The Company announced in mid February 2011 that the Block 22/12, Beibu Gulf joint venture partners and the Joint Management Committee which includes China National Offshore Oil Corporation Limited (“CNOOC”) had approved the Final Investment Decision (“FID”) for the development of the Wei 6.12, 6.12 South and 12.8 West oil fields in Block 22/12, Beibu Gulf, China.

Independent estimated gross proved and probable (“2P”) reserves of 24 MMbbl of oil (Petsec Energy’s share: 2.94 MMbbl) have been booked for the Wei 6.12, 6.12 South and 12.8 West oil fields development project.

The development encompasses the drilling of eleven development wells and potentially three to four exploration wells targeting potential reserves of 20 to 40 million barrels from two unmanned well head platforms at the 6.12 South and 12.8 West oil fields. These platforms will be connected by pipelines to a new CNOOC processing platform, adjacent to CNOOC’s 12.1.1 platform. The project will have access to processing capacity of 20,000 barrels of oil per day after which the oil will be transported through CNOOC’s 16 “ pipeline 32 km to a storage and export terminal at Weizhou Island.

Engineering design work and bidding for long lead equipment has begun and first oil production is expected before year end 2012.

Development capital expenditure is estimated at US\$300 million. Petsec Energy’s share is estimated at US\$37 million over the period 2011 to mid 2013 of which approximately US\$10 million may be required in 2011.

#### **Development – Wei 12.8 East & 12.3.1 oil fields**

*Petsec: 25% working interest (12.25 % net revenue interest should China National Offshore Oil Corporation (CNOOC) back-in for 51%). Operator: Roc Oil Company Limited*

Petsec Energy also owns a 25% working interest in two other oil fields within Block 22/12, the 12.8 East and 12.3.1 oil fields, which are estimated to hold potentially recoverable oil reserves of 15 to 72 MMbbl gross. CNOOC is currently conducting feasibility studies on both of these fields. Subject to satisfactory economics, development of these two oil fields is anticipated to commence in 2011/2012, and will connect to the infrastructure built for the Wei 6.12, 6.12 South and 12.8 West development project.

## Financial Summary and Production Data

A “Financial Summary and Production Data” table is provided on page 6.



## March 2011 Quarter Activity (continued)

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### Proposed Activities – June 2011 Quarter

The principal activities proposed for the June 2011 quarter are as follows:

#### **USA, Gulf of Mexico**

##### ***Exploration***

Drilling operations commenced on the second well on the Marathon field in early April 2011. The well is expected to take 121 days to drill, log and case.

#### **China, Beibu Gulf, Block 22/12**

##### ***Development – Wei 6-12, 6-12 South and 12-8 West oil discoveries***

The Company anticipates formal Chinese government approval of the ODP for the development of the Wei 6.12, 6.12 South and 12.8 West oil fields during second quarter 2011. First production is anticipated for fourth quarter 2012.

### 2011 Production and Revenue Forecast

The Company forecasts production and net revenue for the 2011 year from existing producing fields to be of the order of 3 Bcfe and US\$15 million, respectively.

## March 2011 Quarter Activity (continued)

### FINANCIAL SUMMARY AND PRODUCTION DATA

<b>UNAUDITED PRELIMINARY FINANCIAL DATA</b>				<b>Mar 2011 Quarter</b>	<b>Dec 2010 Quarter</b>	<b>% Increase/ (decrease)</b>	<b>Mar 2010 Quarter</b>	<b>% Increase/ (decrease)</b>
<i>Amounts in US\$000</i>								
Net Revenue				4,797	5,841	-18%	9,513	-50%
Other Revenue/(Expense)				351	492		504	
Lease Operating Expenses				(1,510)	(1,541)	-2%	(2,321)	-35%
Geological, Geophysical & Administrative Expenses (G,G&A)				(1,665)	(2,006)	-17%	(2,323)	-28%
<b>EBITDAX</b>				<b>US\$000 1,973</b>	<b>2,786</b>	<b>-29%</b>	<b>5,373</b>	<b>-63%</b>
Total Outstanding Debt (excl. unamortised debt transaction costs) <sup>1</sup>				<b>US\$000 29,175</b>	<b>29,175</b>	<b>0%</b>	<b>29,325</b>	<b>-1%</b>
Cash <sup>2</sup>				<b>US\$000 24,240</b>	<b>23,073</b>	<b>5%</b>	<b>29,377</b>	<b>-17%</b>
<sup>1</sup> Formal completion of settlement of the outstanding debt is expected to occur once the lender has received regulatory approval to register the company that will receive the various working interests conveyed.								
<sup>2</sup> Mar 2011 amount includes restricted cash deposits of US\$8.2 million used to support letters of credit and US\$12.0 million that is required to complete the settlement of the outstanding debt.								
<b>Acquisition, exploration &amp; development expenditure</b>								
Acquisition				77	3		321	
Exploration				9	1,340		1,751	
Development				32	398		151	
<b>Total</b>				<b>US\$000 118</b>	<b>1,741</b>	<b>-93%</b>	<b>2,223</b>	<b>-95%</b>
<b>Production (MMcfe)</b>								
<b>Offshore Gulf of Mexico</b>								
Main Pass 18/19	1	100%/ 55%	83.33%/ 45.88%	170	302		462	
Main Pass 270		25%	20.8%	277	365		284	
Chandeleur 31/32	1	100%	81.8%	174	242		284	
Mobile Bay Area	2	40%-50%	30.5% - 41.7%	-	-		151	
Other Offshore	1	100%	81.8% - 83.33%	4	5		14	
			3.2% - 4% ORRI					
<b>Onshore Louisiana</b>		8% - 78%	5.84% - 58%	<b>187</b>	<b>103</b>		<b>78</b>	
<b>Total</b>				<b>MMcfe 812</b>	<b>1,017</b>	<b>-20%</b>	<b>1,273</b>	<b>-36%</b>
<b>Unit revenue/cost analysis per Mcfe (USD)</b>								
Oil/Condensate per barrel				94.93	81.94		75.60	
Gas per Mcf				5.10	5.01		7.21	
Average sales price per Mcfe				5.91	5.74	3%	7.47	-21%
Other revenue/(expense)				0.43	0.48		0.40	
Lease operating expense				(1.86)	(1.52)		(1.82)	
G,G&A expenses				(2.05)	(1.97)		(1.82)	
<b>EBITDAX per Mcfe</b>				<b>US\$ 2.43</b>	<b>2.73</b>	<b>-11%</b>	<b>4.23</b>	<b>-44%</b>

#### Glossary

Bcfe = billion cubic feet of gas equivalent

Mcfe = thousand cubic feet of gas equivalent

MMbbls = million barrels

Mmcfe = million cubic feet of gas equivalent

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

<sup>1</sup> Operated by Petsec Energy

<sup>2</sup> Mobile Bay Area wells shut-in and awaiting permanent plug and abandonment.

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#### For further information, please contact:

Paul Gahdmar  
Company Secretary & Group Financial Controller  
Petsec Energy Ltd  
Level 13, 1 Alfred Street  
Sydney NSW 2000  
Tel: 612 9247 4605 Fax 612 9251 2410

Ross A Keogh  
President  
Petsec Energy Inc.  
3861 Ambassador Caffery Parkway, Suite 500  
Lafayette, LA 70503, USA  
Tel: 1 337 989 1942 Fax: 1 337 989 7271

Certain statements in this report regarding future expectations and plans of the Company may be regarded as "forward-looking statements". Although the Company believes that its expectations and plans are based upon reasonable assumptions, it can give no assurance that its goals will be met. Actual results may vary significantly from those anticipated due to many factors, including oil and gas prices, operating hazards, drilling risks, environmental risks and uncertainties in interpreting engineering and other data relating to oil and gas reservoirs, as well as other risks.