

PETSEC ENERGY LTD

ACN 000 602 700

Annual General Meeting

21 May 2010

Good morning ladies and gentlemen, welcome to the 2010 Annual General Meeting of Petsec Energy Ltd.

The 2009 financial year was an extremely challenging one. Credit and equity markets worldwide were highly distressed, and extremely volatile commodity prices reflected the ongoing effects of the global financial crisis. The Company's priority for the year was to conserve capital and repay debt; exploration drilling remained on hold due to excessively high drilling and development costs.

Oil prices have risen from less than US\$40 per barrel at the beginning of 2009 to their present level of US\$75 per barrel, largely due to constant demand from Asia and a weakening US dollar. This upward trend in oil prices bodes well for a final investment decision on the Company's interest in the development of the 6-12, 6-12 South and 12-8 West fields in Beibu Gulf, China.

Demand for US natural gas weakened as a consequence of the US economic recession, and high supply from shale gas and imported LNG continued to put pressure on the natural gas spot price which fell to a low of US\$2.50 per thousand cubic feet of gas (Mcf) in the summer, then recovered strongly during the severe winter. The Henry Hub spot price, which is the marker for the Gulf of Mexico, averaged US\$4.06/Mcf for the year, better than expected but significantly less than the US\$9.12/Mcf for 2008.

At 19 May 2010, the NYMEX forward strip price for 12-month natural gas was approximately US\$4.85/Mcf and the three year forward strip price was approximately US\$5.47/Mcf. We anticipate natural gas prices will range between US\$4 and US\$5/Mcf over 2010 and 2011, being the apparent breakeven point for most shale gas producers. The decline in natural gas prices from 2008 levels has caused a 60% reduction in drilling and development service costs from the peaks of 2007/2008. We view 2010/11 as a particularly good time to explore for, and acquire, natural gas reserves.

Preparing for Growth

Prior to the global economic crisis of 2008/2009, Petsec Energy realised compound annual growth rates for the period 2002 to 2008 of 22% in production, 33% in net revenue and 22% in reserves. Since 2002, the Company has drilled a total of 44 wells, including two side-track wells in China, which resulted in a 70% success rate with 31 successful wells. We added 71.1 billion cubic feet of gas equivalent of reserves in the USA and booked 3.6 million barrels of oil reserves in China; produced 52.2 Bcfe in the USA and generated US\$280 million of cash flow.

Much of the Company's growth historically has come from successful exploration which resulted in a consistent rise in the share price from \$0.20/share prior to the start of drilling in 2002 to \$3.50/share in 2006 following the Main Pass 18, USA and 6-12 South, China discoveries.

In preparation for oil and gas reserves growth, the Company raised US\$13.8 million through a 1:2 pro-rata rights issue to shareholders in December 2009, increasing its cash to US\$25.4 million to finance the 2010 exploration and development programme.

USA

2009 production of 7.1 Bcfe was in line with expectations, although down 42% on the previous year's level because the Company has not added reserves since 2007. At year end, Petsec Energy estimated reserves in the USA were 18.9 Bcfe.

The high drilling and development cost environment of 2007/2008 prompted the Company to review the style of its drilling prospects in the Gulf of Mexico and investigate the potential benefits of pursuing non-conventional oil and gas and tertiary oil recovery onshore. The Company's strength is its technical people, all of whom have in excess of 25 years' experience in the Gulf of Mexico, and a track record of success. After lengthy consideration we determined that the shelf still retains excellent potential and that we should exploit our Gulf exploration strengths.

The deeper geologic section of the Gulf of Mexico shelf, below 12,000 feet, has been only lightly explored, but we believe it contains great potential which modern 3D seismic can unlock. This is evidenced by a number of recent significant gas discoveries by major US E&P players.

Petsec Energy will remain on the Gulf of Mexico shelf in less than 300 feet of water, but we will seek larger (>20 Bcfe), more oily drill targets, and gas with high condensate content in the geologic section from 12,000 to 18,000 feet, which should deliver initial production rates in excess of 20 million cubic feet of gas per day (MMcfd). This change in style of target prospects, from our previous 5 to 10 Bcfe targets in less than 12,000 feet of geologic section and initial production rates of 3 to 5 MMcfd, led us to reduce the number of offshore leases to 21, excluding the eight leases recently bid at the March lease sale, four of which have subsequently been awarded.

Drilling of three to five exploration wells in the Gulf of Mexico is planned for 2010 exposing the Company to net reserves in the order of 20 to 50 Bcfe. Drilling costs net to Petsec Energy are estimated at less than US\$3 million per well and success-based development costs of a similar magnitude. The first of these wells, the Main Pass Block 20 #4 (Jenny Lake) well commenced drilling in mid-April and is targeting gross reserves of 20 to 45 Bcfe. The well is expected to reach target depth early June.

The Company will continue to seek quality producing assets and we will also seek to refinance the outstanding term loan of US\$29 million currently due for repayment over 2011.

Production of 4.4 Bcfe in 2010 should generate revenues in the order of US\$30 million as 50% of the gas is hedged at prices near US\$7.50/Mcf.

China activity

Petsec Energy owns a 25% working interest in five oil fields in Block 22/12, Beibu Gulf, China, which hold potentially gross recoverable reserves in the range of 43 to 124 MMbbl (P50-P10), of which, assuming that China National Offshore Oil Corporation (CNOOC) backs-in for 51%, the Company owns a net 5 to 15 MMbbl. Eight undrilled prospects in Block 22/12 hold an additional 100 MMbbl gross potential.

During 2009, CNOOC completed a feasibility study on the 6-12, 6-12 South and 12-8 West oil fields, estimated to hold gross recoverable oil of 27 to 52 MMbbl (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) was completed by CNOOC in December 2009 and I am pleased to report that the joint venture has now reached in principle agreement with CNOOC, such that a CNOOC approved ODP is anticipated mid-2010 with the start of development immediately thereafter. First oil production should commence first half of 2012.

The 6-12, 6-12 South and 12-8 West oil fields are capable of producing 7 MMbbl in the first twelve months of production which, at current oil prices, should deliver cash flow of the order of US\$60 million to Petsec Energy.

Block 22/12 is a substantial asset of the Company, represented not only by its existing oil reserves but the remaining high exploration potential. Each field should have a production life in excess of 15 years.

It is anticipated the two well head platforms will be set in early 2011, drilling of the eleven plus development wells completed by that year end, completion of CNOOC's new processing platform in early 2012, on which the joint venture would have a dedicated 20,000 barrels of oil per day (bopd) production train, with first production in the first half of 2012. Petsec Energy's estimated share of the likely development cost is in the order of US\$35 million, much of which is anticipated to be debt financed.

Exploration prospects with 20 MMbbl potential, which can be accessed from the 6-12 South platform, are expected to be tested at the time of development drilling in 2011. Initial feasibility studies have begun for the development of the 12-8 East and 12-3-1 oil fields, which are estimated to hold gross recoverable reserves ranging from 15 to 72 MMbbl (P50-P10). Development of these two fields is anticipated to commence 2011/2012.

2010 plan of action

The Company's objective over the next three years is to grow from our current reserves based value of approximately US\$100 million, net of debt, to US\$500 million or greater, predominantly through exploration success from our existing prospect portfolio and the development of our five China oil fields.

Unlocking value

Our five oil fields in China, our sizeable US drilling prospect portfolio and our technical staff, are significant assets with the capacity to greatly increase the Company's value. We will start unlocking that value in 2010 with commencement of our US Gulf of Mexico drilling programme and the long anticipated start of development of our China oil fields.

The Board and staff of Petsec Energy are excited by the drilling programme for 2010 and I am confident that we will extract the potential value from our assets and command growth as we have done in the past.

Dr Peter Power retirement

Dr Peter Power retires as a Director by rotation in accordance with rule 43 of the Company's Constitution. Regrettably, he has decided not to seek re-election and will retire at the conclusion of the meeting.

Dr Power has been a director of the Company since 1999 and has made a significant contribution to the Company by his significant technical expertise, wise counsel, enthusiasm for exploration and good humour in times of adversity. On behalf of the board of Petsec Energy, I would like to thank Peter for his dedicated service over the last eleven years and wish him extremely well in the future.

Thank you, ladies and gentlemen.

T. N. Fern
Chairman