

Fourth Quarter Report for the period ended 31 December 2008

Higher full year production, revenue and EBITDAX

KEY POINTS

Petsec Energy Ltd (ASX: "PSA") achieved significantly higher production revenue and EBITDAX for the year ended 31 December 2008.

Production (12.1 Bcfe), revenue (US\$105.3 million) and EBITDAX (US\$79.6 million) would have been higher if production at Main Pass 270, Main Pass 18/19 and Chandeleur 31/32 had not been interrupted by third party pipeline issues and hurricane-related shut-ins.

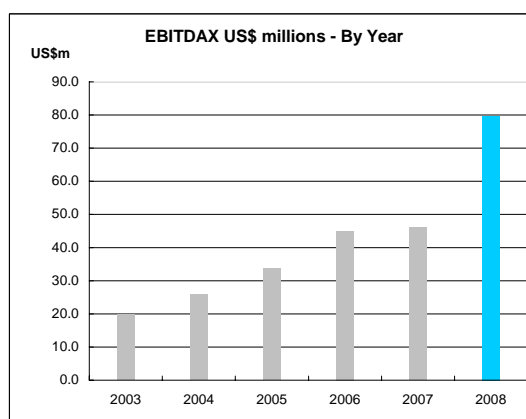
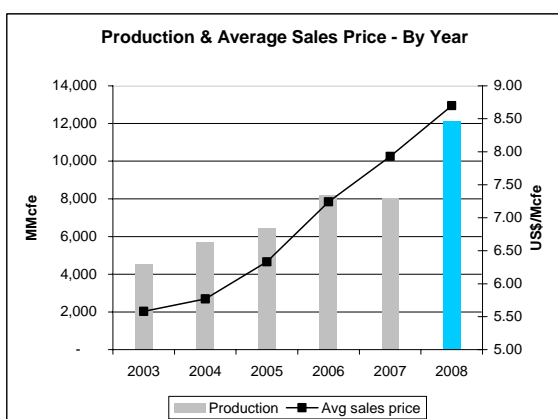
FINANCIALS

Full Year ended 31 December 2008 compared to 2007

- Production: 12.1 Bcfe - up 50% (2007: 8.1 Bcfe);
- Net revenue: US\$105.3 million - up 65% (2007: US\$64.0 million);
- EBITDAX: US\$79.6 million - up 73% (2007:US\$45.9 million);
- Average sales price received: US\$8.70/Mcfe - up 10% (2007:US\$7.93/Mcfe);
- Net debt: US\$36.8 million at 31 December 2008 - down 52% (US\$76.8 million at 31 December 2007);

Fourth quarter ended 31 December 2008 compared to September quarter

- Production: 2.2 Bcfe - up 7%;
- Net revenue: US\$17.4 million (A\$24.5 million) - down 10%;
- EBITDAX: US\$12.2 million (A\$17.2 million) - down 7%;
- Average sales price received: US\$7.85/Mcfe - down 16%;
- Net debt: US\$36.8 million at 31 December 2008 - down 5% from 30 September 2008;



DEVELOPMENT

- **USA Onshore Louisiana: Miles Timber #1 well**

Development of this gas discovery made in July 2008 is almost complete and the well is expected to be brought into production in February 2009.

- **China Block 22/12, Beibu Gulf: Wei 6.12/6.12 South and 12.8 West oil fields**

Studies to determine the preferred development option were completed.

Lodgement of an Overall Development Plan (ODP) is now expected to occur by mid 2009.

CORPORATE

New Director

Michael L Harvey, an American resident of Houston, USA, joined the board in October. He is a third generation Texan oilman who has established and sold 3 Gulf of Mexico companies in the past 20 years, selling his last company to Woodside Petroleum for US\$285 million.

QUARTER ACTIVITY

Production and Cashflow

Production for the December quarter was 2.2 Bcfe, up 7% on the September quarter. This was lower than expected due to the Chandeleur 31/32 gas field being shut-in for two weeks for third party pipeline maintenance, and some limited shut-ins in other fields caused by hurricanes.

The Main Pass 270 gas field has been shut-in since April 2008 pending completion of third party pipeline repairs. Production is expected to recommence in February 2009.

The average gas sales price received (including hedging) was US\$7.85/Mcfe, down 16% on the US\$9.31/Mcfe achieved in the September quarter.

Revenues were US\$17.4 million, 10% lower than the September quarter, reflecting the lower average sales price received.

EBITDAX was US\$12.2 million, down 7% on the previous quarter due to lower gas prices offset by lower Geophysical, Geological & Administration (GG&A) expenditure.

EBITDAX margin was US\$5.51/Mcfe, down 13% on the previous quarter of US\$6.35/Mcfe. Lease operating expenses were US\$1.49/Mcfe and GG&A, US\$0.82/Mcfe.

Acquisition, exploration and development expenditures for the quarter were US\$6.2 million, including US\$1.5 million on exploration and US\$5.0 million on development activities offset by a US\$0.4 million final price adjustment received during the quarter in respect of the oil and gas assets acquired in November 2007.

Cash and Debt Facilities

The Company's cash position on 31 December 2008 was US\$13.7 million (A\$19.4 million), compared to US\$13.9 million (A\$17.4 million) at the end of the previous quarter.

Effective 1 December 2008, the Company's borrowing base under its revolving credit facility was increased from US\$39 million to US\$53 million following the completion of a semi-annual review by the Company's banker, Guaranty Bank. The US\$53 million facility currently reduces by US\$2 million a month, and expires in November 2010.

On 31 December 2008, the amount drawn under the revolving credit facility was US\$20.8 million and a further US\$8.4 million, primarily to support letters of credit for Minerals Management Service (MMS) bonding purposes.

The Company also has a US\$29.7 million subordinated fixed term facility maturing in 2011.

Total outstanding bank debt on 31 December 2008 was US\$50.5 million, down 4% on the US\$52.8 million outstanding on 30.9.08.

Net debt at 31 December 2008 was US\$36.8 million, down 5% on the US\$38.9 million at 30 September 2008.

Debt reduction will remain a high priority for the Company over the course of the 2009 year.

Gas Prices and Hedging

Gas prices trended lower in the quarter in sympathy with lower oil prices.

The current NYMEX 12 month forward strip gas price to January 2010 is approximately US\$5.38/Mcf.

No additional hedging was put in place during the period.

At 31 December 2008, Petsec Energy had the following natural gas hedges in place:

Production period	Hedge types	Total MMBtu volume	Weighted average US\$ Price
2009	Swaps	4,335,100	8.46
	Puts*	844,000	6.33
2010		1,057,200	9.12
Total hedged volume		6,236,300	

* Put prices shown are net of premium cost. (NB. One MMBtu is approximately equivalent to one Mcf).

USA, GULF OF MEXICO

Exploration

The Company drilled no wells in the December quarter 2008. Exploration was focussed on preparing our prospects for drilling for such times that service costs reflect the fall in commodity prices.

Development

W.P. Miles Timber #1 well – Crown Royal Prospect, Moonshine Project

Operator: Petsec Energy (62% WI, 46% NRI)

The Miles Timber #1 well reached total measured depth of 4,022 metres (13,274 ft) on 29 July and intersected an initial estimate of five net feet of gas and condensate pay. The well was completed over an interval of 13 feet and flow tested at an unrestricted rate of 1.7 million cubic feet of gas (MMCFD) and 170 barrels of oil (BOPD) per day.

Development of production facilities is near completion and the commencement of production is anticipated in February 2009.

Humphreys Sale

The Company sold its interest in the Humphreys field located in Terrebonne Parish, onshore Louisiana, USA, for a sale price of US\$400,000 plus the assumption of Petsec Energy's plugging and abandonment obligations. The effective sale date was 31 December 2008 with sales proceeds being received in January 2009.

The Humphreys field consisted of two producing wells, a salt water disposal well, and production facilities. Production from the two wells, namely the Breaux No. 1 and the Burnett No. 2, was declining, with gross combined flowing rates of approximately 1.1 MMCFD and more than 2,500 barrels of salt water at the time of the sale.

Petsec Energy owned a 58% net revenue interest in the Breaux No. 1 well and a 51% net revenue interest in the Burnett No. 2 well and was the operator of both wells.

CHINA**Block 22/12, Beibu Gulf**

Petsec: 25% working interest (12.25 % net revenue interest should China National Offshore Oil Corporation (CNOOC) back-in for 51%)

Operator: Roc Oil Limited

Development – Wei 6.12/6.12 South and 12.8 West oil discoveries

As reported in the previous quarter, the China National Offshore Oil Company (CNOOC) confirmed on 27 September 2008 that the Wei 6.12, 6.12 South, and 12.8 West oil fields had been declared development areas for the Joint Venture and a comprehensive study of the development options for the areas was reviewed with CNOOC.

Studies to determine the preferred development option were completed.

Studies supporting an Overall Development Plan (ODP) proceeded in the quarter which should lead to the lodgement of an ODP by mid 2009 for the development of the 6.12/6.12 South and 12.8 West oil fields.

FINANCIAL SUMMARY AND PRODUCTION DATA

A Financial Summary and Production Data table is provided on the following page.

PROPOSED ACTIVITIES - MARCH QUARTER 2009

Operating cashflow will be primarily applied to further debt repayment.

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

Preparation of an ODP for the Wei 6.12, 6.12 South and 12.8 West oil fields. An ODP is now expected to be submitted for CNOOC and Chinese Government approval by mid 2009.

Exploration

No drilling is currently planned for the March 2009 quarter. Exploration will concentrate on preparing our prospects for drilling and reviewing acquisitions.

2009 PRODUCTION

Production from the Company's current producing fields is expected to be of the order of 7 Bcfe for the 2009 year, similar to the production levels of 2007.

PETSEC ENERGY
DECEMBER 2008 QUARTERLY REPORT

FINANCIAL SUMMARY AND PRODUCTION DATA

UNAUDITED FINANCIAL DATA			Dec 2008	Sep 2008	% Increase/ (decrease)	Dec 2007	% Increase/ (decrease)	12 Months	12 Months	% Increase/ (decrease)	
			QTR	QTR		QTR		2008	2007		
<i>Amounts in US\$000</i>											
Net Revenue			17,429	19,391	-10%	26,789	-35%	105,281	63,975	65%	
Other Revenue/(Expense)			(70)	178		123		(715)	309		
Lease Operating Expenses			(3,297)	(3,045)		(2,666)		(12,658)	(7,030)		
Geological, Geophysical & Administrative Expenses (G,G&A)			(1,823)	(3,312)		(3,050)		(12,261)	(11,344)		
EBITDAX	<i>US\$000</i>		12,239	13,212	-7%	21,196	-42%	79,647	45,910	73%	
Outstanding bank debt	<i>US\$000</i>		50,500	52,775		104,000					
Cash	<i>US\$000</i>		13,735	13,903		27,214					
Net Debt/(Cash)	<i>US\$000</i>		36,765	38,872	-5%	76,786	-52%				
Acquisition, exploration & development expenditure											
Acquisition			(324)	1,241		103,614		1,060	103,863		
Exploration			1,452	3,954		2,389		30,816	22,091		
Development			5,038	1,453		333		11,399	19,973		
Total	<i>US\$000</i>		6,166	6,648	-7%	106,336	-94%	43,275	145,927	-70%	
Production (MMcfe)											
			W.I.	N.R.I.							
<i>Offshore Gulf of Mexico</i>											
Vermilion 258	1	100%	83.33%	60	43	671		856	3,270		
Main Pass 18/19	1	100%/ 55%	83.33%/ 45.88%	717	520	459		2,128	2,272		
Mobile Bay Area	2	40%-50%	30.5% - 41.7%	213	210	582		1,792	731		
Chandeleur 31/32	* 1	100%	81.8%	968	943	829		4,342	829		
Main Pass 20	* 1	100%	81.8%	80	124	257		1,048	257		
Main Pass 270	* -	25%	20.8%	-	1	289		536	289		
Other Offshore	1	56.25% - 100%	46.12% - 82.33%	3	7	-		44	69		
	-	-	3.2% - 7% ORRI								
Onshore Louisiana	** 3	46% - 78%	32% - 58%	178	234	349		1,359	349		
Total		<i>MMcfe</i>		2,219	2,082	7%	3,436	-35%	12,105	8,066	50%
Unit revenue/cost analysis per Mcfe (USD)											
Oil/Condensate per barrel			53.33	113.25		89.87		94.69	78.11		
Gas per Mcf			7.82	9.02		7.60		8.54	7.83		
Average sales price per Mcfe			7.85	9.31	-16%	7.80	1%	8.70	7.93	10%	
Other revenue/(expense)			(0.03)	0.09		0.04		(0.06)	0.04		
Lease operating expense			(1.49)	(1.46)		(0.78)		(1.05)	(0.87)		
G,G&A expenses			(0.82)	(1.59)		(0.89)		(1.01)	(1.41)		
EBITDAX per Mcfe	<i>US\$</i>		5.51	6.35	-13%	6.17	-11%	6.58	5.69	16%	

Glossary

Bcfe = billion cubic feet of gas equivalent

Mcfe = thousand cubic feet of gas equivalent

MMbbls = million barrels

Mmcf = million cubic feet of gas equivalent

EBITDAX = Earnings Before Interest, Income Taxes, Depreciation, Depletion, Amortization, and Exploration Expenses

* Acquired Nov 2007.

** Acquired in Nov 2007 with the exception of Laurent #1.

- 1 Operated by Petsec Energy.
- 2 Petsec Energy operates Mobile Bay 953 #1 and #3.
- 3 Petsec Energy operates Laurent #1, Humphreys & Lapeyrouse.

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