PETSEC ENERGY LTD

APPENDIX 4D & CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

(Current period: Six months ended 30 June 2011; Previous corresponding period: Six months ended 30 June 2010)

Results for announcement to the market – Presented in US dollars

In the half year to 30 June 2011, Petsec Energy booked a profit after tax of US$31.7 million, held cash of US$50.5 million and became debt free following the settlement of the US$29.2 million term loan and the disposal of the subsidiary which held the Company's China joint venture interest.

The Company now has sufficient funds to prosecute its US business plan to establish a substantial oil resource through the acquisition of shale oil areas, and continue exploration of large, deep gas/condensate and oil prospects, predominately on the Gulf Coast. The Marathon #2 well, which spud during the half, reached its target depth of 21,000 feet in late August, and has expanded the Marathon gas/condensate field.

For the six months ended 30 June 2011, the Company produced 1.4 Bcfe which generated net revenues (after royalties and realised derivative gains[1]) of US$8.3 million and EBITDAX (including realised derivative gains[1]) of US$2.9 million (see table below). Net profit after tax was US$31.7 million after recording accounting gains of US$11.4 million on the discharge of the U.S. subordinated term loan, US$29.8 million on the disposal of the subsidiary which held the China joint venture interests, reduced by the recognition of impairment provisions totalling US$7.7 million.

Key points – Six months ended 30 June 2011 compared to the six months ended 30 June 2010

	Six months to June 2011	Six months to June 2010	% Increase/ (Decrease)
Key Operating/Financial Data			
Net production (MMcfe)	**1,359**	2,103	(35%)
Net revenues after royalties (US$m)	7.4	15.7	
Realised derivative gains (US$m) [1]	0.9	-	
Net revenues after royalties and realised derivative gains (US$m)	**8.3**	15.7	(47%)
EBITDAX after realised derivative gains (US$m) [1,2]	**2.9**	8.3	(65%)
Net profit/(loss) after tax (US$m)	**31.7**	(30.7)	n/a
Key Performance Indicators			
Average net sales price/Mcfe (US$)	**6.11**	7.46	(18%)
Operating costs/Mcfe (US$) [4]	**4.44**	3.90	14%
Other revenue/(expense)/Mcfe (US$)	**0.45**	0.37	22%
EBITDAX/Mcfe (US$)	**2.12**	3.93	(46%)
DD&A/Mcfe (US$)	**2.35**	3.61	(35%)
Gross margin [5]	**35%**	53%	(18%)
Other Financial Data			
Acquisition, exploration and development expenditure (US$m) [3]	**2.1**	7.4	(72%)
USD/AUD average exchange rate	**1.0411**	0.8885	17%

1 Realised derivative gains relate to natural gas collar contracts which settled during the period (See note 6 to the Condensed Consolidated Interim Financial Statements). The Company has included the impact of the realised derivative gains, in the reported Net Revenue and EBITDAX amounts in the above table and elsewhere in the Appendix 4D and Directors Report to better reflect the commercial impact and rationale for holding these derivative instruments.

2 Earnings before interest (financial income and expense), income tax, depreciation, depletion, amortisation, rehabilitation and exploration (including dry hole, impairment and abandonment expense; seismic and repair expense) and unrealised derivative gains. See footnote 1 above.

3 Accrual-based amounts.

4 Operating costs comprise lease operating expense plus geological, geophysical and administration expenses.

5 Gross margin is EBITDAX as a percentage of sales.

Commentary on results

General

The Appendix 4D results and the accompanying condensed consolidated interim final financial statements are prepared in accordance with Australian Accounting Standards (AASBs) and International Financial Reporting Standards (IFRS) and are presented in United States dollars.

Key Operating/Financial Data

- Net production of 1,359 million cubic feet of gas equivalent (MMcfe) for the six months ended 30 June 2011 was 35% lower than the corresponding half (2010: 2,103 MMcfe) . Production was adversely impacted by well shut-ins in four areas: Main Pass 270; Main Pass 18/19 and Chandeleur 31/32; and the Marathon field in Atchafalaya Bay (see section 4: *Review of Operations* of the Directors Report for further details).
- Net revenues (after royalties and realised derivative gains) of US$8.3 million decreased 47% from that generated in the previous corresponding period (US$15.7 million), reflecting the lower production volumes in combination with a lower average net gas equivalent sales price received for the current period (see Key Performance Indicators below for further details).
- EBITDAX (including realised derivative gains) of US$2.9 million was 65% below that achieved in the previous corresponding period (US$8.3 million) due to the lower net revenues.
- Net profit after tax for the current period of US$31.7 million (2010: Loss of US$30.7 million) was mainly derived from accounting gains on the settlement of the US term debt (US$11.4 million) and the sale of the Company's wholly owned subsidiary which held the Block 22/12 Beibu Gulf, China interest (US$29.8million) – see section 4: *Review of Operations* of the Directors Report for further details. The gains were offset by the recognition of dry hole, impairment, and abandonment expense of US$7.7 million in the current period (see note 5: *Dry hole, impairment and abandonment expense* of the condensed notes to the consolidated interim financial statements for further details).

Key Performance Indicators

- The average net gas equivalent sales price received for the current period was US$6.11/Mcfe, 18% lower than the US$7.46/Mcfe realised in the previous corresponding period mainly due to the lower level of hedging in place. In the current period, approximately 40% of gas production was hedged at an average gas collar price of US$6.00/Mcfe. This compares to approximately 85% of gas production hedged in the previous corresponding period at an average gas swap price of US$7.55/Mcfe.
- Unit operating costs of US$4.44/Mcfe for the current period (2010: US$3.90/Mcfe) were higher due to the lower production volumes. Unit operating costs comprised lease operating expense of US$2.02/Mcfe (2010: US$1.84/Mcfe) and geological, geophysical and administrative expense of US$2.42/Mcfe (2010: US$2.06/Mcfe).
- EBITDAX margin of US$2.12/Mcfe (2010: US$3.93/Mcfe) and gross margin of 35% (2010: 53%) were reduced due to the combined effect of the lower sales price received and increased unit costs because of lower production volumes.
- Depreciation, depletion, amortisation and rehabilitation (DD&A) decreased to US$2.35/Mcfe (2010: US$3.61/Mcfe) reflecting the impairment provisions recognised in 2010 against the carrying values of certain U.S. oil and gas properties.

Other Financial Data

- Acquisition, exploration and development expenditures incurred in the current period amounted to US$2.1 million, primarily being the Company's share of drilling costs for the Marathon #2 well.

Dividend

Petsec Energy Ltd does not propose the payment of a dividend in respect of the six months ended 30 June 2011.

Directors' Report and Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2011

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This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2010 and any public announcements made by Petsec Energy Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Directors' Report

For the six months ended 30 June 2011

The directors present their report together with the consolidated financial report for the six months ended 30 June 2011 and the independent auditor's review report thereon.

1. Directors

The directors of the Company at any time during or since the six months ended 30 June 2011 are:

Name	Period of directorship
Non-executive	
Mr David A. Mortimer AO	Appointed in 1985
Mr Michael L. Harvey	Appointed in 2008
Executive	
Mr Terrence N. Fern	Appointed as Director and Chief Executive Officer in 1987 Appointed Chairman in 1999

2. Operating results

Petsec Energy generated revenues (net of royalties and including realised derivative gains) of US$8.3 million for the six months to 30 June 2011 (2010: US$15.7 million), from production of 1,359 MMcfe (2010: 2,103 MMcfe) at an average net gas equivalent sales price of US$6.11/Mcfe (2010: US$7.46/Mcfe). The lower net revenue in the current period was due to lower production resulting from the combined effect of: natural decline in field production; the permanent shut in of the Mobile Area field in mid 2010 and the South Sunrise field in March 2011; production shut-ins during the current period in four areas: Main Pass 270; Main Pass 18/19 and Chandeleur 31/32; and the Marathon field in Atchafalaya Bay (refer to *section 4: Review of Operations* set out on page 5 of the Directors' report for further details); and the lower sales price received for the current period.

Current period lease operating expense of US$2.8 million (2010: US$3.9 million) and geological, geophysical and administrative expense of US$3.3 million (2010: US$4.3 million) were lower, reflecting the reduction and streamlining of Petsec Energy's U.S. Gulf of Mexico operations.

Earnings before interest, income tax, DD&A, exploration expense and after realised derivative gains ("EBITDAX") of US$2.9 million were 65% below the US$8.3 million achieved in the previous corresponding period, reflecting lower net revenues.

Depreciation, depletion, amortisation and rehabilitation (DD&A) expense decreased 58% to US$3.2 million for the current period (2010: US$7.6 million) due to lower production and the reduction in the carrying values of certain U.S. oil and gas properties resulting from impairments recognised in 2010.

Financial expenses of US$0.3 million were lower (2010: US$1.7 million), reflecting the settlement of the U.S. subordinated term loan during the current period.

The consolidated entity reviews the carrying values (i.e. book value) of its oil and gas properties and, in accordance with accounting standards and Company policy, is required to impair the carrying value of any individual property that is less than the estimated future discounted cash flow to be generated from the expected production from the property or from sale or farm-out of the property.

At 30 June 2011, dry hole, impairment and abandonment expense of US$7.7 million (2010: US$16.7 million) was recognised in relation to impairment provisions against the Main Pass 18/19 and the Main Pass 270 fields due to lower than anticipated future performance of certain wells coupled with the further softening of natural gas prices since the beginning of the year.

Petsec Energy recorded a consolidated net profit after tax for the first half of the year of US$31.7 million (2010: loss of US$30.7 million) after one-off accounting gains recognised on the discharge of the subordinated term loan (US$11.4 million) and the disposal of the wholly owned subsidiary which held the China joint venture interests (US$29.8 million) – see *Note 12 Discontinued Operations* of the condensed notes to the consolidated interim financial statements for further details.

3. Financial position

During the current period, all outstanding amounts under the subordinated term loan owed by the U.S. subsidiary Petsec Energy Inc. ("PEI") were settled. The amount of the term loan of US$29.2 million was fully extinguished in exchange for US$12 million in cash plus, the conveyance of a 2.5% working interest in the three Main Pass 270 producing wells, a 2.0% working interest in Petsec's leases in the Atchafalaya Bay area (Marathon discovery), Louisiana, and 25% of PEI's working interest in 10 non-producing leases in the Gulf of Mexico and the exploration area of Main Pass 270, USA (see *Note 9 Borrowings* of the condensed notes to the consolidated interim financial statements for further details). The Company is now debt free.

In June 2011, the Company sold its wholly owned subsidiary, Petsec Petroleum LLC, which held its entire interest in Block 22/12 in the Beibu Gulf, China to Horizon Oil Limited for cash consideration of A$38 million, plus 15 million share options with a three year term and an exercise price of A$0.37 (see *Note 12 Discontinued Operations* of the condensed notes to the consolidated interim financial statements for further details).

The proceeds received from the sale of the China interests together with the settlement of the U.S. subordinated term loan has considerably strengthened the balance sheet and cash position of the consolidated entity.

At 30 June 2011, the consolidated entity held total cash deposits of US$50.5 million including US$7.4 million of restricted cash deposits that guarantee certain future rehabilitation obligations (31 December 2010: US$23.1 including US$5.7 million of restricted cash deposits).

4. Review of operations

USA, Gulf of Mexico/Onshore Louisiana

Gulf of Mexico

Operating conditions in the Gulf of Mexico continue to be negatively impacted by low gas prices and a tighter, more expensive regulatory environment following the Macondo Oil Spill in 2010. The Company has responded to these conditions by eliminating debt, and redirecting its exploration focus to the Gulf Coast and on the unconventional resource play of shale oil.

Operations

Petsec Energy currently produces oil and gas in the offshore shallow waters of the Gulf of Mexico and onshore Gulf Coast of Louisiana in eight production leases. The main fields are Main Pass Block 270, Main Pass Blocks 18/19; Chandeleur Block 31/32, and Atchafalaya Bay (Marathon discovery).

In early April 2011, the Main Pass Block 270 A-3 well ceased producing due to an influx of sand and has been offline since. Evaluation work is ongoing to determine the feasibility of a workover to restore production from the well.

The gas sales line that carries production from the Marathon well was shut in by the owner in mid-May 2011 due to the fast-flowing water in the Atchafalaya River caused by the extensive flooding from the diversion of the Mississippi River. The well was placed back on production on 11 June 2011 at a gross rate of 24 MMcf per day.

The Main Pass 18/19 and Chandeleur Area 31/32 fields were also shut in for twenty-five days in June while annual maintenance was completed on the gas sales transportation line that services the fields.

The interruptions to production have caused the Company to revise its full year production guidance from 3.0 Bcfe to 2.5 Bcfe.

The Company commenced plug and abandonment of the Mobile Bay Area and Main Pass Block 20 fields during the period and work was completed by mid-August.

4. Review of Operations (continued)

USA, Gulf of Mexico/Onshore Louisiana (continued)

Exploration/Development

In April 2011, the Company participated in the drilling of the 21,000 feet (6,500 metres) Marathon #2 well with Phoenix Exploration as operator.

The Marathon #2 well is a follow up to the successful #1 well and is situated in approximately 8.0 feet (2.4 metres) of water approximately 2,950 feet (900 metres) from the #1 well. The #2 well was designed to serve as a development well for the field and also to test deeper exploratory reserve potential on the Marathon structure.

At the date of this report, the Marathon #2 well had reached a total depth of 21,160 feet (6,450 metres) and electric logging had been completed. The #2 well confirmed the gas productive reservoirs found in the #1 well, extending the known field pays across the Marathon structure. The deeper, exploratory section of the well was found to contain non-commercial gas and condensate. The well will be completed for production in one of the upper pay sands. Production is expected to commence in the fourth quarter of 2011.

Oil and gas reserves – USA

Petsec Energy estimated that its proved and probable (2P) oil and gas reserves at 30 June 2011 were 11.4 Bcfe, after reductions in reserves of 1.3 Bcfe following conveyance of certain working interests as part of the settlement of the subordinated term loan (refer to *Note 9 Borrowings* of the condensed notes to the consolidated interim financial statements for further details), net revisions of 2.7 Bcfe (Main Pass 18/19 and 270 fields), and production of 1.3 Bcfe for the six months to 30 June 2011. Reserves from the Marathon #2 well are not included.

Reserves	**Petsec Energy Inc.** Estimated Recoverable Proved and Probable Reserves *Gas Equivalent Bcfe*
Reserves at 1 January 2011	**16.7**
Net additions	-
Conveyance of working interests	(1.3)
Revisions	(2.7)
Production	(1.3)
Reserves at 30 June 2011	**11.4**

Competent Person Statement

In accordance with ASX Listing Rules, the Petsec Energy Inc., USA internal reserve estimates information in this report is based upon information compiled, reviewed and signed off by Mr Ron Krenzke, Executive Vice President Exploration, a full-time employee of Petsec Energy Inc. Mr Krenzke has at least five years' relevant experience within the sector and consents to the disclosure of this information in the form and context in which it appears.

5. Events subsequent to balance date

Other than any matter disclosed, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future years.

Directors' Report (continued)

For the six months ended 30 June 2011

6. Lead auditor's independence declaration

The Lead Auditor's Independence Declaration is set out on page 8 and forms part of the Directors' Report for the six months ended 30 June 2011.

7. Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the Financial Report and Directors' Report have been rounded off to the nearest one thousand dollars, unless otherwise stated.

This report is made with a resolution of the directors:

T N Fern,
Director
Sydney, 30 August 2011

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Petsec Energy Ltd,

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 30 June 2011, there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Paul Zammit

Paul Zammit
Partner

Sydney

30 August 2011

Consolidated interim statement of comprehensive income

For the six months ended 30 June 2011

	Note	Six months to 30 June 2011 US$'000	30 June 2010 US$'000
Revenues from sale of oil & gas and royalties		**8,477**	17,936
Royalties paid		**(1,113)**	(2,252)
Net revenues after royalties		**7,364**	15,684
Other income and expenses		**614**	785
Lease operating expenses		**(2,750)**	(3,868)
Geological, geophysical and administrative expenses		**(3,289)**	(4,331)
EBITDAX [1]		**1,939**	8,270
Depreciation, depletion, amortisation and rehabilitation		**(3,190)**	(7,599)
EBITX [2]		**(1,251)**	671
Seismic and repair expense		**(381)**	(511)
Dry hole, impairment and abandonment expense	5	**(7,701)**	(16,658)
EBIT [3]		**(9,333)**	(16,498)
Derivative gains	6	**88**	708
Gain on discharge of debt	9	**11,409**	-
Financial income		**53**	277
Financial expenses		**(333)**	(1,719)
Net financial income/(expense)		**(280)**	(1,442)
Profit/(loss) before income tax		**1,884**	(17,232)
Income tax benefit/(expense)	7	**-**	(13,278)
Profit/(loss) from continuing operations		**1,884**	(30,510)
Profit/(loss) from discontinued operation	12	**29,807**	(231)
Profit/(loss) for the year		**31,691**	(30,741)
Other comprehensive income/(loss)			
Foreign exchange translation differences		**(824)**	(1,116)
Cash flow hedges, net of tax		**-**	(1,421)
Total comprehensive income/(loss) for the period		**30,867**	(33,278)
		US$	US$
Earnings/(loss) per share			
Basic and diluted earnings/(loss) per share		**0.14**	(0.13)

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

2 Earnings before interest (financial income and expense), income tax and exploration (including dry hole, impairment and abandonment expense; seismic and repair expense) and unrealised derivative gains.

3 Earnings before interest (financial income and expense), unrealised derivative gains and income tax.

The consolidated interim statement of comprehensive income is to be read in conjunction with the notes to the consolidated financial statements set out on pages 13 to 23.

Consolidated interim statement of changes in equity

For the six months ended 30 June 2011

In thousands of USD	Share capital US$'000	Translation reserve US$'000	Cashflow hedge reserve US$'000	Share-based compensation US$'000	Accumulated losses US$'000	Total Equity US$'000
Balance at 1 January 2010	184,027	2,632	2,744	789	(110,240)	79,952
Total comprehensive income for the period						
Profit/(loss)	-	-	-	-	(30,741)	(30,741)
Other comprehensive income						
Foreign exchange translation differences	-	(1,116)	-	-	-	(1,116)
Cashflow hedges, net of tax	-	-	(1,421)	-	-	(1,421)
Total other comprehensive income/(loss)	-	(1,116)	(1,421)	-	-	(2,537)
Total comprehensive income/(loss) for the period	-	(1,116)	(1,421)	-	(30,741)	(33,278)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Vesting of share options	582	-	-	(582)	-	-
Share-based payments expense	-	-	-	124	-	124
Total transactions with owners	582	-	-	(458)	-	124
Balance at 30 June 2010	184,609	1,516	1,323	331	(140,981)	46,798
Balance at 1 January 2011	**184,783**	**3,311**	**-**	**224**	**(145,477)**	**42,841**
Total comprehensive income/(loss) for the period						
Profit/(loss)	**-**	**-**	**-**	**-**	**31,691**	**31,691**
Other comprehensive income/(loss)						
Foreign exchange translation differences	**-**	**(824)**	**-**	**-**	**-**	**(824)**
Cashflow hedges, net of tax	**-**	**-**	**-**	**-**	**-**	**-**
Total other comprehensive income/(loss)	**-**	**(824)**	**-**	**-**	**-**	**(824)**
Total comprehensive income/(loss) for the period	**-**	**(824)**	**-**	**-**	**31,691**	**30,867**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Vesting of share options	**200**	**-**	**-**	**(200)**	**-**	**-**
Share-based payments expense	**-**	**-**	**-**	**54**	**-**	**54**
Total transactions with owners	**200**	**-**	**-**	**(146)**	**-**	**54**
Balance at 30 June 2011	**184,983**	**2,487**	**-**	**78**	**(113,786)**	**73,762**

The consolidated interim statement of changes in equity is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 13 to 23.

Consolidated interim balance sheet

As at 30 June 2011

	Note	30 June 2011 US$'000	31 December 2010 US$'000
ASSETS			
Current assets			
Cash and cash equivalents		**43,138**	17,373
Restricted deposits [1]		**1,927**	4,487
Trade and other receivables		**2,440**	2,816
Fair value of derivative financial instruments		**396**	1,247
Prepayments		**1,308**	993
Total current assets		**49,209**	26,916
Non-current assets			
Restricted deposits [1]		**5,425**	1,213
Investments in unrelated entities		**1,926**	-
Property, plant and equipment		**153**	209
Exploration, evaluation and development expenditure – Tangible		**29,822**	54,384
Exploration and evaluation expenditure – Intangible		**4,387**	7,344
Intangible assets – Software		**6**	13
Total non-current assets		**41,719**	63,163
Total assets		**90,928**	90,079
LIABILITIES			
Current liabilities			
Trade and other payables		**4,983**	4,157
Loans and borrowings	9	**-**	28,919
Rehabilitation provisions		**6,535**	8,571
Employee benefits provisions		**188**	176
Total current liabilities		**11,706**	41,823
Non-current liabilities			
Rehabilitation provisions		**5,213**	5,182
Employee benefits provisions		**247**	233
Total non-current liabilities		**5,460**	5,415
Total liabilities		**17,166**	47,238
Net assets		**73,762**	42,841
EQUITY			
Issued capital		**184,983**	184,783
Reserves		**2,565**	3,535
Accumulated losses		**(113,786)**	(145,477)
Total equity		**73,762**	42,841

[1] Relates to cash used to guarantee certain future rehabilitation obligations.

The consolidated interim balance sheet is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 13 to 23.

Consolidated interim statement of cashflows

For the six months ended 30 June 2011

	Note	30 June 2011 US$'000	30 June 2010 US$'000
Cashflows from operating activities			
Cash receipts from customers		**10,911**	21,090
Cash payments for royalties		**(1,648)**	(2,385)
Cash payments to suppliers and employees		**(7,908)**	(11,013)
Interest received		**53**	277
Interest paid		**(13)**	(1,198)
Restricted deposits[1]		**(1,652)**	(5,200)
Net cash from operating activities		**(257)**	1,571
Cashflows from investing activities			
Payments for property, plant and equipment		**(13)**	(122)
Payments for exploration, evaluation and development expenditure		**(2,512)**	(3,046)
Proceeds from sale of investments		**40,869**	-
Proceeds from sale of assets		**-**	5
Net cash from investing activities		**38,344**	(3,163)
Cashflows from financing activities			
Debt facility repayments including transaction costs		**(12,692)**	(150)
Net cash from financing activities		**(12,692)**	(150)
Net increase/(decrease) in cash and cash equivalents		**25,395**	(1,742)
Cash and cash equivalents at 1 January		**17,373**	25,356
Effects of exchange rate changes on cash held		**370**	(851)
Cash and cash equivalents at 30 June		**43,138**	22,763

1 Relates to cash used to guarantee certain future rehabilitation obligations.

The consolidated interim statement of cashflows is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 13 to 23.

Condensed notes to the consolidated interim financial statements

For the six months ended 30 June 2011

1. Reporting entity

Petsec Energy Ltd (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company for the six months ended 30 June 2011 comprises the Company and its subsidiaries (together referred to as the "consolidated entity").

The consolidated annual financial report of the consolidated entity for the year ended 31 December 2010 is available upon request from the Company's registered office at Level 13, 1 Alfred St, Sydney NSW 2000 or at http://www.petsec.com.au.

The financial report is presented in United States dollars which is the consolidated entity's choice of presentation currency.

2. Statement of compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: *Interim Financial Reporting* and the Corporations Act 2001. The consolidated interim financial report also complies with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the consolidated entity as at and for the year ended 31 December 2010.

This consolidated interim financial report was approved by the Board of Directors on 30 August 2011.

The consolidated entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

3. Significant accounting policies

The accounting policies applied by the consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 31 December 2010.

The comparative statement of comprehensive income has been re-presented assuming the discontinued operations during the current year had been discontinued from the start of the comparative year (see note 12).

4. Estimates

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the basis on which significant judgements are made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 31 December 2010.

5. Dry hole, impairment and abandonment expense

The estimated recoverable amount of oil and gas assets is based on discounted cash flow projections which are based on a range of estimates and assumptions that are subject to change. Key assumptions include the ultimate prices realised on the sale of oil and gas and the reserves ultimately recovered. A sustained deterioration in prices or reduction in reserves may result in further future asset impairments.

For the six months ended 30 June 2011, the consolidated entity recognised total impairment and abandonment expense of US$7,701,000 primarily against the Main Pass 18/19 and the Main Pass 270 fields following the further softening of natural gas prices since the beginning of the year and reductions in estimated future production from certain wells in these fields based on recent well performance.

5. Dry hole, impairment and abandonment expense (continued)

During the previous corresponding period, the consolidated entity recognised US$16,658,000 in dry hole, impairment and abandonment expense, comprising:

- US$3,105,000 predominantly in relation to the Company's share of dry hole costs of the Main Pass Block 20 #4 well;
- US$10,432,000 net impairment provision recognised mainly against the Main Pass 18/19 and the Main Pass 270 fields following reductions in internal reserve estimates;
- US$3,043,000 net impairment provision recognised against a number of undrilled leases reflecting the uncertainty that the leases will be tested with a future exploratory well;
- US$$78,000 net increase in rehabilitation provisions.

6. Derivative gains

The consolidated entity has entered into gas collar derivative contracts to hedge the price risk associated with selling a portion of its 2011 gas production. Whilst these instruments represent an economic hedge, the consolidated entity does not use hedge accounting. Accordingly all changes in the fair value of these contracts are recognised in the Statement of Comprehensive Income immediately in the period incurred. The following table presents details of the change in fair value recognised in the current and comparative period:

	Six months to 30 June 2011 US$'000	Six months to 30 June 2010 US$'000
Change in fair value of collar hedge contracts	**88**	708

Whilst changes in fair value are recognised over the life of the instrument, for internal reporting management monitor the price realised for production during the period. The price realised on production represents the aggregation of the spot selling price, net of royalties, plus the impact of the gain that is realised on the settlement of the instrument. The following table presents details of the gains that were realised on contracts that settled during the period:

	Six months to 30 June 2011 US$'000	Six months to 30 June 2010 US$'000
Gains realised upon settlement of collar hedge contracts	**940**	-

7. Income tax expense

Under Australian Accounting Standards, the Company is required to assess at each reporting period, the extent to which deferred tax assets in respect of the carry-forward of unused tax losses and temporary differences qualify for recognition on the balance sheet based on current facts and circumstances, including projected future taxable profits.

Historically, no deferred tax assets have been recognised in relation to the Australian operations as they do not qualify for recognition of deferred tax assets until such time that it is probable that future taxable profits will be available against which unused tax losses and temporary differences in the relevant tax jurisdictions can be utilised.

In the previous corresponding period, the Company recognised a provision of US$13,278,000 against the entire USA deferred tax balance previously brought to account until such time that the USA operations can regain sustained profitability.

No income tax expense was recognised during the current period.

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2011

8. Earnings per share

The Company has only one type of security, being ordinary shares, included in the basic earnings per share calculation.

In addition to the ordinary shares, the Company has 5,008,500 options outstanding under the Employee Option Plan. In determining potential ordinary shares, none of the options are dilutive for the six months to 30 June 2011.

During the current period, no options were granted and 263,500 options were forfeited. No options were exercised and converted to ordinary shares.

Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share at 30 June 2011 was based on the profit attributable to ordinary shareholders of US$31,691,000 (2010: Loss of US$30,741,000) and a weighted average number of ordinary shares outstanding during the six months ended 30 June 2011 of 231,283,622 (2010: 231,283,622), calculated as follows:

Profit/(loss) attributable to ordinary shareholders

	Consolidated Six months to 30 June	
	2011	2010
	US$'000	US$'000
Profit/(loss) for the period	**31,691**	(30,741)

Weighted average number of shares (basic)

	Consolidated Six months to 30 June	
In thousands of shares	**2011**	2010
Issued ordinary shares at 1 January	**231,284**	231,284
Effect of shares issued during the half year	**-**	-
Weighted average number of ordinary shares at 30 June	**231,284**	231,284

Weighted average number of shares (diluted)

	Consolidated	
In thousands of shares	**2011**	2010
Weighted average number of ordinary shares (basic) at 30 June	**231,284**	231,284
Effect of share options on issue	**-**	-
Weighted average number of ordinary shares (diluted) at 30 June	**231,284**	231,284

Earnings per share

	Consolidated	
In USD dollars	**2011**	2010
Basic and diluted earnings/(loss) per share	**0.14**	(0.13)

9. Borrowings

(a) Term loan settlement

As of 30 June 2011, the consolidated entity has no borrowings (31 December 2010: US$29.2 million of borrowings, before US$0.3 million of unamortised debt issue costs).

As detailed in the financial statements for the year ended 31 December 2010, the consolidated entity had a term loan owed to a third party by its US subsidiary, Petsec Energy Inc ("PEI"). In December 2010, PEI and the lender entered into a memorandum of understanding in relation to the settlement and extinguishment of amounts outstanding under this facility.

On 25 May 2011 the consolidated entity completed the settlement of the US$29.2 million term loan owed by PEI. As a result of this settlement, the security over PEI's assets associated with this loan has been released.

The term loan was extinguished by the payment of US$12 million in cash, and conveyance of a 2.5% working interest in the Company's Main Pass 270 producing wells, a 2% working interest in the Company's lease 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 and the exploration area of Main Pass 270.

As a result of a difference between the book value of the interest in the respective properties compared to the value of the liability extinguished, the settlement and extinguishment of the term loan generated a gain. The following table presents details of the gain on settlement and extinguishment of this liability.

	US$'000
Borrowings extinguished	**29,175**
Less: Cash paid/payable	**(12,090)**
Carrying value of interest in properties transferred	**(4,696)**
Transaction costs associated with loan settlement	**(704)**
Unamortised borrowing costs	**(276)**
Gain on term loan settlement	**11,409**

(b) Revolving facility

At 30 June 2011, US$5.8 million of letters of credit were on issue under PEI's revolving facility all of which were secured by restricted cash (December 2010: US$6.6 million of letters of credit on issue of which US$3.2 million was secured by restricted cash). No borrowings were available under the facility, which matured on 15 August 2011. The revolving facility was secured by assets of PEI. The letters of credit that were on issue secured BOEMRE (Bureau of Ocean Energy Management, Regulation and Enforcement) bonding for potential plug and abandonment and contingent environmental liabilities in connection with PEI's oil and natural gas operations. On 12 July 2011, the outstanding letters of credit were terminated and the cash that secured the letters of credit was transferred to an escrow account with the bonds underwriter. As of 12 July 2011, US$6.6 million of restricted cash is deposited in the escrow account partially securing US$7.4 million of bonding.

10. Share-based payments

The Employee Share Option Plan provides for employees, executives and directors to be granted options over ordinary shares at the discretion of the Nomination and Remuneration Committee. The terms and conditions of the share option programme are disclosed in the consolidated financial report as at and for the year ended 31 December 2010.

The vesting conditions for options granted include six months to four years of service and satisfaction of minimum share price hurdles.

During the six months ended 30 June 2011, no new grants were made to key management personnel.

Fair value of share options and assumptions for key management personnel grants	**Key management Personnel**	Key management Personnel
	Six months to 30 June 2011	Six months to 30 June 2010
Weighted average fair value at measurement date	-	A$0.03
Weighted average share price	-	A$0.22
Weighted average exercise price	-	A$0.23
Expected volatility (expressed as weighted average used in the modelling under Black-Scholes model)	-	62.83%
Expected option life (expressed as weighted average used in the modelling under Black-Scholes model)	-	3.5 years
Expected dividends	-	-
Risk-free interest rate (based on national government bonds)	-	4.66%

11. Segment reporting

The consolidated entity operates in the oil and gas industry.

Segment information is presented in the consolidated interim financial statements in respect of the consolidated entity's geographic segments, which reflects the presentation of information to the chief operating decision maker and may differ from the information required to be disclosed in accordance with the Accounting Standards.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. In presenting information on the basis of geographical segments, segment revenue and net profit/(loss) before tax are based on the geographical location of operations. Segment net revenues after royalties include the effect of realised derivative gains of US$940,000. The realised derivative gain is not revenue under Accounting Standards (refer to *Note 6 Derivative Gains* for further details).

During the current period, Petsec Energy sold the subsidiary through which it conducted its China operations (refer to *Note 12 Discontinued Operations* for further details). The effective date of the sale was 1 January 2011.

	Australia		USA		China		Consolidated	
	30 June 2011 US$'000	30 June 2010 US$'000	**30 June 2011 US$'000**	30 June 2010 US$'000	**30 June 2011 US$'000**	30 June 2010 US$'000	**30 June 2011 US$'000**	30 June 2010 US$'000
Oil & gas sales and royalties [1, 2]	-	-	**9,417**	17,936	**-**	-	**9,417**	17,936
Royalties paid	-	-	**(1,113)**	(2,252)	**-**	-	**(1,113)**	(2,252)
Segment net revenues after royalties	-	-	**8,304**	15,684	**-**	-	**8,304**	15,684
Segment net profit/(loss) before tax	**28,917**	(574)	**2,774**	(16,658)	**-**	(231)	**31,691**	(17,463)
Income tax benefit/(expense)							**-**	(13,278)
Net profit/(loss) for the period							**31,691**	(30,741)

[1] There are no inter-segment sales
[2] Includes realised derivative gains of US$940,000.

12. Discontinued operation

On 2 June 2011, the Company entered into an agreement with Horizon Oil Limited for the sale of Petsec Energy's wholly owned subsidiary, Petsec Petroleum LLC, which held Petsec Energy's entire interest in Block 22/12 Beibu Gulf, China. The effective sale date was 1 January 2011 and the total consideration comprised A$38 million cash and 15,000,000 options over Horizon Oil Limited ordinary shares with a three year term and exercise price of A$0.37 cents per share. Following approval from the Chinese National Offshore Oil Corporation, this transaction completed in June 2011 resulting in the recognition of an accounting gain of US$29.8 million on disposal.

The Block 22/12 Beibu Gulf interest represented Petsec Energy's China segment. The following table presents details of contribution of this discontinued operation and the gain on sale.

	Six months to 30 June 2011 US$'000	Six months to 30 June 2010 US$'000
Results from discontinued operation		
GG&A expense	**-**	(231)
Tax expense	**-**	-
Result from operating activities, net of income tax	**-**	-
Net gain on sale of discontinued operation	**29,807**	-
Tax expense on net gain on sale of discontinued operations	**-**	-
Profit/(loss) for the period	**29,807**	(231)
Cash flows from discontinued operations		
Net cash from (used in) operating activities	**-**	(231)
Net cash from (used in) investing activities	**-**	(382)
Net cash from (used in) financing activities	**-**	-

The net gain on the sale of Block 22/12 Beibu Gulf has been calculated using the prevailing USD/AUD exchange rates on the date of the transaction, as follows:

	Six months to 30 June 2011 US$'000
Sale proceeds	
- Cash	**40,869**
- Receivable	**683**
- Fair value of options in Horizon Oil Limited*	**1,817**
Total sales proceeds	**43,369**
Carrying value of net assets disposed	**(13,562)**
Net gain on sale of discontinued operations	**29,807**

* The options have an exercise price of A$0.37 per share, and can be exercised at any time up until 30 June 2014. The options are unlisted. There are no restrictions on Petsec selling the unexercised option to a third party. At the grant date, the options had a fair value of A$0.1126 per option.

13. Interests in unincorporated joint operating arrangements

Included in the assets of the consolidated entity are the following items which represent the consolidated entity's interest in the assets and liabilities in joint operating arrangements:

	As at	
Assets	**30 June 2011 US$'000**	31 December 2010 US$'000
Exploration, evaluation and development expenditure – Tangible:		
Leases now in production		
Producing leases – at cost	**134,614**	138,230
Less: accumulated amortisation and impairment	**(108,110)**	(102,391)
	26,504	35,839
Represented by the following lease carrying values:		
- Main Pass 19	**4,369**	8,724
- Main Pass 270	**18,954**	24,691
- Atchafalaya Bay (Marathon)	**3,181**	2,423
- Onshore Louisiana	**-**	1
	26,504	35,839
Leases not yet in production		
- Block 22/12 Beibu Gulf, China [1]	**-**	12,315
- Other Gulf of Mexico leases	**-**	110
	-	12,425
Total exploration, evaluation and development expenditure – Tangible	**26,504**	48,264
Exploration and evaluation expenditure – Intangible:		
Not in production		
- Block 22/12 Beibu Gulf, China [1]	**-**	1,338
- Onshore Louisiana	**2,814**	2,814
- Other Gulf of Mexico leases	**1,573**	2,640
Total exploration, evaluation and development expenditure – Intangible	**4,387**	6,792

[1] Interest sold in June 2011.

	As at	
Liabilities	**30 June 2011 US$'000**	31 December 2010 US$'000
Rehabilitation provision:		
- Main Pass 19	**1,441**	1,340
- Mobile Bay Area [2]	**2,894**	4,836
- Main Pass 270	**320**	336
- Atchafalaya Bay (Marathon)	**9**	11
- Onshore Louisiana	**632**	700
	5,296	7,223

[2] Mobile Bay Area field ceased production during 1st half 2010. Plug and abandonment operations commenced during the current period and the work was completed by mid August 2011.

13. Interests in unincorporated joint operating arrangements (continued)

The contribution of the consolidated entity's joint operating arrangements to EBIT (including exploration write-offs and impairments; and excluding the effects of hedging):	Six months to 30 June 2011 US$'000	30 June 2010 US$'000
- Main Pass 19	**(4,405)**	(5,436)
- Mobile Bay Area	**(190)**	(978)
- Main Pass 270	**(1,325)**	(2,127)
- Block 22/12 Beibu Gulf, China [2]	**-**	(231)
- Atchafalaya Bay (Marathon)	**736**	-
- Onshore Louisiana	**387**	493
- Other Gulf of Mexico leases	**18**	124
	(4,779)	(8,155)

The principal activity of all the joint operating arrangements is oil & gas exploration and production. Listed below is the name of each of the joint operating arrangements and the percentage interest held in the joint operating arrangement by the consolidated entity as at and during the six months ended 30 June 2011:

	Interest held 30 June 2011	Interest held 30 June 2010
- Main Pass 19	**55.00%**	55.00%
- Mobile Bay Area	**40.00% to 50.00%**	40.00% to 50.00%
- Main Pass 270 [1]	**22.50%**	25.00%
- Block 22/12 Beibu Gulf, China [2]	**-**	25.00%
- Atchafalaya Bay (Marathon) [1]	**8.00%**	-
- Onshore Louisiana	**46.21% to 80.00%**	46.21% to 80.00%
- Other Gulf of Mexico leases [1]	**37.50% to 75.00%**	50.00% to 75.00%

1 Reflects interest held following conveyance of minority interests as part of the terms of the settlement of the subordinated term debt in May 2011.
2 Interest sold in June 2011.

Petsec Energy

Condensed notes to the consolidated interim financial statements (continued)

For the six months ended 30 June 2011

14. Wholly owned areas of interest

Included in the assets and liabilities of the consolidated entity are the following items which represent the consolidated entity's wholly owned areas of interest:

Assets	As at 30 June 2011 US$'000	As at 31 December 2010 US$'000
Exploration, evaluation and development expenditure – Tangible:		
Leases now in production		
Producing leases – at cost	**47,788**	47,778
Less: accumulated amortisation	**(44,614)**	(41,801)
	3,174	5,977
Represented by the following lease carrying values:		
- Main Pass 18	**2,721**	5,348
- Chandeleur 31/32	**453**	629
	3,174	5,977
Not in production		
- Spare equipment	**144**	143
	144	143
Total exploration, evaluation and development expenditure – Tangible	**3,318**	6,120
Exploration and evaluation expenditure - Intangible :		
Not in production		
- Other Gulf of Mexico leases	**-**	552
Total exploration and evaluation expenditure – Intangible	**-**	552

	As at 30 June 2011 US$'000	As at 31 December 2010 US$'000
Liabilities		
Rehabilitation provision:		
- Main Pass 18	**148**	134
- Main Pass 20 [1]	**3,271**	3,516
- Chandeleur 31/32	**3,033**	2,880
	6,452	6,530

1 The Main Pass 20 field ceased production in August 2009. Plug and abandonment operations commenced during the current period and the work was completed by mid August 2011.

14. Wholly owned areas of interest (continued)

	Six months to	
	30 June 2011 US$'000	30 June 2010 US$'000
The contribution of the consolidated entity's areas of interest to EBIT (including exploration write-offs and impairments; and excluding the effects of hedging):		
- Chandeleur 31/32	**636**	57
- Vermilion 258	**-**	(30)
- Main Pass 18	**(1,890)**	(2,458)
- Main Pass 20	**(36)**	(190)
- Main Pass 91	**-**	(1,291)
- North Padre 929/934	**-**	(1,241)
- Spare equipment	**-**	(359)
	(1,290)	(5,512)

15. Legal matters and contingencies

The consolidated entity is a defendant from time to time in legal proceedings. Where appropriate the consolidated entity takes legal advice. The consolidated entity does not consider that the outcome of any other current proceedings is likely to have a material effect on its operations or financial position.

The production, handling, storage, transportation and disposal of oil and natural gas, by-products thereof and other substances and materials produced or used in connection with oil and natural gas operations were subject to regulation under U.S. federal, state and local laws and regulations primarily relating to protection of human health and environment. To date, expenditure related to complying with these laws and for remediation of existing environmental contamination has not been significant in relation to the results of operations of the consolidated entity.

The Company's U.S. subsidiary, Petsec Energy Inc. ("PEI") is required to provide bonding or security for the benefit of U.S. regulatory authorities and certain lease operators in relation to its obligations to pay lease rentals and royalties, the plugging and abandonment of oil and natural gas wells, and the removal of related facilities. As of 30 June 2011, PEI was contingently liable for US$7,425,000 of surety and supplemental bonds (December 2010: US$10,175,000) issued through a surety company to secure those obligations. At balance date US$6,625,000 of these bonds were collateralised by cash and letters of credit (December 2010: US$6,625,000 collateralised by cash and letters of credit).

16. Related Parties

Arrangements with related parties continue to be in place. For details on these arrangements refer to the 2010 Financial Report.

17. Dividends

No interim dividend is to be paid on the ordinary shares (previous corresponding period: Nil). No dividend or distribution plans are currently in operation.

18. Subsequent Events

Other than any matter disclosed, there have been no other events subsequent to balance date that would have a material effect on the consolidated entity's financial statements at 30 June 2011.

Directors' Declaration

In the opinion of the directors of Petsec Energy Ltd ("the Company"):

(1) the financial statements and notes set out on pages 9 to 23, are in accordance with the Corporations Act 2001 including:

  (i) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2011 and of its performance, as represented by the results of its operations and cashflows for the six months ended on that date; and

  (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulation 2001; and

(2) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

Terrence N. Fern
Director

Sydney, 30 August 2011

Independent auditor's review report to the members of Petsec Energy Ltd

We have reviewed the accompanying interim financial report of Petsec Energy Ltd (the Company), which comprises the consolidated balance sheet as at 30 June 2011, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the interim period ended on that date, notes 1 to 18 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the half-year's end or from time to time during the interim period.

Directors' responsibility for the interim financial report

The directors of the Company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2011 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Petsec Energy Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Petsec Energy Ltd is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the interim period ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

Paul Zammit

Paul Zammit
Partner

Sydney

30 August 2011