

# PETSEC ENERGY LTD

ACN 000 602 700

## REPORT FOR QUARTER ENDED 30 JUNE 2006

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A substantial oil discovery, was made in China during May from the Wei 6-12 South 1 well. Results significantly exceeded pre-drill estimates of 10-20 million barrels. An appraisal programme consisting of production testing and two sidetrack wells is in progress. The second sidetrack well, to test further down-dip potential, is currently drilling.

The Vermilion 257 B2 well in the Gulf of Mexico was found not to contain commercial hydrocarbons and was Petsec's first dry hole after 20 successful offshore wells in USA since 2002.

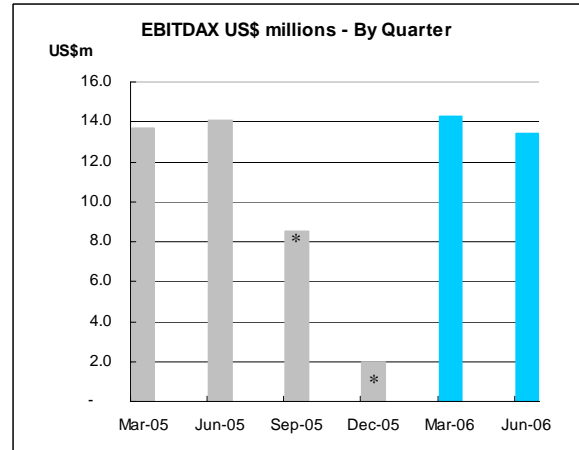
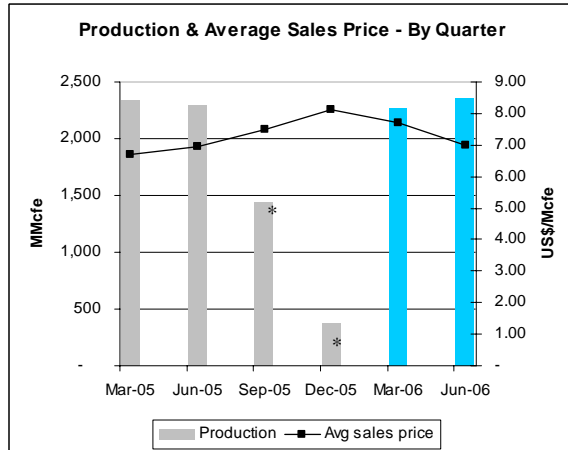
Production for the June quarter increased by 4% to 2.4 Bcfe and was 4.6 Bcfe for the half year.

Cash flow for the June quarter was US\$13.4 million compared to US\$14.3 million in the March quarter, due to a decline in the average gas price received for the period.

Cashflow for the half year to June 2006 was US\$27.7 million, slightly down on the US\$27.8 million for the corresponding period last year.

Cash on hand at 30 June 2006 was US\$25.7 million.

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\* Hurricane shut-ins

## KEY POINTS

### EXPLORATION

#### **China** (*Petsec 25% working interest pre CNOOC back-in*)

During May 2006, the Wei-6-12-South-1 exploration well, offshore southern China, discovered three hydrocarbon columns with total hydrocarbon pay of 95 metres including 80.5 metres of net oil pay. The well flowed at 5,750 bbls of oil per day in production testing. A sidetrack to the well is currently drilling to test down dip potential which may significantly increase mapped reserves.

#### **USA**

The Vermilion 257 B-2 well tested targets >50 Bcfe. No commercial hydrocarbons were discovered. The well was plugged and abandoned. Costs to be expensed at 30 June are approximately US\$7.9 million, with a further amount estimated at US\$2.3 million to be expensed in the second half, equivalent to 10 cents per share in total.

This is Petsec's first offshore dry hole after 20 successful wells in USA since 2002. The sharemarket reacted unfavourably and the share price fell by 70 cents per share.

#### **Four new leases acquired in Gulf of Mexico, USA**

During the quarter, four new Gulf of Mexico leases were acquired, being Main Pass 7 & 91, located immediately to the north of the Company's March 2006 oil and discovery at Main Pass 18 and Vermilion 41 & 148, located to the north of Petsec Energy's Vermilion 258 gas field. Petsec has total 3D mapped prospects on these four leases of approximately 90 Bcfe, with drill testing expected to commence in 2007.

#### **Moonshine**

Prospect development is continuing with a significant number of prospects now identified. Three prospects are scheduled for drilling in the fourth quarter, with a further three for the first quarter of 2007.

**Houston Office** A small office is being opened in Houston, Texas to facilitate the evaluation of farm-in and acquisition opportunities.

### DEVELOPMENT

#### **Three new Main Pass 19 wells brought into production**

The three successful wells drilled at Main Pass 19 earlier in the year were completed and brought into production on 23 May 2006.

### PRODUCTION AND CASHFLOW

- Production for the June 2006 quarter was 2,362 MMcfe up 4% from 2,262 MMcfe for the prior quarter following the commencement of production from the three new wells at Main Pass 19 on 23 May 2006. Production for half-year to June was 4.6 Bcfe. Production is sourced from the three offshore gas fields operated by Petsec Energy in the Gulf of Mexico, USA: Vermilion 258, Main Pass 19 and West Cameron 343/352 and a small royalty interest from Ship Shoal.184/191.
- Net Revenue for the quarter was US\$16.5 million down 6% from US\$17.4 million in the prior quarter as a result of a 10% decline in the average gas prices received to US\$6.97/Mcfe, (Previous quarter US\$7.71/Mcfe).
- EBITDAX for the quarter was US\$13.4 million (A\$18.1 million), down 6% from US\$14.3 million (A\$19.4 million) in the prior quarter due to the lower average gas prices received and higher lease operating expenses. EBITDAX for the half-year to June was US\$27.7 million.

The closing cash position at 30 June 2006 was US\$25.7 million (A\$34.7 million).

## FINANCIAL PERFORMANCE

UNAUDITED FINANCIAL DATA	June 2006 Quarter	March 2006 Quarter	% increase on previous Quarter	June 2006	June 2005	% increase on corresponding half year	
<b>Production and Financial summary</b>							
Net production	MMcfe *	2,362	2,262	4.4%	4,624	4,637	-0.3%
Net revenue	US\$000	16,474	17,436	-5.5%	33,910	31,616	7.3%
Other revenue	US\$000	161	59		220	225	
Lease operating expense (incl. production taxes)	US\$000	1,413	807		2,220	1,150	
General & Administrative expenses (G,G&A)	US\$000	1,796	2,388		4,184	2,894	
<b>EBITDAX ** (from normal operations)</b>	<b>US\$000</b>	<b>13,426</b>	<b>14,300</b>	<b>-6.1%</b>	<b>27,726</b>	<b>27,797</b>	<b>-0.3%</b>
	<b>A\$000</b>	<b>18,070</b>	<b>19,416</b>		<b>37,306</b>	<b>35,955</b>	
<b>Unit revenue/cost analysis per Mcfe (USD) - (from normal operations)</b>							
Average sales price	US\$/Mcfe	6.97	7.71		7.33	6.82	
Other revenue	US\$/Mcfe	0.07	0.03		0.05	0.05	
Lease operating expense (incl. production taxes)	US\$/Mcfe	0.60	0.36		0.48	0.25	
G,G&A expenses	US\$/Mcfe	0.76	1.06		0.90	0.62	
EBITDAX	US\$/Mcfe	5.68	6.32		6.00	6.00	
<b>Net cash and liquid assets (US\$000)</b>							
Cash held in USD	US\$000	17,691	10,067		17,691	13,714	
Cash held in AUD	A\$000	10,794	31,094		10,794	2,431	
<b>Acquisitions, exploration &amp; development expenditure</b>							
Lease Acquisitions	US\$000	2,381	618		2,999	2,161	
Exploration	US\$000	15,774	9,024		24,798	15,171	
Development	US\$000	1,804	6,649		8,453	5,839	
	US\$000	<b>19,959</b>	<b>16,291</b>		<b>36,250</b>	<b>23,171</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 = Earnings Before Interest, Taxes, Depreciation, Depletion, Amortisation, and Exploration Expenses  
 These figures are preliminary and unaudited

## HEDGING

Current hedging in place for the remainder of the 2006 year is 6,000 MMBtu/day at an average price of US\$8.03/MMBtu by way of natural gas swaps, and 2,000 MMBtu/day by way of collars, with a floor/ceiling price of US\$6.50 /US\$10.20 respectively.

This is equivalent to total hedging through to December 2006 of approximately 1.5 Bcfe at an average price of US\$8.11/Mcf for the six months to December 2006.

## OPERATIONS

### USA

#### Gulf of Mexico, Offshore Louisiana

##### **Vermilion 244, 246, 257, 258, 259**

*Petsec: 100% working interest (83.33% net revenue interest)*

*Operator: Petsec Energy*

The Vermilion 244, 246, 257, 258 and 259 leases are located approximately 114 kilometres (70 miles) south of Vermilion Parish, offshore Louisiana, in approximately 130 feet of water. The leases are proximal to the Vermilion 245 and 265 fields which have produced approximately 680 Bcfe of gas.

Petsec drilled the Vermilion 258 G-1 and G-2 discovery wells in December 2003 and January 2004 respectively, establishing estimated recoverable gas of the order of 21 Bcfe. Development of the field began in January 2004 with a three-pile platform and pipeline being installed within six months and production commencing in July 2004. Two further wells, the G-3 and G-7 development wells were drilled in October 2004 from the Vermilion 258 platform.

Net production from Vermilion for the quarter was 1,655 MMcfe of gas.

A jacket was constructed and set in Vermilion 257 during May 2006 in preparation for drilling which commenced on 15 June 2006. The jacket was located in order to test more than four prospects with mapped potential >40 Bcfe. A 1-2 well programme commenced 16 June 2006 to test a >50 Bcfe target (risked at 6-13 Bcfe) in Vermilion 257. On 19 July 2006 the Vermilion 257 B-2 well reached total depth and intersected the two target sands at the depth and with the expected thickness of sand as expected, but did not contain commercial hydrocarbons. The well was plugged and abandoned and the rig was released. The cost of the well of US\$10.2 million will be expensed.

##### **Vermilion 41 and 148 (New Leases)**

*Petsec: 100% working interest (83.33% net revenue interest)*

*Operator: Petsec Energy*

Two new leases were acquired in the Vermilion area during the quarter - Vermilion 41 and 148 which are located approximately 56 kilometres and 100 kilometres respectively, to the north of the Company's Vermilion 258 gas field. Target potential on these two leases is approximately 40 Bcfe.

##### **Main Pass 19**

*Petsec: 55% working interest (45.83% net revenue interest)*

*Operator: Petsec Energy*

The Main Pass 19 lease of 4,995 acres was acquired in June 2004 and is located approximately 128 kilometres (80 miles) south-east of New Orleans in eight metres (27 feet) of water.

A three-well drilling programme between April and June 2005 discovered estimated recoverable gas of 13 Bcfe net to Petsec. Development of the Main Pass 19 gas field followed with a platform, production facilities and pipelines being installed by December 2005, with production from the facility commencing on 11 January 2006.

A further four-well drilling programme was conducted from the Main Pass 19 platform between December 2005 and March 2006. Three wells tested targets at Main Pass 19 and one well tested Main Pass 18 targets. All four wells were successful meeting pre-drill expectations and discovering in total 15-18 Bcf of gas and 1.1 million barrels of oil. Production from three of the four new Main Pass 19 wells commenced on 23 May 2006. Net production from Main Pass 19 for the quarter was 659 MMcfe of gas.

##### **Main Pass 18 & 103**

*Petsec: 100% working interest (83.33% net revenue interest)*

*Operator: Petsec Energy*

Petsec acquired the Main Pass 18 and 103 leases at the March 2005 MMS lease sale. These two leases are adjacent to Main Pass 19. All three leases were part of a large oil and gas field discovered by Mobil in the late 1960's.

The G-6 well was drilled on the Main Pass 18 lease in February/March 2006 discovering an estimated 7.5 Bcf of gas plus 1.1 million barrels of oil. The G-6 was the last well in the successful four-well programme drilled from the Main Pass 19 platform earlier in the year.

The gas discovery from the G-6 well is intended to be produced from the Main Pass 19 platform. Production has yet to commence pending the resolution of negotiations for terms of access to the Company's Main Pass 19 joint venture partner's share of facilities.

The oil discovery from the G-6 well is of a size that will require a separate development at Main Pass 18, and it is envisaged that this would involve the drilling of two to three development wells to produce the oil discovered to date, the drill testing of additional targets totalling 8-15 Bcfe (which includes the potential for more oil), and the installation of a platform, production facilities and pipelines. Engineering development is underway to determine the most efficient way of undertaking this project in light of other oil exploration potential the company has in the immediate area.

The success of the G-6 well has increased the potential of the remaining prospects mapped on Main Pass 18/103 and further drilling is anticipated to commence during the fourth quarter of 2006.

**Main Pass 7 & 91 (New Leases)**

*Petsec: 100% working interest (83.33% net revenue interest)*

*Operator: Petsec Energy*

Petsec was the highest bidder on two new Main Pass lease blocks at the MMS Central Gulf of Mexico Lease Sale 198 held in March 2006: Main Pass 7 & 91. These leases were subsequently awarded to Petsec by the MMS in May 2006 and are located immediately to the north of Main Pass 18 and were previously part of Mobil's large Main Pass oil and gas field. Target potential on these leases is 50 Bcfe.

**Main Pass 89**

*Petsec: 23.5% working interest + 4% overriding royalty interest*

*Operator: Coldren Energy*

The Coldren Oil and Gas JV made a small gas discovery during the quarter. Petsec Energy went non consent in the well and will retain a 4% overriding royalty interest in production from this field.

**West Cameron 343**

*Petsec: 100% -75% working interest (82.33% - 61.75% net revenue interest)*

**West Cameron 352**

*Petsec: 56.25% working interest (46.125% net revenue interest)*

*Operator: Petsec Energy*

Petsec farmed into this oil field in 2002, drilled three successful wells from the existing platform late in 2002 and commenced production from the field early in 2003. Two further wells were drilled later in 2003 and successfully brought into production.

Net production from West Cameron for the quarter was 40 MMcfe of gas.

**Ship Shoal 184 & 191**

*Petsec: 7% overriding royalty interest*

*Operator: Hunt Oil*

Petsec retains a 7% royalty interest in these prospects. Net production to Petsec for the quarter was 8 MMcfe of gas.

## USA Onshore Louisiana

### Moonshine Project

*Petsec: 50% working interest (36% - 37.5% net revenue interest)*

*Operator: Petsec Energy*

Petsec entered into a joint venture in December 2004 to acquire exploration rights, including participation in a 3D seismic survey programme, over 240 square kilometres (94 square miles) in St James Parish, onshore Louisiana. This is an area equivalent in size to approximately 12 offshore Gulf of Mexico leases. The project area abuts the south bank of the Mississippi River at College Point approximately 80 kilometres (50 miles) west of New Orleans.

The area had not previously been subject to 3D seismic testing and is highly prospective for both shallow and deep reserves. The survey area is proximal to six fields which have produced approximately 340 Bcfe of gas and 7.3 million barrels of oil from numerous sand horizons.

The field acquisition of 240 square kilometres of 3D seismic data was completed during the September 2005 quarter and processed data was delivered in the December 2005 quarter. Data quality is good and interpretation commenced late in 2005.

During the quarter, Petsec Energy and its Moonshine partners have identified a significant number of prospects generated from the interpretation of 3D seismic data. It is expected that three shallow prospects will be drilled during the fourth quarter of 2006 to test 10-15 Bcfe approx. net to the Company and a further three prospects drilled in the first quarter of 2007. These prospects are deeper with significantly higher potential.

Petsec's partners in the Moonshine Project are US companies: Dominion Resources Inc., Cox and Perkins Exploration Inc., The Gray Exploration Company and GLS LLC.

## China

### Beibu Gulf Block 22/12

*Petsec: 25% working interest (12.5 % net revenue interest should China National Offshore Oil Corporation (CNOOC) back-in for 51%)*

*Operator: Roc Oil Limited*

Beibu Gulf Block 22/12 is located approximately 60 kilometres off the southern coast of China, north-west of Hainan Island in shallow water, 25 to 40 metres deep. Four oil discoveries (12.2.1, 12.3.1, 12.8.1, and 12.8.2) were made on the lease in the early 1980's and 1990's. These discoveries contain an estimated 45.6 million barrels of recoverable oil, (per independent consultants July 2003). Petsec earned a 25% interest in the contract area in March 2002 by participating in the drilling of the Wei 6.12.1 well which discovered nine metres of net oil pay, estimated to contain 2.6 to 10 million barrels of recoverable oil.

### Wei-6-12-South Oil Discovery

In April 2006 the joint venture commenced drilling of the Wei 6.12 South prospect, located approximately 10 kilometres east of CNOOC's 12-1-A platform and three kilometres southwest of the 6-12-1 oil discovery made by the joint venture in 2002. The well tested 3D seismic mapped potential of 10-20 million barrels of oil recoverable (1.25-2.5 million barrels, net to Petsec).

In May 2006 the joint venture announced a significant oil discovery with three separate gross hydrocarbon columns with individual gross thicknesses of 65 metres, 111 metres and 121 metres, which collectively represent 95 metres of total net hydrocarbon pay, including 80.5 metres of net oil pay. Two of the three oil columns extend beyond the structural closure as presently mapped.

An appraisal programme consisting of production testing and two side track wells commenced.

A three week production testing programme on each of the three separate hydrocarbon columns encountered by the discovery well produced favourable results, with oil flows resulting from all test zones to give a total collective stabilised rate of up to 5,750 barrels per day ("BOPD") of good quality light oil.

**The first-sidetrack well**, the Wei 6-12 Sa was drilled approximately 50 metres from the discovery well and was completed on 12 July with five core samples successfully cut and effectively 100% recovery achieved. Initial analysis indicates that these core samples are similar to the good reservoir character and quality found in the discovery well.

**The second sidetrack well** the Wei-6-12-Sb is currently drilling ahead and is expected to increase current reserves by intersecting the various reservoir sands down dip relative to the first well with the aim of better delineating the likely multiple oil-water contracts in the field and testing the possible thicker down dip development of oil sands intersected in the discovery well.

The above appraisal work is intended to enable the joint venture to make a timely and well informed decision regarding the field's commercial potential, which may lead to a development independent of CNOOC's production facilities. The discovery increases the potential for success of several similar prospects mapped nearby.

#### **Previous Discoveries & the 12-8-East & West oil fields**

The substantial Wei 12.1, 11.4 and 10.3/3N oilfields and two recent large discoveries of the 11.1 and 11.1 North fields, operated by CNOOC, are located nearby to the north and west with production via a pipeline to the Weizhou Island oil processing facilities, 10 kilometres to the north of 22/12. These CNOOC fields each contain an estimated 40 to 100 million barrels of recoverable oil.

A 3D seismic survey was acquired over the 450 square kilometre (175 square miles) block in late 2002. Interpretation of the survey in 2003 clearly defined the existing oil discoveries as well as a significant number of drill prospects.

Three wells were drilled during 2004 one of which, the Wei 12.8.3 well resulted in a successful appraisal of the Wei-12-8-East oil field. In September 2004, the joint venture elected to enter the third exploration phase of the petroleum contract and commit to a feasibility study for development of the Wei-12-8-East and West fields, estimated to contain some 20 to 25 million barrels of recoverable oil.

Successful pre-feasibility studies, conducted jointly by CNOOC and the joint venture, were completed in January 2005. Consequently the joint venture agreed to undertake a feasibility study, again jointly with CNOOC. If successful, this will lead to the lodging of an Overall Development Programme (ODP) which contemplates the development of the 12-8-West field (approximately 10 million barrels of recoverable oil, 1.25 million barrels net to Petsec) in 2006 with anticipated start of production in 2007. This may be followed by the development of the East field (approximately 10 to 15 million barrels of recoverable oil) possibly in 2007.

The feasibility study addressed the use of a lightweight platform at 12-8-West, piping liquids to the 12-1-1 platform for processing and piping the oil through CNOOC's existing pipeline to Weizhou Island for sale.

The feasibility study was completed in the December 2005 quarter and commercial discussions for economic access to CNOOC's production and sales facilities continue.

#### **NEW LEASES**

##### **GULF OF MEXICO, USA – Main Pass 7 & 91 and Vermilion 41 & 148**

During the quarter Petsec Energy acquired four new leases: Main Pass 7 & 91 and Vermilion 41 & 148, after being the highest bidder on these properties at the MMS Central Gulf of Mexico Lease Sale 198 in March 2006. These leases contain 3D mapped potential in the order of 90 Bcfe.

The Main Pass 7 & 91 leases are located immediately to the north of the Company's recent oil and gas discovery at Main Pass 18. These leases have a similar geology to Main Pass 18, 19 and 103, and were part of Mobil's large Main Pass oil and gas field. Vermilion 41 & 148 are located approximately 56 kilometres and 100 kilometres respectively, to the North of the Company's Vermilion 258 gas field.

Petsec Energy now has 19 leases in the Gulf of Mexico, covering 86,314 acres. Onshore Louisiana, the Company holds interests in 60,160 acres over the Moonshine Project. The Company also holds interests in 111,200 acres in the Beibu Gulf in China.

**SEPTEMBER 2006 QUARTER**

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**EXPLORATION**

**USA**

***Moonshine Project***

Interpretation continues. Three prospects have been selected for drilling commencing early in fourth quarter. Another three prospects have been selected for drilling in the first quarter of 2007.

***Main Pass 7 and 91***

Further interpretation of prospects is underway in preparation for drilling in early 2007.

**China**

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

Results of the second sidetrack well to test down-dip extensions of the 6.12.1 South oil discovery well are expected in early July.

**DEVELOPMENT**

**USA**

***Main Pass 18 & 103***

Development options for the 1.1 million barrels of oil discovered in Main Pass18 and remaining oil potential are currently under consideration.

Dated: 26 July 2006

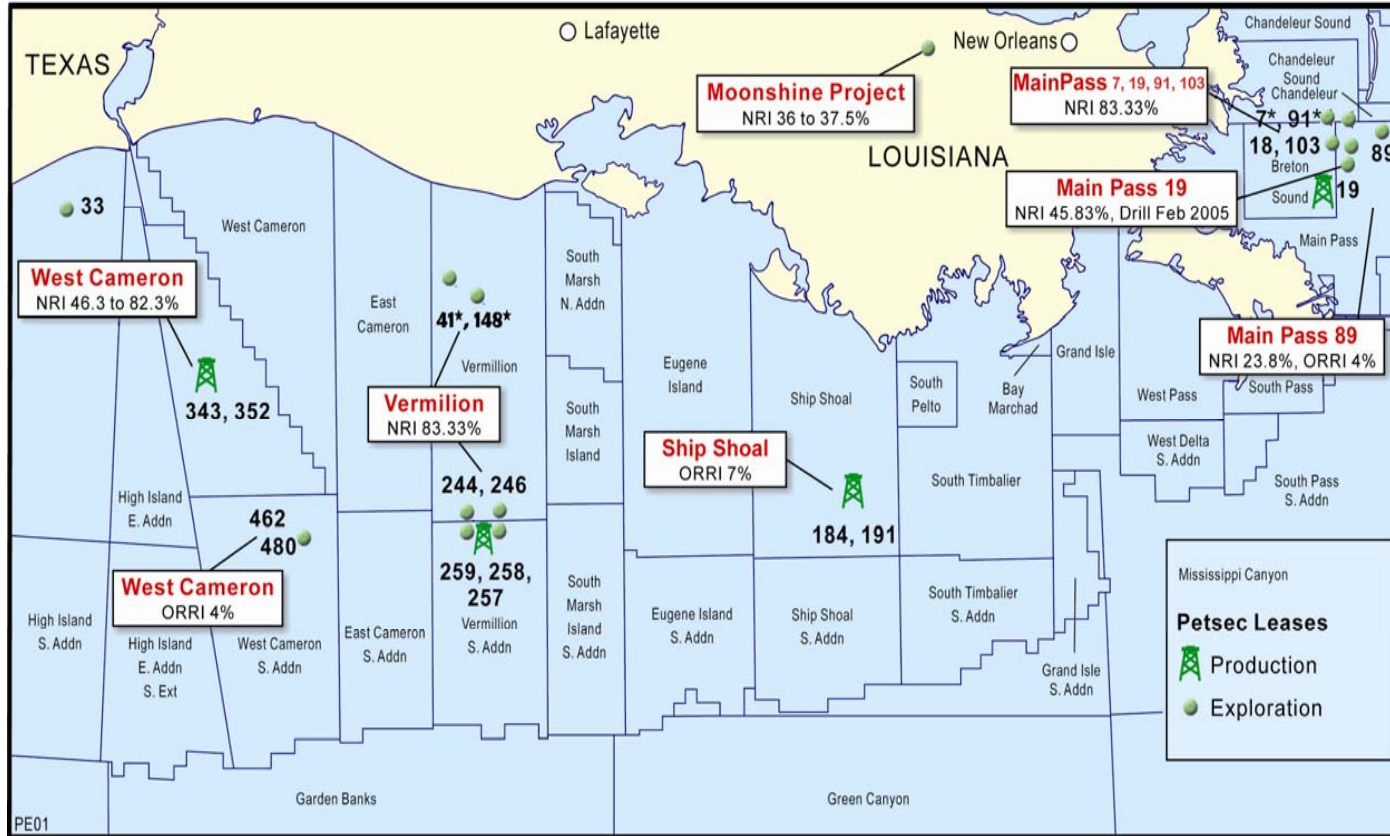
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*Certain statements in this report regarding future expectations and plans of the Company may be regarded as "forward-looking statements". Although the Company believes that its expectations and plans are based upon reasonable assumptions, it can give 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.*

PETSEC LEASES - GULF OF MEXICO, USA



PETSEC LEASE – BEIBU GULF, BLOCK 22/12 CHINA

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