PETSEC ENERGY LTD

ACN 000 602 700

A N N O U N C E M E N T

2nd May 2019

Petsec Energy Ltd
2019 AGM Chairman's Address

Petsec Energy Ltd (ASX: PSA / OTC ADR: PSJEY)

Attached is a copy of the address to be delivered today by Petsec Energy Ltd's Executive Chairman, Terry Fern, at the 2019 Annual General Meeting ("AGM") of members of Petsec Energy Ltd, held at the Governor Macquarie Tower, Level 15 Bligh Room, Sydney.

A copy of the address will also be made available on the Company's website, www.petsec.com.au.

The Company's reserve assessments provided within this address are based on the information contained within the announcements released to the ASX on 18th February 2019 and reproduced in the 2018 Annual Report.

The Company confirms that it is not aware of any new information or data that materially affects the information included within that announcement, and that all the material assumptions and technical parameters underpinning the estimates therein continue to apply and have not materially changed.

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2019 Annual General Meeting
Chairman's Address
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Good morning ladies and gentlemen, welcome to the 2019 Annual General Meeting of Petsec Energy Ltd.

The Company's two key objectives for 2018 were, to progress the development of the Hummer Gas/Oil Field, offshore Gulf of Mexico, USA, and to restart oil production from the An Nagyah Oilfield in Block S-1, Yemen.

USA Development

The Hummer Gas/Oil Field structure extends over a strike of five miles within the Main Pass Block 270, 273 and 274 leases which cover 15,000 acres, in some 200 feet of water. The Hummer Gas/Oil Field was discovered in late 2015, a production platform and export pipelines were set in late 2017, and first production from the B-1 discovery well commenced in November 2017. In May 2018, the Company announced its participation in the Hummer B-2 appraisal/development well.

The primary objectives of the well were two sand reservoirs that were encountered in the B-1 well, one of which was completed and produces in the B-1, and the other identified as proven undeveloped by Cawley, Gillespie & Associates ("CGA"), the Company's independent reserve engineers. CGA had estimated at the first of January 2019, pre penetration of the two primary objectives, that the two primary objectives contained gross 1P reserves of 55 billion cubic feet ("Bcf") of gas and 8.3 million barrels of oil ("MMbo") having a net present value to Petsec ("NPV10") of US$23.0 million, using a 10% discount rate.

The B-2 well appraisal/development well was spud in August 2018, and drilled from the Main Pass 270 "B" platform of the Hummer Gas/Oil Field to test six potential oil and gas reservoirs. The planned bottom-hole location was 6,000 feet to the East, a significant step-out from the Main Pass 270 B-1 discovery well.

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The operator estimated an 80 day well reaching target depth of 18,500 feet measured depth ("MD") in October 2018 at a gross cost of US$20.4 million. The well did not reach final depth of 15,990 feet total vertical depth ("TVD")/17,570 feet MD until March 2019, at a cost of some US$50 million, a net cost to the Company of approximately US$6.25 million.

The B-2 well encountered numerous thin and stratigraphic oil and gas pay zones, including a number of small productive oil and gas sands above the two primary objective sands. Unexpectedly, there was a shale out in the location of the two primary objectives of the well such that the reservoir sands were too thin, or non-reservoir quality or absent at the well location, and were deemed uneconomic for production. The result will cause a likely reduction in reserves estimation when the field reserves are audited at year end.

The open hole below the lowest casing point of 14,000 feet, was plugged, and the cased section was suspended for future completions should the Joint Venture ("JV") wish to complete the small shallower gas sands for production, when gas prices are higher.

The 3D seismic which had been reprocessed three times, indicated the sands of the two primary objectives penetrated in the B-1 well continued to the B-2 location and a further one and a half miles to the East. The presence of shale was unexpected by the JV and our reserve auditors, as it was not identified on the 3D seismic. A review of the B-2 well logs gives some small clue as to the seismic response of the shale and our mapping post drilling, as I will show you in the presentation following this meeting, indicates it occupies about 12 % of the mapped reservoir being produced in the B-1 well. What interference the shale may have to the wider gas drainage of the reservoir by the B-1 well is unknown, thereby causing some uncertainty to the extent of the producing reservoir to the Eastern boundary of the field and the ultimate recovery of oil and gas by the B-1 well.

Remapping of the field will continue to the end of the year, in order to understand the seismic response more clearly and as to whether further reprocessing is required, understand the extent of the shale, the areas of continuation of productive oil and gas sands and field potential and thus where next to drill. It is unlikely there will be further development wells proposed until 2020.

MENA: Yemen

The Company's second objective, to restart production in the An Nagyah Oilfield in Yemen, was not accomplished in the year as we did not secure the necessary Yemen Government approvals, specifically approvals from the Minister for Oil and Minerals, to change the Block S-1 development plan from using the Marib Pipeline/Ras Isa oil export facilities, to a plan using the government owned Block 4 (Shabwah) or Block 14 (Masila) pipeline and export sale facilities, accessed by trucking crude oil. Delays in approvals are largely due to the current security and political uncertainty in Yemen.

The Company holds a 100% interest in two leases in Yemen, Damis Block S-1 and Al Barqa Block 7 in the Marib/Shabwah Basins. These interests were acquired largely from Occidental Petroleum and Oil Search Ltd, respectively, in the period 2014 to 2016. The two blocks hold six oil and gas fields with estimated remaining recoverable oil and gas resources in excess of 80 million barrels of oil and 550 Bcf of gas, of which the Company's net is about 30%.

The An Nagyah Oilfield in Block S-1, is the Company's major asset, holding a developed 19.8 million barrels of remaining recoverable oil of which 5.6 MMbo (27.5%) are net to Petsec Energy. The field has produced 25 million barrels of oil to-date, reaching a peak oil rate of 12,716 bopd in March 2006. The field has been shut-in since February 2014 by the previous operator, Occidental Petroleum, and there are 19 productive suspended wells. The An Nagyah Central Processing Facility can process 20,000 bopd and is connected by an 80,000 bopd pipeline to Block 5 and then to the Marib Export Pipeline (350,000 bopd), which connects to the export terminus of Ras Isa on the Red Sea. The Coalition supporting President Hadi is currently attempting to liberate the Port of Hodeidah on the Red Sea so as to reopen the Ras Isa Oil Terminal and the Marib Pipeline which is connected to the Shabwah Basin oil producers.

The Austrian integrated oil and gas company OMV, is the first foreign operator to restart oil production since the Yemen oil industry was suspended in March 2015 due to the Marib/Ras Isa Oil Terminal embargo by the Saudi Coalition. OMV has maintained oil production of the order of 14,000 bopd since April 2018 from the Habban Oilfield in Block S-2, 70 kilometres North East of the An Nagyah Oilfield and 14 kilometres West of the Al Meashar Oilfield in Block 7. Habban oil is transported 40 kilometres by truck South to the West Ayad Oilfield facilities at the head of the Block 4 export pipeline, then piped some 200 kilometres South to the Bir Ali Oil Terminal on the coast of the Gulf of Aden. Shipments of some 500,000 barrels of oil are made each 1 to 2 months.

Your Company provided an An Nagyah production re-start plan, technical and financial capacity documentation to the Minister of Oil & Minerals in September 2018 for his review and approval of the plan to truck up to 10,000 bopd 70 kilometres to the Block 4 export pipeline to Bir Ali.

Petsec has engaged with all stakeholders associated with production and transportation of oil from An Nagyah to the Bir Ali terminal for export, and gained in-principle arrangements for the re-manning of the Central Processing Facility ("CPF") with the Occidental field operations workforce and the subcontractors that would provide support and transport services to the field operations. We have also secured support of the local tribal and governorate leadership, to restart production of An Nagyah, including secure access corridors for trucking to Block 4 export pipeline to Bir Ali.

The Company's engineers estimate the cost to restart oil production at An Nagyah at a rate of 5,000 bopd, ranges between US$5 million to US$10 million and would take between 3 and 6 months to effect the restart from the time of receipt of Yemen Government approvals. Funding to meet that estimated cost was originally made available through the Company's convertible note facility, established in August of 2016, in response to the Yemen Government's appeal to operators to restart oil production in Yemen. The Noteholders and the Company's major shareholders are still supportive of the restart of the An Nagyah Oilfield and wish it at the earliest.

Government approvals and consequent restart of An Nagyah oil production will have a profound effect on the welfare of the people of the Shabwah Governorate by providing much needed work and government receipts from oil sales, demonstrating to the outside world that foreign investment is welcome in Yemen and that the Yemen Government is supportive. Restart and consequent cashflow will also be most welcome by our shareholders to reward the four years of expense and frustration suffered from lack of timely government approvals.

The frustration of the lack of government consents and the ability to restart oil production, which could be effected at a modest cost of US$5 million to US$10 million and in only 3 to 6 months from the time of receiving government consents, has caused the Board to make a significant executive management change in order to demonstrate to the Yemen Government our conviction and determination, and to best position ourselves to effect the necessary consents and early restart of oil production at An Nagyah.

Petsec Energy appointed Mr. Syed Wamiq Bokhari effective 1st May 2019, to the position of Managing Director of Petsec Energy Ltd responsible for the development and growth of the Company's MENA and U.S. operations.

Mr. Bokhari is a highly experienced production operations petroleum engineer and a senior oil and gas executive, having recently served as the CEO and Managing Director of Pakistan Petroleum Limited (the Pakistan National Oil Company) and prior to that as a senior manager for Kuwait Foreign Petroleum Exploration Co. (KUFPEC – a subsidiary of Kuwait National Oil Company).

He will be located in Dubai with his main objective being to obtain Government consents and restart commercial oil production at the earliest, from the An Nagyah Oilfield in Block S-1, Yemen.

Mr Bokhari holds a BSc and MSc in Petroleum Engineering, from the University of Texas in Austin, Texas, and has over 33 years of experience, mostly with major E & P companies, including Atlantic Richfield Company (ARCO), ENI (AGIP & Lasmo), KUFPEC and Pakistan Petroleum Limited (PPL). He has a proven track record of leading, developing and managing E&P organisations and has managed operations in the USA (onshore and offshore), Canada, Australia, UK North Sea, Nigeria, Pakistan, Iraq, Kuwait and Yemen.

At ARCO, KUFPEC and PPL, Mr Bokhari had responsibility for Blocks 4, 5, 7 and 10 in Yemen. Blocks 4 and 5 are adjacent to Petsec Energy's Block S-1 and Block 7.

Funding

During 2018, there has been significant demands on the Company's working capital due to another year of waiting for Yemen Government approvals and the substantial overrun in time and costs in drilling the Hummer B-2 well. The failure to complete the B-2 appraisal/development well for production has reduced our cashflow expectations for this year and likely reduced the audited reserves and value of the Hummer Field. As a consequence, the Company has had to further draw on its US$15 million convertible note facility.

In response, the Company is significantly reducing its GG&A expenditures and will focus largely on the early restart of the An Nagyah Oilfield, and the benefit of the resultant substantial cashflow.

Outlook 2019

The outlook for oil in the year ahead looks to be steady to rising, buoyed by demand in USA, China, and India.

Brent oil prices during 2018 traded between US$52.20 and US$84.16/bbl, and generally over US$70/bbl.

While the demand for natural gas in the U.S. is increasing through chemical, LNG and Mexico offtake, increasing gas supply from shale oil production moderates gas pricing, other than in abnormally hot or cold weather. Gas prices ranged between US$2.55/MMBtu and US$4.84/MMBtu in 2018, averaging US$3.27/MMBtu in the year.

In 2019, in the USA, we shall concentrate on the development of the Hummer Gas/Oil Field, by working to maximise production from the B-1 Well, and evaluating the data gathered in the B-2 well to determine the next step in the ongoing development of the Hummer Gas/Oil field.

In Yemen, we will continue to work with the Yemen Government and the Ministry of Oil and Minerals to secure the necessary approvals to restart the An Nagyah Oilfield as soon as possible via trucking with access to Yemen Government transport and export facilities, while hoping the Ras Isa Oil Export Terminal and Marib Pipeline will soon be re-opened. We are pleased by the appointment of Mr. Bokhari and the experience in Yemen he brings, and we look forward to his successful delivery of production from An Nagyah in 2019.

In closing, the Board and I would like to thank you, our shareholders, for your ongoing support, particularly in view of the disappointing results of the B-2 appraisal/development well and the ongoing and frustrating delays to the restart of oil production from the An Nagyah Oilfield in Yemen.

Terrence N Fern

Chairman