PETSEC ENERGY LTD

ACN 000 602 700

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

28th May 2021

Petsec Energy Ltd
2020 & 2021 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, Terrence Fern, at the 2020 and 2021 Annual General Meeting ("AGM") of members of Petsec Energy Ltd, held at the Boardroom Pty Limited, Level 12, 225 George Street, 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 24th February 2020 and reproduced in the 2020 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.

This announcement is authorised for market release by the Board of Directors of the Company.

For further information, please contact:

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Petsec Energy Ltd is an independent oil and gas exploration and production company listed on the Australian Stock Exchange. It has operations onshore in the Republic of Yemen.

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2020 & 2021 Annual General Meetings
Chairman's Address
28th May 2021

Good morning ladies and gentlemen, welcome to the 2020 Annual General Meeting of Petsec Energy Ltd. The 2020 Annual General Meeting, the first of two general meetings to be held today, will be immediately followed by the convening of the Company's 2021 Annual General Meeting.

Since the Company's previous meeting in May 2019, where there was disappointment in the results of the second well on the U.S. Hummer Project, largely from operator failings, there was optimism that through engagement with the Yemen Oil Minister, and the building of the Block 5 to Block 4 oil pipeline, that we were close to gaining approvals to access the government owned Block 4 pipeline which allowed export and sale of our crude and thus the capacity to restart oil production at the An Nagyah Oilfield in Block S-1, Yemen.

The Company owned 100% of the An Nagyah Oilfield and its remaining 25 million barrels of oil, and our engineers estimated that for no more than US$5 million that the field could be producing 5,000 barrels of oil a day from four wells, within three months of returning to site, and the oil trucked 70 kilometres to the Block 4 pipeline for export and sale at the port of Bir Ali.

Once the Block 5 to Block 4 pipeline was commissioned, expected by mid-2020, then the An Nagyah Central Processing Facility could have been recommissioned and production increased to 10,000 bopd flowing through the Block S-1 pipeline to Block 5 and through the new Block 5 to Block 4 pipeline and thence to Bir Ali for export and sale.

COVID-19

This optimism was short lived because in March 2020, the emerging World calamity of the COVID-19 virus had become a pandemic, having progressed from Wuhan, China to the rest of the World, which in response was fast closing to International traffic, and stringent restriction of movement and lockdown was being instituted in all countries. This had an immediate and drastic negative impact on oil and gas prices, as World oil consumption dropped by 20% and oil prices for a time went negative US$34 per barrel as World oil storage was filled. International stock markets reacted similarly. The Petsec Energy stock price fell 80% within a few days of the proclamation of the pandemic.

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Response to COVID-19: COVID Plan and voluntary ASX suspension

It became apparent to the Board that this pandemic was going to cause great economic damage and the paralysis of lockdown could continue for one to two years. In consultation with our major shareholders and noteholders we established a plan to reorganise the Company and enter a period of hibernation to protect shareholder value and weather the economic storm caused by the COVID-19 pandemic. The plan required a substantial reduction in the Company's cost of operation, restructure of its financing, and to amend the business plan to concentrate on the most valuable of the Company's assets, needing the least working capital, over which we had the most control, providing early and substantial production and cashflow. Consequently, it was decided to close the U.S. business and focus on monetising the Company's major asset, the An Nagyah Oilfield, in Block S-1, Yemen.

In order to effect this COVID plan, the Company entered into a voluntary suspension of trading in its stock on the ASX on 3 April 2020.

COVID Plan: Achievements

In the 2020 year, the Dubai, Sana'a, Houston, and Sydney offices were closed and staff released, the U.S. assets were sold and the U.S. and Canadian businesses closed, a 75% working interest in Block S-1 was sold which included a life of licence carry of all costs (operating and development) of the retained 25% working interest in Block S-1 held by the Company's wholly owned subsidiary West Yemen (Block S-1) Inc. to a financially and technically strong Yemen oil producer in order to secure an operator acceptable to the Yemen Minister for Oil and Minerals, so as to allow restart of oil production from the An Nagyah Oilfield in Block S-1.

Consequently, the Company's debt was restructured, whereby the term was extended for three years from 23 January 2021 to 23 January 2024, the interest rate reduced from 15% to 10% per annum, and 80% of future cashflows are dedicated to repay the Convertible Notes.

I am pleased to say we have achieved much of our COVID Plan, such that the Company has little future operating expenses and three years in which to repay the Convertible Note Facility from An Nagyah Oilfield cashflow. At current Brent oil prices of US$60 per barrel and the expected production rate of 10,000 barrels of oil per day, the Company's retained 25% carried interest generates sufficient cashflow to repay the notes within two years of production.

Change in Board

In accommodation of the Company's COVID Plan, Mr Syed Bokhari (Managing Director), Mr David Mortimer AO and Mr Alan Baden (non-executive Directors) resigned from the Petsec Energy Ltd Board of Directors on 30 April 2020. These directors were highly valued members of the Board and the Company has benefited greatly from their knowledge and wise counsel.

Mr. Bokhari was engaged in April 2019 to secure Hadi Yemen Government consents for restart of oil production in Block S-1, secure a strong JV partner and to bring the An Nagyah Oilfield into production, all of which he was eminently qualified to do. The barrier to restarting oil production was the Yemen Oil Minister's failure to provide access consents to Government owned export transport pipelines and facilities, as is required under the Block S-1 Petroleum Sharing Agreement (PSA). On behalf of myself and our shareholders, we thank them warmly for their contribution to the Company.

Mr. Brent Emmett as Technical Director, and Mr. Barry Dawes and Mr. Francis Douglas QC, as non-executive directors joined the Board in September and November 2020. All three new directors have extensive technical, operational, commercial, capital markets and litigation experience in the International oil and gas industry. They see great potential in the Yemen assets and are committed to the regrowth of the Company. They are long term friends of the Company and on many occasions have guided the Company in matters of financing and commercial transactions. Importantly, they were engaged in the transaction to secure an operator for Block S-1. Their extensive experience and commercial understanding of the oil and gas industry will be most valuable in extracting shareholder value from the Yemen assets and in the acquisition of further reserves.

Sale of US Assets:

The Company had been active in the USA since 1989 and had explored, discovered and produced oil and gas, offshore in the Gulf of Mexico and onshore in Colorado, Louisiana, and Texas. The Company has drilled over 100 wells in the USA and had achieved a high level of commercial success of over 74%, resulting in the discovery of over 30 oil and gas fields, total reserves of 450 Bcfe, and production of 217 Bcfe.

Audited Proved and Probable (2P) reserves in the US at the end of 2019 were 2.8 MMboe, net to the Company, largely contained in the Hummer Project, Main Pass 270/273, in 200 feet of water in the Gulf of Mexico. While the net present value (NPV10) of those reserves was estimated to be US$21.9 million using the forward swap prices in effect on 31 December 2019, production of the remaining reserves required an additional two wells.

In excess of US$160 million had been spent by the joint venture on a platform, pipelines and the drilling of two wells, both of which had been damaged during operations and soon to be non-productive. All costs were substantially over budget, the second well cost of the order of US$60 million, three times budget, and failed to reach target objectives.

The operator's history of poor and expensive operations in the Hummer Project, the unknown costs and timing of recovering the remaining reserves, and the unknown period of pandemic causing low oil and gas prices, directed the Company to dispose of the U.S. assets and focus on the restart of the An

Nagyah Oilfield in Yemen, which required an estimated cost as little as US$5 million to reach 5,000 bopd, within three months of returning to site.

The U.S. assets were sold and all associated liabilities transferred to the purchaser in October 2020 for a consideration price of US$600,000 and an effective date of 1 July 2020. The U.S. and Canadian subsidiary companies were wound up by year end 2020, bringing to an end the Company's 31 year exploration and production operational history in the USA, where it has enjoyed much past success.

Consequently, our long serving Chief Financial Officer, Ross Keogh, President of the U.S. operations, resident in the USA since 1994, resigned his position. Ross has been a loyal and important member of the senior management team of Petsec for the past 31 years. On behalf of myself, the Board and shareholders of Petsec, I wish to thank him warmly for his great dedication and service to the Company, and to share his disappointment in the closure of the U.S. business.

Paul Gahdmar has taken on the position as Chief Financial Officer in addition to his current role of Company Secretary.

Block S-1: Securing an operator

The COVID Plan focussed on the restart of the developed An Nagyah Oilfield in Block S-1, Yemen, which production had started in 2004 and been suspended since 2014 for political reasons. Block S-1 also holds four undeveloped oilfields containing in excess of 35 million barrels of recoverable oil and 600 billion cubic feet of gas.

The An Nagyah Oilfield holds 25 million barrels of remaining recoverable oil, developed by 32 wells, with production facilities of 20,000 bopd capacity and connected to Block 5 by a 10 inch diameter 80,000 bopd pipeline which is in turn connected to the Block 5 to Block 4, 16 inch diameter pipeline which flows South to the Rudum Export Terminal at the port of Bir Ali, for export and sale.

Following our engineer's site review in June of 2019 with the blessing of the Oil Minister, it was estimated to cost less than US$5 million to restart oil production at 5,000 bopd from four wells within three months of being onsite. Within 12 months the objective was to increase production to 10,000 bopd once the Block 5 to Block 4 pipeline was operational. Unhappily, the Company has not been able to restart oil production because of a lack of Yemen Government approvals to access the government's Block 4 export pipeline, which is the Company's right according to the Block S-1 PSA, and Block 5 has not returned to production, nor the commissioning of the Block 5 to 4 pipeline, due to the Yemen Government's lack of accommodation to the Block Joint Venture.

In late 2019, contrary to his position in May of 2019, the Yemen Oil Minister indicated that those approvals were predicated on the Company securing a financially strong and experienced Yemen oil producer to operate Block S-1.

Consequently, the Company focused its efforts during the 2020 year on securing a financially strong and experienced Yemen oil producing operator to be operator of Block S-1, as required by the Minister in order to acquire the necessary government approvals to access government owned export transport facilities, which would permit the restart of production at Block S-1.

In October 2020, the Company secured such a financially strong and experienced Yemen oil producer to operate Damis Block S-1, Yemen, satisfactory to and as required by the Yemen Minister for Oil, in order to receive approvals to access government export pipelines which would permit the restart of oil production from the An Nagyah Oilfield.

To secure such a partner, Petsec Energy sold 100% of the shares in Yemen (Block S-1), Inc., the approved and recognised operator of Damis Block S-1 and owner of a 75% working interest in Damis Block S-1, to Yung Holdings Limited, for a consideration price of US$2 million and a life of licence carry of all future costs (operating and development) of the remaining 25% working interest in Block S-1, held by the Company's wholly owned subsidiary West Yemen Oil (Block S-1), Inc.

Yung Holdings Limited is a subsidiary of Octavia Energy Corporation, a UK company focused on oil and gas exploration and production in the MENA region, and active in Yemen since 2016. Octavia Energy Corporation has demonstrated the financial capacity and technical capabilities required to manage the resumption of oil production from Block S-1 through its extensive operating experience in the MENA region where its operated current production is in excess of 6,500 bopd.

Yemen (Block S-1) Inc. the operator of Damis Block S-1 has been renamed Octavia Yemen (Block S-1) Inc. which has recently established its Block S-1 operations offices in Cairo. Preparations are progressing to restart oil production from the An Nagyah Oilfield in the second half of 2021. Initially up to 5,000 bopd from some four wells to be trucked to the Block 4 pipeline and thence to Bir Ali for export and sale ,then, when the Block 5 to Block 4 pipeline is commissioned, expected in the fourth quarter of 2021, to increase production when the Block S-1 to Block 5 pipeline can be used. Currently OMV (Block S-2), SAFER (Block 18), and Calvalley (Block 9) are utilising the Block 4 sales export facilities, soon to be joined by Octavia (Block S-1) and Jana Hunt (Block 5).

Since concluding the agreement in October with Octavia, Petsec has been engaged with Octavia's technical and operations team in providing all of our technical and restart documentation in order to hasten the restart of production at Block S-1.

The Octavia team is composed of highly experienced oil production professionals with wide production experience in Yemen the broader MENA area, who are committed to the early restart of operations in Block S-1, optimising and increasing production at earliest and increasing reserves through early development of the four undeveloped fields.

Octavia is confident of restarting oil production from the An Nagyah Oilfield in the second half of 2021 to an initial production rate of 5,000 bopd, and thereafter to 10,000 bopd once the Centralised Production Facilities at the An Nagyah Oilfield have been recommissioned. Production will be trucked, 70 kilometres to the Block 4 pipeline for export at Bir Ali, on the Arabian Sea, until such times as the Block 5 to Block 4 pipeline is in operation.

Block 7: Houthi illegal claim against LoC

The Company holds a 75% interest in Al Barqa, Block 7, Exploration Licence. Two wells were drilled on the Block by Oil Search Ltd in 2010 and 2011 which discovered the Al Meashar Oilfield, with target resources of 11 to 110 million barrels of oil. The block also has eight prospects and leads identified with 2D and 3D seismic, the larger four prospects range between 174 and 439 million barrels of oil potential.

In November 2019, an illegitimate claim was made by the rebel Houthi in Sana'a purporting to be the oil ministry, against the Letter of Credit ("LoC") held by Arab Bank, Sana'a, issued under the Production Sharing Agreement (PSA) on the Al Barqa, Block 7 Permit. The Block 7 LoC totalling US$4.2 million was established between the Block 7 joint venture partners and the Arab Bank on behalf of the Yemen Ministry of Oil and Minerals. The LoC guaranteed the remaining minimum exploration expenditure obligations on the block, which has been in Force Majeure since 2011. No claim, as is clearly stated on the LoC, can be made against the LoC while the licence is in Force Majeure.

Arab Bank acted on the illegal Houthi claim and called on the counterparty LoCs held on behalf of the Company by Qatar National Bank (QNB) and Mitsui by Commonwealth Bank of Australia (CBA), and Kufpec by the Kuwait National Bank. The banks responded to Arab Banks' illegitimate claim in January 2020 such that US$2.73 million of the Company and Mitsui's funds were transferred to Arab Bank, Amman, Jordan, but not Kufpec's funds of US$1.05 million, as their bank recognised the Houthi claim was illegal.

The Company initiated a legal suit against the Arab Bank, Jordan to recover those funds. To date, the Jordan Court of First Instance has granted an injunction against Arab Bank to prevent transfer of the funds to the Houthi, and has determined that the Houthi claim against the Block 7 LoC was illegal and counterparty LoC funds received by Arab Bank could not be transferred to the Houthi. The Company is seeking a return of the US$2.73 million from Arab Bank, through the Courts in Jordan which could take another 6 to 8 months.

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Convertible Note Facility: Renegotiation of the terms

The execution of the COVID Plan, which was supported by the Noteholders, of substantially reducing operating costs and demand for working capital, closing of the U.S. business, and securing a financially strong and experienced Yemen oil producing operator to be operator of Block S-1, Yemen, resulted in the ability to renegotiate the terms of the Convertible Note Facility, which was satisfactorily concluded in December 2020. The key variations included the extension of the redemption date for a 3-year period from 23 January 2021 to 23 January 2024 (effective 31 December 2020), reduction of the interest rate from 15% to 10% per annum, and the dedication of 80% of future cashflow to repay the Convertible Notes.

At current Brent oil prices of above US$60/bbl and a production rate of 10,000 bopd, the free cashflow from the Company's carried 25% interest in the An Nagyah Oilfield in Block S-1, according to the terms of the carried interest agreement, the Block S-1 PSA, and the 80% allocation to repay the Convertible Note Facility, should be sufficient to repay the entire Noteholder debt within 2 years of production. The Noteholders are supportive of the Company's actions and to help the Company regrow have offered other oil assets within their portfolio.

Financial results:

The Company recorded a loss after tax for the twelve months ended 31 December 2019 of US$24.2 million after the recognition of dry hole and impairment expense of US$13.8 million in relation to the Hummer Gas/Oil Field, net financial expense of US$3.7 million, and depreciation, depletion and amortisation expense of US$2.6 million.

For the twelve months ended 31 December 2020, the Company recorded a profit after tax of US$1.3 million, largely due to the recognition of a net gain on the divestiture of its Yemen assets.

The asset divestitures injected in the order of US$1.4 million (net of selling costs) into the Company in October 2020 with a further US$1.1 million in trailing payments expected to be received by year end 2021. In May 2020, the Company had raised A$200,000 through a placement of 10 million ordinary shares at an offer price of $0.02 per share being the last price on voluntary suspension of the stock on 3 April 2020, the purpose of which was to provide sufficient working capital through to the end of the 2020 year without drawing further debt.

The U.S. assets provided a modicum of income, largely affected by COVID-19, until sale at 1 July 2020. Net production of 111 MMcfe, was down 70%; gas equivalent average sales price realised was US$1.81/Mcfe, down 39%; and net oil and gas revenues (after royalties) were US$0.2 million, down 82%.

There were no acquisition, exploration and development expenditures in the year; cash (including restricted cash) at 31 December 2020 was US$0.9 million, up 32%; and of the US$15 million Convertible Note Facility, US$14.0 million was drawn at 31 December 2020.

The Company is expected to have sufficient funds to maintain the Company for the coming year and up to June 2022, while we await the restart of the An Nagyah Oilfield and its positive cashflow.

Outlook 2021:

Having substantially reduced operating costs and demands on working capital, secured a financially strong and experienced Yemen oil producer to operate Damis Block S-1, Yemen and a life of licence carry of all costs (operating and development) of the retained 25% working interest in Block S-1, and extended the Convertible Note Facility for another three years, the Company has sufficient funds and assets with which to regrow.

The key focus of the Company for 2021 will be to support Octavia, the operator of the Damis (Block S-1) Production Licence towards the restart and optimisation of the 25 million barrel An Nagyah Oilfield, and the development of the 35 million barrels and 600 billion cubic feet of gas in the other four discovered but undeveloped fields on the block.

In closing, I would like to acknowledge and thank the management team and my Board colleagues for their resolve and commitment, for their stalwart and determined contribution in achieving our COVID Plan, the success of which was critical to the existence of the Company, in what has been a particularly difficult year for the oil and gas industry, and most people in general. A year to be remembered.

It is that same resolve and commitment which should secure the long-term success of the Company.

Thank you.

Terrence N Fern

Chairman