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14 May 2015

Petsec Energy Ltd 2015 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 Chairman and Managing Director Mr. Terry Fern at the 2015 Annual General Meeting ("AGM") of members of Petsec Energy Ltd, held at the Museum of Sydney, corner Bridge and Phillip Streets, Sydney.

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

The estimates of USA oil and gas reserves provided within this address are based on the information contained within the Financial Statements given to the ASX on 24 February 2015 and reproduced in the 2014 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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2015 Annual General Meeting Chairman's Address

14 May 2015

Good morning ladies and gentlemen, welcome to the 2015 Annual General Meeting of Petsec Energy Ltd.

I am pleased to report that 2014 was a particularly active year for the Company. Significant advances have been, and are continuing to be made, to substantially increase the value of your Company.

As we announced last year, our shale oil strategy was suspended and we returned to the Company's strength, that of exploration of conventional oil and gas prospects.

Our focus was redirected to oil, onshore Louisiana and Texas in the USA, away from our traditional operating focus of natural gas in the offshore Gulf of Mexico, because of the collapse in U.S. natural gas prices (US\$8/Mcf to US\$2/Mcf) and the dramatically changed operating conditions offshore following the Macondo oil spill.

In 2014, a new leader of the Company's U.S. operations was appointed, mature production assets were sold raising US\$17 million, increasing our year-end cash reserves to US\$32.6 million, nine exploration prospects were generated or acquired, two exploration wells were drilled for one success – already in production, and participating interests were acquired in Block 7, Al Barqa Permit, in the Republic of Yemen, containing an undeveloped oil discovery of 11 million barrels of oil target size and holding substantial development and exploration potential.

In 2015 to date, we have appointed a leader for our MENA operations, acquired an additional 34% interest and operatorship of Block 7 in Yemen, prepared for production at the Al Meashar oil Field, drilled an exploration well in the U.S., and two wells are currently drilling ahead.

Of the further six wells to be drilled in the U.S. this year, exposing the Company to a net 1.76 million barrels of oil and 14.5 billion cubic feet of gas, five wells are to be drilled/spud in May/June. The English Bayou well should reach target depth in the coming week and the Mystic Bayou well in mid June.

2014 Key Achievements

The key achievements by the Company for the 2014 financial year included:

Corporate:

- The appointment of Mr. Richard (“Dick”) Smith as Chief Executive Officer of the U.S. operating subsidiary, Petsec Energy Inc. Dick is a highly experienced oil and gas explorer whose appointment expanded the Company's exploration, development and production capabilities, resulting in the generation/acquisition of nine prospects for drilling in 2014/2015, ranging in size from 10 to 66 billion cubic feet of gas equivalent (“Bcfe”), and the success of the Adeline Sugar Factory (“ASF # 4”) well in the Jeanerette Field which is now in production;

- Sale of the Company's interests in the mature and fully developed Marathon and Main Pass Block 270 gas fields for US\$17 million at the high point in oil and gas prices in July to provide funds for the 2015 exploration and development programme. The Marathon gas Field was discovered in 2010, with reserves of 149 Bcfe. It was the last conventional exploration well drilled by Petsec until the ASF # 4 well, drilled in mid-2014; and
- The Company's acquisition of oil reserves and operational expansion into the Middle Eastern and North African ("MENA") region started with the acquisition of a 29.75% Participating Interest in Block 7, Al Barqa Permit, in the Republic of Yemen, which contains the undeveloped Al Meashar oil discovery (target 11 million barrels of oil) made in 2010, and an inventory of eight prospects/leads ranging in target size from 2 to 900 million barrels of oil. Completion is subject to customary approvals from the Yemen government, Joint Venture ("JV") Partners and the state owned Yemen Oil and Gas Company.

In early 2015, the Company:

- Appointed Mr. Maki Petkovski (formerly of Oil Search Limited) to lead its operational expansion into the MENA region. Maki is an experienced international oil and gas explorer and had lead the MENA operations of Oil Search Ltd for 12 years; and
- Executed an agreement with Oil Search to acquire its 34% Participating Interest and operatorship of Block 7 in Yemen – increasing Petsec Energy's total interest in the Block to 63.75%

Operations:

- Following the sale of the Marathon and Main Pass Block 270 gas fields in July 2014, the Main Pass Block 19 gas field was the only retained producing field in the shallow waters of the Gulf of Mexico, USA. The field was discovered by Petsec in 2006 and is near the end of its economic life. The associated Main Pass Block 18 Field ceased production in March 2014 and the nearby Chandeleur 31/32 Area Field was decommissioned in August 2014.

Exploration and Development:

- Two wells were drilled in 2014 for one discovery:
 - The ASF #4 well in the Jeanerette Field was brought into production on 30 June 2014 and has continued to produce steadily at approximately 10 million cubic feet of gas per day and 62 barrels of oil per day; and
 - The Herbert Abstract Co. No. 1 well was drilled in November/December 2014 on the Southwest Holmwood prospect and was plugged and abandoned after failing to encounter sufficient hydrocarbons to warrant completion.
- The first well in an anticipated seven well exploration programme in 2015, the Ruth R. Bravanec, et al No. 1 well on the West Crab Lake prospect was drilled in January 2015 and plugged and abandoned after it failed to encounter commercial reserves.
- In Block 7, Yemen, preparations were completed to undertake an extended production test on the Al Meashar oil discovery.

2014 Financial Results

The divestiture of the Company's production interests in the Marathon and Main Pass Block 270 fields in July 2014 significantly reduced production and the financial results for the 2014 financial year compared to the 2013 year.

Net production for the twelve months ended 31 December 2014 of 1.6 Bcfe was 56% lower and net revenues after royalties were 50% lower at US\$8.2 million. The impact of the lower production volumes for the year was slightly tempered by a 13% increase in the average gas/oil equivalent sales price achieved for the period of US\$5.08/Mcfe.

Similarly, EBITDAX for the current period of US\$3.4 million was 56% lower.

The Company recorded a net loss after tax for the full year of US\$1.1 million following the recognition of a US\$2.2 million gain on the sale of the Marathon and Main Pass Block 270 assets, dry hole, impairment, exploration and work-over expense of US\$3.0 million, and depreciation, depletion and amortisation expense of US\$1.8 million. The dry hole and impairment charges mainly relate to costs associated with the unsuccessful Herbert Abstract Co. No. 1 exploration well drilled in late 2014 and the Main Pass Block 18 G-6 well recompletion effort that was undertaken during the first half of the year.

Petsec Energy Corporate Objective and Strategy for Growth

Last year, I stated our objectives and strategy post the suspension of our shale oil strategy. I will state those objectives and strategy again.

Petsec Energy's corporate objective is to increase shareholder value through successful oil and gas exploration, development and production, and acquisitions, thereby building Petsec Energy into a significant mid-tier oil and gas exploration and production company, respected in the industry for its technical skills, timely and cost effective delivery of projects, and the integrity with which it conducts its business.

The Company's strategy to meet that corporate objective is to maximise the value of its current reserves, pursue participation in high quality, high impact exploration drilling opportunities predominately in the Gulf Coast onshore and bay areas of Texas and Louisiana, USA, and to acquire onshore leases, with undeveloped or producing oil and gas reserves, which hold significant development, low risk exploitation and high exploration potential, in both the US and MENA areas.

USA

The Company's USA exploration objective is to drill between five and ten wells on conventional prospects each year exposing the Company to in excess of 20 Bcfe, which if all five wells were successful could generate a PV10 discounted cashflow value in excess of US\$50 million. These wells will largely be onshore Louisiana and Texas, so that production can begin within three months of discovery, predominately oil, with a dry hole exposure for the Company of less than US\$2 million per well and a probability of success better than 1 in 3.

Petsec Energy has a strong record of conventional exploration success in the USA, which has substantially increased the value of the Company particularly in periods of low but stable oil and gas prices. In the USA, in the period from 1991 through to January 2015 the Company has

drilled 102 wells with a 77% success rate, and generated net cumulative production of approximately 214 Bcfe and EBITDAX of US\$568 million.

MENA – Yemen

The MENA area has been an area of focus for the past two years because of the high remaining oil potential and the availability of developed and undeveloped reserves at modest prices due to the current political difficulties being experienced in the region.

The strategy in the MENA region has been to:

- Focus on highly productive, underexplored areas which hold potential for large oil discoveries (> 100 million barrels of oil);
- Focus on investments in projects at the appraisal and development stages of the upstream lifecycle that will generate the best risk-adjusted returns;
- Target de-risked projects at the discovery or early production stages to minimise subsurface risk and deliver significant upside through the application of new technology, low overheads, and low cost operations;
- Acquire ‘distressed’ assets in the MENA region during the current political environment which prohibits much larger companies from operating, and where our network of contacts and relationships can advance projects;
- Acquire ‘distressed’ assets at low cost in the current low oil price environment through leveraging equity

As a result of existing relationships, Yemen was chosen for initial investigation, which resulted in the acquisition in 2014/2015 of a 63.75% interest in Block 7, Al Barqa Permit, which contains the 2010 Al Meashar oil discovery (gross target 11 million barrels of oil, 7 million barrels net to Petsec) and eight defined prospects/leads with target sizes ranging from 2 to 900 million barrels of oil.

Since the grant of the block in 2007, the Oil Search Ltd operated Block 7 joint venture has spent over US\$110 million acquiring 3D seismic, drilling three exploration wells, all of which intersected oil, discovering the Al Meashar oil field and defining some eight prospects and leads with high exploration potential.

Since the first commercial oil discovery in 1984 by Hunt Oil, reserves of 5.3 billion barrels of oil equivalent (“BOE”) have been discovered in Yemen of which 2.2 billion BOEs remain to be produced.

The country is grossly underexplored although commercial success rates of exploration wells in the past 30 years are in the order of 30%, which is similar to the perceived probability of success in our USA prospects.

Employment of Maki Petkovski- CEO Petsec Energy (Middle Eastern) Limited

In April 2015, Petsec Energy had the pleasure of welcoming Maki Petkovski, to the position of Chief Executive Officer of Petsec Energy’s MENA operating subsidiary, Petsec Energy (Middle Eastern) Limited. Maki came to us from Oil Search Ltd where he led the MENA operations for 12 years including exploration of Block 7, Yemen.

Maki's commercial knowledge, technical expertise, and proven relationships in Yemen and the region will be of critical importance in our establishment and growth of a significant MENA oil and gas production business.

Shortly after Maki's appointment, the Company executed an agreement with Oil Search to acquire all the shares of its wholly owned subsidiary Oil Search (ROY) Limited ("OSROY") which holds a 34% Participating Interest in Block 7, Yemen and is the designated operator of the Block.

2015 Exploration and Development Programme

USA

The fall in oil and natural gas prices in the third quarter of 2014 from US\$100/bbl of oil to less than US\$50/bbl, and US\$4/Mcf of natural gas to just below US\$2.50/Mcf, has caused a 50 % drop in the number of drill rigs operating in the U.S, and a consequent 25 to 30% reduction in drilling and development costs, and an increased availability in farm-in and acquisition opportunities, which will provide our drilling opportunities for 2016.

In the rest of the 2015 year, we expect to drill six exploration wells, mostly onshore Louisiana, USA, which will expose the Company to a net 1.76 million barrels of oil and 14.5 billion cubic feet of gas, at a dry hole cost of US\$7.8 million, and on success a development cost of US\$21.1 million, which would include production facilities and 11 development wells. All of the prospects we expect to drill this year have robust economics at US\$50/bbl and US\$2.50/Mcf.

Five of these wells should be drilled/spud in May and June. The English Bayou Deep and Mystic Bayou wells are drilling ahead and the English Bayou well should reach target depth in the coming week.

The Northeast Starks well is due to spud early June (a 15 day well), the North Cossinade well is due to spud in late June (a 25 day well) and the Hummer Prospect well on Main Pass 270 is due to spud mid-late June (60 day well).

MENA Region – Yemen, Block 7

The immediate objective of the Block 7 joint venture is to conduct an extended production test of 3 to 9 months in 2015 on the Al Meashar oil discovery to establish flow rates and indications of reserve size, the results of which are expected to lead to early development.

Design and costings have been completed for the production test and we are waiting on some early resolution of the current political climate in Yemen to permit operations in the field.

The Al Meashar oil discovery was made in 2010 based on 3D seismic acquired by the joint venture. A 637 metre oil column was intersected in the clastic Shukra and Kuhlan formations and the fractured granite basement, which on production test of the two exploration wells returned a peak flow of 1046 barrels of oil per day and 6.36 million cubic feet of gas per day on a 1" choke.

Testing was limited due to the emerging political climate associated with the "Arab Spring".

The Al Meashar oil discovery is geologically similar and 14 kilometres East of the Habban oil Field discovered by OMV Exploration GmbH in 2005, in the Al Uqlah Block S2. The field has estimated ultimate recoverable proved and probable (2P) reserves of 170 million barrels of oil, and is currently producing in excess of 23,000 barrels of oil per day.

While current estimates of target size for the Al Meashar Oilfield is 11 million barrels of oil within the discovery fault block, the field is potentially much larger should the field encompass the adjoining four fault blocks and is stratigraphically bounded as is found at the Habban Oilfield.

Success in 2015

In closing, the Board and I would like to thank you, our shareholders, for your support which we expect to reward this year with exploration and acquisitions success.

The Company has a highly experienced exploration and development team which is confident that it can achieve a significant level of success from the prosecution of its 2015 Exploration and Development Programme.

This programme will see a further six exploration wells drilled in the US targeting 1.76 million barrels of oil and 14.5 billion cubic feet of gas, net to the Company, and hopefully oil production from the Al Meashar Field in Block 7, Yemen.

Thank you ladies and gentlemen.

Terrence N Fern

Chairman