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19 May 2016

Petsec Energy Ltd 2016 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 2016 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 USA and Yemen reserve assessments provided within this address are based on the information contained within the announcements released to the ASX on 8 March 2016 and 15 March 2016, respectively, and reproduced in the 2015 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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2016 Annual General Meeting Chairman's Address

19 May 2016

Good morning ladies and gentlemen, welcome to the 2016 Annual General Meeting of Petsec Energy Ltd.

I am pleased to report that 2015 was a particularly successful year for the Company.

Petsec Energy added reserves of 9.2 million barrels of oil equivalent in the year, through oil reserve acquisitions in the Republic of Yemen and exploration success in the USA, at a cost to the Company in the order of US\$18 million.

The net present value (NPV₁₀) of this 9.2 million barrels of oil equivalent is proximal to US\$188 million, the equivalent of A\$1.06 per Petsec Energy share.

The major contribution to this increase in value was the acquisition of the developed and productive An Nagyah Oilfield in Yemen which delivered to the Company a net 5.6 million barrels of oil with a NPV₁₀ value of US\$155.4 million.

The remaining increase in value came from the two exploration discoveries made in the USA on the Mystic Bayou and Hummer prospects that added a net 3.6 million barrels of oil equivalent with a NPV₁₀ value of US\$32.7 million. Much of the value reports to Mystic Bayou as the potential of the Hummer discovery is yet to be fully determined, although early indications are that the discovery has the potential to develop into an asset of considerable value to the Company.

Middle East and North Africa (MENA)

While 2015 was a challenging year for the global oil and gas industry due to the precipitous fall in oil and gas prices, these conditions provided us with significant opportunity to acquire oil and gas reserves at modest prices. This was particularly true in the MENA region because of the added issue of political instability. Accordingly, we were able to accelerate our oil and gas reserves acquisition strategy in the MENA region, resulting in the acquisition of a substantial amount of developed, production ready oil reserves in Yemen.

To effect our MENA strategy the Company appointed Mr. Maki Petkovski as Chief Executive Officer of its MENA operating subsidiary, Petsec Energy (Middle Eastern) Limited, to lead our operational expansion into the MENA region. Mr. Petkovski is an experienced international oil and gas explorer and had lead the MENA operations of Oil Search Limited for 12 years.

An office was established in Dubai and, in turn, Mr. Murray Hawkes, also ex Oil Search, was employed as Chief Operating Officer and Yemen General Manager, and Mr. John Rees, ex Nexen operations in Yemen, was engaged to be our Vice President Technical of operations. All three senior managers have extensive experience in the oil and gas industry in Yemen and MENA.

The Company's major achievement for the year was the completion of the acquisition, at a modest cost, of a 100% working interest (82.5% participating interest) in the Damis (Block S-1) Production Licence in Yemen. The Production Licence holds five substantial oil and gas fields, only one of which, the An Nagyah Oilfield, has been developed. The An Nagyah Oilfield has remaining gross 2P reserves of 12.8 million barrels of oil (5.6 million barrels of oil net to the Company) and was producing from 2004 until it was suspended in 2014 at more than 5,000 barrels of oil per day when the Yemen political climate became problematic. The field is in a state of readiness to recommence oil production once the Yemen political situation allows, which we assess to be sometime in late 2016.

The four undeveloped oil and gas fields in Block S-1 hold resources of 34 million barrels of oil and 550 billion cubic feet of gas according to Wood Mackenzie¹. Production from these fields can be processed through the An Nagyah facilities which can process 20,000 barrels of oil per day. These facilities are connected to the 200,000 barrels of oil per day Marib sales pipeline to the Red Sea shipping terminal.

Also in Yemen, the Company increased its working interest by 40% in Block 7, through the acquisition of Oil Search's operating company² in Yemen. Petsec now holds a 75% working interest in this block that contains the undeveloped Al Meashar Oilfield, of 11 to plus 50 million barrel oil potential, geologically very similar to the Habban Oilfield, 14 kilometres to the East, which holds in excess of 170 million barrels of oil. The Habban Oilfield was producing at 23,000 barrels of oil a day prior to suspension in 2015 because of the political situation in Yemen.

Block 7 also has eight exploration prospects and leads which hold mapped target potential of 2 to 900 million barrels of oil.

USA

In the USA, the Company completed an eight well exploration programme in 2015, which targeted net mapped potential of 4 million barrels of oil equivalent. Two of these prospects were successful – Mystic Bayou, onshore Louisiana and Hummer, our last remaining offshore Gulf of Mexico prospect. These two discoveries delivered a net 2P reserve of 3.6 million barrels of oil equivalent to the Company, much of which is attributed to the Mystic Bayou discovery that holds an additional three development locations.

The Hummer discovery which extends across Main Pass Blocks 270, 273, and 274 intersected 129 feet of gross oil and gas pay, double the pre-drill estimate, such that the pre-drill targeted mapped potential range of 59 billion cubic feet of gas and 1.2 million barrels of oil to 183 billion cubic feet of gas and 3.7 million barrels of oil could well be exceeded.

A production jacket is being constructed and is expected to be set in June of this year. The discovery well will then be completed and tested for oil and gas content and production volumes prior to sizing the facilities, scheduled for construction in the third and fourth quarters of 2016, with first production expected early in the second quarter of 2017. Depending on the outcome of the well test some three to nine development wells are contemplated to develop the field in the 2017 to 2019 period.

Footnotes:

¹ Wood Mackenzie Asia Pacific Pty Ltd

² Subject to Yemen Government approvals.

2016

The oversupply of oil internationally is likely to take another year or two to come into balance with demand, while natural gas in the USA could take more than 5 years. Consequently we are conducting our business plan on the basis of sub US\$40 per barrel oil, and sub US\$2 per thousand cubic feet of gas. Happily our current reserves are soundly economic at those prices, and at such times as the An Ngyah Oilfield can be brought back into production, anticipated in excess of 5,000 barrels of oil per day, the field will generate a significant amount of cash flow for the Company.

The current industry environment argues for a conservative business approach with a focus on reserves acquisition and development of existing reserves.

In 2016, we will concentrate on further low cost oil reserve acquisitions in Yemen, and seek to bring existing developed reserves into production to generate sufficient cash flow to engage in further development of our existing discoveries while development costs are low.

In the USA, we will concentrate on the development of the Hummer discovery which possesses significant upside potential.

Petsec Energy now has 2P reserves of 9.3 million barrels of oil equivalent and in excess of 45 million barrels of oil and 550 billion cubic feet of gas potential in undeveloped fields, sufficient to generate Company value well in excess of the current NPV₁₀ of US\$188.1 million, equivalent to A\$1.06 per Petsec Energy share for the current 2P reserves,

The Company's current 2P reserves base of 9.3 million barrels of oil equivalent is the largest it has been since 2007 – prior to the Global Financial Crisis, sale of our China oil reserves, the collapse of U.S. natural gas prices due to fracking, and the restriction of Gulf of Mexico operations which followed the Macondo oil well blow out.

It has been a tortuous path regaining the value lost to circumstance. We now have the oil reserves and resources, and promise of substantial cash flow from the An Ngyah Oilfield commencing late this year, to substantially grow Petsec again, thereby rewarding shareholders, writ large, as we have in the past.

Ladies and gentlemen, we have regained our momentum, the value is within our grasp.

Thank you for your support.

Terrence N Fern

Chairman