PETSEC ENERGY LTD

ACN 000 602 700

2022 Annual General Meeting
Chairman's Address
6th May 2022

Good morning ladies and gentlemen, I would like to welcome you all to the 54th Annual General Meeting of Shareholders of Petsec Energy Ltd.

At the Annual General Meeting held in May of last year, I spoke about the significant impact the COVID-19 pandemic had on the business and economies across the world. In order to protect shareholder value and to weather the economic storm caused by the pandemic, the Board in consultation with our Noteholders and major shareholders established a COVID Plan ("Plan") to reorganise the Company and enter into a period of hibernation.

To effect this Plan, the Company's shares were placed into voluntary suspension on the ASX on 3 April 2020. The objective of the voluntary suspension was to provide sufficient time for the Company to implement its Plan to effectively resolve its cost structure, financing, and business plan.

Notable initiatives of the Plan which have been achieved include the substantial reduction of the Company's operating costs following the divestiture of its U.S. oil and gas assets, closure of the Company's Dubai, Sana'a, Houston and Sydney offices and release of staff, wind up of the U.S. and Canadian business, restructure of the Convertible Note Facility, amendment of the business plan to focus on monetising the Company's major asset, the An Nagyah Oilfield, in Block S-1, Yemen, and the securing of a financially strong and Yemen experienced oil producer to operate the Block S-1 Joint Venture through the divestiture of a 75% interest in the block and operatorship, which included a life of licence carry of all costs of the retained 25% interest in Block S-1 held by the Company's wholly owned subsidiary West Yemen (Block S-1), Inc.

In addition to the aforementioned cost savings measures, the Board of Directors receives no remuneration for its services. Messrs. Brent Emmett, Barry Dawes and Francis Douglas, who were appointed in late 2020 graciously accepted the issue of options (12 million in total) in lieu of the cash payment of director fees until such times as the Company has substantial free cashflow and regained profitability. The issue of these options was approved by shareholders at the 2021 AGM and were issued in June 2021.

Level 7, Macquarie Business Centre, 167 Macquarie Street, Sydney NSW 2000, Australia
PO Box R204, Royal Exchange NSW 1225, Australia
Telephone (61 2) 9247 4605 Facsimile (61 2) 9251 2410
Company information is available on: www.petsec.com.au

Voluntary Suspension on ASX

With regard to the Company's voluntary suspension on the ASX, the Company's objective was for requotation of its securities to trading on the ASX to occur once the An Nagyah Oilfield in Block S-1, Yemen is returned to production.

Having achieved the initiatives set out in the Plan and in anticipation of a restart of production at An Nagyah, the Board agreed in April 2021 to commence the process for requotation and sought legal and stockbroker advice. A formal submission for requotation was made to the ASX in July 2021. The Company worked through this process with the ASX over some four months in order to determine the terms required for its reinstatement.

In November 2021, the ASX determined that the Company currently did not meet the ASX Listing Rule requirements under ASX Listing Rules 12.1 and 12.2 with regard to considerations specific to the level of operations and financial condition of the Company.

The ASX advised that it would reconsider the Company's compliance with Listing Rules 12.1 and 12.2 and reinstatement to ASX quotation once it received confirmation that the Operator has restarted production from Block S-1; and the Company was able to demonstrate minimum working capital of $1.5 million.

The Company was not able to satisfy the ASX requirements for reinstatement prior to the completion of the two-year anniversary of entering into voluntary suspension and was consequently removed from the official list of ASX on 4th April 2022.

The Company is now an unlisted public company with 688 remaining shareholders following its recently concluded Minimum Holding Share Buy-back. The delisting from the ASX, allows the Company to further reduce its administrative costs whilst it continues to work with the Operator towards achieving the restart of production from the An Nagyah Oilfield in Yemen.

Continued Support of the Convertible Noteholders

I would like to make special note of the continued support that the Company has received from our Convertible Noteholders who agreed and supported the implementation of the COVID Plan over the past 24 months.

The success of the Plan was crucial to maintaining the ongoing support of the Noteholders and provided the ability for the Company to renegotiate the terms of its Convertible Note Facility ("Facility"), which was satisfactorily concluded in December 2020 and settled on 18 January 2021.

The key variations to the terms of the Facility included the extension of the redemption date for a 3-year period from 23 January 2021 to 23 January 2024, reduction of the interest rate from 15% to 10% per annum, and the dedication of 80% of future cashflow to repayment of the Facility.

The Company had expected that the An Nagyah Oilfield would have been returned to oil production during 2021, as indicated by the operator Octavia, providing the Company with significant free cashflow from its carried 25% interest to repay the Facility and provide surplus cashflow which could be applied towards asset acquisitions outside of Yemen.

The ability of the Company to currently meet its obligations under the terms of the Facility is largely dependent upon the restart of production from the An Nagyah Oilfield. At current Brent oil prices, which have steadily increased over the past 12 months from US$65/bbl to over US$100/bbl, and the build-up of the production rate to 10,000 bopd within a year of restart, should generate sufficient free cashflow to enable the Company to repay the Facility within two years of continuous production from restart.

If production is not commenced within a reasonable period of time, the Company will be beholden to the will of the Noteholders whose debt, which currently stands at US$23.3 million, is due and payable by 23rd January 2024.

Damis Block S-1 Production Licence, Yemen:

In October 2020, the Company sold all of the shares of Yemen (Block S-1), Inc., the designated operator of Block S-1 and owner of a 75% working interest, to Yung Holdings Limited, a Hong Kong domiciled company and subsidiary of the Octavia Energy Corporation, a UK company focused on oil and gas exploration and production in the MENA region. Octavia Energy is financed by members of the Hayel Saeed Anam family, owners of the Hayel Saeed Anam (HSA) Group of Companies, one of the Middle East's most successful family enterprises, and Yemen's largest, with over 35,000 employees and a multi-billion-dollar annual turnover. The effective date of the sale was 30 September 2020.

Yung Holdings Limited was established in 2016 to acquire Calvalley Petroleum (Cyprus) Ltd which holds a 50% interest and is the operator of Malik Block 9 in the Masila Basin of Yemen. The block was returned to production in 2019 following an investment of US$45 million, and is producing 6,500 bopd, which is trucked to the Block 4 pipeline thence to Bir Ali Terminal for export and sale. It is proposed that Block S-1 oil production be trucked to Block 4 pipeline and exported from the Bir Ali Terminal.

The Block 9 joint venture includes Hood Oil, owning a 25% interest since 2002, a subsidiary of Hayel Saeed Anam and Co. (H.S.A.), and Medco Energi, an Indonesian listed company, holding a 25% interest.

Having secured a financially strong and experienced Yemen oil producer to operate the Damis Block S-1 Production Licence in Yemen as required by the legitimate Yemen Minister for Oil, in order to receive government approvals to access export transport facilities which would permit the restart of oil production from the An Nagyah Oilfield in Block S-1, the Company was expectant, as advised by the operator Octavia, that the An Nagyah Oilfield would be returned to production initially in early 2021, then later in the year.

The Operator is currently unable to provide the JV with a firm date for the return to site and restart of oil production from the An Nagyah Oilfield, the reason given that Ministry of Oil and Minerals ("MoM") approval is yet to be granted to the Block S-1 Joint Venture ("JV") to restart operations and gain access to the government owned export pipeline in Block 4. The Operator considers MoM support and clearance to recommence field operations as politically necessary to access the Block S-1 Central Processing Facilities, restart production, and access the government owned Block 4 oil export pipeline and facilities.

The Operator is ready to occupy the site and, when cleared to do so by the Yemen Oil Ministry could reopen the camp within a month of approval and have the An Nagyah Oilfield commence production within two months of opening the camp.

In late 2015 and early 2016, the Company acquired a 100% working interest in the Damis Block S-1 Production Licence in Yemen, which holds five oil and gas fields containing in excess of 60 MMbbl of recoverable oil and 600 Bcf of gas. One of the fields, the An Nagyah Oilfield, is developed by 32 wells, with production facilities of 20,000 barrels of oil per day ("bopd") capacity with initial recoverable reserves of 50 MMbbls. The field began production in 2004 and produced 25 MMbbls prior to its suspension in 2014 for political reasons. The Company attempted to restart production at the An Nagyah Oilfield from 2017 as invited by ex-President Hadi but was denied access to government owned transport facilities, contrary to the Block S-1 Petroleum Sharing Agreement ("PSA").

In late 2019, the Yemen Oil Minister indicated that approvals would be granted subject to our securing a financially strong Yemen oil producing company to be operator, which we did in September 2020, in the form of Octavia, an associate company of the HSA Group of Yemen.

Unfortunately, a new Minister for Oil was selected by President Hadi at the same time such that the process of approvals reverted to the same slow bureaucratic procedures Petsec had suffered in 2016/17 and again in 2018/19 with the previous two Oil Ministers.

A secondary reason given for delay was due to the political uncertainty consequent to the removal of the Houthi from the U.S. Terrorist List in February 2021 by the then newly elected Biden Democrat Administration in the U.S., and the U.S. constraints placed on Saudi Arabia in the Yemen conflict, plus the unseemly U.S. exit from Afghanistan. These actions energised the Houthi, which are well supported by Iran as is the Taliban in Afghanistan, to intensify their attacks on Marib City which the Hadi Government has held since April 2015, located 173 kilometres East of Sana'a, and 65 kilometres to the East of the SAFER Block 18 oil and gas fields, which is the objective of Houthi capture. The Houthi also made incursions into the Shabwah Governate in September 2021 where Block 5, S-1, S-2 and Block 4 oil fields are located.

In December 2021, the UAE army and their Yemen Giant Brigade militia from Hodeidah on the Red Sea, cleared the Houthi from Shabwah within two weeks. The Shabwah province is now considered to be sufficiently secure to allow restart of oil production in Shabwah.

A further major positive political change occurred in April 2022 when the Saudi, now supported by the US Democrat Administration, removed the legitimate UN supported Yemen President Hadi and his deputy Vice President Mohsen, both universally considered to have failed in their leadership of Yemen during the past 7 years of civil war. Saudi selected a new President supported by a new presidential council with the remit of expanding the economy, increasing oil production and finding a solution to the civil war.

The new president Rashad al-Alimi, an adviser to Hadi and former interior minister with the government of late President Ali Abdullah Saleh, was a close and long-time ally of ex- president Saleh. Rashad is strongly supported by Saudi and considered to be a good administrator and strong leader, in contrast to Hadi. Other members of the council include Aidarous al-Zubaidi, the head of the separatist Southern Transitional Council, which controls Aden and supported by the UAE since 2015, Faraj al-Bahsani, the governor of Hadramout governorate, a strong and capable leader of this oil rich province, Sheikh Sultan al-Aradah, the powerful governor of energy-rich Marib province, and Tariq Saleh, nephew of the late president Saleh and a militia leader of the UAE backed Giant Brigades which recently forced the Houthi out of Shabwah and Marib.

There is a renewed sense of resolve by the Saudi to end the war and rehabilitate Yemen, which should lead to early support for restart of oil production in South Yemen.

Block 7: Houthi illegal claim against LoC

The Block 7 Letter of Credit (LoC), totalling US$4.2 million, was established between the Block 7 joint venture partners and the Arab Bank in Sana'a, Yemen, 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 legal claim can be made against the LoC while the licence is in Force Majeure.

The Arab Bank acted upon an illegitimate claim made in November 2019 by the Houthi controlled oil ministry in Sana'a against the Letter of Credit ("LoC") and called on the counterpart LoCs held on behalf of the Company and Mitsui by QNB and CBA, respectively, in contravention of the terms of the LoC.

The counterparty banks responded to Arab Bank's 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.

Petsec initiated a legal claim against Arab Bank in Jordan, which is the bank's place of domicile,

seeking the recover the US$2.73 million in counterparty Letter of Credit (LoC) funds claimed and transferred to the Arab Bank by Qatar National Bank (QNB) acting for the Company and Commonwealth Bank of Australia (CBA) acting for Mitsui.

To date, the Jordan Court had granted an injunction against Arab Bank to prevent transfer of the funds to the Houthi and had 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.

In late December 2021, the Appeals Court delivered its final verdict in relation to the Company's US$1.68 million share of the LoC funds, declaring the call on the Block 7 counterparty LoCs by Arab Bank was illegal and required that the Arab Bank transfer the monies back to the Company's QNB bank account and awarding compensation for legal fees and expenses incurred by the Company.

The Arab Bank had 30 days to appeal the decision of the Appeals Court in the Supreme Court, which it did on 25 January 2022. Determination of the case could take another nine months.

The Company was extremely disappointed that the Arab Bank had chosen to appeal the decision to Jordan's highest court, having lost an injunction, the court case and the appeal to that court case. Nonetheless, the Company will vigorously defend the Arab Bank appeal to the Supreme Court and will seek further monetary damages from Arab Bank who has had free use of the Company's and Mitsui's money for two years.

Despite the Jordan Court of First Instance and the Appeals Court declaring the Houthi claim on the Block 7 LoC and Arab Bank's claim on the counterparty LoCs to be illegal, and the legitimate Minister for Oil in Yemen, recognised by the government and courts of Jordan, had given a written statement that there was no claim on the Block 7 LoCs, Arab Bank continues to use the court system to delay repaying our and Mitsui's LoC funds.

The Company is also proceeding with its legal action to recover Mitsui's share of the LoC funds held by the Arab Bank.

Section 258F share capital reduction

In December 2021, the Board resolved to reduce the Company's share capital and accumulated accounting losses by approximately US$196 million in accordance with Section 258F of the Corporations Act. The US$196 million represented historical realised losses associated with the Company's discontinued operations in the USA, Canada and China.

Under Section 258F(1) of the Corporations Act, a company may reduce its share capital without shareholder approval by cancelling any paid-up share capital that is not represented by available assets.

The capital reduction is a technical adjustment which had no impact on the Company's assets, nets assets, financial results, cash flow, funding or the number of shares on issue.

Minimum Holding Buy-back

The Board in anticipation of being delisted from the ASX instituted a buy-back of ordinary shares to provide holders of unmarketable parcels of shares who wished to dispose of their holdings the opportunity to do so.

Under the ASX Listing Rules, an unmarketable parcel is considered to be a shareholding valued at less than $500 ("Minimum Holding"). The purchase price of the Minimum Holding Share Buy-back was determined by the Company at A$0.001 per share, being the last registered sale transaction, which took place in July 2021 through an off-market transfer. Based on this price the Minimum Holding was calculated to be less than 500,000 shares.

The Minimum Holding Buy-back was formally announced to the ASX on 11 February 2022 and closed at 5.00 p.m. on Friday, 25th March 2022.

Prior to completion of the buy-back, the Company had 1,726 shareholders of which 1,652 were determined to own a Minimum Holding parcel of shares. The aggregate number of Minimum Holding shares amounted to 64,906,681 (or 13%) of the total number of shares on issue (i.e. 488,587,924).

Following the completion of the buy-back, a total of 27,516,706 shares, held by 1,038 shareholders, were acquired and cancelled by the Company for a total consideration payable of A$27,516.98. The proceeds from the buy-back were mailed to shareholders on 1 April 2022.

The total number of remaining Petsec Energy Ltd shareholders post completion of the buy-back now stands at 688 shareholders.

Financial results

The Company reported a loss after tax of US$3.0 million for the twelve months ended 31 December 2021 largely attributable to the interest expense incurred on the convertible note facility of US$2.4 million.

No production or oil and gas revenues were generated during the year following the sale of the Company's U.S. production assets, effective from 1 July 2020.

Operating costs and demands on the Company's working capital have been significantly reduced following the sale of the U.S. assets and the closure of the U.S. operations, and the divestiture of a 75% interest and operatorship in the Damis Block S-1 Production Licence, all during the second half of the 2020 financial year. The Company retained a 25% interest in Block S-1, held by the Company's wholly owned subsidiary, West Yemen Oil (Block S-1) Inc., for which it will receive a life of licence carry of all costs from the Operator.

No acquisition, exploration and development expenditures were incurred during the year.

At 31 December 2021, the Company held cash deposits (including restricted cash) of US$0.4 million and the amount drawn under its US$15 million Convertible Note Facility remaining unchanged from the previous year at US$14 million.

In April 2022, the Company received the final US$100,000 trailing payment that was due from its U.S. asset sale which was completed in October 2020.

The Company expects to receive a further US$1 million trailing payment from its sale of Yemen (Block S-1), Inc., also in 2020. The trailing payment is contingent upon the restart of the An Nagyah Oilfield and certain production hurdles being met. This amount is currently reflected as a non-current receivable in the Consolidated Statement of Financial Position.

The Company is expected to have sufficient funds to maintain the Company without drawing on further debt through to the end of December 2023.

Outlook FY2022:

The primary focus for the remainder of FY2022 will be to continue to support Octavia Energy, 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; pursue the recovery of the Block 7 LoC monies currently held by Arab Bank; and review other oil and gas opportunities that could potentially provide the Company with production assets outside of Yemen.

In closing, I would like to thank the Board for their highly valued counsel and continued resolve and commitment. I'd also like to thank our shareholders for your patience during this critical period in the Company's history. The future and long-term success of the Company is highly dependent on the return of the An Nagyah Oilfield to production and the continued support of the Noteholders.

Thank you.

Terrence N Fern

Chairman