

Chairman's Address

Chairman's Address to the Senex Annual General Meeting 2015

18 November 2015

Ladies and Gentlemen, thank you for your attendance today and your continued support of Senex Energy during a challenging period in the oil and gas sector.

As most of you are aware, this is my first AGM as Senex Chairman. I thank my fellow directors for their endorsement and appointment to the role. Some will say that my decision to join an explorer and producer is ill timed with such uncertainty in the market; however in my experience the only real certainty in this industry is that commodity prices will always fluctuate.

Experience also tells me that periods of uncertainty are periods of opportunity. The challenge is to ensure that we are able to define and manage the risks that will come with these opportunities.

Despite the turbulence, Senex has delivered a number of significant milestones over the last 12 months and remains financially resilient. Today I would like to reiterate my confidence in your company; in the quality of our assets, and in Senex's resolve to execute its strategy for growth. I will revisit our response to the changed environment and why I remain optimistic about our future.

I have no doubt everyone here is equally disappointed in the current share price and we sympathise with our shareholders in this regard. As you may be aware, the Senex directors are also shareholders. At the last AGM, the Brent oil price was US\$78 per barrel and our share price was around 40 cents. Yesterday the Brent oil price was US\$45 per barrel and our share price closed at 16 cents.

Notwithstanding the drop in our share price, we believe the underlying value of our business is in many ways stronger than 12 months ago, evidenced by:

- Solid underlying performance and record growth in proved plus probable reserves;
- Strong liquidity profile and no drawn debt at 30 September;
- Cash flow from existing operations and hedging secured for oil sales; and
- A high quality acreage position and portfolio of growth projects.

We anticipate commodity cycles in this business; however this current decline is certainly one of the sharpest and fastest declines on record. What is notable is that in previous cycles, oil prices have also recovered at a faster pace than the current trend suggests, and there is market concern about the likelihood of a reasonable increase of oil prices in the near term. The declining oil price and associated volatility have been caused by a number of factors. Most notably, the global over-supply of oil from both the Middle East and of course now from North America, contrasted with softer demand globally.

We can't control these factors, which have translated to reduced sales revenue and reduced cash flow for explorers and producers. The decline in oil price has severely impacted every industry player, small and large. We can and have taken steps to counteract the impact including hedging our oil sales and ongoing expenditure discipline.

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We are focused on the future, on sustained value creation. In terms of what we can control, we have stayed our strategic course and are now in a strong position to take advantage of market opportunities and continue growing.

So what have we done and what are we doing?

Financial strength remains our number one priority and we have adjusted to the changed environment in the following ways.

- On balance sheet strength and liquidity, in April 2015 we put an \$80 million unsecured corporate debt facility in place. Our total liquidity is very healthy when you combine this facility with cash of \$53 million at the end of September, and a further \$42 million to be received from GLNG for the sale of a block within our Surat Basin acreage, announced in September. At the end of December, and assuming the receipt of these funds from GLNG, we anticipate a cash balance in the order of \$90 million to \$100 million. This represents cash of 9 cents per share.
- Next, we have protected forward revenues, putting in place oil sales hedging for this financial year at an average floor price of A\$75 per barrel. This has proved to be a sound financial strategy and we have so far realised \$10 per barrel of margin benefit in the financial year to date.
- We also reduced capital and operating expenditure, focusing on low cost production, maintaining healthy margins, and disciplined capital allocation. Compared to the prior year, we reduced capital expenditure by \$69 million to \$82 million. In this current financial year, we are continuing to prioritise financial stability and have guided to capital expenditure of between \$35 million and \$45 million. Unsurprisingly, with reduced capital to replenish reserves, you can expect reduced production growth in the near term.
- And lastly, we re-prioritised our portfolio. In the lower oil price environment, it makes sense to undertake a reduced and self-funded work program in the Cooper Basin, focused on our core oil business and cash preservation. It also makes sense to prioritise our Western Surat Gas Project in Queensland, a near-term growth enabler and material future revenue stream. In pursuit of longer term growth, we have collaborated with industry leaders to advance key projects, including our Cooper Basin gas exploration program with Origin Energy. All projects and activities are assessed and ranked against available capital, and we continue to explore risk sharing opportunities to advance key growth projects.

Staying on the topic of growth, let me elaborate on the significance of the progress made in our gas business. The Western Surat Gas Project represents a major step forward for Senex and our shareholders. With material proved plus probable gas reserves in a strategically located area of the Surat Basin, Senex is optimally positioned to meet market demand from potentially both domestic and export customers on the East Coast. The gas reserves were acquired as part of the asset swap with the QGC JV for no cash last year. The agreements executed recently with GLNG for the sale of up to 50 terajoules per day from the project area, and the sale of a block within the acreage, together provide an important commercialisation and financing pathway.

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We still have much work to do, but our promise of becoming a responsible, established upstream gas producer is on track.

For all Senex staff in recent years, but especially the executive team, part of each year's remuneration has been at risk and subject to performance. It's part of a reward that we offer to Senex staff if the company can achieve the objectives we set for the year. For the executives, this incentive or at risk amount is a significant part of their potential overall remuneration. You will see in the 2015 annual report that your board awarded no salary increases or short term incentives to executives, and no short term incentives to staff, for the company's achievements during the year. The three-year long term incentive for executives that matured on 1 July this year also lapsed in full. This year, we have modified the long term incentives offered to executives to include a three-year target for proved plus probable reserves as well as total shareholder return, reflecting a focus on growing the scale and value of our business.

In this business we must look years ahead, not month by month or even quarter by quarter. The strategy we have is establishing foundations for a sustainable, long term future. Your board remains confident in the Senex strategy and its focus areas, and we will continue to adjust our priorities as the environment prescribes.

Before I close, I need to mention that your former Chairman, Denis Patten, retires by rotation at the close of this meeting and is not standing for re-election. The company he leaves today is fundamentally different to the company he joined in March 2008, with growth achieved in many ways. I would like to recognise Denis's immense contribution to Senex over the past seven years, during which the company's transformation is a credit to Denis. We thank him for his unwavering commitment and wish Denis all the best for the future. I also add a personal thanks to Denis who has been enormously helpful and supportive as I made the transition to Chairman.

Over the past 12 months your directors have navigated a challenging environment with sound judgement, and we remain committed to shaping a successful future for this company. To Ian and his executive team, you have shown professionalism and ability to deliver during a difficult time. Thank you for your continued leadership and commitment.

Finally, to our shareholders, thank you again for your loyalty and patience during a turbulent time in our industry.

Trevor Bourne
18 November 2015

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ABOUT SENEX ENERGY

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Senex is a growth focused exploration and production company based in Brisbane. With a 30-year operating history, Senex holds extensive onshore oil and gas acreage in the Cooper and Surat Basins. Senex operates the majority of its assets, produces over one million barrels of oil annually, and is successfully developing a gas business including the western Surat Gas Project in Queensland.