

CHAIRMAN'S LETTER

Dear Shareholder,

During the year Petrel has followed its stated strategy of taking oil and gas projects from pure exploration to production in order to provide value uplift for shareholders. Petrel does this by identifying assets with significant potential, proving a scientific hypothesis and undertaking sufficient work to demonstrate commercial viability. We aim to realise our investment by either selling to or bringing in a larger specialised partner who is sufficiently resourced to capture the full potential of the asset.

Consistent with this strategy, we are currently working on an exciting four-well drilling programme designed to unlock the significant geological potential within Petrel's acreage in Uruguay. This programme encountered significant unforeseen operating challenges and complexities during the 2017 financial year. As a result, the programme is significantly behind schedule and over budget. This has been extremely frustrating for the Board and management of Petrel and, of course, for our Shareholders. Going forward, we must do better.

To this end we have undertaken a review of all drilling and onsite operations, including with independent consultants, to determine the necessary operational and management changes to effectively complete the programme. The aim is to avoid, as best as we can, repeating the mistakes of the past. More of the same is unacceptable. Continuation of our drilling programme in Uruguay has necessitated the raising of additional capital through an underwritten Entitlements Offer outlined in the recent Prospectus.

The Board believes that completing the programme in Uruguay is fundamentally in the best interests of the Company on the basis that:

- › we have a drill rig in-country with the risks of conducting operations in Uruguay now significantly reduced as we are no longer reliant on equipment being purchased, shipping and customs or additional approval processes;
- › we have learnt how to drill unexpectedly very hard basalt and what drill bits work best under certain conditions;
- › we have a rejuvenated drilling contractor with new onsite drilling experts, New Tech Global Ventures (NTG), who have now been retained by the Operator to manage all onsite operations; and
- › in the opinion of the Board, the prize remains great, as indicated by the Company's independently certified oil and gas resources in Uruguay.

This takes on increasing significance when viewed in the context of the Company's previous systematic process of engagement with major oil and gas industry counterparties. While the counterparty engagement process did not yield a large industry partner at the time due to falling oil prices, it did result in a comprehensive technical dialogue in relation to the Petrel's Uruguay acreage. Completing this programme will enable the Company to address many of the residual technical issues arising from this process.

The primary objectives of the drilling programme are still to confirm source and reservoir rock quality and extent across both permits. Excellent world class Darcy permeability (1000+md) has been measured in coreholes in the south east of the Piedra Sola permit.

Importantly, while not the primary objective, we are also fortunate that 3 of the 4 wells being drilled are targeting structures identified by seismic with potential for oil and gas trapped in either the same sequence or up-dip of oil shows and/or oil weeping from core samples, while the fourth is targeting a very material AVO gas anomaly. As a consequence, even completing the current well and subsequent planned wells have the potential to address some key technical issues, and provide an opportunity for early exploration success.

As shareholders would be aware, oil and gas exploration is an exciting business but comes with significant risks and challenges. Whilst our best efforts will be put towards improving the operational performance going forward, there can be no assurances that the current drilling programme will produce positive results.

The Board and management of Petrel sincerely appreciate the ongoing support and participation of all shareholders and we look forward to communicating with you as events unfold in the current financial year.

Yours sincerely,



Alex Sundich

Uruguay

