

CHAIRMAN'S ADDRESS TO THE AGM
16 OCTOBER 2001

We meet at a time of great uncertainty in the world - the calamity in the United States on 11 September, and the war against terrorism now being fought against a background of some major commercial collapses here in Australia, affects us all, and makes us reflect on our personal needs and beliefs.

The message I want to convey clearly to you today is one of confidence - confidence, that Essential Petroleum's Otway Basin Exploration strategy is sound. This is evidenced by the significant onshore and offshore Otway discoveries made this year, lifting substantially the perceived prospectivity of the Basin as a whole. Confidence, that our tenement inventory is geologically and geographically positioned to optimise discovery of both gas and oil, confidence that we have the team to carry out our exploration program, and confidence that we will maintain your support by moving forward with the program of exploration put forward in our IPO Prospectus.

Our first commitment well, McNamara Park No. 1. drilled in June was unsuccessful, however, I am pleased to be able to confirm that plans are well in hand to drill Port Fairy No. 1 well on the Port Fairy structure within our 33.9% held permit PEP-152. This well will target the Waarre sandstone petroleum system at a location approximately two kilometres north of Port Fairy. We expect, subject to availability, the well to spud around late November. The Port Fairy Prospect is an exciting gas prospect with a likely recoverable gas reserve of 26 Billion Cubic Feet. Since listing, Roger Blake has conducted a further extensive review of all available data, leading to remapping of the Prospect.

Processing of newly acquired seismic, interpretation and mapping is also being carried out over further PEP-152 and PEP-159 prospects including the Tower, Cartcarrong and Findra Prospects. We expect, dependent on rig availability and agreement from joint venture partners, to drill one of these prospects before financial year end. Permits PEP-152 and PEP-159, we believe, offer the Company the best chance of making a gas discovery in the onshore Otway Basin.

Oil Strategy:

Many shareholders are keenly interested in the progress of our oil strategy which is based initially on the onshore potential of the Portland Trough, and our exploration program within PEP-151 which is 100% held by Essential Petroleum.

The Victorian Government offered Essential Petroleum the conditional award of PEP-151 subject to the Company reaching agreement with native title claimants, members of the Gunditjmara People. In principle, agreement has been reached, which is expected to be formalised in the next quarter. We have been informed that this agreement will lead to ratification of the award of the permit by the Victorian Government.

From the outset, our Executive team has worked hand in hand in a very constructive partnership with both the native title claimants and Governmental authorities. Together, this team has also developed a proposed seismic grid designed to further delineate the Cobboboonee, Warrain and Glenaulin leads within PEP-151 and achieve our exploration aims while minimising impact on State Forest within the Permit area. This can be achieved largely by utilising existing roads and fire tracks.

We have commissioned, with the Victorian Department of Natural Resources and Parks Victoria, a review of the seismic survey's possible impact and expect that results will be available before Christmas. We must thank Parks Victoria for their professional approach and commend the area's native title claimants - the Gunditjmara People and Mirimbiak Nations Aboriginal Corporation for their constructive approach.

We plan, subject to ratification of permit PEP-151 to conduct a Seismic survey over these exciting Portland Trough prospects in the coming Autumn and expect to be in a position following seismic interpretation to drill in PEP-151 by the 4th quarter of next year.

Offshore Otway Basin

Since listing, Essential Petroleum has been awarded the Offshore Otway Basin permit VIC P-46 in a competitive bidding process. This Permit is immediately south of our PEP-151 onshore block. Application of our significant knowledge base and the identification of an offshore petroleum system by our Executive team is being reinforced by reinterpretation of seismic covering several prospects in the VIC P-46 block. Consideration is also being given to further offshore gazettal areas to the south and east of VIC P-46 that are likely to contain Waarre gas plays. Our offshore exploration strategy adds value to permits secured and, thereby, enhances the availability of funding opportunities in which the Company may participate.

In terms of our IPO Prospectus and the 2001 objectives set, I believe we stand up well. Cash available at 30 June was some \$300,000 above estimate at \$6.6 million - with one well drilled in PEP-72. The other well proposed for 2001 was the contingent PEL-57 well. We elected not to exercise our option to participate in PEL-57 following the McNamara Park drilling.

World Oil Prices

The immediate international response, we believe, to the 11 September events and the slowing, in particular, of the United States economy - may well be an over-response. Oil prices have dropped back to the US\$23 per barrel range. We would expect oil prices will return to the OPEC preferred US\$25 range and beyond, as the Military response to the US terrorist attacks gathers pace on the ground, as the sizeable economic stimulus package is injected into the US economy, and as the Northern hemisphere Winter approaches.

Natural Gas Strategy

The Company's gas strategy is based on finding commercial reserves of gas in close proximity to markets with short-term and long-term demands.

Based on the National Institute of Economic and Industry Research (NIEIR) report in the Company's Prospectus, we believe the Victorian spot gas market and other Victorian regional market opportunities are available to new gas producers that can offer a reliable supply of gas before 2005.

We further believe that gas discoveries of as little as five billion cubic feet in the onshore Otway Basin will be commercial due to the speed with which they can be developed, the low cost of development and the presence of infrastructure. Based on the demand for gas in the region, new onshore gas fields may be brought into production within 12 months of discovery.

Offshore discoveries require lead times of the order of five years to develop and have a higher cost of development. This means the discovery must be much larger to be economically viable. The short term focus of Essential Petroleum's onshore gas strategy plays an important role in capturing and nurturing longer term gas supply contracts for the larger volumes of gas that will arise from exploration success offshore.

We currently see competition between groups, led by both Origin Energy and Duke Energy, to build a gas pipeline link between Iona at Port Campbell and Adelaide. This link will form a vital part of the infrastructure to allow development of Otway Basin gas resources.

While we restate our focus and commitment to the Otway Basin, our Executive has broad national experience, giving us the ability to examine opportunities and to participate in other Australian basins. Executive General Manager, Wally Westman, not only provides an essential engineering perspective to ensure the maximisation of our exploration dollar, his expertise in conjunction with that of John Remfry and Roger Blake, and our lower overheads will lead us both to cash flow generation and exploration prospects, that other Companies may not be able to avail themselves.

Essential Petroleum will forge a foundation of success and growth to meet our key corporate objective of delivering high returns to shareholders by applying disciplined technical and financial management to a sound and focussed approach to oil and gas exploration that leads to the commercial development of reserves.

In conclusion, we push ahead with confidence.

John W Cornelius
Chairman
16 October 2001