



Chairman's Address to the Annual General Meeting
18 November 2002
ASX Theatrette, 500 Collins Street, Melbourne

Ladies and gentlemen,

I am delighted to welcome you to the third Annual General Meeting of Essential Petroleum Resources Limited.

In the recent annual report, I summed up our first full year as a public company by saying we had set in place the foundations of a great future.

I think any review of our achievements would show this is no idle boast.

- Firstly, your company secured a landmark Native Title agreement with the Gunditjmarra People – the first of its kind in Victoria. This success led to ratification of our 100% held onshore permit, PEP 151.
- Second, we were successful in an application for our second offshore permit VIC/P50 against strong competition from major players in the oil and gas industry
- And more recently - since the publication of the annual report - we have announced separate farmin agreements with Beach Petroleum in PEL 72 and with Mitsui's Australian subsidiary Mitwell Resources in offshore permit VIC/P46.

The farmin with Mitsui is particularly pleasing. The agreement confirms the growing recognition of our technical skills and of our Otway Basin expertise.

Farm in agreements such as this are also a powerful way to create value for shareholders. Unlike most junior explorers that are forced to buy into acreage on fully priced terms, Essential Petroleum has worked hard to develop its own opportunities. Our offshore permit wins are great examples of



this approach. We have twice won permits from Government by putting forward high quality work programs, based on the work of our own exploration team and exciting exploration models. We then add value through studies and interpretation, before farming out on value added terms that include the carry of at least part of our exploration costs.

The achievements I have just highlighted are all about building a great future for Essential Petroleum. They are about access to acreage, new acreage acquisition and new partners to help us in the large and costly search for offshore reserves over the next few years.

Of course, Essential Petroleum also has short-term objectives and opportunities, including two onshore exploration wells in the next three to four months. This is part of a cohesive strategy to give shareholders exposure to opportunities for high value exploration successes in the short, medium and long term.

But before I focus on our short-term prospects, I would like to make some comments about the future of the Australian oil and gas exploration industry.

There is no argument that Australia needs to find more oil and gas. The Australian Petroleum Production and Exploration Association has been saying so for years. Its message some times gets lost because people outside our industry think APPEA is merely the talk of vested interests. But authoritative new voices recently joined the debate –CSIRO scientists, Barney Foran and Franz Poldy, who last month published a major paper on the future of energy in Australia.

Their message is simple: Australia faces tight oil supplies by 2020 and even shortages of gas by 2040 if we continue with expected patterns of usage and resource discovery. The report suggests that Australia should seriously consider heavy investment in advanced exploration techniques and plan much further ahead in its exploration and resource management.

Finding more oil and gas means attracting more investment in exploration. Governments are recognizing this fact, as evidenced by the July 2002 House of Representatives Standing Committee Inquiry into Resources Exploration Impediments. The Inquiry made some sound recommendations



that will help explorers to attract investment, such as changes to the tax system to make capital raisings by junior exploration companies more attractive to potential investors, and incentives to boost exploration in under-explored or higher risk areas.

However, new incentives and encouragement for explorers is needed quickly to stop a startling decline in investment in new oil and gas explorers.

Research by Essential Petroleum highlights the problem. It reveals that in the two years to 30 June 2002, only seven oil and gas companies, including Essential Petroleum, floated on the Australian Stock Exchange. The total amount of capital raised by this group accounted for less than 1% of all IPOs over the two-year period.

The decline in investment dollars has continued in the current financial year, with only one oil and gas exploration company joining the ASX so far this year. And almost two years after Essential Petroleum listed, our relatively modest IPO amount of \$7.5 million has still not been exceeded.

These low capital raising numbers will translate into lower exploration activity and less discoveries over the next few years, by which time the problem will become even more critical without action by government today.

Against this background, I think we can all take pride in the achievements, the progress and the development of Essential Petroleum. We certainly thank shareholders for their support and their encouragement.

Turning now to the immediate future for your Company, I am sure you will have read about the two onshore exploration wells that are planned for the next three or four months.

The next well in our program, Koroit West 1 in PEP 152, will spud as early as three weeks from today. Koroit West 1 is a follow up to Port Fairy 1 and will be located approximately 10 kms to the north. The well will target the sandstone in the Flaxman/Basal Belfast formation. We have a 33.9% interest in this well.

The second well is Banganna No. 1 in PEP 159, in which we have a 50% interest. Banganna 1 will be located in the southwestern part of the permit and will test the Pretty Hill petroleum system. The well is expected to be spudded in March 2003, with exact timing depending on rig availability.

Koroit West No. 1 and Banganna No.1 will lift to four the number of wells in the two years since listing.

Both wells will ensure plenty of excitement for shareholders and exposure to potential for high value discoveries in the short term.

Port Fairy No. 1 may also reveal further news over the next few months. The well has made a highly significant discovery of an oil and gas bearing zone in the Flaxman/Basal Belfast formation.

Engineering studies are being undertaken to determine whether the field is commercially viable. The results of these studies are expected early in the first quarter of 2003.

Finally I confirm that the Company has been very busy lately seeking support from its shareholders and other interested parties for the conversion of its 35,732,503 1 December 2002 options into new shares at \$0.20 each.

The maximum the Company might raise on conversion of these options is approximately \$7.1 million.

Although current share markets have been volatile making capital raising difficult for most small exploration companies I have been very pleased with the level of support that has been expressed by our option holders for the conversion of the 1 December 2002 options. Whilst it is not possible to accurately estimate the number of options that will be exercised, I believe that it will be substantial and the Company will significantly increase its cash reserves.

The Board will keep the market and the shareholders advised of the outcome of its endeavours in relation to this important exercise.



We thank you for your support. We will continue to work hard at unlocking the exciting potential of the Otway Basin for the benefit of all our stakeholders.

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