



**CHAIRMAN'S ADDRESS  
2006 ANNUAL GENERAL MEETING**

**ESSENTIAL PETROLEUM RESOURCES LIMITED**

GOOD MORNING LADIES & GENTLEMEN

WELCOME.

IN 2001, ESSENTIAL PETROLEUM RESOURCES LISTED ON THE ASX WITH A FOCUSED AND UNWAVERING VISION AND STRATEGY TO EXPLORE FOR OIL AND GAS IN THE OTWAY BASIN ON AUSTRALIA'S SOUTHERN MARGIN.

THE COMPANY HAD IDENTIFIED A NUMBER OF PETROLEUM SYSTEMS ONSHORE AND OFFSHORE AND EMBARKED ON AN EXPLORATION PROGRAM TO UNLOCK THE POTENTIAL OF THE VAST AND UNDER-EXPLORED OTWAY BASIN.

DESPITE AN EARLY ENCOURAGING BUT UNECONOMIC HYDROCARBON DISCOVERY AT PORT FAIRY, ESSENTIAL PETROLEUM'S OBJECTIVE OF EARLY PRODUCTION SUCCESS HAS NOT FOLLOWED. HOWEVER, AS A RESULT OF OUR DELIBERATE STRATEGY, WE CAN CLAIM TO HAVE SECURED A POSITION IN THE MOST PROSPECTIVE AND POTENTIALLY REWARDING PART OF THE BASIN. WE BELIEVE THE AREA, KNOWN AS THE DISCOVERY BAY HIGH, HOSTS ALL OF THE INGREDIENTS REQUIRED FOR MAJOR HYDROCARBON DISCOVERY. IT IS APPROPRIATE AT THIS STAGE TO ACKNOWLEDGE THE FINE WORK BY OUR TECHNICAL TEAM AND IN PARTICULAR GORDON WAKELIN-KING AND SANDY MENPES WHO HAVE, UNDER JOHN REMFRY'S GUIDANCE, TOILED LONG AND HARD, PARTICULARLY OVER THE PAST 18 MONTHS, TO PRODUCE AN OUTSTANDING ANALYSIS. I HAVE NO DOUBT THAT THEIR WORK IN IDENTIFYING AND UNDERSTANDING THE GEOLOGICAL SIGNIFICANCE OF THE DISCOVERY BAY HIGH HAS GIVEN THE COMPANY A GREAT CHANCE OF MAKING THE NEXT MAJOR DISCOVERY IN THE OTWAY BASIN. THEIR WORK, WE BELIEVE, HAS ALSO BEEN INSTRUMENTAL IN ATTRACTING JOINT VENTURE PARTNERS INCLUDING BEACH PETROLEUM, WHO HAS INCREASED ITS INTEREST IN THE AREA.

TO GET TO THIS POSITION HAS BEEN A LONG TIME IN THE MAKING. LONGER THAN WE ENVISAGED. ESSENTIAL PETROLEUM HAS BEEN WORKING IN A MAJOR COMPANY ARENA AND TO GET TO THIS POSITION IT HAS REQUIRED KNOWLEDGE, LONG LEAD TIMES, AND HARD WORK. IT HAS ALSO REQUIRED GOVERNMENT SUPPORT AND STAKEHOLDER EMPATHY.

ABOVE ALL, IT HAS REQUIRED INVESTMENT CAPITAL. WE ARE MOST APPRECIATIVE OF YOUR SUPPORT IN THIS REGARD. IN OUR RECENT RIGHTS ISSUE THE COMPANY RAISED \$3.6 MILLION IN ORDER TO CONTRIBUTE TO OUR TECHNICAL KNOWLEDGE THROUGH A FURTHER 3D SEISMIC PROGRAM; THE BERNOULLI 3D SEISMIC PROGRAM PLANNED TO RECORD APPROXIMATELY 320 SQKMS IN VIC/P46 DURING APRIL NEXT.

WHILE DRILL TARGETS ON THE NORTHERN FERMAT PROSPECT IN VIC/P46 ARE WELL DEFINED, THE VIC/P46 JOINT VENTURE LED NOW BY OPERATOR, BEACH PETROLEUM AND INCLUDING MITSUI RIGHTLY WISH TO HAVE ALL REASONABLE DATA BEFORE THEM SO AS TO SELECT THE OPTIMUM DRILL LOCATION BEFORE COMMITTING THE SIGNIFICANT SUMS NOW REQUIRED TO DRILL OFFSHORE WELLS.

THE OIL & GAS EXPLORATION INDUSTRY IS FEELING THE SUSTAINED EFFECTS OF HIGH OIL PRICES. HOWEVER NOT ONLY IS IT REAPING THE BENEFITS OF INCREASES IN SALES REVENUE, IT IS BEARING THE INCREASE IN COST OF OIL FIELD SERVICES. OVER THE PAST 12–18 MONTHS, RIG AND SEISMIC COSTS HAVE RISEN BY AS MUCH AS 250%. AN UNFORTUNATE EFFECT OF THIS IS THAT VALUE OF A FARMOUT DEAL DONE UNDER THE LOWER COST REGIME OF EVEN 18 MONTHS AGO HAS BEEN ERODED.

IT IS IMPERATIVE THAT OUR COMPANY KEEPS ITS PRIZED POSITION IN THE OTWAY BASIN. BECAUSE OF ITS FOCUS EPR OFFERS ITS SHAREHOLDERS THE BEST LEVERAGE OF ANY PARTICIPANT IN THIS BASIN. A DISCOVERY IN ANY ONE OF OUR PROSPECTS WILL HAVE A DRAMATIC IMPACT ON EPR'S SHARE PRICE.

THE AVENUES FOR A SMALL COMPANY WITHOUT A CASH GENERATING ASSET TO FUND ITS EXPLORATION ACTIVITIES ARE LIMITED TO FARMING OUT EQUITY IN ITS TENEMENTS IN RETURN FOR CARRIED WORK AND TO RAISING CAPITAL THROUGH THE ISSUE OF NEW SHARES OR A COMBINATION OF THESE.

LAST YEAR, WE FORECAST THE DRILLING OF 2 OFFSHORE WELLS. DUE TO THE HIGH DEMAND FOR OIL FIELD SERVICES, RIGS AND SEISMIC VESSELS IN THIS PART OF AUSTRALIA ARE SIMPLY NOT AVAILABLE. IN FACT IT IS POSSIBLE THAT THESE WELLS WILL NOT BE DRILLED BEFORE LATE 2007.

ONSHORE, DURING THE PAST YEAR PRITCHARD NO. 1 WELL WAS DRILLED IN PEP 151 AT NO COST TO ESSENTIAL PETROLEUM FOLLOWING COMMITMENT TO THE WELL BY INLAND OIL RESOURCES AND BASS STRAIT OIL COMPANY. DESPITE THE LACK OF HYDROCARBON DISCOVERY THE RESULTS OF PRITCHARD PROVIDED NECESSARY INFORMATION AND CONFIRMATION OF THE DEPOSITIONAL MODEL FOR OUR ON SHORE AND OFFSHORE PERMITS. WE ARE ENCOURAGED FURTHER BY BOTH PARTIES, INLAND OIL RESOURCES AND BASS STRAIT OIL EXERCISING ITS OPTION TO FARMIN POST THE DRILLING OF PRITCHARD TO BOTH PEP 151 AND THE ADJOINING PEP 150.

AS INDICATED IN THE ANNUAL REPORT, WE MUST ALSO PURSUE FOCUS ON MORE EASILY WON REVENUES FROM MATURE AND DEPLETING FIELDS AND HAVE INITIATED EXAMINATION OF OIL RECOVERIES WITHIN OUR EXISTING TENEMENTS. IN PEL 27, OPERATOR, BEACH PETROLEUM, HAS EVALUATED THE 1998 KILLANoola OIL DISCOVERY AND THE POTENTIAL TO PRODUCE THAT OIL. AN APPLICATION FOR A RETENTION LICENCE TO ALLOW PRODUCTION TESTING HAS BEEN LODGED AND IS BEING PROCESSED BY THE SOUTH AUSTRALIAN AUTHORITY. THE RECOVERABLE RESOURCE AT KILLANoola IS ESTIMATED AT 800,000 BARRELS OF OIL.

WE HAVE RECENTLY MADE APPLICATION, IN JOINT VENTURE WITH INLAND OIL RESOURCES FOR AN AREA OFFERED ONSHORE BY THE VICTORIAN GOVERNMENT, AREA VIC 0-06(2) COVERING THE PORT CAMPBELL EMBAYMENT.



WE BELIEVE OUR OTWAY BASIN FOCUS MUST BE PURSUED ONSHORE WHERE WE SEE REAL OPPORTUNITIES FOR GAS ACCUMULATIONS IN CLOSE PROXIMITY TO INFRASTRUCTURE. ESSENTIAL PETROLEUM, WITH 50% INTEREST, WILL BE OPERATOR FOR THIS AREA IF GRANTED TO OUR JOINT VENTURE.

WHILE OLDER DISCOVERIES SUCH AS KILLANoola AND LINDON WILL BE EVALUATED FOR PRODUCTION AND THE RESULTANT CASH FLOW, THE PROSPECT OF MOVING TO EVALUATION OF OUR VERY SIGNIFICANT OFFSHORE ASSETS REMAINS OUR HIGHEST PRIORITY AND FOCUS.

RECENT MAPPED DATA AND A PRELIMINARY INTERPRETATION OF THE JUNE 2006 OEP06 2D MARINE SEISMIC SURVEY IN VIC P50 INDICATE EXCELLENT QUALITY DATA AND EVIDENCE WHICH HAS HIGH GRADED THE GIANT CURIE AND DESCARTES PROSPECTS. P50 ESTIMATED RECOVERABLE OIL RESOURCE OF 750 MILLION BARRELS OF OIL AT CURIE AND 800 MILLION BARRELS OF OIL AT DESCARTE.

PALAEO-GEOGRAPHIC RECONSTRUCTION OF THE EXCITING DESCARTES OLIGOCENE TURBIDITE PROSPECTS HAS ALSO INCREASED CONFIDENCE THAT RESERVOIR SANDS ARE PRESENT IN THIS COMPLEX. FURTHER INTERPRETATION IS EAGERLY AWAITED.

RECENT PRESENTATIONS BY JOHN REMFRY AND HIS TEAM AT THE AMERICAN ASSOCIATION OF PETROLEUM GEOLOGISTS CONFERENCE IN PERTH HAS RESULTED IN STRONG INTEREST BY A NUMBER OF MAJOR INTERNATIONAL OIL AND GAS EXPLORERS.

AN EXPERIENCED TEAM HAS BEEN ASSEMBLED TO ENSURE SUCCESSFUL FARMOUT OF VIC/P50 TO RECOGNISE THE VALUE IN THESE ESSENTIAL PETROLEUM ASSETS AND TO ENSURE WE PARTICIPATE IN THE EVALUATION OF THESE ASSETS AT THE EARLIEST OPPORTUNITY WHILE RETAINING A SIGNIFICANT CARRIED INTEREST. THAT TEAM WILL ALSO CRITICALLY EXAMINE OTHER FARMOUT OPPORTUNITIES TO ENHANCE OUR TENEMENT ASSETS.



THE LIFE BLOOD OF AN OIL AND GAS EXPLORER IS ACTIVITY, PARTICULARLY DRILLING. ESSENTIAL PETROLEUM HAS MAINTAINED, WITH STRONG SHAREHOLDER SUPPORT, A BASIN FOCUS ON THE OTWAY – ONSHORE AND OFFSHORE. WE HAVE BUILT A VERY STRONG KNOWLEDGE OF THE BASIN AND A VERY VALUABLE ASSET BASE THAT WE MUST EXPLOIT TO REWARD SHAREHOLDERS.

WE LOOK FORWARD TO ESTABLISHING PRODUCTION AND TO EXPLOITING OUR STRONG TENEMENT POSITION IN THE YEAR AHEAD TO DELIVER OTHERWISE LOCKED OUT SHAREHOLDER VALUE.

**John Cornelius**  
Chairman  
Essential Petroleum Resources Limited

28 November 2006