



**ESSENTIAL PETROLEUM RESOURCES LIMITED**  
**2004 ANNUAL GENERAL MEETING**  
**CHAIRMAN'S ADDRESS**  
**21 October 2004**

Ladies and Gentlemen

I am delighted to welcome you to the 2004 Annual General Meeting of Essential Petroleum Resources Limited.

At the end of our third year as a listed company, Essential Petroleum is strongly positioned.

In my address to you at last year's AGM, I made the statement that Essential Petroleum has taken promise to reality, and the best was yet to come. I used the analogy of the grape growing term verasion, that pivotal period of transformation when green berries change to sweet fruit ready to be made into wine. It is true, that there have been pre-harvest delays, the fruit is taking a little longer to ripen - however, the quantity and quality of the crop has grown in the meantime.

We have an enviable portfolio of contiguous acreage, centrally located in the onshore and offshore areas of the Otway Basin.

As an oil and gas exploration province, the Otway Basin is now recognised as one of the most prospective in this part of the world.

This is highlighted by the scheduling of eight exploration wells in the offshore Otway Basin in this summer drilling season – a combined investment of some \$120 million.

While Essential Petroleum does not have offshore wells of its own scheduled for this summer, we are well positioned to benefit from any discoveries from nearby exploration wells. The first of these is SANTOS Ltd's Callister No. 1 well, which spudded on 15 October 2004. This well is expected to take 20 to 25 days to drill.

John Remfry and Roger Blake will present more information about our activity and its context within the Otway Basin exploration more generally.



Our aim is to participate in the drilling of two onshore wells in the next year and two offshore wells in the next year to 18 months, with seismic next month in both offshore blocks VIC/P46 and VIC/P50. We have a busy period ahead.

This program follows an active drilling program in our first three years as a listed Company, during which we delivered on the commitment that we made when the Company was launched in 2001.

In scheduling wells for offshore permits VIC/P46 and VIC/P50 Essential Petroleum will have the technical advantage of the further seismic being recorded next month. We will also have the advantage of industry experience and the results of this year's extensive round of drilling, particularly by SANTOS and its joint venture partners at Callister No. 1 and Amrit No. 1 wells. These wells will test exploration models available to us, in our adjoining VIC/P46 and VIC/P50 blocks respectively.

Over the past six months your Company has been in intensive discussions with potential farminees for each of VIC/P46 and VIC/P50. We are pleased to advise that we have received a farmin offer in relation to VIC/P46. That offer is under evaluation. Other companies have been actively assessing the opportunities to farmin and are now also positioned to make an offer. We have multiple oil and gas models and prospects in VIC/P46 and VIC/P50 as well as having secured the strategic updip section in permits likely to be more prolific if discoveries are made in the adjacent permits. Based on our recent seismic survey, I would like to stress that our offshore permits contain multiple target objectives which are very prospective.

Turning to our onshore activity: While exploration in our onshore permits has not yet produced a commercial discovery, our confidence is not diminished. For a number of reasons, we can approach future onshore activity with high hopes.

First, our forthcoming onshore drilling activity in PEP-151 will be the first by your Company based on new generation seismic data, including some 3D data. Data acquired from our own survey programs, designed around our own exploration models.

This is an advantage we did not have with earlier explorations wells.



Second, our forthcoming drill targets in PEP 150 and PEP 151 are located in different petroleum systems to those in our previously drilled permits PEP 152 and PEP 159. This means the prospectivity of upcoming wells is not affected by the Company's drilling results elsewhere in the Otway Basin.

And thirdly, drilling of our best offshore prospects is yet to come. The well planned for PEP 151 is the first by your Company in the oil-prone Portland Trough. This geological feature has always been the prime target of our onshore exploration, but gaining access to it has been hard-won over a number of years.

Drilling of the Portland Trough in the next year will be keenly anticipated. Indeed, shareholders have much to look forward to in both our onshore and offshore exploration programs over the next 18 months.

The build up in our exploration activity also coincides with very favourable market conditions for both oil and gas.

High oil prices are a daily news item, and there is little to suggest that upward price pressures will abate in the foreseeable future.

As expected, the share prices of Australia's major oil producers have been buoyed by these market conditions. Essential Petroleum offers exposure to high oil prices with considerable upside in the event of discoveries.

Essential Petroleum offers highly leveraged exposure to the oil market through its onshore oil prospects in PEP 150 and PEP 151. A discovery here could provide Victoria's first onshore commercial field. Our close proximity to transport and other infrastructure means oil revenues - and high profit margins - could flow very quickly indeed.

Essential Petroleum also offers oil exposure through our offshore permits. We were the first of the current explorers in the region to identify the potential for giant oil accumulations of more than two billion barrels. These are postulated in the turbidite sequences on the rift margins of the Australian continent, which are directly analogous to the rich offshore oil fields in the Campos Basin in Brazil.

I would also like to emphasise that the oil exposure provided by the Otway Basin is often overlooked in the exploration rush to secure gas supplies for the eastern states of Australia.

Gas supplies for the eastern states of Australia are at a critical juncture. Industry projections show that gas production will fail to meet demand as early as 2011, in just seven years' time, despite the major discoveries of Geographe and Thylacine in the offshore Otway Basin and the recent decision to develop Casino.

Given that offshore discoveries take five to six years to reach production, the eastern states of Australia are fast-approaching a shortfall in their future energy supplies.

Explorers are focusing on the Otway Basin because it is the only province big enough and prospective enough to meet the projected shortfall.

The two mainstays of gas supply to the eastern states - Bass Strait gas from the Gippsland Basin and the Cooper Basin – are depleting after decades of production.

By contrast, the Otway Basin is still lightly explored, and has already produced some major discoveries. The basin is three times the area of the Gippsland Basin and is rich in structures and petroleum systems. It is therefore no surprise there is an expectation in the industry that whoever makes the next big discovery is going to be in the box seat.

Essential Petroleum believes that it is this strategic outlook that is driving the surge in offshore exploration this season.

Even allowing for a major gas discovery this summer, Essential Petroleum has a number of opportunities for sales of gas from discoveries in our own offshore permits.

We note that Origin Energy has announced plans supported by the Victorian Government to proceed with application to build a 1000 mega watt gas fired power station near Mortlake in Western Victoria. It is estimated that currently only one half of the gas required to power this station is available.

Further, options range from supplying gas to the south-western region of Victoria, through to supplying Liquefied Natural Gas to export markets in North America. This is a very realistic possibility, given technological advances that have dramatically reduced the cost of LNG production and transport.



While the high level of exploration interest in the Otway Basin today is overwhelmingly positive for your Company, it does have an impact on our longer term exploration planning.

This becomes clear when you consider that one of our key strategies for creating value is to identify attractive opportunities before the rest of the industry.

We have done this expertly in the Otway Basin, getting the best pick of exploration acreage before many of our fellow explorers even targeted the area. Even better, we obtained these permits on ground floor terms. Our most valuable permits today – PEP 151 onshore and our pair of offshore permits – were gazetted by Government at the request of Essential Petroleum.

Today, there is almost no exploration acreage now available in the Otway Basin. This means that if we are to repeat the value-adding success we have enjoyed so far, it will be necessary to begin consideration of opportunities in other basins. I emphasise that I am talking about longer term exploration planning. However, we need to plan ahead, given that it can take a number of years to progress from a near-greenfields opportunity to a mature prospect and ultimately a commercial discovery.

I would like to conclude by thanking you for your continued support, and assuring you that we will continue to work hard at unlocking the potential of our Otway Basin permits for the benefit of all our stakeholders.

The most exciting part of our journey is about to begin.

**JOHN W CORNELIUS**

**21 OCTOBER 2004**