

1. Chairman's Letter

Dear Shareholder

After an uncertain start, the year has been one of solid achievements enabling your company to capitalise on the investments made so far. These achievements have been in the areas of well completions, the building of an acreage position and prospect portfolio, and the development of a good management and operational team, with appropriate policies and procedures in place. In each of these areas the company has built on its early experience to improve performance.

AusTex has assumed the role of operator in Oklahoma with consequent savings compared with the previous contract operator. There has been a significant but necessary investment in infrastructure such as roads, electric power and water disposal wells. Systematic re-pressuring of the productive horizons is under way. Additional land has extended the Lancaster lease and a comprehensive development plan is being implemented involving multiple injectors and producers.

In our large acreage tract in Kansas over forty potential prospects have been identified by three dimensional seismic, and studies are in hand to prioritise them for drilling. Our operator and joint venturer there is an experienced and successful independent who brings quality and economic management to our operations. This has meant that testing these prospects by drilling is an economic proposition.

The year has seen record volatility in oil and gas prices leading to uncertainty in operational decisions. Oil price has recovered somewhat but gas price remains depressed and will probably do so for the longer term. The sudden fall in the value of the Australian dollar unfortunately inflated the cost of US operations.

In the coming year, the company intends to optimise the potential of these projects and the investments made so far. Engineering management plans with detailed timings and costings have been prepared for each lease and which will be implemented as soon as practicable.

Dr P E Power
Chairman