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## 2020 ANNUAL GENERAL MEETING CHAIRMAN'S ADDRESS Matt McCann, Chairman

*Most people will tell you that life is filled with highs and lows. Business has highs and lows. The oil and gas business definitely has highs and lows. There are few things more satisfying than successfully drilling an oil well and producing commercial quantities of oil. There are few things more disappointing than when your results don't meet expectations. That was the last year in a nutshell.*

*We began the year in a good spot, and we were making it better. After having leased acreage in the Powder River Basin, our team identified an undrilled location in the middle of nice field that produced from the Dakota Sands near Gillette, Wyoming. While developing a prospect is exciting, you always honor the data and follow the science. We studied the logs and records of all the wells in the field and compared them to other Dakota fields. Based on our analysis, we felt very strongly that a well drilled to the Dakota would be a commercial success, meaning it would provide a nice return on the capital invested.*

*We went to the market with our plan and raised capital to drill the well and began the permitting process. Before we made our final investment decision, we re-examined our science and invited industry investors and companies to participate directly in the well. Third parties with significant geologic experience looked at the data and agreed to invest. I felt so strongly about it that I agreed to invest directly in the well, as did John Whisler, our Managing Director. Together we committed more than \$200,000 of our own money to the well.*

### **Govt Kaehne well, Wyoming**

*The drilling of the well went very well and the top of the Dakota was just 9 feet below our projection. While we were drilling through the Dakota, we had nice indications of oil and gas. This is by no means definitive proof that you will make a well, but it is always a positive indication. We planned on running a drill stem test, which effectively would have measured how much oil was moving out of the Dakota formation. Unfortunately, the wellbore and the tool weren't working well together due mainly to delays caused by weather conditions. We were concerned that the tool would become stuck in the wellbore, necessitating that we sidetrack the well, which would have been costly. Based on the oil and gas shows and the logs of the well, we decided to run casing and complete the well.*

*Analysis of the logs, conducted by a leading worldwide expert, calculated that we had substantial pay across the Dakota. So, we perforated the Dakota and began to swab, which is basically pulling fluid out of the wellbore. After we swabbed and acidized the well so it would flow better, we started feeling*

*some disappointment. Across the Dakota formation, the quality of the sands change. In the productive offset wells, the sands near the top of the Dakota had nice levels of porosity (which is the storage for oil) and permeability (which measures the connections between the porosity), allowing for highly productive production.*

*In the Govt. Kaehne well the top portion of the Dakota was tight, meaning that it had lower porosity and much lower permeability. It wasn't commercially productive. The portion of the Dakota in the Govt. Kaehne well that had high porosity and permeability was considerably deeper. It was below the top of the Dakota in the offset productive wells. So, while that portion of the zone calculated as pay, the logs were likely reading the oil that was stuck to the grains of sand in the formation. Mother nature had swept away the moveable oil long ago. It was devastating news for the company.*

*I can tell you that in our post-mortem on the Dakota section of the well did not identify anything that would have condemned the prospect before we drilled it. Fortunately, or so we thought at the time, we had what looked to be a productive section of Muddy Formation behind pipe. We completed in the Muddy and were preparing to produce what looks to be a low rate oil well, when the whole world turned upside down.*

*I would not suggest following up our results from the Govt. Kaehne well with an oil price war and a global pandemic. It is bad for business.*

### **Market deterioration**

*In February we owed our ANB Bank (the "Bank") in Denver about USD\$6.3 million. Based on our year-end reserves, we were in compliance with all covenants. Even with the disappointing results from the Govt. Kaehne well, we were confident that we were working our way through a manageable crisis. We cut costs internally, including remuneration. Discussions of potential mergers or combinations through joint ventures, where we could grow our cash flow and scale up our business, became serious. We were working towards a transformational transaction.*

*Then, the oil price war started with Russian and Saudi threats to increase supply. The immediate price move put us in a very precarious situation. Our fields with high operating costs became marginal and it was apparent we weren't going to be able to cover our overhead. Very quickly the price war became a rout, as demand for oil cratered as the worldwide economy shut down in response to COVID-19.*

*Our situation had gone from manageable to untenable in just a couple of weeks. That is when we started working with our bankers on a workable solution. I have been involved with the acquisition and divestiture of oil and gas properties for most of my professional career. I have considerable experience with the metrics applied to roughly value oil and gas properties and how those metrics fluctuate with sentiment. It was manifestly clear that, due to the decline in prices combined with a negative shift in sentiment, our properties were worth a fraction of what we owed the bank. Effectively, the Bank owned the assets and had rights to take them under the loan agreement.*

*Going into our discussions with the Bank, we had two goals. The first was to deal fairly with our creditors. The second was to protect our shareholders by preserving EON as a viable ASX-listed company. After a long four and a half month march, I believe we close to achieving those goals.*

### **ANB Bank workout**

*We expect to sign a Memorandum of Understanding with the Bank, setting forth the framework of our agreement. Incremental Oil and Gas USA Holdings Inc., our U.S. subsidiary, holds our oil and gas properties and is borrower under the loan agreement with the Bank. EON has guaranteed the roughly \$6.5 million that is currently immediately due.*

*We will assign to the Bank our Govt. Kaehne well and leases, our Borie Field, and our fields in California. Because the Bank cannot operate the fields without outside expertise, we will operate the fields for a minimum of two months and perhaps for as long as a year, if we can reach mutually acceptable terms. The Bank is arranging for a third-party operator, who is an existing client of the Bank, to acquire the Silver Tip field.*

*We have committed to raise additional capital to satisfy some residual corporate obligations. At the same time that this capital is raised the Bank will terminate the loan agreement and the guarantee of EON. This will leave us with largely a clean slate and with no debt. As you know, we have some battery mineral claims in Nevada. We will keep those, and they will serve as a starting point as we pivot the company in a new direction.*

*Based on our discussions with brokers, bankers, and investors, we do not believe we would be successful in raising enough capital to operate an oil and gas company at scale. We have received interest from existing and new investors who are interested in seeing EON take a new and sustainable direction. Over the coming weeks, as we document our agreements with the Bank, we will be formalizing plans for the future of your EON. I cannot guarantee the transition will be seamless. I do, however, give you my assurance, on behalf of the entire board, that we are doing everything possible to protect our shareholders by preserving EON as a viable ASX-listed company.*

*Thank you for your time and consideration.*

This Chairman's address will be given as part of the AGM of the Company. The formalities of the meeting will consider various resolutions as outlined in the Notice of Meeting dated July 3, 2020 and which is available at the Company's web site (<http://www.eonrg.com/site/Investors/annual-general-meeting>). Results from these resolutions will be made available after the meeting.

**Authorised by the Chairman**

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