

ESSENTIAL PETROLEUM RESOURCES LIMITED QUARTERLY EXPLORATION REPORT FOR THE THREE MONTH PERIOD ENDED 30 SEPTEMBER 2009

Summary

- Essential Petroleum has received an in-principle proposal from Beach Petroleum Limited (Beach) in respect of the restructure of Essential Petroleum and its ongoing commitments. The proposal which is subject to shareholder approval has the support of the Board of Directors of the Company and the Company's major shareholder, Dr Peter Woodford.
- The main points of the proposal are as follows:
 1. The debt owed to Beach under the VIC/P46 Joint Operating Agreement will be converted to voting shares in the Company so that following the issue of shares under the proposal Beach will hold 51% of the Company's voting shares on issue.
 2. The debt owed to Mitsui E&P Australia Pty Ltd (Mitsui) will be released in full on payment of approximately \$660,000. Such payment will be made after completion of a capital raising in the Company to a minimum amount of \$2 million.
 3. Beach will take a 50% interest in PEP 168 on ground floor terms.
 4. On Completion of the proposal, Beach will appoint nominee directors to the Board and the existing directors of the Board will resign.
 5. The offer is conditional upon execution of a legally binding agreement between Beach, Mitsui and Essential Petroleum recording the terms of the proposal and shall be subject to various approvals including Mitsui board approval and EPR shareholder approval.
- Acceptance of this proposal will be determined by shareholder vote at a general meeting intended to be held towards the end of this year.
- Essential Petroleum has not been able to farm out VIC/P50 and consequently is not able to fulfil its permit commitments. The Company will therefore surrender the permit.

Permit Status

PEP 168 Interest – 100% Current Licence Year – 2 Expiry Date – 3 June 2012

- The East Wing-1 gas discovery was made in one of several Waarre prospects identified in EPR's interpretation of Santos 3D seismic. A recent reassessment of these prospects estimates them to contain recoverable gas resources of 2 and 5 billion cubic feet each.
- Remapping of vintage 2D seismic data outside the limits of the 3D seismic has identified new leads in the south western and northern parts of the Port Campbell Embayment.
- The south western part is of particular interest because the area is on trend with highly productive offshore Waarre A discoveries on the Pecten High. The trend includes the Halladale and Blackwatch fields in the Victorian coastal waters immediately to the south of PEP 168.
- New seismic is required to delineate these opportunities and EPR believes that prospects and leads in these areas will have the combined potential to host recoverable gas resources of between 20 and 30 billion cubic feet.

- A preliminary study of the potential of the thick gas rich shales in the Eumeralla Formation to host significant recoverable gas is underway. This play concept has proved to be highly successful in North America and if the validity of the play can be established in PEP 168 it has the potential to be as big and productive as a coal seam methane project.
- No further work has been carried out in the permit during the period.

PRL 13 Interest – 20% Current Licence Year – 2 Expiry Date – 30 January 2012

- The retention license is in suspension pending transfer of operatorship.

PEP 151 Interest – 75% Current Permit Year – 1, Renewed.

- Recently completed seismic mapping over the Dartmoor Trough indicates that of the two structures targeted the northern “Digby West” lead appears robust and that reservoir in the Pretty Hill section appears to be present. The southern Dartmoor structure is less well defined.
- No further work has been carried out in the permit during the period.

PEP 150 Interest – 20% Current Permit Year – 0 Expiry Date – N/A

- The Permit remains as an Application pending finalisation of Native Title agreements.

VIC/P50 Interest – 100% Current Permit Year – 3 (suspended), 4 (suspended), 5 Expiry Date – 16 Sept 2010

- EPR has not found a capable partner to take an interest in VIC/P50. The Company engaged the consultant group RISC, widely acknowledged for its expertise in the field of petroleum permit farmout and commercial negotiation, to assist with the farmout. RISC approached every offshore permit operator within Australia and many others outside of Australia. A combination of the global economic situation, high oilfield services costs and a current industry aversion to deep water wildcat risk has resulted in a decline in interest in otherwise sound and exciting play concepts.
- EPR’s requirement of farming out a promoted interest in VIC/P50 so that it could contract a 3D seismic vessel prior to 16 September 2009, was not achieved. EPR therefore has no alternative but to surrender the permit.

**ESSENTIAL PETROLEUM RESOURCES LTD
PERMIT EXPENDITURE SUMMARY FOR THE QUARTER ENDED 30 SEPTEMBER 2009***

Permit Number	Essential Petroleum Interest	Seismic Survey Expenditure	Geological & Geophysical Studies	Environment, Native Title & Permit Maint.	Drilling Expenditure	Miscellaneous Admin Costs	Total
PEP 151	75.00%	\$ -	\$ -	\$ -	\$ -	\$ 350	\$ 350
VIC/P46	25.00%	\$ -	\$ -		\$ -	\$ -	\$ -
PRL 13	20.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
PEP 168	100.00%	\$ -	\$ 3,520	(\$ 873)	\$ -	(\$ 13,610)	(\$ 10,963)
Non Specific	100.00%	\$ -	\$ -	(\$ 73)	\$ -		(\$ 73)
		\$ -	\$ 3,520	(\$ 946)	\$ -	(\$ 13,261)	(\$ 10,687)

* This statement has been prepared based on accrual accounting principles

John Remfry, Managing Director, Essential Petroleum Resources Limited has prepared this Quarterly Exploration Report.

For more information contact: John Remfry, Managing Director, Essential Petroleum Tel (03) 96993009, Email info@eprl.com.au. Or visit the website: www.essentialpetroleum.com.au

Appendix 5B

Mining exploration entity quarterly report

Name of entity:

Essential Petroleum Resources Limited

ACN or ARBN

089 956 150

Quarter ended
("current quarter")

30 September 2009

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	YTD (3 months) \$A'000
1.1	Receipts from product sales and related debtors		
1.2	Payments for		
	[a] exploration and evaluation	(55)	(55)
	[b] development		
	[c] production		
	[d] administration	(81)	(81)
1.3	Dividends received		
1.4	Interest and other items of a similar nature received	1	1
1.5	Interest and other costs of finance paid		
1.6	Income taxes paid		
1.7	Other (provide details if material)		
	Net Operating Cash Flows	(135)	(135)
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	[a] prospects	-	-
	[b] equity investments	-	-
	[c] other fixed assets	-	-
1.9	Proceeds from sale of:		
	[a] prospects	-	-
	[b] equity investments	-	-
	[c] other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	77	77
	Net Investing Cash Flows	77	77
1.13	Total operating and investing cash flows (carried forward)	(58)	(58)

Appendix 5B

Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(58)	(58)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (payment in relation to capital raising)	-	-
Net financing cash flows		-	-
Net increase (decrease) in cash held		(58)	(58)
1.20	Cash at beginning of quarter/year to date	93	93
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	35	35

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	27
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest.

Appendix 5B

Mining exploration entity quarterly report

Financing facilities available

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities		
3.2 Credit standby arrangements		

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	50
4.2 Development	-
Total	50

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows:

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	-	47
5.2 Deposits at call	35	46
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	35	93

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1		Interests in mining tenements relinquished, reduced or lapsed		
6.2		Interests in mining tenements acquired or increased		

Appendix 5B Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during quarter:				
(a) Increases through issues				
(b) Decreases through returns of capital, buy-backs, redemptions				
7.3 Ordinary securities	618,241,636	618,241,636		
7.4 Changes during quarter:				
(a) Increases through issues				
(b) Decreases through returns of capital, buy-backs, redemptions				
7.5 Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter:				
(a) Increases through issues				
(b) Decreases through returns of capital, buy-backs, redemptions				
7.7 Options <i>(description and conversion factor)</i>			<i>Exercise price</i>	<i>Expiry date</i>
Employee Options		-		
Unlisted Options	3,000,000	-	10 cents	31/12/2009
7.8 Issued during quarter				
- Employee Options				
- Unlisted Options		-		
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures <i>(total only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

Compliance Statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act, 2001 or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign
here:



(Director)

Date: 30 October 2009

Print Name: **John G Remfry**

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities:** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.

- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.