



ESSENTIAL PETROLEUM RESOURCES LIMITED QUARTERLY EXPLORATION REPORT FOR THE THREE MONTH PERIOD ENDED 31 DECEMBER 2009

Summary

- On 22 January 2010, Essential Petroleum announced a general meeting of shareholders (GM) to consider resolutions arising from the conditions of a negotiated agreement with Beach Energy Limited (Beach) and Mitsui E&P Australia Pty Ltd (Mitsui) in respect of a restructure of Essential Petroleum and its ongoing commitments. Acceptance of the agreement and its conditions is recommended by the Board of Directors of the Company and has the support of the Company's major shareholder, Dr Peter Woodford.
- Shareholder approval of the conditions of the agreement will realise the following outcomes:
 1. EPR's debt of approximately \$14,000,000 to Beach will be discharged in return for 50% of onshore permit PEP 168 and 51% equity in EPR.
 2. Interim funds loaned to EPR by Beach to cover EPR's current operations will be discharged for equity in EPR at a rate of 2.0332 cents per share.
 3. The existing directors of the board of EPR will resign and Beach will nominate nominee directors to the board at the next annual general meeting (AGM) for approval by shareholders. The AGM will be held as soon as possible after the GM.
 4. Mitsui will forgive EPR's debt of approximately \$7,000,000 owed to Mitsui in return for a payment of approximately \$698,000 from a subsequent capital raising.
 5. EPR's indebtedness to its other creditors will be settled on terms consistent with those negotiated with Beach and Mitsui.

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

- No further work has been carried out in the permit during the period pending the outcome of the GM.

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 Expiry Date – 15 August 2013

- No further work has been carried out in the permit during the period pending the outcome of the GM

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% Cancelled – 7 January 2010

- In the quarterly report for the quarter ended 30 September 2009, Essential Petroleum advised that VIC/P50 would be surrendered due to the Company's inability to meet the permit requirements.

- On 12 January 2010, Essential Petroleum received advice from the Designated Authority that pursuant to the provisions of section 275 of the Offshore Petroleum and Greenhouse Gas Storage Act 2006, cancellation of VIC/P50 has been approved and notice has been published in the Victorian Government gazette.

**ESSENTIAL PETROLEUM RESOURCES LTD
PERMIT EXPENDITURE SUMMARY FOR THE QUARTER ENDED 31 DECEMBER 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%	\$ -	(\$ 2,420)	\$ -	\$ -	(\$ 130)	(\$ 2,550)
PEP 150	20.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
PRL 13	20.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
PEP 168	100.00%	\$ -	\$ -	(\$ 398)	\$ -	(\$ 2,600)	(\$ 2,998)
Non Specific	100.00%	\$ -	(\$ 440)	(\$ 342)	\$ -	\$ -	(\$ 782)
		\$ -	(\$ 2,860)	(\$ 739)	\$ -	(\$ 2,730)	(\$ 6,330)

* 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")

31 December 2009

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	YTD (6 months) \$A'000
1.1 Receipts from product sales and related debtors		
1.2 Payments for		
[a] exploration and evaluation	(41)	(96)
[b] development		
[c] production		
[d] administration	(179)	(260)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	-	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	(220)	(355)
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)	-	-
Net Investing Cash Flows	-	-
1.13 Total operating and investing cash flows (carried forward)	(220)	(355)

Appendix 5B

Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(220)	(355)
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	314	391
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (payment in relation to capital raising)	-	-
Net financing cash flows		314	391
Net increase (decrease) in cash held		94	36
1.20	Cash at beginning of quarter/year to date	35	93
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	129	129

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	49
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	-
4.2 Development	-
Total	-

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	93	-
5.2 Deposits at call	36	35
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	129	35

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			

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				
7.8 Issued during quarter				
- Employee Options				
- Unlisted Options				
7.9 Exercised during quarter				
7.10 Expired during quarter				
	3,000,000	-	10 cents	31/12/2009
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: 29 January 2010

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.