

NOTICE OF GENERAL MEETING
Essential Petroleum Resources Limited (ABN 38 089 956 150)

Notice is hereby given that the General Meeting of the Shareholders of Essential Petroleum Resources Limited (*Company*) will be held at the Institute of Chartered Accountants, Level 3, 600 Bourke Street, Melbourne, Victoria, at 11.00am on 22 February 2010.

BUSINESS:

Resolutions 1 and 2 are interdependent. This means that neither of the Resolutions will be implemented by the Company unless both of the Resolutions as specified in this Notice of General Meeting are approved by the Shareholders.

To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

1. Issue of Shares to Beach Energy Limited

'That, subject to the passing of Resolution 2 and for the purposes of section 611 paragraph 7 of the Corporations Act 2001, and for all other purposes, approval be given to issue up to 696,522,082 fully paid ordinary shares in the Company to Beach Energy Limited on the terms and conditions set out in the Explanatory Notes.'

2. Issue of Shares to Directors

'That, subject to the passing of Resolution 1 and for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval be given to the issue of the following fully paid ordinary shares in the Company:

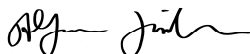
(a) 2,269,624 shares to Mr John Cornelius, a Director of the Company, or to his nominee, in consideration for the payment of accrued directors fees; and

(b) 8,985,520 shares to Mr John Remfry, a Director of the Company, or to his nominee, in consideration for the payment of accrued salary and entitlements,

and on the terms and conditions as set out in the Explanatory Notes.'

By Order of the Board

Alfonso Grillo



Company Secretary

22 January 2010

EXPLANATORY NOTES

PART A: BACKGROUND

1.1 VIC/P46 Joint Operating Agreement

The Company, Beach Energy Limited (as Operator) (*Beach*) and Mitsui E&P Australia Pty Ltd (*Mitsui*) were parties to the VIC/P46 Joint Operating Agreement (*the JOA*). VIC/P46 is an offshore exploration permit in the Otway Basin. The percentages held in the JOA were Beach 50%, the Company 25% and Mitsui 25%. The VIC/P46 Joint Venture selected Fermat-1 as the first prospect to be drill tested in VIC/P46.

1.2 Fermat-1

On 15 December 2008, the Company announced that it had been informed by Beach that drilling had commenced at Fermat-1. The Company stated that its ability to fund its participation in VIC/P46 was dependent on completing a farm out agreement and raising sufficient funds to cover its joint venture obligations for the drilling operations. From 15 December 2008, the Company released to the market a number of periodic updates in relation to the status of the drilling at Fermat-1.

1.3 Cash calls

A number of cash of calls under the terms of the JOA were not paid by the Company. The total of the debt owed to Beach and Mitsui as agreed by the parties is:

- \$13,959,515 to Beach; and
- \$6,979,758 to Mitsui.

As part of the resolution process of the outstanding cash calls owed by the Company to Beach and Mitsui, on 26 June 2009 the Company announced that, pursuant to the provisions of the JOA, the Company had withdrawn from the permit. In accordance with the terms of the JOA, the Company transferred its 25% interest in VIC/P46 to Beach and Mitsui on a pro-rata basis.

1.4 Implementation Agreement

On 29 September 2009 the Company announced that it has received a restructure proposal from Beach in relation to the discharge of its liabilities. On 11 December 2009 the Company and Beach entered into an Implementation Agreement to give effect to the restructure proposal which provides as follows:

- (a) the Company will transfer to Beach a 50% interest in PEP168 at a value of \$2,750,000;

- (b) the Company will issue Beach Shares in the Company to give Beach 51% of the Company's Shares on issue (inclusive of the Shares to be issued under paragraph 1.4(f)(ii) below). Beach will pay to the Company \$1.00 for the issue of those Shares;
- (c) the balance of the debt owed to Beach under the JOA (being \$11,209,514) will be forgiven;
- (d) Beach will advance funds to enable payment of agreed commitments and to finance ongoing operational costs of the Company. Interest accrues on the loan funds at a rate of 7% per annum. This interim loan funding plus accrued interest up to an amount of \$500,000 is to be repaid by the issue of Shares in the Company at a nominal value of 2.0332 cents per Share. As at the date of this Notice of General Meeting an amount of approximately \$155,000 of interim loan funding has been advanced by Beach;
- (e) the existing Directors of the Company will resign and Beach will appoint nominee directors to the Board at the Company's next Annual General Meeting following the General Meeting convened to approve implementation of the restructure;
- (f) implementation of the restructure is conditional upon:
 - (i) Mitsui agreeing to release the debt owed by the Company in full on payment of approximately \$698,000, such payment to be made following a capital raising by the Company of a minimum of \$2,000,000;
 - (ii) the Company's Directors, major Shareholders and certain other creditors converting their debt to Shares in the Company at an issue price of 2.0332 cents per Share;
 - (iii) the Company reaching agreement with certain of its other creditors in relation to the payment of debt; and
 - (iv) the Company obtaining any necessary Shareholder approvals.

The Company has entered into Deed Polls with Mitsui and the various counter party creditors to satisfy the conditions referred to in paragraphs 1.4(f)(i) to (iii) above.

1.5 Agreement with creditors other than Directors

As part of the restructure proposal, fully paid ordinary shares will be allotted to the Company's major Shareholder and certain other creditors at an issue price of 2.0332 cents per Share, being the same debt to equity conversion ratio as the Shares proposed to be issued to Beach in consideration for repayment of loan funds and associated interest

advanced by Beach as proposed under Resolution 1. These creditors have signed a deed poll with the Company accepting the issue of Shares as full compensation for the debt amount stated:

Entity	Outstanding Debt	Shares
Peter Woodford	\$256,000.00	12,590,969
Australian Drilling Services	\$35,890.00	1,765,195
DIY Fencing	\$18,931.00	931,092
Wakelin Associates	\$16,186.50	796,108
Total	\$327,007.50	16,083,364

The issue of these Shares will occur simultaneously with the proposed issue of Shares to Beach for forgiveness of the JOA debt (Resolution 1) and the issue of Shares to two of the Company's Directors (Resolutions 2(a) and (b)).

1.6 Approvals and Agreements

To give effect to the restructure proposal, the relevant Shareholder approvals are considered in this Notice of General Meeting.

1.7 Compliance with the Corporations Act 2001 and the Listing Rules

This General Meeting is held so that Shareholders may consider the Resolutions in respect of the issue of Shares in accordance with the following Listing Rules and provisions of the *Corporations Act 2001 (Cth) (the Act)*:

- (a) in respect to the issue of Shares proposed under Resolution 1 - Chapter 6 of the Act; and
- (b) in respect to the issue of Shares proposed under Resolutions 2 (a) and (b) - Chapter 10 of the Listing Rules.

1.8 Voluntary suspension

On 11 August 2009, at the Company's request, the Company was suspended from quotation. The Company remains in suspension.

Should the Resolutions under this General Meeting be passed, the Company will be in a position to lodge its financial statements for the year ending 30 June 2009 and anticipates that shortly thereafter it will be reinstated to the official list of ASX.

1.9 Capital Structure

The Company's current capital structure is as follows:

Shares	618,241,636
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If:

- (a) Resolutions 1 and 2 are passed and all Shares pertaining to those Resolutions are issued; and
- (b) the issue of Shares to the Company's major Shareholder and certain other creditors referred to under Part A Section 1.5 occurs,

then the Company's capital structure will be as follows:

Shares	1,342,102,226
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PART B – RESOLUTIONS

1. RESOLUTION 1 - ISSUE OF SHARES TO BEACH ENERGY LIMITED

1.1. Introduction

Approval is sought, subject to the passing of Resolution 2, to issue fully paid ordinary shares to Beach pursuant to section 611, paragraph 7 of the *Corporations Act 2001* (Cth) (*the Act*). Subject to obtaining Shareholder approval, the Company will issue the Shares to Beach on the terms and conditions set out below.

1.2. Supporting information

As set out in Part A of the Explanatory Notes, the Company has entered into an Implementation Agreement with Beach for the forgiveness of the debt owed by it to Beach under the JOA. As part of this proposal, amongst other things, subject to obtaining Shareholder approval the Company will issue 671,930,354 fully paid ordinary shares to Beach, which will be equivalent to 51% of the Shares on issue in the Company in the event all Resolutions proposed at the General Meeting are approved.

Further as set out in Part A of the Explanatory Notes, Beach has agreed to loan the Company up to \$500,000 to enable payment of the debts owed to non-related party creditors of the Company and to finance ongoing operational costs of the Company. As part of this proposal, the Company will issue up to 24,591,728 fully paid ordinary shares to Beach in consideration for repayment of the loan funds advanced by Beach plus associated interest. The actual number of Shares that will be issued may be less than 24,591,728 if the amount actually loaned plus interest as at the date of the General Meeting is less than \$500,000. The issue price of the Shares will be based on a value of 2.0332 cents per Share. This may result in Beach's percentage shareholding in the Company increasing to up to 51.9% of the Shares on issue in the Company in the event:

- (a) all resolutions proposed at the General Meeting are approved;
- (b) all Shares pertaining to those Resolutions are issued; and
- (c) the issue of Shares to the Company's major Shareholder and certain other creditors referred to under Part A Section 1.5 occurs.

1.3. Chapter 6 of the Corporations Act

Section 606 of the Act prohibits the acquisition of a relevant interest in the issued voting shares of a company if, as a result of the acquisition, the shareholder's voting power in the company increases from below 20% to more than 20%.

Section 611 of the Act provides an exemption to the prohibition in section 606 where Shareholders approve the acquisition.

If:

- (a) each Resolution pertaining to the issue of Shares is passed at the General Meeting;
- (b) all Shares pertaining to those Resolutions are issued; and
- (c) the issue of Shares to the Company's major Shareholder and certain other creditors referred to under Part A Section 1.5 occurs,

Beach's relevant voting interest in the Company could increase to up to 51.9%. Accordingly, Shareholder approval is being sought in accordance with section 611 of the Act as the issue of the Shares to Beach will result in Beach having a relevant voting interest in the Shares of the Company of greater than 20%.

1.4. Relevant Information

The following information is being provided to Shareholders in accordance with section 611 of the Act.

(a) Identity of Acquirer

The person contemplated to make the acquisition under Resolution 1 is Beach.

(b) Maximum increase in voting power

Beach's relevant voting interest in the Company could increase by up to 51.9%.

(c) Directorship

Should the issue of Shares to Beach occur, there will be a change in the directorship of the Company. The Implementation Agreement provides that the change of directorships will occur following the lodgement of the Company's 30 June 2009 accounts, which will be approved by the current Directors of the Company, and the presentation of those

accounts at the Company's next Annual General Meeting. It is proposed that the incoming Beach nominee directors will be Mr Robert Michael Kennedy, who is Chairman of Beach, Mr Hector Mackenzie Gordon who is Executive Director/Chief Executive Officer of Beach and a third person to be determined. The qualifications of Mr Kennedy and Mr Gordon are set out below.

Robert Michael Kennedy

ASAIT, Grad Dip (Systems Analysis) FCA, ACIS, Life Member AIM, FAICD

Mr Kennedy is a chartered accountant and a consultant to Kennedy & Co, Chartered Accountants, a firm he founded. He joined Beach in December 1991 as a Non-Executive Director and has been the Chairman of Beach since 1995. He is also a Director of ASX listed companies Ramelius Resources Limited (since 1995), Flinders Mines Limited (since 2001), Maximus Resources Limited (since 2004), Eromanga Uranium Limited (since 2006), Monax Mining Ltd (since 2004) and Marmota Energy Limited (2007).

Hector Mackenzie Gordon

BSc (Hons), FAICD

Mr Gordon was appointed as an Executive Director of Beach in June 2005 and appointed the Chief Executive Officer in June 2009. He is a geologist with over 30 years of experience in the petroleum industry. His previous employers include Delhi Petroleum Pty Ltd, Esso Australia Pty Ltd, AGL Petroleum and Santos Limited. He is a member of the American Associate of Petroleum Geologists and the Society of Petroleum Engineers.

(d) Allottees intentions regarding the future of the Company

Following completion of the Implementation Agreement and the appointment of the Beach nominee directors, Beach has indicated to the Company it will undertake a detailed review of the operations, assets and structure of the Company. Notwithstanding, as far as the Directors are aware, if Resolution 1 is passed and the Shares are issued, Beach and its associates:

- (i) have no present intention to change the business of the Company;
- (ii) propose for the Company to undertake a capital raising of a minimum of \$2 million following the outcome of this General Meeting to recapitalise the Company, which capital raising may be partially underwritten by Beach;
- (iii) have indicated that they will procure that the Company retains John Remfry as a consultant to the Company on an interim basis – it is a condition precedent to implementation of the restructure that the Company and John Remfry agree to the termination of John Remfry's present employment arrangements;

(iv) have no present intention to transfer any property between the Company and Beach or any of its associates other than the Company's transfer of a 50% interest in PEP168;

(v) have no present intention to otherwise redeploy the fixed assets of the Company; and

(vi) have no present intention to change significantly the financial or dividend policies of the Company.

(e) Contingent Contracts

The contractual arrangements to give effect to the restructure are outlined in Part A Section 1.4 of this Notice of General Meeting. The Resolutions proposed to be approved at the General Meeting are designed to give effect to the restructure and as such, each of the Resolutions are interdependent. Resolution 2 of this General Meeting proposes the issue of Shares in consideration of payment of outstanding liabilities to two of the Directors of the Company as part of the restructure proposal. The Company has also reached agreement with a number of its creditors for the issue of Shares and payments which are conditional upon implementation of the restructure proposal.

(f) Date of Issue

The Shares to be issued pursuant to Resolution 1 will be issued by the date which is three months from the date of the Company's General Meeting.

(g) Directors' Recommendation, Reasons for Recommendation and Directors' Interests

In the absence of a superior proposal in relation to the restructure of the Company, all Directors are in favour of this Resolution. The Directors make the recommendation as by issuing the Shares to Beach for forgiveness of the debt under the JOA and the loan funds advanced and associated interest, the Company will be able to recapitalise with a view to pursuing its exploration and development objectives.

(h) Independent Expert Report

In relation to Chapter 6 of the Act, ASIC Regulatory Guide 74 requires the Company to commission an independent expert's report to provide Shareholders with an analysis of whether the issue of the Shares is fair and reasonable when considered in the context of the interests of the Shareholders other than Beach.

The Company has commissioned DMR Corporate Pty Ltd to provide an Independent Expert Report for the purposes of Chapter 6 of the Act.

The Independent Expert's Report, attached at Annexure A, contains an analysis of whether the proposal is fair and reasonable when considered in the context of the interests of the Shareholders other than those associated with Beach. Shareholders are encouraged to read the Independent Expert's Report in full.

Having considered all of the matters set out in its report the Independent Expert states under Section 3 of the Independent Expert's Report that the proposed restructure is fair and is reasonable.

1.5. ASX Listing Rule 7.1

Subject to a number of exceptions, ASX Listing Rule 7.1 limits the number of securities that a company may issue without shareholder approval in any 12 month period to 15% of its issued ordinary shares. ASX Listing Rule 7.2 Exception 16 states that ASX Listing Rule 7.1 does not apply where an issue of securities approved for the purposes of Item 7 of section 611 of the Corporations Act has been passed. Accordingly, should Shareholder approval be obtained for the purposes of Item 7 of section 611 of the Corporations Act, Shareholder approval does not need to be obtained for the purposes of ASX Listing Rule 7.1.

1.6. Voting Exclusion Statement

The Company will disregard any votes cast on Resolution 1 by:

- a person who is to receive securities in relation to the Company;
- an associate of a person who is to receive securities in relation to the Company;

However the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

2. RESOLUTION 2 – ISSUE OF SHARES TO MR JOHN CORNELIUS AND MR JOHN REMFRY

2.1. Issue of Shares to Directors

Approval is sought, subject to the passing of Resolution 1, pursuant to ASX Listing Rule 10.11 to issue the following fully paid ordinary shares in the Company to the following Directors:

- (a) 2,269,624 Shares to Mr John Cornelius, or his nominee, in consideration of \$46,145.99 of accrued directors' fees owed to Mr Cornelius by the Company up to 8 September 2009; and
- (b) 8,985,520 Shares to Mr John Remfry, or his nominee, in consideration for the payment of \$182,693.59 for accrued salary and entitlements owed to Mr Remfry by the Company up to 8 September 2009.

The Shares are proposed to be issued in full consideration of the waiving of any future rights to the accrued directors' fees owed to Mr Cornelius and accrued salary and entitlements owed to Mr Remfry by the Company up to 8 September 2009. Accordingly, if this Resolution 2 is passed and the ordinary shares are issued to Mr Cornelius and Mr Remfry:

- (i) Mr Cornelius will have no future claim to the \$46,145.99 for accrued directors' fees owed to him; and
- (ii) Mr Remfry will have no future claim to the \$182,693.59 for accrued salary and entitlements to 8 September 2009 owed to him.

The issue price of the Shares, 2.0332 cents, was calculated based on the same debt to equity ratio as the Shares proposed to be issued to Beach in consideration for repayment of loan funds advanced by Beach and associated interest pursuant to Resolution 1.

2.2. Listing Rule 10.11

ASX Listing Rule 10.11 prohibits a listed company from issuing or agreeing to issue securities (including ordinary shares) to a related party (which includes a director) without the approval of its shareholders.

As Mr Cornelius and Mr Remfry are Directors of the Company, any issue of securities to them will require Shareholder approval.

The following information is provided in accordance with ASX Listing Rule 10.13.

(a) Name of the person

The Shares may be allotted to Mr Cornelius or his nominee and Mr Remfry or his nominee.

(b) Maximum number of securities to be issued

The number of Shares proposed to be issued are as follows:

- (i) 2,269,624 Shares to Mr Cornelius; and
- (ii) 8,985,520 Shares to Mr Remfry.

(c) Date of issue

The Shares will be issued to Mr Cornelius and Mr Remfry within one month from the date of this General Meeting.

(d) Issue price and terms of issue

The issue price of the Shares to be issued to Mr Cornelius and Mr Remfry is 2.0332 cents per Share, which is based on the same debt to equity ratio as the Shares proposed to be issued to Beach in consideration for repayment of loan funds advanced by Beach and associated interest pursuant to Resolution 1. The Shares to be issued to Mr Cornelius and Mr Remfry will rank equally in all respects with the Company's existing fully paid ordinary shares.

(e) Intended use of funds raised

The Company will not be raising any funds as a consequence of the issue of the Shares to Mr Cornelius and Mr Remfry. However if this Resolution 2 is passed and the Shares are issued to Mr Cornelius and Mr Remfry:

- (i) Mr Cornelius will have no future claim to the \$46,145.99 for accrued directors' fees to 8 September 2009 owed to him; and
- (ii) Mr Remfry will have no future claim to the \$182,693.59 for accrued salary and entitlements to 8 September 2009 owed to him.

Mr Cornelius and Mr Remfry have signed a Deed Poll with the Company accepting the issue of Shares as full compensation for accrued directors' fees in the case of Mr Cornelius and accrued salary and entitlements in the case of Mr Remfry up to 8 September 2009.

(f) Listing Rule 7.1

Subject to a number of exceptions, ASX Listing Rule 7.1 limits the number of securities that a company can issue without shareholder approval in any 12 month period to 15% of its issued securities. Shareholder approval of an issue of securities pursuant to ASX Listing Rule 10.11 is an exception to ASX Listing Rule 7.1. If approval is given under ASX Listing Rule 10.11, approval is not required under Listing Rule 7.1.

2.3. Recommendation

As there are only three Directors and Mr Cornelius and Mr Remfry have an interest in Resolution 2, Mr Garrick Higgins as the only non-interested Director recommends that Shareholders approve the issue of Shares to Mr Cornelius and Mr Remfry as proposed by Resolution 2.

2.4. Voting Exclusion Statement

The Company will disregard any votes cast on Resolution 2 by:

- a person who is to receive securities in relation to the Company;
- an associate of a person who is to receive securities in relation to the Company;

However the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

GENERAL NOTES

Entitlement to Vote

The Company has determined in accordance with Part 7.11 of the Corporations Regulations that for the purpose of voting at the meeting, shares will be taken to be held by those persons recorded on the Company's register as at 7.00pm Australian Eastern Daylight Time on 20 February 2010.

Corporate Representatives

For a corporate representative to vote, they will require a Certificate of Appointment of Corporate Representative executed in accordance with the *Corporations Act*.

Voting

On a show of hands, every member present in person or by proxy or by attorney or, in the case of a corporation, by duly appointed representative, shall have one vote and on a poll one vote for every share held provided that if a member appoints two proxies or two attorneys, neither proxy nor attorney shall be entitled to vote on a show of hands.

Proxies

A member entitled to attend and vote at the General Meeting may appoint one or two persons to attend and vote at the meeting as the member's proxy. If you wish to appoint a second proxy you will need to complete a second form. Computershare Investor Services Pty Limited will provide additional proxy forms upon request.

A proxy need not be a member. If two proxies are appointed, each proxy must be appointed to represent a specified proportion of the member's voting rights. If the vote split is not specified, it is deemed to be equally divided between the two proxies.

The Proxy Form must be deposited at the share registry of the Company, Computershare Investor Services Pty Limited, located at Yarra Falls, 452 Johnston Street, Abbotsford or by mail to GPO Box 52 Melbourne, Victoria 8060 or at the Company's Registered Office, c/TressCox Lawyers Level 9, 469 La Trobe Street, Melbourne or by facsimile to Computershare Investor Services Pty Limited on (03) 9473 2555 by no later than 11.00am Australian Eastern Daylight Time on 20 February 2010.

You may submit your proxy form online at www.investorvote.com.au. You will need your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) which is printed on the attached proxy form.

DMR Corporate Pty Ltd
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Web www.dmrcorporate.com.au

11 December 2009

Mr. J.W. Cornelius,
Non-Executive Chairman,
Essential Petroleum Resources Limited,
Level 2, 226 Albert Road,
South Melbourne,
Vic 3205

Dear Sir,

Re: Independent Expert's Report

1. Introduction

The directors of Essential Petroleum Resources Limited ("EPR" or "the Company") have requested DMR Corporate Pty Ltd ("DMR Corporate") to prepare an independent expert's report in respect of a proposed issue of 671,930,354 EPR shares (51% of the issued capital) to Beach Energy Limited ("Beach") for the sum of \$1.00 and up to a further 24,591,728 EPR shares in satisfaction of further cash advances of up to \$500,000 to meet ongoing operating expenses from 9 September 2009 through to the date of EPR's Annual General Meeting. The transaction, as set out in Section 2 below, is permitted by Section 611 of the Corporations Act 2001 ("the Act") provided it is agreed to by shareholders, other than those involved in the proposed transaction or persons associated with such persons (i.e. the Non-Associated Shareholders).

EPR held a 25% interest in tenement VIC/P46 in the offshore Otway basin and it participated in a joint venture to drill the Fermat-1 Prospect within VIC/P46 in December 2008. The Company was unable to farmout part of its 25% interest in VIC/P46 to fund its share of the drilling costs and it is now unable to meet the cash calls made by the other joint venturers – Beach and Mitsui E&P Australia Pty Ltd ("Mitsui").

On 11 December 2009 EPR executed an Implementation Agreement with Beach in respect of the restructure of EPR and its ongoing commitments. The Implementation Agreement includes the following provisions:

1. EPR to transfer to Beach a 50% interest in exploration permit PEP 168 at an agreed value of \$2,750,000. This sum is to be treated as part repayment of the debt owing by EPR to Beach.
2. Creditors, including two EPR directors who are currently owed \$555,847 be satisfied by the issue of 27,338,508 EPR shares at the rate of 2.0332 cents per share.

3. The debt owed to Mitsui be released in full on payment of approximately \$698,000, such payment to be made after completion of an EPR capital raising of a minimum of \$2 million.
4. Beach is to be issued with 671,930,354 shares for a nominal payment of \$1.00. The shares will represent 51% of EPR's issued capital immediately upon obtaining shareholder approval.
5. Beach is to forgive the balance of the debt owing to Beach by EPR pursuant to the VIC/P46 Joint Operating Agreement (\$11,209,514).
6. On completion Beach will appoint nominee directors to the EPR Board and the existing directors will resign.
7. Beach has also agreed to provide a funding facility of up to \$500,000 to fund EPR's operating expenses. This funding facility is to be repaid on the day prior to EPR's annual general meeting by the issue of EPR shares at the rate of 2.0332 cents per share. This may result in the issue of up to a further 24,591,728 EPR shares to Beach.

2. The Proposed Transaction

Pursuant to the terms of the restructure proposal, the shareholders are being asked to approve the following interdependent resolutions:

1. approve the issue of up to 696,522,082 shares to Beach. This will increase Beach's interests in EPR from nil to 51.9%; and
2. approve the issue of:
 - (a) 2,269,624 shares to Mr. John Cornelius, a director of EPR, or to his nominee, in satisfaction of accrued directors fees; and
 - (b) 8,985,520 shares to Mr. John Remfry, a director of EPR, or to his nominee, in satisfaction of accrued salary and entitlements.

We are only required to report on resolution 1, however as the above resolutions are interdependent, we have defined resolutions 1 and 2 as the Proposed Transaction that the Non-Associated Shareholders are being asked to approve.

The directors have requested DMR Corporate to prepare an independent expert's report in accordance with ASIC Regulatory Guide 111 – Content of expert reports. ASIC Regulatory Guide 111 requires the Independent Expert to advise shareholders whether the Proposed Transaction is fair and reasonable, when considered in the context of the interests of the Non-Associated Shareholders.

The directors have requested DMR Corporate to independently assess whether the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders.

3. Summary Opinions

In our opinion, the Proposed Transaction set out in Section 2 above is **fair and reasonable to the Non-Associated Shareholders**.

Our principal reasons for reaching the above opinion are:

- we have assessed the current value of the Non-Associated Shareholders' interests in EPR at nil (Section 8.8).
- we have valued the Non-Associated Shareholders 46.07% minority interest in EPR after the Proposed Transaction at nil (Section 10).

As the value of the Non-Associated Shareholders' interests after the Proposed Transaction is equal to the value of their interests before the Proposed Transaction, we have concluded that **the Proposed Transaction is fair**.

We have also reviewed the other considerations referred to in Section 12 of this report and we consider that **the Proposed Transaction is reasonable**.

4. **Structure of this Report**

This report is divided into the following Sections:

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Attachment

1	PetroVal Report
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5. **Purpose of the Report**

This report has been prepared to meet the following regulatory requirements:

- **Corporations Act 2001**

Section 606 of the Act contains a general prohibition on the acquisition of shares in a company if, as a result of the acquisition, any person increases his or her voting power in the company from 20% or below to more than 20%.

Section 611 of the Act contains an exception to the Section 606 prohibition. For an acquisition of shares to fall within the exception, the acquisition must be approved in advance by a resolution passed at a general meeting of the company in which shares will be acquired.

EPR is seeking shareholder approval for the Proposed Transaction under Section 611 of the Act as Beach will increase its interests in EPR from nil to up to 51.9%.

- **ASIC Regulatory Guides**

This report has been prepared in accordance with the ASIC Regulatory Guides and more particularly:

RG 111 – Content of Expert Reports (“RG111”)

RG 111.21 An issue of shares by a company otherwise prohibited under S606 may be approved under item 7 of S611 and the effect on the company’s shareholding is comparable to a takeover bid. Examples of such issues approved under item 7 of S611 that are comparable to takeover bids under Ch 6 include:

- (a) a company issues securities to the vendor of another entity or to the vendor of a business and, as a consequence, the vendor acquires over 20% of the company incorporating the merged businesses. The vendor could have achieved the same or a similar outcome by launching a scrip takeover for the company

RG111.24 There may be circumstances in which the allottee will acquire 20% or more of the voting power of the securities in the company following the allotment or increase an existing holding of 20% or more, but does not obtain a practical measure of control or increase its practical control over that company. If the expert believes that the allottee has not obtained or increased its control over the company as a practical matter, then the expert could take this outcome into account is assessing whether the issue price is ‘reasonable’ if it has assessed the issue price as being ‘not fair’ applying the test in RG111.10.

RG111.9 It has long been accepted in Australian mergers and acquisitions practice that the words ‘fair and reasonable’ in S640 established two distinct criteria for an expert analysing a control transaction:

- (a) is the offer ‘fair’; and
- (b) is it ‘reasonable’?

That is, ‘fair and reasonable’ is not regarded as a compound phrase.

RG111.10 Under this convention, an offer is ‘fair’ if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. This comparison should be made assuming 100% ownership of the ‘target’ and irrespective of whether the consideration is scrip or cash. The expert should not consider the percentage holding of the ‘bidder’ or its associates in the target when making this comparison. For example, in valuing securities in the target entity, it is inappropriate to apply a discount on the basis that the shares being acquired represent a minority or ‘portfolio’ parcel of shares.

RG111.11 An offer is ‘reasonable’ if it is fair. It might also be ‘reasonable’ if, despite being ‘not fair’, the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

Due to Beach attaining an interest of up to 51.90% in EPR’s voting power, ASIC Regulatory Guide 111 requires that the Proposed Transaction be assessed as if it was a takeover of EPR.

In assessing a takeover bid Regulatory Guide 111 states that the expert should consider whether the Proposed Transaction is both “fair” and “reasonable”.

- **General**

The terms “fair” and “reasonable” are not defined in the Act, however guidance as to the meaning of these terms is provided by ASIC in Regulatory Guide 111. For the purpose of this report, we have defined them as follows:

- Fairness - the Proposed Transaction is “fair” if the value of the Non-Associated Shareholders’ interests after the Proposed Transaction is equal to or greater than the value of their interests before the Proposed Transaction.
- Reasonableness - the Proposed Transaction is “reasonable” if it is fair. It may also be “reasonable” if, despite not being “fair” but after considering other significant factors, shareholders should vote in favour of the Proposed Transaction in the absence of a superior proposal being received.

In determining whether the Proposed Transaction is fair, we have:

- valued the Non-Associated Shareholders’ interests in EPR before the Proposed Transaction;
- valued the Non-Associated Shareholders’ interests in EPR after the Proposed Transaction; and
- compared the values before and after the Proposed Transaction.

In determining whether the Proposed Transaction is reasonable we have analysed other significant factors, which the Non-Associated Shareholders should consider prior to accepting or rejecting the Proposed Transaction.

6. EPR - Key Information

6.1 Background

EPR was incorporated in October 1999 as an unlisted public company and in February 2001 it became a public company listed on the ASX. Its primary objectives at the date of listing were to generate high levels of shareholder returns through the discovery of oil and gas reserves in Australia’s most prospective basins, and their conversion into commercial developments.

6.2 Exploration Interests

EPR has continued its search for oil and gas since 2001, however following the unsuccessful drilling of the Fermat-1 well this year, EPR has had to withdraw from VIC/P46 and VIC/P50 leaving the Company with the following interests:

PEP 168 – 100% - Otway Basin

PEP 168 is a Victorian permit in the onshore Otway Basin which is currently owned 100% by EPR. The permit covers the western half of the Port Campbell Embayment and the onshore extension of the Pecten High. Since acquiring PEP 168, EPR has made a gas discovery in the Waarre Formation with the East Wing-1 well. The discovery is estimated to contain a 2P recoverable gas resource of 2 billion cubic feet.

The East Wing prospect was identified by EPR's reinterpretation of the Santos 3D seismic surveys acquired in 2000 and 2001. EPR believes that East Wing is just one of several commercially viable Waarre prospects based on its interpretation. Although prospects of this nature are small, EPR estimates them to contain between 2 and 5 billion cubic feet each and have a combined recoverable gas resource of approximately 15 billion cubic feet.

In addition to these ready to drill prospects EPR believes that there is the potential to discover more gas both in the south-western and northern parts of the Port Campbell Embayment. The south-western part is particularly attractive because the area is on trend with the highly productive offshore Waarre A discoveries on the Pecten High.

The Pecten High trend includes Origin's 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 third opportunity to exploit the remaining potential of the Port Campbell Embayment lies within the inter-bedded sands and shales of the Eumeralla Formation. The Eumeralla Formation hosts the source rocks of this active hydrocarbon system. The extent and thickness of the formation provide the opportunity for the shales to host very large gas resources. This concept is referred to as Shale Gas. Shale Gas has proven to be highly successful in North America and in PEP 168 it has the potential to be at least as big and productive as a viable coal seam methane project.

The commercial potential of these opportunities is enhanced by their proximity to extensive infrastructure and gas markets. Gas retailers have expressed interest in buying EPR's gas. Alternatively electricity generated from EPR's gas could be sold into the Power Corp owned and operated electricity grid.

PRL13 – 20% - Otway Basin

In South Australia the retention licence, PRL13 over the Killanoola oil discovery in which EPR holds a 20% interest. Killanoola is estimated by Beach Petroleum to hold a recoverable oil resource of 800,000 barrels. Origin estimates Killanoola to have an in place oil resource of 7,000,000 barrels.

The development well, Killanoola DW-1, flowed 25-30 barrels per day of a waxy crude oil during an extended production test carried out in 1999 and produced about 1,000 barrels of oil. The well has been suspended pending further work aimed at improving flow rates.

Killanoola has a potential recoverable oil resource sufficient to generate a positive cash flow for EPR. The opportunity is to take advantage of new recovery techniques to ensure a sustainable, low cost highly profitable project.

PEP 151 – 75% - Otway Basin

EPR acquired the onshore Otway Basin permit, PEP 151 in 2002 to explore for hydrocarbons in the Tertiary Pebble Point Formation within the Portland Trough. The 2003 Nelson 2D-3D survey was acquired to identify Pebble Point Formation leads and prospects in the Portland Trough.

The Pritchard 1 well was drilled in 2006 to test a Pebble Point closure. The well was plugged and abandoned as a dry hole. The lack of hydrocarbon in the well is attributed to the lack of a vertical migration pathway from the source to the closure (for the lower target) as well as the unexpectedly high sand/shale ratio of the deltaic Sherbrook Group section above the target section.

The presence of a regional seal above the Early Cretaceous Eumeralla Formation source rocks makes it difficult to charge the base Tertiary Pebble Point Formation reservoir and is therefore too high a risk to pursue other than as a secondary target. Attention is now focused on the potential of Early and Late Cretaceous sections already proven elsewhere in the basin.

The Early Cretaceous Crayfish Group section in the north-western part of PEP 151 is on trend with the southern-eastern extent of the Penola Trough where gas and liquids have been produced by Origin and others over the last decade. EPR believes the Penola Trough play concept is valid in PEP 151 and several leads have been mapped in this section using recently acquired 2D seismic data in the north-eastern part of the permit.

Preliminary interpretation shows a large Early Cretaceous half graben, with a thick Early Cretaceous section being present. The new seismic data has high graded prospectivity in the area and shows the Dartmoor Lead to be a closed structure that has not been breached by later faulting. This makes the Dartmoor Lead an attractive drilling target.

The Waarre and Flaxman formations in the basal part of the Late Cretaceous Sherbrook Group host the onshore and offshore gas fields in the eastern Otway Basin, Victoria, and the Caroline CO2 field in onshore South Australia.

Several Waarre leads have been identified in PEP 151 beneath the Tertiary section of the Portland Trough. Ferret-1 results may be useful in validating the significance of this play.

PEP 150 – 20%

In Western Victoria, EPR has a 20% interest in the permit PEP 150. The permit has yet to be granted pending the completion of a Native Title agreement. Beach as operator of this permit has been leading the Native Title negotiations.

PEP 150 provides exposure to all of the prospective sequences in the Otway Basin including the Crayfish Sub-group in the Ardonachie Trough, and the Sherbrook Group and Pebble Point Formation in the Portland Trough.

A number of leads have been identified during preliminary investigations. Of particular interest is the known oil accumulation at Lindon. EPR believes that in PEP 150, the Eumeralla Formation offers the best chance of sourcing significant accumulations of commercial oil in the Otway Basin.

6.3 Share Capital

As at the date of this report EPR had 618,241,636 fully paid ordinary shares on issue and the 20 largest shareholders of EPR as at 13 October 2009 are presented in Appendix A-1.

There are also 3,000,000 options on issue with an exercise price of \$0.10 per option and an expiry date of 31 December 2009. As these options are not 'in the money' we have assumed that they will not be exercised and therefore there will be no dilution to the present shareholder interests.

6.4 Operating Performance

EPR's audited income statement for the financial year ended 30 June 2008 and the unaudited income statement for the financial year ended 30 June 2009 are set out in Appendix B-1.

6.5 Cash Flow Statements

EPR's audited cash flow statement for the financial year ended 30 June 2008 and the unaudited cash flow statement for the financial year ended 30 June 2009 are set out in Appendix B-2.

6.6 Balance Sheets

EPR's unaudited balance sheet as at 30 June 2009 disclosed a deficiency of net assets of \$22,166,849 - refer Appendix B-3.

7. Valuation of Exploration Interests

7.1 EPR's interests in the exploration permits are summarized in Section 6.2 above. We engaged PetroVal Australasia Pty Ltd ("PetroVal"), an independent firm of Petroleum Consultants, to act as a technical specialist, to review these exploration and production assets and to provide us with the fair market value of each permit/asset. A copy of the PetroVal report dated 8 December 2009 is attached as Attachment 1 to this report.

7.2 PetroVal concluded that the 'fair market value' of EPR's interests in the following petroleum assets at the date of their report was:

Permit	Equity	Low \$ Million	Mid \$ Million	High \$ Million
PEP 168	100%	2.5	5.5	9.0
PEP 150	20%	-	-	-
PEP 151	75%	0.4	1.0	3.0
PRL 13	20%	-	-	0.1
Total		2.9	6.5	12.1

8. Valuation of EPR Before the Proposed Transaction

8.1 Value Definition

DMR Corporate's valuation of EPR has been made on the basis of fair market value, defined as the price that could be realized in an open market over a reasonable period of time given the current market conditions and currently available information, assuming that potential buyers have full information, in a transaction between a willing but not anxious seller and a willing but not anxious buyer acting at arm's length.

8.2 Valuation Methodologies

In selecting appropriate valuation methodologies, we considered the applicability of a range of generally accepted valuation methodologies. These included:

- share price history;
- capitalisation of future maintainable earnings;
- net present value of future cash flows;
- asset based methods;
- comparable market transactions; and
- alternate acquirer.

8.3 Share Price History

8.3.1 The share price history valuation methodology values a company based on the past trading in its shares. We normally analyze the share prices up to a date immediately prior to the date when a takeover, merger or other significant transaction is announced to remove any price speculation or price escalations that may have occurred subsequent to the announcement of the proposed transaction.

This is not required in this report as the EPR shares were suspended from trading on the ASX on 11 August 2009 following a trading halt on 7 August 2009. Trading has not resumed since 7 August 2009.

8.3.2 A table of the share price history of EPR from 1 October 2008 to 7 August 2009 is presented in Appendix C. We comment thereon below:

8.3.3 Share Volumes

The table in Appendix C shows that the total volume of shares traded was 284,875,665 however this includes 102,171,047 shares traded in the 14 to 29 January 2009 period. We consider that the trading significantly increased following these two ASX announcements:

14 January – Beach announced that the Fermat-1 well is being plugged and abandoned, having reached a total depth of 3,585 metres and failing to find any significant hydrocarbons.

15 January - EPR announced that the Fermat-1 well had been plugged and abandoned and that it has not met its December 2008 and January 2009 cash call requirements for the Fermat-1 drilling operations.

A further increase in volumes traded appears to have occurred in the period 31 July to 7 August 2009 as 23,028,335 shares were traded over 6 days. This activity appears to have followed the following two ASX announcements:

31 July -

- Quarterly report announcing that EPR had withdrawn from VIC/P46 in accordance with the terms of the Joint Venture Agreement.
- Ongoing discussions with Beach and Mitsui in relation to the resolution of EPR's liability.
- Filing of the Appendix 5B – Mining exploration entity quarterly report. Report discloses that EPR has \$93,000 of cash available at the end of the quarter.

6 August -

- EPR's responses to the ASX queries to the Appendix 5B.

8.3.4 Share Prices

The share price has fallen from a high of \$0.042 in October 2008 to a low of \$0.025 on 13 January 2009 (the date immediately prior to the announcement that the Fermat-1 well was being plugged and abandoned).

During the period from 14 January to 29 January 2009 the price fell from \$0.024 to \$0.003 per share.

Since 30 January 2009 the share price has fluctuated in a range of \$0.007 to \$0.003.

The 30-day volume weighted average price ("VWAP")(based on closing prices) of the shares immediately before they were suspended in August 2009 was \$0.005.

8.3.5 Summary – Share Price History

If the VWAP of \$0.005 was applied to the EPR shares on issue then EPR would be valued at approximately \$3,091,000, however as the trading in EPR shares was suspended on 7 August 2009, the available share price history is not only dated but also no longer relevant to the current position of EPR. We have therefore concluded that this valuation methodology cannot be applied in valuing EPR.

8.4 Capitalization of Future Maintainable Earnings

This methodology involves capitalizing the estimated future maintainable earnings of a business at a multiple which reflects the risks of the business and its ability to earn future profits.

There are different definitions of earnings to which a multiple can be applied. The traditional method is to use net profit after tax – Price Earnings or PE. Another common method is to use Earnings Before Interest and Tax, or EBIT. One advantage of using EBIT is that it enables a valuation to be determined which is independent of the financing and tax structure of the business. Different owners of the same business may have different funding strategies and these strategies should not alter the fundamental value of the business.

Other variations to EBIT include ‘Earnings Before Interest, Tax, Depreciation and Amortization’ – EBITDA and ‘Earnings Before Interest, Tax, and Amortization’ – EBITA.

As EPR does not have an operating business generating profits, we consider that the capitalization of future maintainable earnings valuation methodology is not an appropriate methodology to use to value EPR.

8.5 Net Present Value of Future Cash Flows

An analysis of the net present value of the projected cash flows of a business (or discounted cash flow technique) is based on the premise that the value of the business is the net present value of its future cash flows. This methodology requires an analysis of future cash flows, the capital structure, the costs of capital and assessment of the residual value of the business remaining at the end of the forecast period.

As EPR does not have an operating business generating cash flows, we consider that the capitalisation of future cash flows is not an appropriate methodology to use to value EPR.

8.6 Asset Based Methods

This methodology is based on the realisable value of a company’s identifiable net assets. Asset based valuation methodologies include:

(a) Net Assets

The net asset valuation methodology involves deriving the value of a company or business by reference to the value of its assets. This methodology is likely to be appropriate for a business whose value derives mainly from the underlying value of its assets rather than its earnings, such as property holding companies and investment businesses that periodically revalue their assets to market. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realization costs.

(b) Orderly Realisation of Assets

The orderly realisation of assets method estimates the fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

(c) Liquidation of Assets

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes that the assets are sold in a short time frame.

As can be seen from Appendix B-3, as at 30 June 2009 EPR had a net deficiency of assets of \$22,166,849. This deficiency does not include any value for EPR's interests in the exploration permits detailed in Section 6 above. In Section 7 above we stated that PetroVal has independently valued these interests in a range of \$2,900,000 to \$12,100,000. If these values were recorded in the financial statements then EPR would still have a deficiency of net assets on a going concern basis. (The PetroVal valuation assumes that EPR is not a forced seller and does not allow for selling costs.)

EPR is an ASX listed entity and generally a residual value can be ascribed to the listed shell that remains after the existing business has stopped operating. This value can only be realised via the backdoor listing of a new business into the existing shell. In our experience, the value ascribed to an ASX listed shell, which has no debts, is in the range of \$350,000 to \$400,000.

On a going concern basis, EPR would have a deficiency of net assets in a range of \$9,666,849 to \$18,916,849 (after including the exploration asset values and the value of a listed shell) as at 30 June 2009, or negative \$0.016 to negative \$0.031 per share. On this basis, we have concluded that EPR has a nil value.

Given the large deficiency in net assets and the excess of current liabilities over current assets EPR is at present not a going concern and should be valued using either the orderly realisation or liquidation basis. However as both of these valuation bases would only increase the deficiency in net assets, we consider that no practical purpose is served by estimating the realisable costs and the proceeds from sale of the exploration permits in a forced sale.

8.7 Alternate Acquirer

The value that an alternative offeror may be prepared to pay to acquire EPR is a relevant valuation methodology to be considered.

In this instance we are not aware of any alternative offer for EPR and we can see no reason as to why an offer would be initiated prior to the Proposed Transaction taking place.

8.8 Conclusion

In our opinion, the valuation methodology that should be applied in valuing EPR is an asset based methodology, however EPR had a deficiency of net asset of \$22,166,849 as at 30 June 2009.

In Section 8.6 we ascribed values in a range of \$350,000 to \$400,000 to the listed shell and we ascribed values to EPR's interests in the exploration permits (\$2,900,000 to \$12,100,000), which were not recorded in the financial statements. Following these two adjustments EPR had a deficiency of net assets in a range of \$9,666,849 to \$18,916,849. On this basis we have concluded that EPR has a nil value before the Proposed Transaction.

As the Non-Associated Shareholders control 100% of the EPR shares their interests are valued at nil before the Proposed Transaction.

9. Valuation of EPR After the Proposed Transaction

9.1 Value Definition

We have used the same definition of value in this Section as was applied in Section 8.1 above when we assessed the value of EPR before the Proposed Transaction.

9.2 Valuation Methodologies

In selecting appropriate valuation methodologies, we considered the applicability of the same generally accepted valuation methodologies as detailed in Section 8.2 above and we determined that the appropriate methodology to use to value EPR after the Proposed Transaction was the net assets on a going concern basis.

9.3 Net Assets on a Going Concern Basis

To utilise this valuation methodology we prepared the attached proforma balance sheet for EPR (Appendix D), which shows its position after the terms of the Implementation Agreement referred to in Section 1 above are satisfied:

1. Creditors with total balances outstanding of \$228,982 as at 30 June 2009 have agreed to settle for cash payments of 10 cents in the dollar. This effectively represents a forgiveness of \$206,084 of outstanding liabilities.
2. Amounts due to related parties (\$433,633) are capitalised through the issue of 21,327,585 shares at an effective issue price of \$0.020332 per share.
3. EPR's interests in the exploration permit areas have been valued by PetroVal – Section 8. We have taken the 'mid' valuation figures into account in the proforma balance sheet (Appendix D-1), however we have also disclosed the impact on the proforma assets and liabilities using the 'low' and 'high' valuation figures in Appendices D-2 and D-3.
4. We have recorded the sale of a 50% interest in PEP-168 to Beach. Whilst the Implementation Agreement places an agreed value of \$2,750,000 on a 50% interest in PEP-168, we have used 50% of the value determined by PetroVal and shown in Section 7.2 above. The sale of the 50% interest in PEP-168 to Beach is shown as part repayment of the debt owing by EPR to Beach.
- 5(a). The remaining Beach debt as at 30 June 2009 (\$11,623,864 in the 'mid' case scenario) is forgiven.
- 5(b). Beach is issued 671,930,354 shares, representing 51% of the issued capital, for a nominal payment of \$1.00.

The net asset position of EPR following completion of the Proposed Transaction can be summarised as follows:

Appendices D-1 to D-3	Low Value \$	Mid Value \$	High Value \$
Pro forma net assets/(deficiency) after restructure	(5,427,694)	(3,327,694)	522,306
Value of listed shell	350,000	375,000	400,000
Total	<u>(5,077,694)</u>	<u>(2,952,694)</u>	<u>922,306</u>

9.4 Conclusion

In our opinion the appropriate valuation methodology that should be applied in valuing EPR is an asset-based methodology following the completion of the various steps that together comprise the Proposed Transaction.

In Section 9.3 above we detailed the various steps in the restructure proposal and in Appendices D-1 to D-3 we detailed the impact that each of these steps will have on EPR's pro forma balance sheet.

The net financial impact of the Proposed Transaction is to move EPR from a deficiency of net assets in a range of \$9,666,849 to \$18,916,849 (Section 8.6 above) to a deficiency in a range of \$2,952,694 (mid case) to \$5,077,694 (low case) or if the high case valuations were taken into account, to a surplus of net assets of \$922,306.

As the Company has net assets valued in a range from \$922,306 to a deficiency of \$5,077,694 following the completion of the Proposed Transaction, we have concluded that the Company has an effective nil value.

10. Control Premium

A control premium represents the difference between the price that would have to be paid for a share to which a controlling interest attaches and the price at which a share which does not carry with it control of the company could be acquired. Control premiums are normally in a range of 25% to 35% above the value of a minority share.

In Section 8.3 above we determined that the value of the Non-Associated Shareholders' interests were nil before the Proposed Transaction and in Section 9.4 above we concluded that EPR will have a nil value after the Proposed Transaction. Beach may control up to 51.90% of EPR so the Non-Associated Shareholders' interests will be valued at nil after the Proposed Transaction. On this basis the shareholders are not receiving a premium for relinquishing control of EPR.

Beach has however given up its right to collect an amount of \$14,373,864 (\$13,959,515 principal and \$414,349 interest) that EPR owes it under the Fermat-1 joint venture agreement so this could be deemed to be the cost of Beach acquiring their 51% interest in EPR (less the value of the 50% interest in PEP 168 which they are also receiving), which will be valued at nil if the Proposed Transaction is approved by shareholders.

This does not necessarily mean that Beach is paying a control premium as each of Beach and the creditors who have forgiven part of their receivables have all contributed to the elimination, or part elimination, of EPR’s net asset deficiency. By Beach foregoing its receivable of \$14,373,864 and agreeing to be an integral part of the EPR restructure, Beach is effectively using its financial strength and position to salvage some value out of a receivable, which would otherwise have been written off as a bad debt.

11. Assessment as to Fairness

In Section 8.8 we assessed the Non-Associated Shareholders’ interests in EPR to be nil before the Proposed Transaction.

In Section 9.4 above we assessed EPR’s net assets to be in a range from \$922,306 to a deficiency of \$5,077,694 and we have concluded that EPR has an effective nil value after the Proposed Transaction. As the current shareholders will have an interest of approximately 46.07% of EPR at this stage, this represents a value of nil for their interests.

As the value of the shareholders interests after the Proposed Transaction is equal to the value of their interests before the Proposed Transaction, we have concluded that the Proposed Transaction is fair.

12. Other Considerations

12.1 Transactions Subsequent to the Proposed Transaction

If the shareholders approve the Proposed Transaction the Company proposes to raise a minimum of \$2,000,000 and repay \$698,000 to Mitsui. Once this payment occurs the balance of Mitsui debt of \$6,488,933 is forgiven.

Following these transactions the net asset position of EPR would be:

	Low Value \$	Mid Value \$	High Value \$
Pro forma after restructure	<u>(5,427,694)</u>	<u>(3,327,694)</u>	<u>522,306</u>
Capital raising – net of costs	1,800,000	1,800,000	1,800,000
Mitsui settlements	6,488,933	6,488,933	6,488,933
	<u>2,861,239</u>	<u>4,961,239</u>	<u>8,811,239</u>

It is not possible to project what equity interests the present shareholders will have in the restructured and recapitalised EPR as we cannot forecast how many shares will be issued or the price at which those shares may be issued. For these reasons we cannot inform the present shareholders what their interests may be worth however we can state that we believe they will be greater than nil.

12.2 Prior to deciding whether to approve or reject the Proposed Transaction the shareholders should also consider the following factors:

- In Section 11 above we concluded that the Proposed Transaction is fair.
- EPR will have, on a pro forma basis, net assets in a range of \$522,306 to a deficiency of net assets of \$5,427,694 after the Proposed Transaction.
- The Proposed Transaction may result in a significant premium being gained by the current shareholders if the proposed capital raising and the Mitsui debt forgiveness are completed.
- Due to the size of the present deficiency of net assets (\$9,666,849 to \$18,916,849 – Section 8.6) it is unlikely that any other proposals to restructure EPR will be received.
- The takeover by Beach will provide the Company with a new board of directors and it should open up new opportunities for exploration and development.
- The completion of the Proposed Transaction, followed by the planned capital raising and the settlement of the Mitsui debt, should ensure that EPR remains a listed entity on the ASX and shareholders will have a market for their shares.
- The current Non-Associated Shareholders will lose their collective influence in EPR as their interests in EPR will be severely diluted – from 100% at the date of this report to approximately 46.07% prior to a capital raising.
- If shareholders do not approve the Proposed Transaction then EPR will be placed in administration as it will be insolvent.

After reviewing the above significant factors we consider that **the Proposed Transaction is reasonable.**

13. Financial Services Guide

13.1 Financial Services Guide

This Financial Services Guide provides information to assist retail and wholesale investors in making a decision as to their use of the general financial product advice included in the above report.

13.2 DMR Corporate

DMR Corporate holds Australian Financial Services Licence No. 222050, authorizing it to provide reports for the purposes of acting for and on behalf of investors in relation to proposed or actual mergers, acquisitions, takeovers, corporate restructures or share issues and to carry on a financial services business to provide general financial product advice for securities to retail and wholesale investors.

13.3 Financial Services Offered by DMR Corporate

DMR Corporate prepares reports commissioned by a company or other entity (“Entity”). The reports prepared by DMR Corporate are provided by the Entity to its members.

All reports prepared by DMR Corporate include a description of the circumstances of the engagement and of DMR Corporate’s independence of the Entity commissioning the report and other parties to the transactions.

DMR Corporate does not accept instructions from retail investors. DMR Corporate provides no financial services directly to retail investors and receives no remuneration from retail investors for financial services. DMR Corporate does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice to retail investors.

13.4 General Financial Product Advice

In the reports, DMR Corporate provides general financial product advice. This advice does not take into account the personal objectives, financial situation or needs of individual retail investors.

Investors should consider the appropriateness of a report having regard to their own objectives, financial situation and needs before acting on the advice in a report. Where the advice relates to the acquisition or possible acquisition of a financial product, an investor should also obtain a product disclosure statement relating to the financial product and consider that statement before making any decision about whether to acquire the financial product.

13.5 Independence

At the date of this report, none of DMR Corporate, Derek M Ryan nor Mr Paul Lom has any interest in the outcome of the Proposed Transaction, nor any relationship with EPR, Beach, Mitsui or their associates.

Drafts of this report were provided to and discussed with the Directors of EPR and its advisers. Certain changes were made to factual statements in this report as a result of the reviews of the draft reports. There were no alterations to the methodology, valuations or conclusions that have been formed by DMR Corporate.

DMR Corporate had no part in the formulation of the Proposed Transaction. Its only role has been the preparation of this report.

DMR Corporate considers itself to be independent in terms of Regulatory Guide 112 issued by ASIC on 30 October 2007.

13.6 Remuneration

DMR Corporate is entitled to receive a fee of approximately \$35,000 for the preparation of this report, plus out of pocket expenses. With the exception of the above, DMR Corporate will not receive any other benefits, whether directly or indirectly, for or in connection with the making of this report.

Except for the fees referred to above, neither DMR Corporate, nor any of its directors, employees or associated entities receive any fees or other benefits, directly or indirectly, for or in connection with the provision of any report.

13.7 Compensation Arrangements and Complaints Process

As the holder of an Australian Financial Services Licence, DMR Corporate is required to have suitable compensation arrangements in place. In order to satisfy this requirement DMR Corporate holds a professional indemnity insurance policy that is compliant with the requirements of Section 912B of the Act.

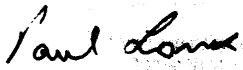
DMR

DMR Corporate is also required to have a system for handling complaints from persons to whom DMR Corporate provides financial services. All complaints must be in writing and sent to DMR Corporate at the above address.

DMR Corporate will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited – GPO Box 3, Melbourne Vic 3000.

Yours faithfully

DMR Corporate Pty Ltd



Paul Lom
Director



Derek Ryan
Director

Essential Petroleum Resources Limited
20 Largest Shareholders as at 13 October 2009

Name	Number of Fully Paid Ordinary Shares
Mr Peter John Woodford	198,815,727
ANZ Nominees Limited Cash Income A/C	13,641,293
Australian Investors Pty Ltd	12,318,540
Crescent Nominees Limited	10,250,000
Mr Alan Cowen	10,000,000
HSBC Custody Nominees (Australia) Limited	7,424,618
Mr John William Cornelius	5,068,753
Mr Gerhard Noss	5,000,000
Mr Ron Young	4,157,197
JGR Trading Co Pty Ltd	4,107,501
Captain Charles Jeremy Potter	4,000,068
Mr Eutillio Buccilli	4,000,000
Mr Emile Alfred Nessim	4,000,000
Sacrosanct Pty Ltd	4,000,000
Mrs Carmela Baiamonte	3,632,200
Mr Richard John Sander & Mrs Judith Joan Sander – Sander Pension Fund A/C	3,500,000
Mr Jeremy Morris Belcher	3,300,000
Befavo Pty Ltd <HG Shore Super Fund A/C>	3,261,834
Mr Titto Paular	3,130,000
Mr Bruce Duncan Webb & Mrs Amanda Jane Webb – Webb Super Fund A/C	3,000,000
Total number of shares held by the twenty largest holders	<u>306,607,731</u>
Total shares on issue – 618,241,636	
The percentage of the total holding of the twenty largest holders of ordinary shares was 49.59%	
Source: EPR Share Register 13 October 2009	

Essential Petroleum Resources Limited

Income Statements

	Audited Year Ended 30/6/2008 \$	Unaudited Year Ended 30/6/2009 \$
Income		
Revenue from rendering services	110,498	56,836
Interest income	350,118	30,342
	<u>460,616</u>	<u>87,178</u>
Expenses		
Administrative expenses	(721,559)	(708,530)
Employee benefits expense	(368,472)	(464,381)
Exploration and development expenditure	(10,267,955)	(23,113,207)
Finance costs	(18,910)	(572,404)
Loss before income tax	<u>(10,916,280)</u>	<u>(24,771,344)</u>
Income tax expense	-	-
Loss for the year	<u>(10,916,280)</u>	<u>(24,771,344)</u>
Source: EPR – 2008 Annual Report and 30 June 2009 management accounts		

Essential Petroleum Resources Limited

Cash Flow Statements

	Audited Year Ended 30/6/2008 \$	Unaudited Year Ended 30/6/2009 \$
Cash flows from operating activities		
Receipts from customers	65,945	497,599
Payments to suppliers and employees	(959,943)	(1,006,715)
Exploration and evaluation expenditure incurred	(9,595,488)	(2,892,010)
Interest and other costs of finance paid	(18,910)	-
Interest received	308,608	107,026
Net cash used in operating activities	<u>(10,199,788)</u>	<u>(3,294,100)</u>
Cash flows from investing activities		
Payments for property, plant and equipment	(11,394)	(435)
Net cash used in investing activities	<u>(11,394)</u>	<u>(435)</u>
Cash flows from financing activities		
Proceeds from issue of equity securities	11,065,935	-
Payment for share issue costs	(963,377)	-
Proceeds from borrowings	1,750,000	250,000
Net cash provided by financing activities	<u>11,852,558</u>	<u>250,000</u>
Net increase/(decrease) in cash held	1,641,376	(3,044,535)
Cash and cash equivalents at the beginning of the year	1,471,924	3,113,300
Cash and cash equivalents at end of the year	<u>3,113,300</u>	<u>68,765</u>
Source: EPR - 2008 Annual Report and 30 June 2009 management accounts		

Essential Petroleum Resources Limited

Balance Sheets

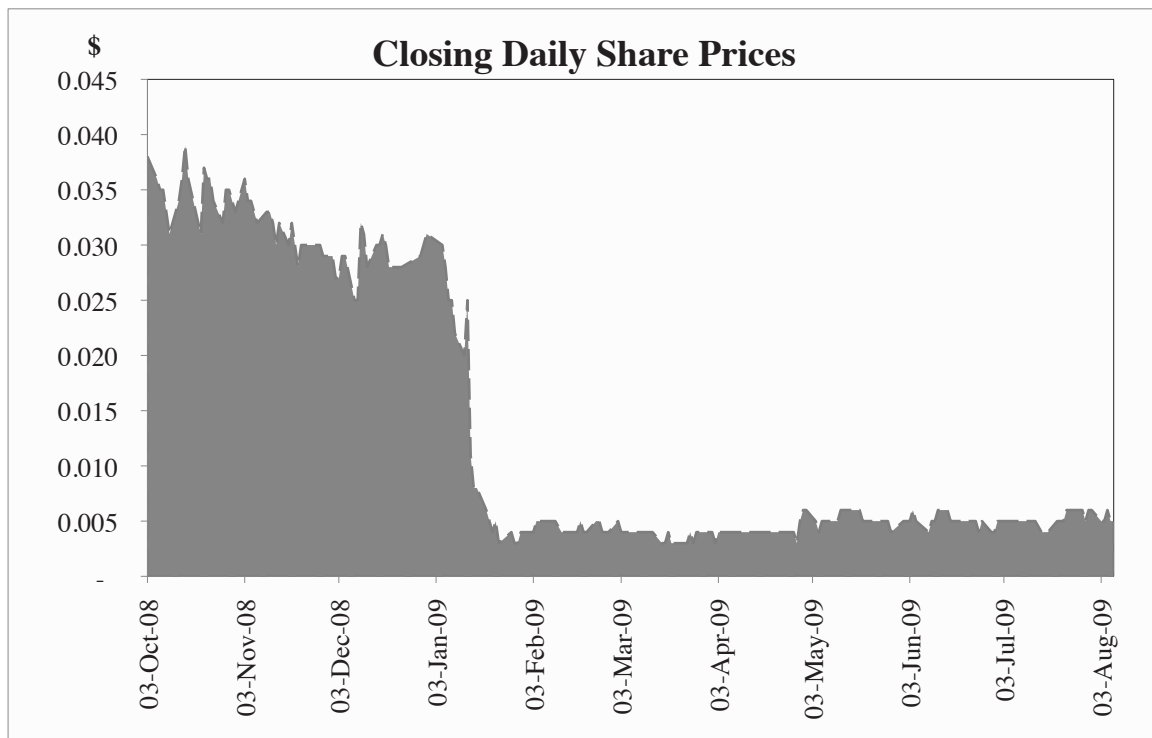
	30/6/2008 Audited \$	30/6/2009 Unaudited \$
CURRENT ASSETS		
Cash and cash equivalents	3,113,300	68,765
Trade and other receivables	618,614	10,916
Other assets	81,903	58,830
TOTAL CURRENT ASSETS	<u>3,813,817</u>	<u>138,511</u>
NON CURRENT ASSETS		
Property, plant and equipment	46,011	29,416
Environmental bonds	52,325	35,849
TOTAL NON CURRENT ASSETS	<u>98,336</u>	<u>65,265</u>
TOTAL ASSETS	<u>3,912,153</u>	<u>203,776</u>
CURRENT LIABILITIES		
Trade and other payables	1,211,733	22,278,330
Provisions	98,821	92,295
TOTAL CURRENT LIABILITIES	<u>1,310,554</u>	<u>22,370,625</u>
NET ASSETS	<u>2,601,599</u>	<u>(22,166,849)</u>
EQUITY		
Issued capital	36,513,626	36,513,626
Reserves	26,066	28,962
Accumulated losses	(33,938,093)	(58,709,437)
TOTAL EQUITY	<u>2,601,599</u>	<u>(22,166,849)</u>
Source: EPR - 2008 Annual Report and 30 June 2009 management accounts		

Essential Petroleum Resources Limited

Share Price and Volume History

A summary of EPR's share price and volume history from
1 October 2008 to 7 August 2009

Month	Share Price			Volume	Value \$
	High \$	Low \$	Average \$		
2008					
October	0.042	0.030	0.036	12,260,701	435,327
November	0.037	0.027	0.031	7,171,200	224,871
December	0.034	0.025	0.029	11,840,143	348,785
2009					
January	0.030	0.003	0.006	107,496,353	692,473
February	0.006	0.004	0.004	21,766,112	96,274
March	0.005	0.003	0.004	28,107,699	100,571
April	0.006	0.003	0.004	17,330,728	75,612
May	0.006	0.004	0.005	17,718,147	92,023
June	0.006	0.004	0.005	21,095,994	103,774
July	0.007	0.004	0.006	17,935,561	99,855
August 1 - 7	0.007	0.005	0.005	22,153,027	113,073
				284,875,665	2,382,638



Essential Petroleum Resources Limited
Proforma Balance Sheet – Mid Valuations

	2009 \$	Creditors Forgive 90% of Debt \$ Note 1	Capitalise Related Party Debt \$ Note 2	Record Mid Value of Permits \$ Note 3	Transfer 50% Interest to Beach \$ Note 4	Capitalise Beach Debt \$ Notes 5(a) & 5(b)	Pro Forma After Restructure \$
Current assets							
Cash and cash equivalents	68,765					1	68,766
Trade and other receivables	10,916						10,916
Other assets	58,830						58,830
Total current assets	<u>138,511</u>		0	0	0	1	<u>138,512</u>
Non-current assets							
Other financial assets	-						
PEP-168				5,500,000	(2,750,000)		2,750,000
PEP - 151				1,000,000			1,000,000
PEP- 150				0			0
PRL - 13				0			0
Environmental bonds	35,849						35,849
Property, plant and equipment	29,416						29,416
Total non-current assets	<u>65,265</u>		0	6,500,000	(2,750,000)	0	<u>3,815,265</u>
Total assets	<u>203,776</u>		0	6,500,000	(2,750,000)	1	<u>3,953,777</u>
Current liabilities							
JV cash calls							
Beach	13,959,515				(2,750,000)	(11,209,515)	0
Mitsui	6,979,758						6,979,758
Trade and other payables	372,594	(206,084)	(102,633)				63,877
Loan - P Woodford	250,000		(250,000)				0
Accrued expenses	627,524		(6,000)			(414,349)	207,175
PAYG payable	12,390						12,390
Super payable - TASG	1,548						1,548
Super payable - Colonial	75,000		(75,000)				0
Provision for annual leave	16,197		(10,268)				5,929
Provision for long service leave	76,099		(65,305)				10,794
Total current liabilities	<u>22,370,625</u>	<u>(206,084)</u>	<u>(509,206)</u>	0	<u>(2,750,000)</u>	<u>(11,623,864)</u>	<u>7,281,471</u>
Net assets	<u>(22,166,849)</u>	206,084	509,206	6,500,000	0	11,623,865	<u>(3,327,694)</u>
Equity							
Issued capital	36,513,626		509,206			1	37,022,833
Reserves	28,962						28,962
Accumulated losses	(58,709,437)	206,084		6,500,000		11,623,864	(40,379,489)
Total equity	<u>(22,166,849)</u>	206,084	509,206	6,500,000	0	11,623,865	<u>(3,327,694)</u>

NOTE 6

Notes 1 to 5 – Refer to Section 9.3 of this report.

Note 6 – The Implementation Agreement provides for the capitalisation of liabilities totaling \$555,847 of which \$509,206 was incurred prior to 30 June 2009.

Essential Petroleum Resources Limited
Proforma Balance Sheet – Low Valuations

	2009 \$	Creditors Forgive 90% of Debt \$ Note 1	Capitalise Related Party Debt \$ Note 2	Record Mid Value of Permits \$ Note 3	Transfer 50% Interest to Beach \$ Note 4	Capitalise Beach Debt \$ Notes 5(a) & 5(b)	Pro Forma After Restructure \$
Current assets							
Cash and cash equivalents	68,765					1	68,766
Trade and other receivables	10,916						10,916
Other assets	58,830						58,830
Total current assets	<u>138,511</u>		0	0	0	1	<u>138,512</u>
Non-current assets							
Other financial assets	-						
PEP- 168				2,500,000	(1,250,000)		1,250,000
PEP - 151				400,000			400,000
PEP- 150				0			0
PRL - 13				0			0
Environmental bonds	35,849						35,849
Property, plant and equipment	29,416						29,416
Total non-current assets	<u>65,265</u>		0	2,900,000	(1,250,000)	0	<u>1,715,265</u>
Total assets	<u>203,776</u>		0	2,900,000	(1,250,000)	1	<u>1,853,777</u>
Current liabilities							
JV cash calls							
Beach	13,959,515				(1,250,000)	(12,709,515)	0
Mitsui	6,979,758						6,979,758
Trade and other payables	372,594	(206,084)	(102,633)				63,877
Loan - P Woodford	250,000		(250,000)				0
Accrued expenses	627,524		(6,000)			(414,349)	207,175
PAYG payable	12,390						12,390
Super payable - TASG	1,548						1,548
Super payable - Colonial	75,000		(75,000)				0
Provision for annual leave	16,197		(10,268)				5,929
Provision for long service leave	76,099		(65,305)				10,794
Total current liabilities	<u>22,370,625</u>	<u>(206,084)</u>	<u>(509,206)</u>	0	(1,250,000)	(13,123,864)	<u>7,281,471</u>
Net assets	<u>(22,166,849)</u>	206,084	509,206	2,900,000	0	13,123,865	<u>(5,427,694)</u>
Equity							
Issued capital	36,513,626		509,206			1	37,022,833
Reserves	28,962						28,962
Accumulated losses	(58,709,437)	206,084		2,900,000		13,123,864	(42,479,489)
Total equity	<u>(22,166,849)</u>	206,084	509,206	2,900,000	0	13,123,865	<u>(5,427,694)</u>
			Note 6				

Notes 1 to 5 – Refer to Section 9.3 of this report.

Note 6 – The Implementation Agreement provides for the capitalisation of liabilities totaling \$555,847 of which \$509,206 was incurred prior to 30 June 2009.

Essential Petroleum Resources Limited
Proforma Balance Sheet – High Valuations

	2009 \$	Creditors Forgive 90% of Debt \$ Note 1	Capitalise Related Party Debt \$ Note 2	Record Mid Value of Permits \$ Note 3	Transfer 50% Interest to Beach \$ Note 4	Capitalise Beach Debt \$ Notes 5(a) & 5(b)	Pro Forma After Restructure \$
Current assets							
Cash and cash equivalents	68,765					1	68,766
Trade and other receivables	10,916						10,916
Other assets	58,830						58,830
Total current assets	138,511		0	0	0	1	138,512
Non-current assets							
Other financial assets	-						
PEP-168				9,000,000	(4,500,000)		4,500,000
PEP - 151				3,000,000			3,000,000
PEP- 150				0			0
PRL - 13				100,000			100,000
Environmental bonds	35,849						35,849
Property, plant and equipment	29,416						29,416
Total non-current assets	65,265		0	12,100,000	(4,500,000)	0	7,665,265
Total assets	203,776		0	12,100,000	(4,500,000)	1	7,803,777
Current liabilities							
JV cash calls							
Beach	13,959,515				(4,500,000)	(9,459,515)	0
Mitsui	6,979,758						6,979,758
Trade and other payables	372,594	(206,084)	(102,633)				63,877
Loan - P Woodford	250,000		(250,000)				0
Accrued expenses	627,524		(6,000)			(414,349)	207,175
PAYG payable	12,390						12,390
Super payable - TASG	1,548						1,548
Super payable - Colonial	75,000		(75,000)				0
Provision for annual leave	16,197		(10,268)				5,929
Provision for long service leave	76,099		(65,305)				10,794
Total current liabilities	22,370,625	(206,084)	(509,206)	0	(4,500,000)	(9,873,864)	7,281,471
Net assets	(22,166,849)	206,084	509,206	12,100,000	0	9,873,865	522,306
Equity							
Issued capital	36,513,626		509,206			1	37,022,833
Reserves	28,962						28,962
Accumulated losses	(58,709,437)	206,084		12,100,000		9,873,864	(36,529,489)
Total equity	(22,166,849)	206,084	509,206	12,100,000	0	9,873,865	522,306
			Note 6				

Notes 1 to 5 – Refer to Section 9.3 of this report.

Note 6 – The Implementation Agreement provides for the capitalisation of liabilities totaling \$555,847 of which \$509,206 was incurred prior to 30 June 2009.

Essential Petroleum Resources Limited

Sources of Information

- The Notice of General Meeting and the Explanatory Memorandum which this report accompanies;
- Report by PetroVal Australasia Pty Ltd dated 20 October 2009;
- Audited financial statements of EPR for the financial year ended 30 June 2008 and unaudited management accounts for the financial year ended 30 June 2009;
- Implementation Agreement dated 11 December 2009;
- Listing of EPR's top 20 shareholders as at 13 October 2009;
- EPR's announcements to the ASX since 1 July 2008;
- Share price summaries supplied by Commonwealth Securities Limited;
- ASIC extracts for EPR;
- Discussions with two EPR Directors.

Declarations, Qualifications and Consents

1. Declarations

This report has been prepared at the request of the Directors of EPR pursuant to Section 611 of the Act to accompany the notice of meeting of shareholders to approve the Proposed Transaction. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Proposed Transaction is fair and reasonable.

This report has also been prepared in accordance with the Accounting Professional and Ethical Standards Board professional standard APES 225 – Valuation Services.

The procedures that we performed and the enquiries that we made in the course of the preparation of this report do not include verification work nor constitute an audit in accordance with Australian Auditing Standards, nor do they constitute a review in accordance with AUS 902 applicable to review engagements.

2. Qualifications

Mr Derek M Ryan and Mr Paul Lom, directors of DMR Corporate prepared this report. They have been responsible for the preparation of many expert reports and are involved in the provision of advice in respect of valuations, takeovers and capital reconstructions and reporting on all aspects thereof.

Mr Ryan has had over 35 years experience in the accounting profession and he is a Fellow of the Institute of Chartered Accountants in Australia. He has been responsible for the preparation of many expert reports and is involved in the provision of advice in respect of valuations, takeovers and capital reconstructions and reporting on all aspects thereof.

Mr Lom is a Fellow of the Institute of Chartered Accountants in Australia and a Registered Company Auditor with more than 30 years experience in the accounting profession. He was a partner of KPMG and Touche Ross between 1989 and 1996, specialising in audit. He has extensive experience in business acquisitions, business valuations and privatisations in Australia and Europe.

3. Consent

DMR Corporate consents to the inclusion of this report in the form and context in which it is included in the Explanatory Memorandum.

8th December, 2009.

The Directors,
DMR Corporate Pty Ltd,
Level 7, 740 Collins Street,
Melbourne, Vic., 3000.

Dear Sirs,

INTRODUCTION

The Directors of Essential Petroleum Resources Limited (“EPR”) have requested DMR Corporate Pty Ltd (“DMR”) to prepare an independent expert report in relation to a proposed transaction with Beach Petroleum Limited (“Beach”). PetroVal Australasia Pty Ltd, (“PetroVal”), was commissioned by DMR to act as a technical specialist to assist in reviewing those exploration and production assets in the Otway Basin in which EPR currently has an interest: PEP-168, PEP-151, PEP-150 within Victoria and PRL-13 within South Australia.

It is intended this letter will be an attachment to the report prepared by DMR.

METHODS

Petroleum Reserves and Resources

Reserves and Resources are defined by the Society of Petroleum Engineers, (“SPE”), World Petroleum Council and American Association of Petroleum Geologists.

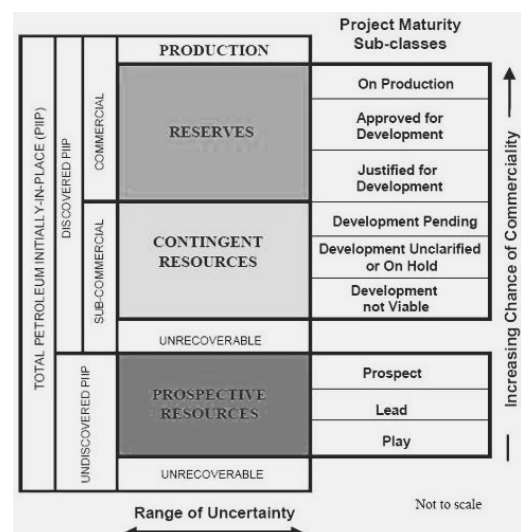
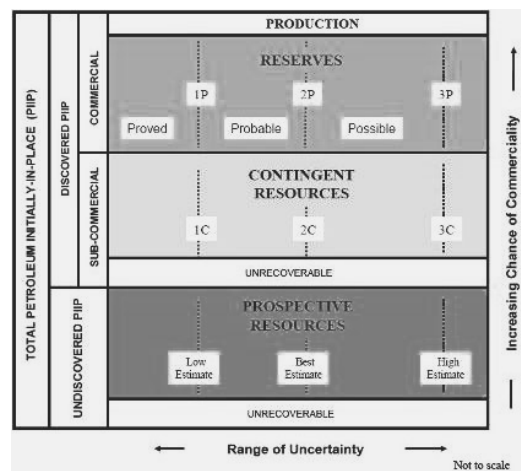
Reserves are defined as those discovered quantities of petroleum which are estimated, on a given date, to be commercially recoverable from known accumulations. There are several categories of decreasing certainty: Proved, Probable and Possible.

Contingent Resources are those discovered quantities of petroleum which are estimated, on a given date, to be potentially recoverable from known accumulations, but which are not currently considered to be commercially recoverable. The categories of decreasing certainty are Low, Best and High Estimates.

Prospective Resources are those undiscovered quantities of petroleum which are estimated, on a given date, to be potentially recoverable from (*hypothetical*) accumulations. The categories of decreasing certainty are Low, Best and High Estimates.

There are various sub-classes dependent upon the maturity of the project status and these are shown in the adjacent figure.

The detail of the Petroleum Resources Management System is available as a download from the website of the Society of Petroleum Engineers (www.spe.org).



Fair Market Value

The asset valuation is based upon the concept of Fair Market Value, which is defined in the Valmin Code adopted by the AusIMM as the estimated amount of money for which, in the opinion of the expert, the asset should change hands on the valuation date between a willing buyer and a willing seller in an arm's length transaction wherein each party had acted knowledgeably, prudently and without compulsion.

The valuation of petroleum assets takes into account the following:

- Review of development plans, production history and operating costs for developed fields (or as may be proposed for undeveloped fields);
- Review of resource estimation methods and their application;
- Results of previous exploration;
- Permit work programmes and expenditure commitments;
- Joint venture budgets and forecast work programmes;
- Geology of the permit relative to the sedimentary basin or province;
- The geological and engineering merits of each prospect and lead;
- A professional judgement of the prospectivity for the future commercial recovery of petroleum;
- Transactions relevant to the assets in which equity is bought and sold;
- Proposed or notional farmins or farmouts; and,
- Prospect risking, notional revenue cash flows and expected monetary value ("EMV").

The valuation of discovered oil and/or gas fields is usually determined by cash flow analysis based on the preparation of forecasts of recoverable reserves / resources, production profiles, capital expenditures, operating costs and abandonment costs. For developed fields with production history the capital and operating costs, and production decline trends may be well known leading to a range of values (based on a forecast of economic parameters, eg. oil or gas price) which may be well constrained. For undeveloped discoveries, the method may still apply, although with a greater uncertainty and hence broader range of values, provided sufficient engineering and development scenarios have been prepared and collated. In the absence of such data and if report timeframes are restricted, reliance on approximations may be necessary (eg. \$s / barrel, which may be derived from more detailed studies of analogous fields and/or discoveries).

For exploration permits the first requirement is to assess the prospectivity for the discovery of petroleum by future drilling. Thereafter, the most reliable market value may be based on farmout or purchase transactions within the permit or in adjacent permits with comparable geological prospectivity and operating constraints. The farminee (purchaser) usually agrees to fund a significant exploration programme, either seismic and/or drilling, in return for the farmor (seller) transferring a significant equity in the permit to the farminee. Should there be no farmout or sale transactions for a permit, or for adjacent permits, the assessment of market value becomes more subjective. Usually, a judgement, based on the technical data, of a nominal farmout provides a reasonable value.

Currently, the petroleum industry is experiencing a period of higher than average costs both for equipment and services. This has led to much higher drilling costs than for many years. This is also reflected in a somewhat depressed farmout market (at least relevant to the assets of this report) both in the ability to attract a farminee partner with sufficient funds and also at a lesser premium than otherwise may have been achievable.

Provided the data is available, consideration is also given to the risk analysis of prospects and leads. This involves extrapolation of the likely volumes of a prospective resource, preparation of a discount cashflow analysis, (net present value: 'NPV'), for a notional development scenario and application of a risk factor to reflect geological perceptions of the probability of success, ('POS'). An expected monetary value, ('EMV'), may be calculated as follows:

$$EMV = NPV \times POS - (1 - POS) \times Well\ Cost_{after\ tax}$$

Such calculations account for the probability of the two possible outcomes; firstly, the probability of a discovery and secondly, the more likely probability of failure. This method has become more widely utilised within the petroleum industry especially as a ranking tool which enables the relative merits of leads and prospects to be compared on a consistent basis. Leads should have a further risk

reflecting the probability they will be matured (or not) to drillable prospects. For valuation purposes the EMV technique should only be used in basins with sufficient exploration and production history that exploration risks, reservoir performance and production and operating costs are well known. The method is inappropriate in areas where the risks are not well understood and/or where there is insufficient history of exploration for the statistical database to be indicative. Also for valuation purposes, the method is best relied upon when there is a large portfolio of drillable prospects and conversely, of less merit where there are only one or several drillable prospects identified (at the time) within a permit (ie. predictability versus portfolio size).

Therefore, to arrive at a Fair Market Value from the EMV of a prospect it is not unusual to apply a further significant discount. Bidding strategies for competitive tenders for vacant exploration areas, which truly indicate market value, reflect a maximum of approximately 50% of the EMV, and a range of 30-35% of the EMV has been indicated in the literature. Further, for a farm-in which is common practice in the exploration sector, the farminee pays for the transfer of equity at a price less than the EMV. After re-calculation, the EMV to the farminee should remain positive to provide upside potential and reason to pursue such a transaction (ie. to avoid "gambler's ruin").

Finally, the assessment of Fair Market Value requires a judgement based upon consideration of all the available technical analyses, comparison between farm-out and EMV method, consideration of relevant transactions and an opinion of industry trends.

PEP-168 Onshore Victoria; EPR 100%

This permit covering 795 sq km was awarded to EPR in 2007 and is located onshore Victoria, adjacent the coastline between Warrnambool and Port Campbell. A number of small gas fields have previously been discovered in the general area but are excised from the permit.

The work programmes for years one to three have been satisfied by technical studies and the drilling of two wells, one of which resulted in a small gas discovery. The remaining minimum work programme for the permit is shown as follows:

PEP 168 : Onshore Victoria			
Permit Year	End Date	Work Commitment	Expenditure M\$
3	6/06/2010	Technical studies	0.2
Option to withdraw or continue			
4	6/06/2011	Acquire 40 km seismic	0.6
5	6/06/2012	Drill one well	2.2
<i>Total:</i>			3.0

Geologically the area comprises the western half of the Port Campbell Embayment and the onshore extension of the offshore Pecten High. The primary exploration target is the Waarre Formation comprising sandstone reservoirs with excellent reservoir characteristics and a proven history of gas generation and entrapment, generally with subsidiary structural closure within tilted horst blocks.

East Wing-1 was drilled by EPR in 2008 and flowed gas from the Waarre Formation at a rate of ~8.4 mmscf/day through a 26/64" choke with ~8 bbls condensate / mmscf. The gas composition includes ~16% inerts, predominantly CO₂. Further technical effort is required to more accurately quantify the estimates but a range of Low to High of 1.0 to 4.5 PJ recoverable sales gas is indicated with the upside in an adjacent fault block extension and the untested Flaxman Formation. Gas recovery from East Wing-1 may be adversely affected by early water break-through into the base of the perforated interval, which extends towards the gas-water contact. The well cost was \$3.5 million and the testing programme a further \$1.0 million.

The gas discovery is classified as Contingent Resources (development unclarified or on hold). Although there is adjacent infrastructure to enable access to gas markets (presuming the negotiation of a gas sale contract), extraction of the CO₂ content is an obstacle for development in the immediate future. Options include stand alone development for electricity generation (presuming venting of the

inert gases in the discharge) but this would require further capital investment which appears to be marginal given the small size of the discovery. Alternatively, there could be delivery into the adjacent gathering network; ideally for gas processing downstream or, possibly bled into the sales gas stream at a low rate to avoid excessive percentage of inerts. There may be some synergies should the adjacent, offshore Halladale gas discovery be developed (possibly by directional drilling from an onshore location within PEP-168). Preliminary investigation by EPR indicates sales gas may be sold within a range of \$1.00 to \$3.50 / gigajoule (“GJ”) (on an unrisksed, or non-discounted basis) dependent on the development option. At this point detailed development scenarios have not been completed. The development and production history of surrounding gas fields provides an analogue for a notional development of East Wing-1.

There are several drillable prospects and also a number of leads but the latter require further seismic acquisition &/or reprocessing and interpretation. The identified prospects and leads may be summarised as small in size. The Bailey and Callaghan prospects were detailed in EPR’s Rights Issue and Public Offer Prospectus of 4Q-2007. This includes analysis of notional prospect economics which estimated the EMV for individual prospects as a range from \$1.5 - \$3.0 million each.

The Low value is based on a concept of seeking a retention licence for the East Wing discovery with a notional value derived from ~1 PJ of gas sold at a net \$2.50 / GJ (including liquids). Conversely this represents a discount of the capitalised well cost (M\$3.5). The Mid value is based on ~1.5 PJ of gas sold at \$3.00 /GJ and a notional farmout (fund 100% to earn 75%) of the ongoing work commitments. The High value is based on ~2 PJ of gas sold at a net \$3.00 / GJ and a notional farmout on better terms (2:1).

PEP 168 : Valuation (M\$)		
Low	Mid	High
2.5	5.5	9.0

**PEP 151
Onshore Victoria; EPR 75%**

This permit was awarded in 2002 and is located in western, coastal Victoria, adjacent the border with South Australia. Following completion of the work programme for the first term, the permit was renewed from 16th August, 2008 following a 50% relinquishment of the original area. The renewed permit has been reduced to 859 sq km. The remaining minimum work programme for the permit is shown as follows:

PEP 151 : Onshore Victoria			
Permit Year	End Date	Work Commitment	Expenditure M\$
2	15/08/2010	100 km 2D seismic	1.0
3	15/08/2011	Drill one well	3.0
<i>Subtotal:</i>			4.0
Option to withdraw or continue			
4	15/08/2012	Technical studies	0.1
5	15/08/2013	Drill one well	3.0
<i>Total:</i>			7.1

Following the first term exploration, the current focus is now upon the deeper section of Cretaceous age with the Crayfish Group the primary target. Several leads have been identified but further seismic acquisition is required before a drillable prospect can be located.

The Low value is based on a notional farmout of the seismic programme to earn permit equity at a small premium (3:2). The Mid value is based on a notional farmout of the combined work programme for years two and three also at a small premium (4:3). The High value is a similar basis but at a more attractive premium (2:1).

PEP 151 : Valuation (M\$)		
Low	Mid	High
0.4	1.0	3.0

PEP 150 Onshore Victoria; EPR 20%

EPR is a junior member of a successful application for an exploration permit which has been offered by the Department of Primary Industries as PEP 150. At present the formal award of the permit remains subject to the completion of a pre-requisite Native Title agreement. Beach is the designated operator. The area has a common boundary with and lies to the east of PEP 151.

No value is allocated as of the date of this report.

PRL 13 Onshore South Australia; EPR 20%

This petroleum retention licence of 17.5 sq km covers the Killanoola oil discovery. The licence was awarded on 31st January, 2007 for an initial term of five years. There are no minimum expenditure obligations however, the licensees are required to submit an annual work programme for approval.

Killanoola-1 and DW-1 were drilled in 1998 and recovered oil upon testing of the Sawpit Sandstone. An extended production test was conducted in 1999 and flowed waxy crude of ~34° API gravity (with a high pour point) at a rate of 25 – 35 bopd with a 10 – 15% water cut. Approximately 1,000 bbls of oil were produced during extended testing. The decline rate of the test implied a limited resource. During late 2007 Beach initiated a renewed test programme but this was suspended upon interpretation of a hole in the tubing string which would require a workover rig for remediation. Based on the data available this is considered herein as “development not viable”.

On 18th December, 2008 Adelaide Energy Limited (“AEL”) announced it had acquired from Origin Energy the Katnook and Ladbroke Grove gas wells and processing plant. It is understood that Origin had allocated \$130,000 as the nominal value for its 50% equity in PRL-13. EPR proposed to exercise its pre-emptive right whereas Beach proposed to waive its right. AEL’s position is not known.

Only a high value is allocated for EPR’s equity in PRL-13, based on the recent sale data.

PRL 13 : Valuation (M\$)		
Low	Mid	High
0.0	0.0	0.05

SUMMARY

The Fair Market Value of EPR’s petroleum assets is summarised below:

Essential Petroleum : Summary (M\$)				
Permit	Equity	Low	Mid	High
PEP 168	100%	2.5	5.5	9.0
PEP 150				
PEP 151	75%	0.4	1.0	3.0
PRL 13	20%	0.0	0.0	0.1
Total:		2.9	6.5	12.1

Note: PEP 150 is offered but not yet awarded

STATEMENTS

Reliance on Information

This assignment is based on information provided by EPR and such available information was evaluated through analysis, inquiry and review and it is believed on reasonable grounds that it is

reliable. PetroVal has no reason to believe that material facts have been withheld but does not warrant that inquiries have revealed all of the matters which may be identified by an extensive examination with complete access to confidential data. The opinions and statements determined for this assignment, based on the above information, are made in good faith and in the belief that such opinions and statements are not misleading. The authors have not searched titles nor conducted due diligence on any contracts or joint venture agreements or any other legal or accounting matters and are not qualified to provide an opinion thereof.

It should be clearly understood that any development plans and work programmes may be subject to significant amendment as a consequence of ongoing feasibility studies, engineering design, technological advances, production performance, appraisal and/or development drilling and seismic interpretation in developed fields, undeveloped fields and exploration permits. Petroleum exploration and development is a risky and speculative venture and the actual outcome of future capital and operating expenditure cannot be predicted with certainty or reliability.

Disclosure and Declaration

A fee will be received by PetroVal for this assignment but this is not dependent upon the outcome of any commercial proposal by Beach or EPR and no other benefit will be received. PetroVal has completed an unrelated assignment for Beach within the past twelve months. PetroVal is independent of both EPR and Beach and the Directors of PetroVal are not aware of any events or circumstances which could give rise to any question of independence.

DMR has agreed that, to the maximum extent permitted by law, it will indemnify PetroVal and its directors and associates in respect of any liability suffered or incurred as a result of or attributable to this assignment except for proven wilful misconduct or negligence or breach of contract or statute. Advanced drafts were provided to DMR and there have been no material revisions.

Qualifications

PetroVal was incorporated in 1997 to provide technical advisory services to the upstream oil and gas industry and specifically reserves certification, expert's reports in accordance with certain provisions of the Corporations Law, valuations, technical and commercial assessment of trade sales, expert testimony and general geoscientific and engineering consulting. The Directors have prepared numerous reports for shareholders of public listed companies.

This assignment was undertaken for PetroVal by Stephen Ingham, M.A.(Hons), Chartered Professional Engineer, Registered Professional Engineer, Tx, U.S.A., Member IEAust., SPE; Ian Northcott, B.Sc.(Hons), Grad.Dip.App.Fin. & Inv., Fellow AusIMM, Member SPE, SPWLA, AAPG; and Andrew Whittle B.Sc.(Hons), Member AAPG, SPWLA; who separately have 35 to 50 years industry experience & collectively provide expertise in petroleum exploration, development geology, petrophysics, reserves assessment, reservoir engineering and economic valuations.

Consent

PetroVal consents to the issue of this summary letter in the form and context in which it is publicly released as an attachment to the report by DMR Corporate Pty Ltd.

Yours faithfully,



Ian Northcott,
Director,
PetroVal Australasia Pty Ltd.



Essential
Petroleum
Resources
Limited

ABN 38 089 956 150

000001 000 EPR
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Proxy Form



Vote online or view the annual report, 24 hours a day, 7 days a week:

www.investorvote.com.au



Cast your proxy vote



Access the annual report



Review and update your securityholding

Your secure access information is:

Control Number: 999999

SRN/HIN: 1999999999

PIN: 99999



PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

For your vote to be effective it must be received by 11:00am (Australian Eastern Daylight Time) Saturday 20 February 2010

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, "Downloadable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**GO ONLINE TO VOTE,
or turn over to complete the form** →

MR SAM SAMPLE
 FLAT 123
 123 SAMPLE STREET
 THE SAMPLE HILL
 SAMPLE ESTATE
 SAMPLEVILLE VIC 3030

Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

IND

Proxy Form

Please mark to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Essential Petroleum Resources Limited hereby appoint

the Chairman of the Meeting **OR**



PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the General Meeting of Essential Petroleum Resources Limited to be held at the Institute of Chartered Accountants, Level 3, 600 Bourke Street, Melbourne, Victoria, 3000 on Monday 22 February 2010 at 11.00am and at any adjournment of that meeting.

Important for Item 2a: If the Chairman of the Meeting is your proxy and you have not directed him how to vote on Item 2a below, please mark the box in this section. If you do not mark this box and you have not directed your proxy how to vote, the Chairman of the Meeting will not cast your votes on Item 2a and your votes will not be counted in computing the required majority if a poll is called on this Item. The Chairman of the Meeting intends to vote undirected proxies in favour of item 2a of business.

I/We acknowledge that the Chairman of the Meeting may exercise my proxy even if he has an interest in the outcome of that Item and that votes cast by him, other than as proxy holder, would be disregarded because of that interest.

STEP 2 Items of Business



PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

ORDINARY BUSINESS

	For	Against	Abstain
Item 1 Issue of Shares to Beach Energy Limited	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 2 Issue of Shares to Directors			
(a) John Cornelius	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) John Remfry	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name _____

Contact Daytime Telephone _____

Date ____/____/____