Essential Petroleum Resources Limited
ABN 38 089 956 150

Annual report for the financial year ended 30 June 2009

Directors' report

The directors of Essential Petroleum Resources Limited submit herewith the annual financial report of the Company for the financial year ended 30 June 2009. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Information about the directors and senior management

The names and particulars of the directors of the Company during or since the end of the financial year are:

Name	Particulars
John W Cornelius Non-Executive Chairman Appointed: 13 November 1999	John Cornelius has been involved in the natural resources and mining industries in public company accounting, corporate secretarial and management roles for more than 35 years. John is a member of the Audit and Compliance Committee, Remuneration and Benefits Committee, and Governance Committee.
John G Remfry **BA (Geophysics) Dip Comp Sc** Managing Director Appointed: 13 October 1999	John Remfry has over 30 years experience in all aspects of petroleum exploration. He has had considerable experience in the management of small to medium enterprises in the resource and technology industries. John is a member of the Governance Committee.
Garrick R Higgins **B. Juris, LLB** Non-Executive Director Appointed: 17 August 2000	Garrick Higgins has over 20 years experience as a lawyer, working extensively in commercial law and capital raisings. He is currently a partner with the law firm TressCox Lawyers. Garrick is a member of the Audit and Compliance Committee, Remuneration and Benefits Committee and Governance Committee.

Directorships of other listed companies

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of directorship
Garrick R Higgins	Jervois Mining Limited	February 2004 to July 2008

Directors' shareholdings

The following table sets out each director's relevant interest in shares, debentures, and rights or options in shares or debentures of the Company or a related body corporate as at the date of this report.

	Essential Petroleum Resources Limited	
Directors	Fully paid ordinary shares Number	Share options Number
J W Cornelius	7,818,377	-
G R Higgins	1,555,250	-
J G Remfry	13,573,021	-

Remuneration of directors and senior management

Information about the remuneration of directors and senior management is set out in the remuneration report of this directors' report, on pages 8 to 10.

Share options granted to directors, senior management and consultants

There were no share options granted during or since the end of the financial year to any directors or any other member of senior management.

Company secretary

Name	Particulars
Alfonso M G Grillo BA LLB Appointed: 17 August 2000	Alfonso Grillo is a partner with TressCox Lawyers and has expertise in various aspects of commercial law, including company meeting practice and corporate governance procedures, fundraising and fundraising documentation, ASX Listing Rules and mergers and acquisitions. Alfonso is currently also company secretary of ASX listed Nagambie Mining Limited and Sun Biomedical Limited.

Corporate structure

Essential Petroleum Resources Limited is a company limited by shares that is incorporated and domiciled in Australia.

Principal activities

The principal activity of the consolidated entity during the year was exploration for oil and gas accumulations.

Operating and financial review

Overview

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*) in respect of the offshore Otway Basin permit VIC/P46. On 15 December 2008, the Company announced that it had been informed by Beach that drilling had commenced at Fermat-1, the first prospect to be drill tested by the parties in VIC/P46. The Company's 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.

Escalating costs of offshore seismic acquisition and exploration drilling, a highly volatile global economic climate and an industry aversion to wild cat risk resulted in Essential Petroleum being unable to raise the capital necessary to fund its drilling obligations in VIC/P46. As a result the Company incurring a total debt of approximately $21 million to its joint partners, Beach and Mitsui.

On 11 December 2009 the Company and Beach entered into an Implementation Agreement to implement a proposal resulting in a capital re-structure and a change of the strategic imperatives of the Company. A summary of the Implementation is set out below.

At a General Meeting held on 22 February 2010, shareholders voted to accept the restructure proposal with Beach and Mitsui. The restructure will be completed following the next Annual General Meeting anticipated in April 2010.

In the offshore Otway Basin permit VIC/P50, the Company has not been able to find a capable joint venture partner to operate the permit and carry the costs of seismic acquisition and the drilling of a well. The permit has therefore been surrendered and has been cancelled by the Victorian Government.

The Company will now focus its attention on realising and commercialising the potential of its onshore opportunities.

Corporate Development

Capital Re-structure

The Implementation Agreement with Beach and Mitsui will realise the following outcomes:

1. EPR's debt of approximately $14 million to Beach will be discharged as follows:
    (a) $2,750,000 as consideration for 50% of onshore permit PEP 168;
    (b) $1.00 as consideration for 51% equity in EPR; and
    (c) the balance of the debt to be forgiven by Beach.
2. Interim funds loaned to EPR by Beach to cover EPR's current operations will be discharged for equity in EPR at a rate of 2.0332 cents per share.
3. Beach will nominate Directors for election to the Board at the next Annual General Meeting for approval by shareholders. Subject to those nominees being appointed, the existing Directors will resign as Directors of the Company.
4. Mitsui will forgive EPR's debt to Mitsui of approximately $7 million in return for a payment of approximately $698,000 from a subsequent capital raising.
5. EPR's indebtedness to its other creditors will be settled on terms consistent with those negotiated with Beach and Mitsui.

In support of the agreement, an independent assessment and evaluation of the Company's assets and liabilities concluded that the agreement is both fair and reasonable.

Exploration and Development

Strategic Imperatives

1. Primary Otway Basin Opportunities

PEP 168 – 50%

PEP 168 is a Victorian permit in the onshore Otway Basin which is currently owned 50% by Essential Petroleum. The permit covers the western half of the Port Campbell Embayment and the onshore extension of the Pecten High. Since acquiring PEP 168, Essential Petroleum 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 billon cubic feet.

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

In addition to these ready to drill prospects Essential Petroleum 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 Essential Petroleum believes that prospects and leads in these areas will have the combined potential to host recoverable gas resources of between 20 and 30 billon 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 Essential Petroleum's gas. Alternatively electricity generated from Essential Petroleum's gas could be sold into the Power Corp owned and operated electricity grid.

2. Other Otway Basin Opportunities

PRL13 – 20%

Essential Petroleum holds a 20% interest in the South Australia retention licence, PRL13 over the Killanoola oil discovery. 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 Essential Petroleum. The opportunity is to take advantage of new recovery techniques to ensure a sustainable, low cost highly profitable project.

PEP 151 – 75%

Essential Petroleum 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. Our 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. Essential Petroleum 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. Fermat-1 results may be useful in validating the significance of this play.

PEP 150 – 20%

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. Essential Petroleum believes that in PEP 150, the Eumeralla Formation offers the best chance of sourcing significant accumulations of commercial oil in the Otway Basin.

3. Other Exploration Opportunities

Although the initial emphasis will be on PEP 168 and Essential Petroleum's existing onshore permits, other onshore opportunities will also be evaluated. Essential Petroleum will look at acquiring assets which may not have been properly valued by the market and may be better exploited and developed by or with Essential Petroleum.

4. Otway Basin Offshore Tenements

The Company has withdrawn from its offshore Otway Basin tenements.

VIC/P46 – Surrendered

Under the provisions of the VIC/P46 JOA, due to Essential Petroleum's inability to fund its share of the costs of drilling the well Fermat-1, as operator of the permit, Beach exercised its right to request that Essential Petroleum withdraw from the permit. Essential Petroleum has complied with that request and consequently no longer has an interest in the permit.

The well, Fermat-1 was drilled and plugged and abandoned having not encountered commercial quantities of hydrocarbon. VIC/P46 was not renewed and has expired.

VIC/P50 – Surrendered

Despite the concerted efforts of the Company with the assistance of the highly regarded industry consultancy group RISC, Essential Petroleum has been unable to attract a suitable partner to take an interest in VIC/P50.

It is believed that the combination of the global economic situation, high oilfield services costs and a current industry aversion to deep water wildcat risk has resulted in a decline in interest in what are otherwise sound and exciting play concepts.

As the Company has not been able to raise the required funds to meet its permit obligations, either through farmout or through the issue of equity, it has had no alternative but to withdraw from the permit.

The permit was cancelled in January 2010.

Financial review

Operating result

The loss for the consolidated entity after income tax was $24,771,344 (2008: $10,916,280).

Dividends

No dividends in respect of the current financial period have been paid, declared or recommended for payment.

Financial position

The net assets of the consolidated entity have decreased by $24,768,448 from $2,601,599 at 30 June 2008 to $22,166,849 net liabilities at 30 June 2009. This is mainly due to cash calls payable on the Company's VIC/P46 joint venture and the recognition of the liability to the Beach Energy Limited and Mitsui E&P Australia Pty Ltd for Essential's share of the exploration and drilling costs incurred in VIC/P46 tenement.

Capital raisings

No new capital was raised during the financial year (2008: $11,849,808).

Cash flows

The cash flows of the consolidated entity consist of payments to employees and suppliers for exploration activities on tenements held and the maintenance of the corporate head office which manages existing projects as well as costs involved in investigating new exploration opportunities.

Changes in state of affairs

Other than as outlined in this report, there were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Subsequent events

Capital re-structure

For details of the capital re-stucture, please refer to page 2 of this report.

Future developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Environmental regulations

The consolidated entity's exploration tenements are located in Victoria, South Australia and in Commonwealth waters off the coast of South West Victoria. The operation of these tenements is subject to compliance with the respective Victorian, South Australian and Commonwealth petroleum and environmental regulations and legislation.

Licence requirements relating to ground disturbance, rehabilitation and waste disposal exist for all tenements held. The Directors are not aware of any breaches of petroleum and environmental regulations and legislation during the period covered by this report.

Shares under option or issued on exercise of options

There are no unissued shares or interests under option as at the date of this report.

Indemnification of officers and auditors

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company (as named above), the company secretary, Mr A M G Grillo, and all executive officers of the Company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

Directors' meetings

The number of meetings of the Company's board of directors held during the year ended 30 June 2009, and the number of meetings attended by each director were:

	Board of directors		Remuneration & benefits committee		Governance committee		Audit & compliance committee	
Directors	Held	Attended	Held	Attended	Held	Attended	Held	Attended
J W Cornelius	9	9	-	-	-	-	1	1
G R Higgins	9	9	-	-	-	-	1	1
J G Remfry	9	9	-	-	-	-	-	-

Corporate governance policy

The Directors are responsible for the corporate governance of Essential Petroleum and for protecting the rights and interests of shareholders. The Board, when appointing committees, will determine the terms of reference and reporting accountability. In general terms, all committees will be responsible to the Board which will ratify committee findings and decisions.

It is the policy of the Board to maintain at least a balance of executive and Non-Executive Directors and implement a number of corporate governance practices through the following specialist committees:

- **Audit and Compliance Committee**

  This Committee is chaired by Mr J W Cornelius, and comprises Non-Executive Director Mr G R Higgins. The consolidated entity's external auditor attends by invitation.

- **Remuneration and Benefits Committee**

  This Committee comprises Mr J W Cornelius and Mr G R Higgins and reviews remuneration packages and policies. It also seeks external advice, as required, and monitors practices of similar companies.

- **Governance Committee**

  This Committee comprises Mr J W Cornelius, Mr G R Higgins and Mr J G Remfry and is responsible for reviewing the effectiveness and structure of the Board and the nature and the probity of management practices and disclosures.

- **Other Committees**

  From time to time, additional ad hoc or permanent committees will be appointed to overview functions or make findings on behalf of the consolidated entity.

Proceedings on behalf of the Company

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of these proceedings

Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 27 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 27 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit Committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Auditor's independence declaration

The auditor's independence declaration is included on page 18 of the annual report.

Remuneration report

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of Essential Petroleum Resources Limited directors and its senior management for the financial year ended 30 June 2009. The prescribed details for each person covered by this report are detailed below under the following headings:

- director and senior management details
- remuneration policy
- relationship between the remuneration policy and company performance
- remuneration of directors and senior management
- key terms of employment contracts.

Director and senior management details
The following persons acted as directors of the Company during or since the end of the financial year:

- J W Cornelius Chairman (Non-Executive)
- G R Higgins Director (Non-Executive)
- J G Remfry Managing Director (Executive) and Chief Executive Officer.

The term 'senior management' is used in this remuneration report to refer to the following persons. Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year:

- A M G Grillo Company Secretary
- A N Gould General Manager Corporate Development (Resigned 16 January 2009), part- time consultant.

Remuneration policy
The Board is responsible for determining and reviewing the remuneration of the directors, the managing director, the executive officers and senior managers of the Company and reviewing the operation of the Company's Employee Option Plan. This process requires consideration of the levels and form of remuneration appropriate to securing, motivating and retaining executives with the skills to manage the Company's operations. The Board has established a Remuneration and Benefits Committee comprising non-executive directors Mr J W Cornelius and Mr G R Higgins to make recommendations to the Board in relation to the remuneration of officers and employees of the Company. In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the Company's operations, the Remuneration and Benefits Committee seeks the advice of external advisers in connection with the structure of remuneration packages. The Remuneration and Benefits Committee also recommend set levels and form of remuneration for Non-Executive Directors with reference to performance, relevant comparative remuneration and independent expert advice. The total sum of remuneration payable to Non-Executive Directors shall not exceed the sum fixed by members of the Company in general meeting.

Relationship between the remuneration policy and company performance
The tables below set out summary information about the consolidated entity's earnings and movements in shareholder wealth for the five years to June 2009:

	30 June 2009 $	30 June 2008 $	30 June 2007 $	30 June 2006 $	30 June 2005 $
Revenue	87,178	460,616	253,336	265,844	393,331
Net loss before tax	(24,771,344)	(10,916,280)	(3,988,488)	(2,355,987)	(3,154,179)
Net loss after tax	(24,771,344)	(10,916,280)	(3,988,488)	(2,355,987)	(3,154,179)

	30 June 2009	30 June 2008	30 June 2007	30 June 2006	30 June 2005
Share price at start of year	$0.046	$0.040	$0.033	$0.070	$0.090
Share price at end of year	$0. 004	$0.046	$0.040	$0.033	$0.070
Interim dividend	-	-	-	-	-
Final dividend	-	-	-	-	-
Basic earnings per share[1] (cents)	(4.01)	(2.37)	(1.56)	(1.44)	(2.00)
Diluted earnings per share[1] (cents)	(4.01)	(2.37)	(1.56)	(1.44)	(2.00)

There is no direct relationship between the Company's Remuneration Policy and the Company's performance. No portion of the remuneration of directors, secretaries or senior managers are 'at risk'. However, in determining the remuneration to be paid in each subsequent financial year, the Board will have regard to the Company's performance. Therefore, the relationship between the Remuneration Policy and the Company's performance is indirect.

Remuneration report (continued)

Remuneration of directors and senior management

2009	Short-term employee benefits		Post-employ-ment benefits		Share-based payment	
	Salary & fees $	Other $	Super-annuation $	Other long-term employee benefits $	Options & rights $	Total $
Non-executive directors						
J W Cornelius	70,000	-	-	-	-	70,000
G R Higgins	48,000	-	-	-	-	48,000
Executive officers						
J G Remfry (MD & CEO)	252,294	-	22,706	-	-	275,000
A N Gould	38,461	-	-	-	2,896	41,357
Company Secretary						
A M G Grillo	36,000	-	-	-	-	36,000

2008	Short-term employee benefits		Post-employ-ment benefits		Share-based payment	
	Salary & fees $	Other $	Super-annuation $	Other long-term employee benefits $	Options & rights $	Total $
Non-executive directors						
J W Cornelius	70,000	-	-	-	-	70,000
G R Higgins	48,000	-	-	-	-	48,000
Executive officers						
J G Remfry (MD & CEO)	229,358	-	20,642	-	-	250,000
A N Gould	75,840	-	-	-	26,066	101,906
Company Secretary						
A M G Grillo	36,000	-	-	-	-	36,000

Mr G R Higgins is a lawyer with the law firm TressCox Lawyers. Directors' fees payable to Mr G R Higgins are paid to TressCox Lawyers.

Mr J W Cornelius is a Director and shareholder of IMI Consulting Pty Ltd. Directors' fees payable to Mr J W Cornelius are paid to IMI Consulting Pty Ltd.

Company Secretarial fees payable to Mr A M G Grillo are paid to TressCox Lawyers.

Mr A N Gould is engaged under a consultancy agreement whereby all fees payable are paid to The Gould Family Trust. Mr A N Gould resigned on 16 January 2009.

In accordance with ASX Listing Rule 10.17, the current maximum aggregate remuneration payable out of the funds of the Company to Non-Executive Directors for their services as directors is $250,000. The amount of aggregate remuneration and the manner in which it s apportioned for the year ending 30 June 2010 is under review.

During the financial year, the Company did not employ any executives other than the Managing Director and Chief Executive Officer nominated above. No director or senior management person appointed during the period received a payment as part of his or her consideration for agreeing to hold the position.

Remuneration report (continued)

Bonuses and share-based payments granted as compensation for the current financial year
No bonuses were paid during the financial year. No element of the remuneration of the Directors or the Company Secretary consists of the issue of securities.

Employee option plan
The Board of Essential Petroleum Resources Limited may issue options under the Employee Option Plan to any employee of the Company, including Executive Directors and Non-Executive Directors. Each option is to subscribe for one share and, when issued, the share will rank equally with other shares. Options issued under the Employee Option Plan are not transferable.

The closing share market price of an ordinary share of Essential Petroleum Resources Limited on the Australian Securities Exchange at 30 June 2009 was $0.004.

During the financial year, no options were granted to or exercised by the directors, Company secretary or senior management of the Company.

At 30 June 2009, the following share-based payment arrangements were in existence:

Options series	Number	Grant date	Expiry date	Fair value at grant date $	Vesting date
A N Gould	1,000,000	18 Oct 2007	31 Dec 2009	0.0097	18 Oct 2007
A N Gould	1,000,000	18 Oct 2007	31 Dec 2009	0.0097	18 Apr 2008
A N Gould	1,000,000	18 Oct 2007	31 Dec 2009	0.0097	18 Oct 2008

There are no further service or performance criteria that need to be met in relation to above options before the beneficial interest vests in the recipient.

The following share-based payment made to senior management vested during the financial year:

Name	Grant date	No. granted	No. vested	% of grant vested	% of grant forfeited	% of compensation for the year consisting of options
A N Gould	18 Oct 2007	-	1,000,000	100%	-	7%

Key terms of employment contracts
Mr Remfry is employed under a contract which does not have a fixed duration. The terms of the contract provide that either party may terminate the contract on the giving of 6 months prior notice of termination.

Mr Gould, prior to his resignation on 16 January 2009 was engaged under a consultancy agreement which does not have a fixed duration. The terms of the contract provide that either party may terminate the contract on the giving of 1 month prior notice of termination.

This directors' report is signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

J G Remfry

J G Remfry
Managing Director and Chief Executive Officer

J W Cornelius
Non-Executive Chairman

G R Higgins
Non-Executive Director

Melbourne
2 March 2010

Corporate governance statement

The Board of Directors of Essential Petroleum Resources Limited (*the Company*) is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

In accordance with the ASX Corporate Governance Council's **Corporate Governance Principles and Recommendations: 2nd Edition** (*the Principles*), this corporate governance statement reports on the Company's adoption of the Principles on an exception basis. This statement provides specific information, whereby disclosure is required of any recommendations that have not been adopted by the Company, together with the reasons why the recommendation has not been adopted. The Company's corporate governance principles and policies are therefore structured with reference to the Principles, which are as follows:

1: Lay solid foundations for management and oversight.
2: Structure the board to add value.
3: Promote ethical and responsible decision making.
4: Safeguard integrity in financial reporting.
5: Make timely and balanced disclosure.
6: Respect the rights of shareholders.
7: Recognise and manage risk.
8: Remunerate fairly and responsibly.

1. Lay Solid Foundations for Management and Oversight

Recommendation 1.1: Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.

The Board is committed to maximising Company and management performance, thereby generating appropriate levels of shareholder value and financial return.

The Board therefore ensures that the Company is properly managed to protect and enhance shareholder interests and that the Company, its Directors, officers and employees operate in an appropriate environment of corporate governance. The Board is responsible for, inter alia, development of strategy, oversight of management, risk management and compliance systems, and monitoring performance. The Board has established certain policies and protocols in relation to the Company's operations, some of which are summarised in this statement.

A statement as to the corporate governance policies adopted by the Company is available on the Company's website.

Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives.

The performance of the Board, individual Directors and key executives is reviewed regularly, and has taken place during this reporting period.

The Board has a separate Audit and Compliance Committee, Governance Committee and Remuneration and Benefits Committee. The Charter of the Audit and Compliance Committee adopted by the Company is available on the Company's website. The Governance Committee and the Remuneration and Benefits Committee have no formal charter, due to the small size of the Board. Both the Audit and Compliance Committee and the Remuneration and Benefits Committee comprise of Non-Executive Directors only. Invitations to executives to attend meetings are extended where appropriate.

The Board is responsible for determining and reviewing the remuneration of the Directors, the Managing Director and the executive officers of the Company and reviewing the operation of the Company's Employee Option Plan. This process requires consideration of the levels and form of remuneration appropriate to securing, motivating and retaining executives with the skills to manage the Company's operations.

The remuneration policy for the Directors is disclosed in the Directors' Report.

Recommendation 1.3 Companies should provide the information indicated in the Guide to reporting on Principle 1.

In accordance with the 'Guide to Reporting on Principle 1', the Company provides the following information:

(a) as at the date of this statement, the Company is of the view that it has complied with each of the Recommendations under Principle 1; and

(b) the Company has undertaken a performance evaluation for its executive during the financial year in accordance with the process set out in Recommendation 1.2.

2. Structure the Board to Add Value

Recommendation 2.1: A majority of the board should be independent directors

At the date of this statement, the Board comprises of three Directors, two of which are deemed as independent Non-Executive Directors as defined under the Board policy on Director independence. The Non-Executive Directors are:

(a) Mr John Cornelius, the Non-Executive Chairman of the Company; and

(b) Mr Garrick Higgins, a Non-Executive Director of the Company.

Recommendation 2.2: The chair should be an independent director

The Non-Executive Chairman, Mr John Cornelius, is an independent Director.

Recommendation 2.3: The roles of chair and chief executive officer should not be exercised by the same person

At the date of this statement, Mr John Cornelius is the Chairman of the Board and Mr John Remfry is the Managing Director.

Recommendation 2.4: The board should establish a nomination committee

Due to the small size of the Board and the Company's current level of operations, the Company does not have a separate nomination committee.

Recommendation 2.5: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.

The Board reviews and evaluates the performance of the Board and the Board committees. The process is to involve the assessment of all of the Board's key areas of responsibility. The Board's contribution as a whole is reviewed and areas where improvement can be made are noted. The performance evaluation process is as follows:

(a) each Director will periodically evaluate the effectiveness of the Board and its committees and submit observations to the Chairman;

(b) the Chairman of the Board will make a presentation incorporating his assessment of such observations to enable the Board to assess, and if necessary, take action;

(c) the Board will agree on development and actions required to improve performance;

(d) outcomes and actions will be minuted; and

(e) the Chairman will assess during the year the progress of the actions to be achieved.

This process aims to ensure that individual Directors and the Board as a whole contribute effectively in achieving the duties and responsibilities of the Board. The performance of the Board, individual Directors and key executives has taken place during this reporting period in accordance with the process set out above.

Recommendation 2.6: Provide the information indicated in Guide to Reporting on Principle 2

The 'Guide to Reporting on Principle 2' provides that certain information should be included in the corporate governance section of the Company's Annual Report or be made publicly available, ideally on the Company's website.

In accordance with the 'Guide to Reporting on Principle 2', the Company provides the following information:

(a) The skills, experience and expertise relevant to the position of Director held by each Director as at the date of the Annual Report is detailed in the Director's Report;

(b) Mr John Cornelius and Mr Garrick Higgins are the Directors considered by the Board to constitute independent Directors. In assessing whether a Director is independent, the Board has regard to the standards it has adopted that reflect the independence requirements of applicable laws, rules and regulations, including the Principles. It is noted that whilst Mr Higgins is a Partner of TressCox Lawyers, the Company's principal legal advisers, the Board is of the view that as the Company does not have an on-going contractual commitment with TressCox Lawyers, Mr Higgins is an independent Director;

(c) Whenever necessary, individual members of the Board may seek independent professional advice at the expense of the Company in relation to fulfilling their duties as Directors. All Directors are encouraged to actively participate in all decision making processes and are given every opportunity to have their opinion heard and respected on all matters;

(d) The term of office held by each Director as at the date of the Annual Report is detailed in the Director's Report;

(e) Due to the small size of the Board and the current level of the Company's operations, the Company does not have a separate nomination committee and therefore a charter or an appointment policy has not been created;

(f) The performance of the Board, individual Directors and the executive has taken place during the reporting period in accordance with the process set out in Recommendation 2.5; and

(g) As at the date of this statement, the Company is of the view that it has complied with each of the Recommendations under Principle 2, except for Recommendation 2.4. An explanation for the departure from Recommendation 2.4 is set out above.

3. Promote Ethical and Responsible Decision-making

Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code as to:

- ***the practices necessary to maintain confidence in the company's integrity***
- ***the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders***
- ***the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.***

The Board has adopted a 'Conflict of Interest Policy' and 'Compliance with the Law Policy' that provide a framework in which the Company and its representatives conduct their business and activities in a responsible and ethical manner. All Board members are qualified professionals within their respective industries and accordingly conduct themselves in a professional and ethical manner in both their normal commercial activities and the discharge of their responsibilities as Directors.

These policies also outline how the Company expects Directors, management and employees to behave and conduct business in a range of circumstances. In particular, the 'Compliance with the Law Policy' requires awareness of, and compliance with laws and regulations relevant to the Company's operations. Whenever necessary, individual members of the Board may seek independent professional advice at the expense of the Company in relation to fulfilling their duties as Directors. Further, the 'Compliance with the Law Policy' provides that any Director, manager or employee who is unclear about any law relating to their work at the Company, are encouraged to seek advice from the Company's legal advisor.

The 'Conflict of Interest Policy' outlines procedures that Directors, managers or employees should adopt to avoid any conflict of interest that may compromise their ability to make impartial business decisions

These policies adopted by the Company are available on the Company's website.

Recommendation 3.2: Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.

The Company has adopted the 'Company Securities Policy' concerning trading in the Company's securities by Directors, management and staff. Trading in the Company's shares and/or options over such shares by Directors, executives and staff of the Company should only occur in circumstances where the market is considered to be fully informed of the Company's activities.

The policy requires that Directors, executives and staff discuss their intention to trade in the Company's shares with the Chairman of the Company prior to trading. The Chairman is required to discuss any such trading intentions with the Managing Director. The Board recognises that it is the individual responsibility of each director and employee to ensure their compliance with the Trading Policy.

Recommendation 3.3: Companies should provide the information indicated in the Guide to reporting on Principle 3.

In accordance with the 'Guide to Reporting on Principle 3', the Company has made these policies available on its website.

4. Safeguard Integrity in Financial Reporting

Recommendation 4.1: The board should establish an audit committee.

The Board has established an Audit and Compliance Committee comprising the following members:

(a) Mr John Cornelius as Chairman; and

(b) Mr Garrick Higgins.

Representatives of the Company's external auditors are regularly invited to attend meetings of the Audit and Compliance Committee.

Recommendation 4.3: The audit committee should be structured so that it:

- ***consists only of non-executive directors***
- ***consists of a majority of independent directors***
- ***is chaired by an independent chair, who is not chair of the board***
- ***has at least three members.***

Mr John Cornelius is the Chairman of the Board of Directors and also Chairman of the Audit and Compliance Committee. The Company has not appointed a separate chairman of the Audit and Compliance Committee. In continuing the appointment of Mr John Cornelius as Chairman of the Audit and Compliance Committee following the introduction of the Principles, the Company has had regard to the independence and expertise of each of its Directors, the level of the Company's current operations, the costs of compliance and the effectiveness of previous audits.

Due to the small size of the Company's board and the Company's current level of operations, the Audit and Compliance Committee only comprises of the Company's two Non-Executive Directors.

Representatives of the Company's external auditors are regularly invited to attend meetings of the Audit and Compliance Committee.

Recommendation 4.3: The audit committee should have a formal charter

The Audit and Compliance Committee operates under a charter approved by the Board.

It is the Board's responsibility to ensure that an effective internal control framework exists to examine the effectiveness and efficiency of significant business processes such as the safeguarding of assets, the maintenance of proper accounting records and the integrity of financial information, the implementation of quality assurance practices and procedures and ensuring compliance with environmental regulations. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control mechanisms for the management of the Company to the Audit and Compliance Committee.

The Audit and Compliance Committee meets at least every six months and is responsible for:

(a) the review of accounting policies;

(b) the detailed review of the Company's annual, half yearly and quarterly financial reports;

(c) the effectiveness of accounting and internal control systems;

(d) addressing the findings of the external auditors;

(e) the assessment of the scope, quality and cost of the external audit;

(f) identifying areas of operation, regulatory and legal risk and recommending procedures to the Board to ensure those risks are effectively managed; and

(g) ensuring that conflicts of interest do not arise from services provided by the Company's external advisors.

Recommendation 4.4: Companies should provide the information indicated in the Guide to reporting on Principle 4

The 'Guide to Reporting on Principle 4' provides that certain information should be included in the corporate governance section of the Company's Annual Report or be made publicly available, ideally on the Company's website.

In accordance with the 'Guide to Reporting on Principle 4', the Company provides the following information:

(a) The qualifications of the Audit and Compliance Committee members, Mr John Cornelius and Mr Garrick Higgins are detailed in the Directors report;

(b) One meeting of the Audit and Compliance Committee took place during the current reporting period with Mr John Cornelius and Mr Garrick Higgins present and non-members Mr Matthew Schofield of Deloitte Touche Tohmatsu, Mr Alfonso Grillo and Mr John Remfry in attendance;

(c) The Charter of the Audit and Compliance Committee adopted by the Company is available on the Company's website; and

(d) The Company periodically puts to private tender the appointment of its external auditor. The Company's external audit engagement partner is rotated in consultation with the external auditor, as required by Division 5 of the Corporations Act.

5. Make Timely and Balanced Disclosure

Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

The Board and senior management are aware of the continuous disclosure requirements of the ASX and have written policies and procedures in place, including a 'Continuous Disclosure Policy' to disclose any information concerning the Company that a reasonable person would expect to have a material effect on the price of the Company's securities.

Furthermore, the Directors and senior management of the Company acknowledge that they each have an obligation to immediately identify and immediately disclose information that may be regarded as material to the price or value of the Company's securities.

The Directors are authorised to make statements and representations on the Company's behalf. The Company Secretary is responsible for overseeing and coordinating the disclosure of information to the ASX, analysts, stockbrokers, shareholders, the media and the public.

The Directors and senior management of the Company ensure that the Company Secretary is aware of all information to be presented at briefings with analysts, stockbrokers, shareholders, the media and the public. Prior to being presented, information that has not already been the subject of disclosure to the market and is not generally available to the market is the subject of disclosure to the ASX. Only when confirmation of receipt of the disclosure and release to the market by the ASX is received may the information be presented.

If information that would otherwise be disclosed comprises of matters of supposition or is insufficiently definite to warrant disclosure, or if the effect of a disclosure on the value or price of the Company's securities is unknown, the Company may request that the ASX grant a trading halt or suspend the Company's securities from quotation. Management of the Company may consult the Company's external professional advisers and the ASX in relation to whether a trading halt or suspension is required.

The 'Continuous Disclosure Policy' detailing the Company's continuous disclosure requirements with the ASX is available on the Company's website.

Recommendation 5.2: Companies should provide the information indicated in the Guide to reporting on Principle 5.

In accordance with the 'Guide to Reporting on Principle 5', the Company has made its 'Continuous Disclosure Policy' available on its website.

6. Respect the Rights of Shareholders

Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

The Board aims to ensure that in accordance with Recommendation 6.1, all shareholders are informed of major developments affecting the affairs of the Company. Information is communicated to the shareholders through the annual and half year reports, disclosures made to the ASX, notices of meetings and letters to shareholders where appropriate.

The Company also circulates a copy via email of certain of its ASX Announcements following release of the ASX Announcement to participants who have registered to receive copies of announcements via email.

The 'Continuous Disclosure Policy' detailing the procedures in place to promote communication with shareholders is available on the Company's website.

Recommendation 6.2: Companies should provide the information indicated in the Guide to reporting on Principle 6.

In accordance with the 'Guide to Reporting on Principle 6', the Company has made its 'Continuous Disclosure Policy' available on its website.

7. Recognise and Manage Risk

Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

The Board has procedures in place to recognise and manage risk in accordance with Recommendation 7.1.

The Company is involved in a speculative and high risk business of oil and gas exploration. The Company had exposure to the drilling of VIC/P46 where the Company's participation was subject to the Company providing certain funding to the joint venture with Beach Energy Limited and Mitsui E&P Australia Pty Ltd. The Company was unable to fund its participation and incurred significant liability to its joint venture partners. The Company entered into discussions with its joint venture partners and on 11 December 2009 entered into an Implementation Agreement whereby the Company has reached a conditional agreement to discharge its debt to the joint venture parties.

The Company is committed to the proper identification and management of risk. The Company regularly undertakes reviews of its risk management procedures which include implementation of a system of internal sign-offs to ensure not only that the Company complies with its legal obligations, but that the Board and ultimately shareholders can take comfort that an appropriate system of checks and balances is in place regarding those areas of the business which present financial or operating risks.

The Audit and Compliance Committee meets regularly to ensure, amongst other things, that the risk management, internal control structures and compliance with laws and regulations are operating effectively.

The Company has adopted a 'Compliance with Law Policy' which directs employees of the Company to ensure compliance with the law. The Company has also adopted a 'Conflict of Interest Policy' which directs employees how to avoid conflicts of interest with the Company.

The Company has established authority levels in respect of any expenditure and commitments that may be entered into by Directors and executives on behalf of the Company.

Each of the above policies are available on the Company's website.

Recommendation 7.2: The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

The Company's management is responsible for providing leadership and direction, for establishing a context which fosters a risk management culture and for ensuring business, financial and risk management approaches are integrated during the planning, implementation and reporting of major ventures at all levels within the organisation.

The Board thoroughly assessed the risks associated with entering into a joint venture relationship for the drilling of VIC/P46. However the inherent risks associated with offshore oil and gas exploration, the unsuccessful outcome from the drilling of VIC/P46 and the Company's inability to obtain additional equity or third party participation through farmout due to the global financial crisis resulted in the Company incurring significant liability to its joint venture partners.

The Company regularly undertakes reviews of its risk management procedures, which include implementation of a system of internal approvals to ensure not only that it complies with its legal obligations, but that the Board and shareholders can take comfort that an appropriate system of checks and balances is in place in those areas of the business that present financial or operating risks. As part of this risk management process, the Company's management has reported to the Board in relation to its management of the Company's material business risks.

Recommendation 7.3: The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Mr John Remfry, as the Company's Managing Director, has declared to the Board that the statement given to the Board regarding the Financial Reports (as discussed under Section 4 of this statement) is founded on a sound system of risk management, internal compliance and control which implements the policies adopted by the Board.

Mr John Remfry has also declared to the Board that the Company's risk management, internal compliance and control system is operating efficiently and effectively in all material respects.

Recommendation 7.4: Companies should provide the information indicated in the Guide to reporting on Principle 7.

In accordance with the 'Guide to Reporting on Principle 7', the Company provides the following information:

(a) the Company has not departed from Recommendations 7.1 to 7.4;

(b) the Board has received the report from management under Recommendation 7.2; and

(c) the Board has received assurance from Mr John Remfry, as the Company's Managing Director, under Recommendation 7.3.

8. Remunerate Fairly and Responsibly

Recommendation 8.1: The board should establish a remuneration committee

The Board has established a Remuneration and Benefits Committee comprising Non-Executive Directors Mr John Cornelius and Mr Garrick Higgins to make recommendations to the Board in relation to the remuneration of officers and employees of the Company. In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the Company's operations, the Remuneration and Benefits Committee seeks the advice of external advisers in connection with the structure of remuneration packages.

The Remuneration and Benefits Committee also recommends the levels and form of remuneration for Non-Executive Directors with reference to performance, relevant comparative remuneration and independent expert advice. The total sum of remuneration payable to Non-Executive Directors shall not exceed the sum approved by members of the Company in general meeting.

Prior to the commencement of the 2009 financial year the Remuneration and Benefits Committee set the remuneration of its Directors taking into consideration a reduced expenditure as a result of the Company's level of operations.

Recommendation 8.2: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

Non-Executive Directors are paid a set fee as disclosed in the Director's Report in this Annual Report. The remuneration of executives is dependent on the terms of the employment agreement with those executives. The remuneration structure of Non-Executive Directors and executives is clearly distinguishable.

Recommendation 8.3: Companies should provide the information indicated in the Guide to reporting on Principle 8.

The 'Guide to Reporting on Principle 8' provides that certain information should be included in the corporate governance section of the Company's Annual Report or be made publicly available, ideally on the Company's website.

In accordance with the 'Guide to Reporting on Principle 8', the Company provides the following information:

(a) there are no schemes for retirement benefits, other than statutory superannuation, in existence for the Non-Executive Directors;

(b) due to the small size of the Board, the Remuneration and Benefits Committee does not have a formal charter; and

(c) as at the date of this statement, the Company is of the view that it has complied with each of the Recommendations under Principle 8.

Deloitte.

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The Board of Directors
Essential Petroleum Resources Limited
Level 2
226 Albert Road
SOUTH MELBOURNE VIC 3205

2 March 2010

Dear Board Members

Essential Petroleum Resources Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Essential Petroleum Resources Limited.

As lead audit partner for the audit of the financial statements of Essential Petroleum Resources Limited for the financial year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu.

DELOITTE TOUCHE TOHMATSU

C Bryan
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
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Independent Auditor's Report to the members of Essential Petroleum Resources Limited

Report on the Financial Report

We have audited the accompanying financial report of Essential Petroleum Resources Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 21 to 43.

Directors' Responsibility for the Financial Report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

(a) the financial report of Essential Petroleum Resources Limited is in accordance with the *Corporations Act 2001*, including:
  (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2009 and of its performance for the year ended on that date; and
  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 2 in the financial report which indicates that the consolidated entity incurred a net loss of $24,771,344 (company: $25,128,125) during the year ended 30 June 2009 and at that date has an excess of current liabilities over current assets of $22,232,114 (company: $22,065,949). This condition, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity and company's ability to continue as going concerns and whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 11 of the directors' report for the year ended 30 June 2009. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Essential Petroleum Resources Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Craig Bryan

Craig Bryan

Partner

Chartered Accountants

Melbourne, 2 March 2010

Directors’ declaration

The directors declare that:

(a) in the directors’ opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

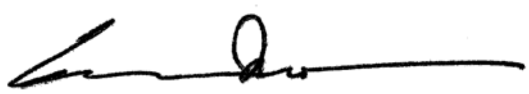
(b) in the directors’ opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company and the consolidated entity; and

(c) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

J G Remfry
Managing Director and Chief Executive Officer

J W Cornelius
Non-Executive Chairman



G R Higgins
Non-Executive Director

Melbourne
2 March 2010

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Income statement
for the financial year ended 30 June 2009

	Note	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Continuing operations					
Revenue	3	87,178	460,616	86,568	454,815
Administrative expenses		(708,530)	(721,559)	(704,899)	(719,847)
Employee benefits expense		(464,381)	(368,472)	(464,381)	(368,472)
Exploration and development expenditure		(23,113,207)	(10,267,955)	(21,771,574)	(5,149,793)
Finance costs	4	(572,404)	(18,910)	(572,404)	(18,910)
Impairment of loan to subsidiary		-	-	(1,701,435)	(4,606,736)
Loss before tax	5	(24,771,344)	(10,916,280)	(25,128,125)	(10,408,943)
Income tax expense	6	-	-		-
Loss attributable to the members of Essential Petroleum Resources Limited		(24,771,344)	(10,916,280)	(25,128,125)	(10,408,943)

	Note	Consolidated 2009	Consolidated 2008
Earnings per share			
From continuing operations:			
Basic (cents per share)	16	(4.01)	(2.37)
Diluted (cents per share)	16	(4.01)	(2.37)

Notes to the financial statements are included on pages 27 to 43.

Balance sheet
as at 30 June 2009

		Consolidated		Company	
	Note	2009 $	2008 $	2009 $	2008 $
Current assets					
Cash and cash equivalents	21(a)	68,765	3,113,300	64,101	2,765,076
Trade and other receivables	7	10,916	618,614	8,599	415,679
Other assets	8	58,830	81,903	58,830	81,903
Total current assets		138,511	3,813,817	131,530	3,262,658
Non-current assets					
Other financial assets	9	-	-	1	1
Environmental bonds		35,849	52,325	20,239	37,325
Property, plant and equipment	10	29,416	46,011	29,416	46,011
Total non-current assets		65,265	98,336	49,656	83,337
Total assets		203,776	3,912,153	181,186	3,345,995
Current liabilities					
Trade and other payables	11	22,278,330	1,211,733	22,105,184	138,238
Provisions	12	92,295	98,821	92,295	98,821
Total current liabilities		22,370,625	1,310,554	22,197,479	237,059
Total liabilities		22,370,625	1,310,554	22,197,479	237,059
Net (liabilities)/assets		(22,166,849)	2,601,599	(22,016,293)	3,108,936
Equity					
Issued capital	13	36,513,626	36,513,626	36,513,626	36,513,626
Reserves	14	28,962	26,066	28,962	26,066
Accumulated losses	15	(58,709,437)	(33,938,093)	(58,558,881)	(33,430,756)
Total (deficiency)/equity		(22,166,849)	2,601,599	(22,016,293)	3,108,936

Notes to the financial statements are included on pages 27 to 43.

Statement of changes in equity for the financial year ended 30 June 2009

Consolidated	Fully paid ordinary shares $	Equity-settled employee benefits reserve $	Accumulated losses $	Total $
Balance at 1 July 2007	24,663,818	-	(23,021,813)	1,642,005
Shares issued during the year (note 13)	12,815,935	-	-	12,815,935
Share issue costs (note 13)	(966,127)	-	-	(966,127)
Recognition of share-based payments (note 14)	-	26,066	-	26,066
Loss attributable to equity holders of parent entity	-	-	(10,916,280)	(10,916,280)
Balance at 30 June 2008	36,513,626	26,066	(33,938,093)	2,601,599
Balance at 1 July 2008	36,513,626	26,066	(33,938,093)	2,601,599
Shares issued during the year (note 13)	-	-	-	-
Share issue costs (note 13)	-	-	-	-
Recognition of share-based payments (note 14)	-	2,896	-	2,896
Loss attributable to equity holders of parent entity	-	-	(24,771,344)	(24,771,344)
Balance at 30 June 2009	36,513,626	28,962	(58,709,437)	(22,166,849)

Company	Fully paid ordinary shares $	Equity-settled employee benefits reserve $	Accumulated losses $	Total $
Balance at 1 July 2007	24,663,818	-	(23,021,813)	1,642,005
Shares issued during the year (note 13)	12,815,935	-	-	12,815,935
Share issue costs (note 13)	(966,127)	-	-	(966,127)
Recognition of share-based payments (note 14)	-	26,066	-	26,066
Loss attributable to equity holders of parent entity	-	-	(10,408,943)	(10,408,943)
Balance at 30 June 2008	36,513,626	26,066	(33,430,756)	3,108,936
Balance at 1 July 2008	36,513,626	26,066	(33,430,756)	3,108,936
Shares issued during the year (note 13)	-	-	-	-
Share issue costs (note 13)	-	-	-	-
Recognition of share-based payments (note 14)	-	2,896	-	2,896
Loss attributable to equity holders of parent entity	-	-	(25,128,125)	(25,128,125)
Balance at 30 June 2009	36,513,626	28,962	(58,558,881)	(22,016,293)

Notes to the financial statements are included on pages 27 to 43.

Cash flow statement
for the financial year ended 30 June 2009

	Note	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Cash flows from operating activities					
Receipts from customers		497,599	65,945	436,999	33,226
Payments to suppliers and employees		(1,006,715)	(959,943)	(972,968)	(830,489)
Exploration and evaluation expenditure incurred		(2,892,010)	(9,595,488)	(819,552)	(5,472,819)
Interest and other costs of finance paid		-	(18,910)	-	(18,910)
Interest received		107,026	308,608	106,416	308,291
Net cash used in operating activities	21(b)	(3,294,100)	(10,199,788)	(1,249,105)	(5,980,701)
Cash flows from investing activities					
Amounts advanced to related parties		-	-	(1,701,435)	(4,567,311)
Payments for property, plant and equipment	10	(435)	(11,394)	(435)	(11,394)
Net cash used in investing activities		(435)	(11,394)	(1,701,870)	(4,578,705)
Cash flows from financing activities					
Proceeds from issues of equity securities		-	11,065,935	-	11,065,935
Payment for share issue costs		-	(963,377)	-	(963,377)
Proceeds from borrowings	21(c)	250,000	1,750,000	250,000	1,750,000
Net cash provided by financing activities		250,000	11,852,558	250,000	11,852,558
Net (decrease)/ increase in cash and cash equivalents		(3,044,535)	1,641,376	(2,700,975)	1,293,152
Cash and cash equivalents at the beginning of the financial year		3,113,300	1,471,924	2,765,076	1,471,924
Cash and cash equivalents at the end of the financial year	21(a)	68,765	3,113,300	64,101	2,765,076

Notes to the financial statements are included on pages 27 to 43.

Notes to the financial statements

1. General information

Essential Petroleum Resources Limited (the Company) is a public company listed on the Australian Securities Exchange, incorporated in Australia and operating in Australia.

Essential Petroleum Resources Limited's registered office and its principal place of business are as follows:

Registered office
Level 9
469 La Trobe Street
MELBOURNE VIC 3000
Tel: (03) 9602 9444

Principal place of business
Level 2
226 Albert Road
SOUTH MELBOURNE VIC 3205
Tel: (03) 9699 3009

The entity's principal activities are exploration for oil and gas accumulations.

2. Significant accounting policies

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

The financial report includes the separate financial statements of the Company and the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on **[date of audit report]**.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

Critical accounting judgements and key sources of estimation uncertainty

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. There are no key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period.

Adoption of new and revised Accounting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has no impact on the financial results of the Group.

Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the Company's financial report:
:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 101 'Presentation of Financial Statements' (revised September 2007), AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101', AASB 2007-10 'Further Amendments to Australian Accounting Standards arising from AASB 101'	1 January 2009	30 June 2010
• AASB 8 'Operating Segments', AASB 2007-3 'Amendments to Australian Accounting Standards arising from AASB 8'	1 January 2009	30 June 2010
• AASB 2009-2 'Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments'	1 January 2009 and end on or after 30 April 2009	30 June 2010

2. Significant accounting policies (continued)

Initial application of the following Standards and Interpretations is not expected to have any material impact on the financial report of the Company:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 123 'Borrowing Costs' (revised), AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123'	1 January 2009	30 June 2010
• AASB 3 'Business Combinations' (revised), AASB 127 'Consolidated and Separate Financial Statements' (revised) and AASB 2008-3 'Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127'	Business combinations occurring after the beginning of annual reporting periods beginning 1 July 2009	30 June 2010
• AASB 2008-1 'Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations'	1 January 2009	30 June 2010
• AASB 2008-2 'Amendments to Australian Accounting Standards - Puttable Financial Instruments and Obligations arising on Liquidation'	1 January 2009	30 June 2010
• AASB 2008-5 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	1 January 2009	30 June 2010
• AASB 2008-6 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	1 July 2009	30 June 2010
• AASB 2008-7 'Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate'	1 January 2009	30 June 2010
• AASB 2009-4 'Amendments to Australian Accounting Standards arising from the Annual Improvements Process'	1 July 2009	30 June 2010
• AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process'	1 January 2010	30 June 2011
• AASB 2009-6 'Amendments to Australian Accounting Standards'	1 January 2009	30 June 2010
• AASB 2009-7 'Amendments to Australian Accounting Standards'	1 July 2009	30 June 2010
• AASB 1 'First-time Adoption of Australian Accounting Standards'	1 July 2009	30 June 2010

The initial application of the expected issue of an Australian equivalent accounting Standard/Interpretation to the following Standard/Interpretation is not expected to have a material impact on the financial report of the Company:

Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• IFRS 1 'First-time Adoption of International Financial Reporting Standards'	1 January 2009	30 June 2010
• Improvements to IFRSs (2009)	1 January 2010	30 June 2011

2. Significant accounting policies (continued)

Going concern

The financial report has been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

As at 30 June 2009 the consolidated entity has net liabilities of $22,166,849 and reported a loss after tax for the year then ended of $24,771,344 and net operating cash outflows of $3,294,100.

As at 30 June 2009 the Company has net liabilities of $22,016,293 and reported a loss after tax for the year then ended of $25,128,125 and net operating cash outflows of $1,249,105.

The reported loss for the year includes the recognition of cash call amounts owed by Essential Petroleum under the Joint Operating Agreement for VIC/P46 ("JOA") with Beach Energy Limited ("Beach") and Mitsui E&P Australia Pty Limited ("Mitsui E&P"). As at 30 June 2009 the total cash call liability under the JOA is $20,939,273.

On the 14 December 2009, the Company signed an Implementation Agreement with Beach. The key terms of that Agreement include:-

- The amounts owed to Beach under the JOA will be discharged in full through the issue of new shares to Beach equating to a 51% ownership interest in the Company and the sale of a 50% interest in PEP 168;
- Beach providing interim loan funds to fund the Company's current operating costs to a limit of $500,000 and which will be converted into ordinary shares upon completion of the capital restructure;
- The amounts owed to Mitsui under the JOA will be discharged in full on receipt of a payment by the Company of approximately $698,000. The payment is to be made following the completion of a future capital raising of no less than $2,000,000 by the Company.
- Amounts owed by the Company to other unsecured creditors to be discharged on agreed terms. These terms vary for various groups of creditors but are generally summarised as
  - Payment of $0.10 in the dollar in full settlement of debt;
  - The issue of shares for each $1 of debt payable by the Company;
  - The issue of additional shares to directors in lieu of accrued remuneration and leave entitlements; and
  - The issue of shares to Beach.

  The creditors subject to these conditions have agreed to this arrangement.

The Implementation Agreement included a number of Conditions Precedent, some of which required shareholder approval. The Company obtained the necessary shareholder approvals under the Implementation Agreement at a General Meeting of shareholders on 22 February 2010.

To continue as a going concern the group requires some or all of the following actions to occur:-

(i) The group will require additional funding to be secured from sources including:
   - an equity capital raising;
   - additional debt funding; and
   - the generation of sufficient funds from operating activities including the successful development of the existing tenements.

(ii) The successful negotiation with the Department of Natural Resources to vary or defer existing work expenditure obligations for current tenements that are scheduled to be completed within the next twelve months where the company considers that it is economic to further explore these tenements rather than let the interest lapse.

As at the date of this report Beach has provided confirmation that it will provide additional debt funding of $200,000 to enable the company to trade for at least the next twelve months during which period it is expected that all operations will be managed and controlled by Beach at their corporate head office. This support includes, but is not limited to, agreeing not to seek repayment of loans made by Beach to the consolidated entity during this period.

At the date of this report and having considered the above factors, the directors are confident that the necessary conditions precedent not requiring shareholder approval will be completed by the Company or be waived by Beach in order for the Implementation Deed to become effective. Further, having carefully assessed the uncertainties relating to the likelihood of securing additional funding, the group's ability to manage their expenditures and operating cashflows over the next twelve months as a controlled entity of Beach and the ability of the group to negotiate with the Department of Natural Resources to vary or defer existing work expenditure obligations for current tenements, the directors believe that the company and the group will continue to operate as going concerns for the foreseeable future and therefore it is appropriate to prepare the financial statements on a going concern basis.

In the event that the assumptions underpinning the basis of preparation do not occur as anticipated, there is significant uncertainty whether the company and the group will continue as going concerns. If the company and the group are unable to continue as going concerns they may be required to realise their assets and extinguish their liabilities other than in the normal course of business and at amounts different to those stated in the financial statements.

2. Significant accounting policies (continued)

Going concern (continued)

The financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the group and the company not continue as going concerns.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entity (including special purpose entities) controlled by the Company (its subsidiary) (referred to as 'the Group' in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. In the separate financial statements of the Company, intra-group transactions ('common control transactions') are generally accounted for by reference to the existing (consolidated) book value of the items. Where the transaction value of common control transactions differ from their consolidated book value, the difference is recognised as a contribution by or distribution to equity participants by the transacting entities

(b) Joint venture arrangements

Jointly controlled operations

Where the Group is a venturer and so has joint control in a jointly controlled operation, the Group recognises the assets that it controls and the liabilities that is incurs, along with the expenses that it incurs and the Group's share of the income that it earns from the sale of goods or services by the joint venture.

(c) Foreign currency

The individual financial statements of each group entity are presented in its functional currency being the currency of the primary economic environment in which the entity operates. For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of Essential Petroleum Resources Limited and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(d) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

(e) Revenue

Revenue is measured at the fair value of the consideration received or receivable.

Rendering of services
Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion for revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Interest revenue
Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(f) Share-based payments

The entity provides benefits to employees of the entity in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions"). These benefits are currently provided under the Employee Option Plan.

The cost of these equity-settled share-based payments that were unvested is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a Black-Scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Essential Petroleum Resources Limited ("market conditions").

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date").

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest because of the non-achievement of non-market based performance conditions.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(g) Income tax

Current tax
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax
Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company/Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period
Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(h) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and have a maturity of three months or less at the date of acquisition.

(i) Financial assets

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the Company financial statements.
Other financial assets are classified into the following specified category: 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables
Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

(j) Impairment of long-lived assets

At each reporting date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(k) Exploration and evaluation assets

Essential Petroleum Resources Limited charges all exploration and evaluation expenditure against the income statement when incurred.

(l) Property, plant and equipment

i) Acquisition
Items of plant and equipment are initially recorded at cost and depreciated as outlined below. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

ii) Depreciation
Plant and equipment are depreciated on a straight line basis at rates based upon the expected useful lives of these assets. The expected useful lives of these assets are 2-5 years (30 June 2007: 2-5 years). The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

(m) Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Group as lessee
Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

(n) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.
Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

3. Revenue

An analysis of the Group's revenue for the year, from both continuing and discontinued operations, is as follows:

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Continuing operations				
Revenue from the rendering of services	30,342	110,498	30,342	105,015
Interest revenue:				
Bank deposits	56,836	350,118	56,226	349,800
	87,178	460,616	86,568	454,815

4. Finance costs

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Interest on non-bank borrowings	(572,404)	(18,910)	(572,404)	(18,910)
Total interest expense	(572,404)	(18,910)	(572,404)	(18,910)

5. Loss for the year before tax

Loss for the year before tax has been arrived at after charging the following expenses:

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Depreciation of non-current assets	17,030	28,566	17,030	28,566
Rental expenses	51,015	55,408	51,015	55,408
Employee benefits expense	26,836	26,541	26,836	26,541
Share-based payments	2,896	26,066	2,896	26,066

6. Income taxes

The prima facie income tax expense on pre-tax accounting loss from operations reconciles to the income tax expense (benefit) in the financial statements as follows:

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Loss from continuing operations	(24,771,344)	(10,916,280)	(25,128,125)	(10,408,943)
Income tax expense (benefit) calculated at 30%	(7,431,403)	(3,274,884)	(7,538,437)	(3,122,683)
Effect of non deductible expenses	21,879	2,829	21,879	2,829
Effect of tax concessions (capital raising costs)	(83,172)	(115,983)	(83,172)	(115,983)
Effect of impairment losses on loan to subsidiary	-	-	510,430	1,382,021
Effect of unused tax losses and tax offsets not recognized as deferred tax assets	7,492,696	3,388,038	7,089,300	1,853,816
Income tax expense	-	-	-	-

	Consolidated		Company	
Unrecognised deferred tax assets				
The following deferred tax assets have not been brought to account as assets:				
Tax losses brought forward	10,476,483	7,088,445	8,929,629	7,075,813
Tax losses for the year	7,492,696	3,388,038	7,089,300	1,853,816
Tax losses – revenue	17,969,179	10,476,483	16,018,929	8,929,629

This deferred tax asset has not been recognised and will only be obtained if:
(i) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
(ii) the conditions for deductibility imposed by tax legislation continue to be complied with; and
(iii) no changes in tax legislation adversely affect the Group in realising the benefit.

7. Trade and other receivables

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
GST receivable	10,916	142,336	8,599	-
Other receivables (i)	-	476,278	-	415,679
Income tax expense	10,916	618,614	8,599	415,679

Terms and conditions relating to the above receivables;

(i) Other receivables are non interest bearing and have repayment terms between eight and ninety days. No interest is charged on outstanding amounts.

8. Other assets

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Deposits	6,667	6,667	6,667	6,667
Prepayments	52,165	75,236	52,165	75,236
	58,830	81,903	58,830	81,903

9. Other financial assets

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Current				
Receivable from wholly owned subsidiary (i)	-	-	6,350,280	4,648,845
Accumulated impairment	-	-	(6,350,280)	(4,648,845)
	-	-	-	-
Non-current				
Investment in subsidiary	-	-	1	1
	-	-	1	1
Movement in the allowance for impairment				
Balance at the beginning of the year	-	-	(4,648,845)	(42,109)
Impairment losses recognised on receivables	-	-	(1,701,435)	(4,606,736)
	-	-	(6,350,280)	(4,648,845)

(i) The receivable from wholly owned subsidiary is non interest bearing and due and payable on demand.

10. Property, plant and equipment

	Consolidated Plant and equipment at cost	Consolidated Total	Company Plant and equipment at cost	Company Total
Gross carrying amount				
Balance at 1 July 2007	387,083	387,083	387,083	387,083
Additions	11,394	11,394	11,394	11,394
Disposals	-	-	-	-
Balance at 30 June 2008	398,477	398,477	398,477	398,477
Additions	435	435	435	435
Disposals	-	-	-	-
Balance at 30 June 2009	398,912	398,912	398,912	398,912
Accumulated depreciation				
Balance at 1 July 2007	(323,900)	(323,900)	(323,900)	(323,900)
Disposals	-	-	-	-
Depreciation expense	(28,566)	(28,566)	(28,566)	(28,566)
Balance at 30 June 2008	(352,466)	(352,466)	(352,466)	(352,466)
Disposals	-	-	-	-
Depreciation expense	(17,030)	(17,030)	(17,030)	(17,030)
Balance at 30 June 2009	(369,496)	(369,496)	(369,496)	(369,496)
Net book value				
As at 30 June 2008	46,011	46,011	46,011	46,011
As at 30 June 2009	29,416	29,416	29,416	29,416

11. Trade and other payables

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Other payables (i)	372,594	999,147	199,448	102,081
Accruals (ii)	21,566,798	205,264	21,566,798	28,835
Employee related payables	88,938	7,322	88,938	7,322
Borrowings	250,000	-	250,000	-
	22,278,330	1,211,733	22,105,184	138,238

Terms and conditions relating to the above payables;

(i) Other payables are non interest bearing and have credit terms between 7 and 30 days. No interest is charged on outstanding amounts.

(ii) Accruals include unpaid cash calls on VIC/P46 payable to Beach Energy Ltd and Mitsui E&P Australia Pty Ltd. These accruals are subject to deed of arrangement whereby they will be fully discharged under the proposed capital restructure. Refer to going concern disclosure in note 2.

12. Provisions

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Current				
Employee benefits				
Annual leave	16,196	38,209	16,196	38,209
Long service leave	76,099	60,612	76,099	60,612
	92,295	98,821	92,295	98,821

13. Issued capital

618,241,636 fully paid ordinary shares (2008: 618,241,636)	36,513,626	36,513,626	36,513,626	36,513,626

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

	2009		2008	
	No.	$	No.	$
Fully paid ordinary shares				
Balance at beginning of financial year	618,241,636	24,663,818	301,167,760	24,663,818
Issue of shares under rights issue (i)	-	6,023,355	150,583,879	6,023,355
Issue of shares under public offer (i)	-	4,000,000	100,000,000	4,000,000
Issue of shares under off market share placement (i)	-	2,792,580	66,489,997	2,792,580
Less: Costs of share issues	-	(966,127)	-	(966,127)
Balance at end of financial year	618,241,636	36,513,626	618,241,636	36,513,626

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

(i) During the previous financial year the Company issued 317,073,876 shares each in the following manner:

- 150,583,879 shares at an issue price of 4 cents each in a non-renounceable rights issue to existing members on the basis of 1 new ordinary share for every 2 ordinary shares held on close of business on 30 October 2007;
- 100,000,000 new ordinary shares at an issue price of 4 cents each in a public offer; and
- 66,489,997 new ordinary shares at an issue price of 4.2 cents each in a share placement.

Share options granted
As at 30 June 2009 executives have options over 3,000,000 ordinary shares (of which 1,000,000 are unvested), in aggregate, with all of those options expiring on 31 December 2009. These options carry no rights to dividends and no voting rights.

14. Reserves

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Equity-settled employee benefits reserve				
Balance at beginning of financial year	26,066	-	26,066	-
Share-based payment	2,896	26,066	2,896	26,066
Balance at end of financial year	28,962	26,066	28,962	26,066

The equity-settled employee benefits reserve arises on the grant of share options to executives and senior employees under the employee option plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments to employees is made in note 24 to the financial statements.

15. Accumulated losses

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Balance at beginning of financial year	(33,938,093)	(23,021,813)	(33,430,756)	(23,021,813)
Net loss attributable to members of the parent entity	(24,771,344)	(10,916,280)	(25,128,125)	(10,408,943)
Balance at end of financial year	(58,709,437)	(33,938,093)	(58,558,881)	(33,430,756)

16. Earnings per share

	Consolidated	
	2009 cents per share	2008 cents per share
Basic earnings per share		
From continuing operations	(4.01)	(2.37)
Diluted earnings per share		
From continuing operations	(4.01)	(2.37)

Basic earnings per share
The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2009 $	2008 $
Net loss	(24,771,344)	(10,916,280)
Other	-	-
Earnings used in the calculation of basic EPS	(24,771,344)	(10,916,280)

	2009 No.	2008 No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	618,241,636	461,113,728

The options on issue throughout 2009 are not dilutive, as the consolidated entity recorded a net loss in 2009.

17. Commitments for expenditure

In order to maintain current rights of tenure to exploration tenements, the Group has the following exploration expenditure requirements up until the expiry of leases. These obligations, which are subject to renegotiation upon expiry of leases, are not provided for in the financial statements.

As outlined in this report, since 30 June 2009 the Company has elected to undergo a restructure and has surrendered its offshore permits. It will now focus its attention on the onshore opportunities its remaining tenements offer. This impacts the Company's exploration expenditure commitments as summarized below.

Prior to the surrender of the offshore tenement VIC/P50, the exploration expenditure forecast was as follows:

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Exploration expenditure				
Not longer than 1 year	10,750,000	25,700,000	10,250,000	25,000,000
Longer than 1 year and not longer than 5 years	56,000,000	44,000,000	52,000,000	40,000,000
Longer than 5 years	-	-	-	-
	66,750,000	69,700,000	62,250,000	65,000,000

17. Commitments for expenditure (cont'd)

Following the surrender of VIC/P50, the exploration expenditure forecast is as follows:

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Exploration expenditure				
Not longer than 1 year	1,000,000	25,700,000	750,000	25,000,000
Longer than 1 year and not longer than 5 years	6,000,000	44,000,000	3,000,000	40,000,000
Longer than 5 years	-	-	-	-
	7,000,000	69,700,000	3,750,000	65,000,000

The Group had no operating lease commitments at 30 June 2009.

18. Contingent liabilities and contingent assets

No contingent liabilities or contingent assets existed at the reporting date.

19. Jointly controlled operations

The Group has interests in joint venture operations for the exploration and development of petroleum in Australia. The Group has taken up its share of exploration expenditure based on the Group's contributions to the joint ventures. Joint venture operating fees totalling $30,342 (2008: $110,498) were received from joint venture participants. All fees were received on normal commercial terms and conditions. Details of the Group's interests in joint venture operations are:

Joint Venture	Interest 30 June 2008	Interest acquired	Interest disposed	Interest 30 June 2009
PRL 13	20.00%	-	-	20.00%
PEP 150	20.00%	-	-	20.00%
PEP 151	75.00%	-	-	75.00%
PEP 168	100%	-	-	100%
VIC/P46	25.00%	-	25.00%	0%
VIC/P50	100%	-	-	100%

20. Subsidiaries

Name of subsidiary	Country of incorporation	Ownership interest	
		2009 %	2008 %
Essential Petroleum Exploration Pty Limited	Australia	100	100

21. Notes to the cash flow statement

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Cash and cash equivalents	68,765	3,113,300	64,101	2,765,076
	68,765	3,113,300	64,101	2,765,076

(b) Reconciliation of profit for the period to net cash flows from operating activities

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Loss for the year	(24,771,344)	(10,916,280)	(25,128,128)	(10,408,943)
Depreciation and amortisation	17,030	28,566	17,030	28,566
Equity-settled share-based payment	2,896	26,066	2,896	26,066
Impairment of loan to subsidiary	-	-	1,701,435	4,606,736
(Increase)/decrease in assets:				
Trade and other receivables	624,573	(230,030)	424,166	(193,857)
Prepayments	23,073	(12,379)	23,073	(12,379)
Increase/(decrease) in liabilities:				
Trade and other payables	20,816,197	885,742	21,716,945	(45,417)
Provisions	(6,525)	18,527	(6,525)	18,527
Net cash from operating activities	(3,294,100)	(10,199,788)	(1,249,105)	(5,980,701)

(c) Non-cash financing activities

There were no non-cash financial activities during the year. (2008) The Company's largest shareholder, Dr P Woodford, advanced to Essential Petroleum Resources Limited $1,750,000 on 3 October 2007. The advance was setoff against the subscription price payable by Dr P Woodford for the issue of securities by way of public offer as disclosed in note 13)

22. Business and geographical segments

The entity operates in the Australian energy sector where the Group has actively sought oil and gas exploration and development opportunities in South Eastern Australia.

23. Financial instruments

(a) Off-balance sheet derative instruments
The Company does not utilize any off-balance sheet derivative instruments.

(b) Commodity contracts
As at 30 June 2009, the Company does not have in place any commodity contracts.

(c) Credit risk exposure
The Company does not have any significant credit risk exposure**)**

(d) Categories of financial instruments

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Financial assets				
Trade and other receivables	-	618,614	-	415,679
Cash and cash equivalents	68,765	3,113,300	64,101	2,765,076
Environment bonds	35,849	52,325	20,239	37,325
Financial liabilities				
Trade and other payables	22,278,330	1,211,733	22,105,184	138,238

(e) Capital Risk management
The Group manages its capital with a view to ensure that entities in the Group will be able to continue as a going concern.
The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses disclosed in notes 13, 14 and 15.

None of the Group's entities are subject to externally imposed capital requirements.

(f) Market risk
The Group's activities expose it primarily to the financial risks of the changes in interest rates (refer note(d)).

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

23. Financial instruments (cont'd)

(g) Interest rate risk management

The Group is exposed to interest rate risk as it borrows funds and holds funds at both fixed and variable rates. This risk is managed through the use of cash forecasts and sensitivity analysis.

The Company and the Group's exposures to interest rates on financial assets are detailed in the liquidity risk management section of this note.

(h) Interest rate sensitivity analysis

The Company's and the Group's interest rate sensitivity has increased during the current period mainly due to the amount of unpaid cash calls at balance date. At reporting date, if interest rates had been 1% higher or lower and all other variables were held constant, the Group's net loss would increase or decrease by $96,770 (2008: decrease or increase by $31,656).

(i) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the Group has no trade receivables as the Group is still exploring for oil and gas rather than producing.

(j) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Group's funding and liquidity management requirements. The Group manages liquidity risk by maintaining sufficient cash balances.

(k) Liquidity and interest risk tables

The following tables detail the Company's and the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

(l) Interest rate risk exposure

The Company's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table

Consolidated	Weighted average effective interest rate %	Less than 1 Month $	1-3 Months $	3 Months to 1 Year $	1-5 Years $	5+ Years $
2009						
Financial assets						
Non interest bearing	-	59,080	-	-	-	-
Variable interest rate instruments	2.13	68,515	-	-	-	-
Fixed interest rate instruments	5.70	35,849	-	-	-	-
Financial liabilities						
Non interest bearing	-	1,339,057	-	-	-	-
Variable interest rate instruments	5.89	20,939,273	-	-	-	-
Fixed interest rate instruments	-	-	-	-	-	-
2008						
Financial Assets						
Non interest bearing	-	558,432	-	-	-	-
Variable interest rate instruments	5.55	885,253	-	-	-	-
Fixed interest rate instruments	6.67	2,280,121	-	-	-	-
Financial Liabilities						
Non interest bearing	-	1,211,733	-	-	-	-
Variable interest rate instruments	-	-	-	-	-	-
Fixed interest rate instruments	-	-	-	-	-	-

23. Financial instruments (cont'd)

Company	Weighted average effective interest rate %	Less than 1 Month $	1-3 Months $	3 Months to 1 Year $	1-5 Years $	5+ Years $
2009						
Financial Assets						
Non interest bearing	-	59,080	-	-	-	-
Variable interest rate instruments	2.15	63,851	-	-	-	-
Fixed interest rate instruments	5.68	20,239	-	-	-	-
Financial Liabilities						
Non interest bearing	-	1,165,911	-	-	-	-
Variable interest rate instruments	5,89	20,939,273	-	-	-	-
Fixed interest rate instruments	-	-	-	-	-	-
2008						
Financial Assets						
Non interest bearing	-	497,832	-	-	-	-
Variable interest rate instruments	5.55	537,030	-	-	-	-
Fixed interest rate instruments	6.63	2,265,121	-	-	-	-
Financial Liabilities						
Non interest bearing	-	137,839	-	-	-	-
Variable interest rate instruments	-	-	-	-	-	-
Fixed interest rate instruments	-	-	-	-	-	-

24. Share-based payments

Employee option plan
The Board of Essential Petroleum Resources Limited may issue options under the Employee Option Plan to any employee of the Company, including executive directors and non-executive directors. Each option is to subscribe for one share and, when issued, the share will rank equally with other shares. Options issued under the Employee Option Plan are not transferable.

The closing share market price of an ordinary share of Essential Petroleum Resources Limited on the Australian Securities Exchange at 30 June 2009 was $0.004

There were no share-based payments during the year.

The following share-based payment arrangements were in existence during the current and comparative reporting periods:

Options series	Number	Grant date	Expiry date	Exercise price $	Fair value at grant date $
A N Gould	3,000,000	18 Oct 2007	31 Dec 2009	0.10	0.0097

The weighted average fair value of the share options granted during the previous financial year was $28,962 . Options were priced using a Black-Sholes model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions. Expected volatility is based on the historical share price volatility over the four years ended 30 September 2007. Given the short term to maturity of the Options and the vesting periods it was assumed that employees would not exercise the options early.

Inputs into the model	A N Gould Series
Grant date share price	$0.0476
Exercise price	$0.10
Expected volatility	65.8%
Option life	2.2 years
Dividend yield	Nil
Risk-free interest rate	6.56%

24. Share-based payments (cont'd)

The following reconciles the outstanding share options at the beginning and end of the financial year:

	2009		2008	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance at beginning of the financial year	3,000,000	0.10	-	-
Granted during the financial year	-	-	3,000,000	0.10
Balance at end of the financial year (ii)	3,000,000	0.10	3,000,000	0.10
Exercisable at end of the financial year	3,000,000	0.10	2,000,000	0.10

(ii) Balance at end of the financial year

The share options outstanding at the end of the financial year had an exercise price of $0.10 (2008: $0.10), and a weighted average remaining contractual life of 184 days (2008: 549 days).

25. Key management personnel compensation

The aggregate compensation made to key management personnel of the Company and the Group is set out below:

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Short-term employee benefits	444,755	459,198	444,755	459,198
Post-employment benefits	22,706	20,642	22,706	20,642
Share-based payment (note 24)	2,896	26,066	2,896	26,066
	470,537	505,906	470,537	505,906

Mr G R Higgins is a lawyer with the law firm TressCox Lawyers. Directors' fees payable to Mr G R Higgins are paid to TressCox Lawyers.

Mr J W Cornelius is a director and shareholder of IMI Consulting Pty Ltd. Directors' fees payable to Mr J W Cornelius are paid to IMI Consulting Pty Ltd.

26. Related party transactions

(a) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 20 to the financial statements.

(b) Transactions with key management personnel

i. Key management personnel compensation

Details of key management personnel compensation are disclosed in the remuneration report section of the directors' report and in note 25 to the financial statements.

ii. Loans to key management personnel

There are no loan balances in respect of loans made to key management personnel of the Group or to their related entities at 30 June 2009 (2008: Nil).

iii. Key management personnel equity holdings

Fully paid ordinary shares of Essential Petroleum Resources Limited

	Balance at 1 July No.	Granted as compensation No.	Received on exercise of options No.	Net other change No.	Balance at 30 June No.
2009					
J W Cornelius	5,548,753	-	-	-	5,548,753
J G Remfry	4,587,501	-	-	-	4,587,501
G R Higgins	1,555,250	-	-	-	1,555,250
	11,691,504	-	-	-	11,691,504
2008					
J W Cornelius	3,165,835	-	-	2,382,918	5,548,753
J G Remfry	3,177,501	-	-	1,410,000	4,587,501
G R Higgins	703,500	-	-	851,750	1,555,250
	7,046,836	-	-	4,644,668	11,691,504

26. Related party transactions (cont'd)

Share options of Essential Petroleum Resources Limited

The Board of Essential Petroleum Resources Limited may issue options under the Employee Option Plan to any employee of the Company, including executive directors and non-executive directors. Each option is to subscribe for one share and, when issued, the share will rank equally with other shares. Options issued under the Employee Option Plan are not transferable.

During the previous financial year Essential Petroleum Resources Limited granted 3,000,000 share options to Mr A Gould, General Manager Corporate Development, as part of his remuneration for his role as consultant to the Company. Further details of the employee option plan and of share options granted during the 2009 and 2008 financial years are contained in the remuneration report section of the directors' report and in note 24 to the financial statements. No other share options were granted during or since the end of the financial year to any directors or any other senior manager.

During the financial year, there were no options (2008: Nil) exercised by key management personnel.

iv. Other transactions with key management personnel of the Group

Mr J W Cornelius, is a director and shareholder of IMI Consulting Pty Ltd. IMI Consulting Pty Ltd has provided corporate consulting to Essential Petroleum Resources Limited. All transactions have been conducted on normal commercial terms and conditions. The total amount paid for these services for the year was $80,000 (2008: NIL). Total amounts outstanding at balance date were $31,625 (2008: Nil) As a condition of completion to the Implementation Agreement, the Company has requested that Mr J W Cornelius waive the recovery of this outstanding amount as a share based payment on the same basis as requested of other creditors to the Company who are to receive their amounts outstanding as a share based payment. Mr J W Cornelius has indicated he will agree to this waiver.

Mr G R Higgins is a partner of TressCox Lawyers. TressCox Lawyers has provided legal and consulting services to Essential Petroleum Resources Limited. All transactions have been conducted on normal commercial terms and conditions. The total amount paid for these services for the year was $197,567 (2008: $142,842). Total amounts outstanding at balance date were $110,471 (2008: $10,835). As a condition of completion to the Implementation Agreement, the Company has requested that TressCox Lawyers waive the recovery of this outstanding amount. The percentage of the waiver is the same as requested of other creditors to the Company. TressCox Lawyers has indicated it will agree to this waiver.

Mr A Grillo is a partner of TressCox Lawyers who has provided company secretarial services to Essential Petroleum Resources Limited. Company secretarial fees payable to Mr A Grillo are paid to TressCox Lawyers. All transactions have been conducted on normal commercial terms and conditions. The total amount paid for these services for the year was $36,000 (2008: $36,000). Total amounts outstanding at balance date were $3,300 (2008: $3,300).

(c) Transactions with other related parties

Transactions between Essential Petroleum Resources Limited and its related parties

During the financial year, the following transactions occurred between the Company and its other related parties:

- Essential Petroleum Resources Limited advanced funds totalling $1,701,435 (2008: $4,567,310) to its subsidiary, Essential Petroleum Exploration Pty Ltd to finance its exploration and evaluation operations in its Victorian onshore permit PEP 168. At reporting date a current loan totalling $6,350,280 (2008: $4,648,845) is receivable from Essential Petroleum Exploration Pty Ltd.
- The Company's largest shareholder Dr P Woodford advanced to Essential Petroleum Resources Limited $250,000 (2008: $1,750,000). Essential Petroleum Resources Limited paid $7,124 interest on this advance (2008: $18,910). The advance received in the previous year was setoff against the subscription price payable by Dr P Woodford for the issue of securities by way of public offer as disclosed in note 13. As a sub-underwriter of the share issue, a related party of Dr P Woodford, Peter J Woodford Pty Ltd was paid $161,977 in relation to this share issue.

27. Remuneration of auditors

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Auditor of the parent entity				
Audit or review of the financial report	64,045	31,000	64,045	31,000
Preparation of tax returns	20,784	10,720	18,607	9,920
	84,829	41,720	82,652	40,920

The auditor of Essential Petroleum Resources Limited is Deloitte Touche Tohmatsu.

The Company has requested the auditor waive the recovery of $24,675 which remains outstanding in relation to the half year ended 31 December 2008. The percentage of the waiver is the same as requested of other creditors to the Company. The auditor has indicated it will agree to this waiver which is included in one of the conditions precedent to the Implementation Agreement. The amounts disclosed above have not been reduced by the amounts of the requested waiver.

The fees payable in relation to the year ended 30 June 2009 have been underwritten by Beach Energy Limited.

28. Subsequent events

As stated in the Directors' Report, an Agreement with Beach Energy Limited and Mitsui E&P Australia Pty Ltd has been approved by a majority of shareholders at a General Meeting held on 22 February 2010.

The implementation of the Agreement will result in a capital re-structure for the Company. Please refer to page 2 of the Directors' Report for further details.

Additional securities exchange information as at 17 February 2010

Number of holders of equity securities

Ordinary share capital

618,241,636 fully paid ordinary shares are held by 2,167 individual shareholders.
All issued ordinary shares carry one vote per share, however, partly paid shares do not carry the rights to dividends.

Options

There are no options on issue.

Distribution of holders of equity securities

	Fully paid ordinary shares		Options	
	Holders	Shares	Holders	Options
1 – 1,000	33	8,548		
1,001 – 5,000	124	451,191		
5,001 – 10,000	246	2,184,986		
10,001 – 100,000	1,145	51,860,327		
100,001 and over	619	563,736,584		
	2,167	618,241,636	Nil	Nil
Holding less than a marketable parcel	1,420	41,690,052		

Substantial shareholders

	Fully paid ordinary shares
Ordinary shareholders	Number
Dr Peter John Woodford	198,815,727

Twenty largest holders of quoted equity securities

	Fully paid ordinary shares	
Ordinary shareholders	Number	Percentage
Dr Peter John Woodford	198,815,727	32.16
ANZ Nominees Limited Cash Income A/C	13,641,293	2.21
Australian Investors Pty Ltd	12,318,540	1.99
Crescent Nominees Limited	10,250,000	1.66
Mr Alan Cowen	10,000,000	1.62
HSBC Custody Nominees (Australia) Limited	7,424,618	1.20
Mr John William Cornelius	5,068,753	0.82
Mr Gerhard Noss	5,000,000	0.81
Mr Ron Young	4,157,197	0.67
JGR Trading Co Pty Ltd	4,107,501	0.66
Captain Charles Jeremy Potter	4,000,068	0.65
Mr Eutillio Buccilli	4,000,000	0.65
Mr Emile Alfred Nessim	4,000,000	0.65
Sacrosanct Pty Ltd	4,000,000	0.65
Mrs Carmela Baiamonte	3,632,200	0.59
Mr Richard John Sandner Mrs Judith Joan Sandner Sandner Pension Fund A/C	3,500,000	0.57
Mr Jeremy Morris Belcher	3,300,000	0.53
Befavo Pty Ltd H G Shore Super Fund A/C	3,261,834	0.53
Mr Tito Paular	3,130,000	0.51
Mr Bruce Duncan Webb Mrs Amanda Jane Webb Webb Super Fund A/C	3,000,000	0.49
	306,607,731	49.59

Company secretary

Mr A M G Grillo

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