Essential Petroleum Resources Limited

ABN 38 089 956 150

Half-year financial report for the half-year ended 31 December 2009

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Directors' report

The directors of Essential Petroleum Resources Limited submit herewith the financial report of Essential Petroleum Resources Limited and its subsidiaries (the Group) for the half-year ended 31 December 2009. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

The names of the Directors of the company during or since the end of the half-year are:

Name

- John W Cornelius - Non Executive Chairman
- John G Remfry - Managing Director and Chief Executive Officer
- Garrick R Higgins - Non Executive Director

The above named directors held office during and since the end of the half-year.

Review of operations

The net loss of the Group for the financial period after income tax expense was $1,010,844 (31 December 2008: $6,139,135).

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 incurred 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 that resulted in a capital re-structure and a change of the strategic imperatives of the Company. A summary of the Implementation Agreement is set out below.

At a General Meeting held on 22 February 2010 (General Meeting), 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 was not 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

Following the General Meeting, the Implementation Agreement with Beach and Mitsui has realised the following outcomes:

1. EPR's debt of approximately $14 million to Beach has been 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 of up to $500,000 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 has nominated 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 future capital raising.

5. EPR's indebtedness to its other creditors has been 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 billion 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 billion cubic feet each and have a combined recoverable gas resource of approximately 15 billion cubic feet.

   In addition to these ready to drill prospects Essential Petroleum believes that there is the potential to discover more gas 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 also 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 billion cubic feet.

   A third opportunity to exploit the remaining potential of the Port Campbell Embayment lies within the inter-bedded sands and shales of the Eumeralla Formation. The Eumeralla Formation hosts the source rocks of this active hydrocarbon system. The extent and thickness of the formation provide the opportunity for the shales to host very large gas resources. This concept is referred to as Shale Gas.

   Shale Gas has proven to be highly successful in North America and in PEP 168 it has the potential to be at least as big and productive as a viable coal seam methane project.

   The commercial potential of these opportunities is enhanced by their proximity to extensive infrastructure and gas markets. Gas retailers have expressed interest in buying 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 recovery and 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/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.

Auditor's independence declaration

The auditor's independence declaration is included on page 5 of the half-year financial report.

Signed in accordance with a resolution of directors made pursuant to s.306(3) 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, 16 March 2010

Deloitte.

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The Board of Directors
Essential Petroleum Resources Limited
Level 2
226 Albert Road
South Melbourne VIC 3205

16 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 review of the financial statements of Essential Petroleum Resources Limited for the financial half-year ended 31 December 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 review; and

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

Yours sincerely

Deloitte Touche Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Craig Bryan
Partner
Chartered Accountants

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; and

(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 consolidated entity.

Signed in accordance with a resolution of the Directors made pursuant to s.303(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, 16 March 2010

Condensed consolidated statement of comprehensive income for the half-year ended 31 December 2009

	Consolidated	
	Half-year ended	
	31 Dec 2009 $	31 Dec 2008 $
Continuing operations		
Revenue	848	60,930
Administrative expenditure	(212,304)	(453,061)
Employee benefits expense	(172,525)	(192,492)
Exploration and evaluation expenditure	(12,373)	(5,523,977)
Finance costs	(614,490)	(30,535)
Loss before tax	(1,010,844)	(6,139,135)
Income tax expense	-	-
Net loss for the period	(1,010,844)	(6,139,135)
Other comprehensive income	-	-
Total comprehensive income (loss) for the period attributable to members of Essential Petroleum Resources Limited	(1,010,844)	(6,139,135)
Earnings per share		
From continuing operations:		
Basic (cents per share)	(0.2)	(1.0)
Diluted (cents per share)	(0.2)	(1.0)

Notes to the condensed consolidated financial statements are included on pages 11 to 13.

Condensed consolidated statement of financial position as at 31 December 2009

	Consolidated	
	31 Dec 2009 $	**30 Jun 2009 $**
Current assets		
Cash and cash equivalents	95,412	68,765
Trade and other receivables	9,887	10,916
Other assets	39,698	58,830
Total current assets	144,997	138,511
Non-current assets		
Environmental bonds	35,000	35,849
Property, plant and equipment	23,550	29,416
Total non-current assets	58,550	65,265
Total assets	203,547	203,776
Current liabilities		
Trade and other payables	23,362,492	22,278,330
Provisions	18,748	92,295
Total current liabilities	23,381,240	22,370,625
Total liabilities	23,381,240	22,370,625
Net liabilities	(23,177,693)	(22,166,849)
Equity		
Issued capital	36,513,626	36,513,626
Reserves	-	28,962
Accumulated losses	(59,691,319)	(58,709,437)
Total deficiency	(23,177,693)	(22,166,849)

Notes to the condensed consolidated financial statements are included on pages 11 to 13.

Condensed consolidated statement of changes in equity for the half-year ended 31 December 2009

	Fully paid ordinary shares	Equity-settled employee benefits reserve	Accumulated losses	Total
	$	$	$	$
Balance at 1 July 2008	36,513,626	26,066	(33,938,093)	2,601,599
Recognition of share-based payments	-	2,896	-	2,896
Expired options not exercised	-	-	-	-
Loss attributable to equity holders of parent entity	-	-	(6,139,135)	(6,139,135)
Balance at 31 December 2008	36,513,626	28,962	(40,077,228)	(3,534,640)
Balance at 1 July 2009	36,513,626	28,962	(58,709,437)	(22,166,849)
Recognition of share-based payments	-	-	-	-
Expired options not exercised	-	(28,962)	28,962	-
Loss attributable to equity holders of parent entity	-	-	(1,010,844)	(1,010,844)
Balance at 31 December 2009	36,513,626	-	(59,691,319)	(22,177,693)

Notes to the condensed consolidated financial statements are included on pages 11 to 13.

Condensed consolidated cash flow statement for the half-year ended 31 December 2009

	Consolidated	
	Half-year ended	
	31 Dec 2009 $	31 Dec 2008 $
Cash flows from operating activities		
Receipts from customers	-	91,543
Payments to suppliers and employees	(246,388)	(665,342)
Exploration and evaluation expenditure incurred	(113,452)	(2,387,084)
Interest received	848	92,533
Net cash used in operating activities	(358,992)	(2,868,350)
Cash flows from investing activities		
Payment for investment deposits	-	(1,798)
Payment for property, plant and equipment	(275)	(435)
Net cash provided by investing activities	(275)	(2,233)
Cash flows from financing activities		
Proceeds from borrowings	385,914	-
Net cash provided by financing activities	385,914	-
Net (decrease)/increase in cash and cash equivalents	26,647	(2,870,583)
Cash and cash equivalents at the beginning of the period	68,765	3,113,300
Cash and cash equivalents at the end of the period	95,412	242,717

Notes to the condensed consolidated financial statements are included on pages 11 to 13.

Notes to the condensed consolidated financial statements

1. Significant accounting policies

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

Basis of preparation

The condensed consolidated financial statements have 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.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's annual financial report for the financial year ended 30 June 2009. The Company has adopted all new and revised Standards and Interpretations issued but the Australian Accounting Standards Board (AASB) that are relevant to its operations. The adoption of these Standards has not resulted in any restatement to the results of previous periods presented.

New and revised standards and interpretations effective for the current reporting period and applicable to Group include AASB 8 Segment Reporting and AASB 101 Presentation of Financial Statements. The adoption of these new and revised standards has resulted in changes to the presentation or disclosure in the Group's financial statements as follows:

- Statement of Comprehensive Income has replaced Income Statement and Balance Sheet has been re-named Statement of financial position.

Going concern

The half year 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 31 December 2009 the consolidated entity has net liabilities of $23,177,693 and reported a loss after tax for the period then ended of $1,010,844 and used net operating cash of $358,992.

The net liabilities reported include 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 31 December 2009 the total cash call liability under the JOA is $20,939,273.

On 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.

Going concern (cont'd)

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.

On 4 March 2010, shares were issued under the Implementation Agreement in settlement of cash call liabilities and other creditors who were entitled under the agreement.

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 Primary Industries (Victoria) 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 (in addition to the $500,000 to be provided under the Implementation Agreement) 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 other than by the issue of shares in the Company as approved at the General Meeting of Shareholders on 22 February 2010.

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 Agreement 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 Primary Industries to vary or defer existing work expenditure obligations for current tenements, the directors believe that the group will continue to operate as a going concern 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 group will continue as a going concern. If the group is unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements.

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 not continue as a going concern.

2. Results for the period

The following revenue and expense items are relevant in explaining the financial performance for the interim period:

	Consolidated	
	Half-year ended	
	31 Dec 2009 $	31 Dec 2008 $
Revenue		
Revenue from the rendering of services	-	7,033
Interest revenue		
Bank deposits	848	53,897
Expenditure		
Depreciation of non-current assets	6,142	9,715
Operating lease rental expenses		
Minimum lease payments	25,330	25,713
Share-based payments:		
Equity-settled share-based payments	-	2,896

3. Issuances, repurchases and repayments of equity securities

The Company did not issue, repurchase or repay any equity securities during the financial period.

4. Subsequent events

At a General Meeting held on 22 February 2010, shareholders voted to accept a restructure proposal with Beach Energy Limited (as Operator) (*Beach*) and Mitsui E&P Australia Pty Ltd (*Mitsui*). The restructure will be completed following the next Annual General Meeting anticipated in April 2010.

Please refer to note 1 for further details.

5. Segment information

The Group operates in the Australian energy sector where the Company has actively sought oil and gas exploration opportunities within South Eastern Australia for a number of targets through various tenements all of which are currently at exploration stage and require further funding to proceed to revenue generation stages. As such the Group is required to prioritise its funding allocation and does so based on the assessment of the market sentiment and the potential of finding a viable resource. Internal monthly management reports are provided to the group's CEO that consolidate operations into one segment. The Group's activities are therefore classed as one business segment.

6. Contingencies and commitments

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.

	Consolidated	
	31 Dec 2009 $	30 Jun 2009 $
Exploration expenditure		
Not longer than 1 year	1,000,000	1,000,000
Longer than 1 year and not longer than 5 years	6,000,000	6,000,000
Longer than 5 years	-	-
	7,000,000	7,000,000

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Independent Auditor's Review Report to the members of Essential Petroleum Resources Limited

We have reviewed the accompanying half-year financial report of Essential Petroleum Resources Limited which comprises the condensed consolidated statement of financial position as at 31 December 2009, and the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 6 to 13.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year 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 half-year 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Essential Petroleum Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Deloitte.

Auditor's Independence Declaration

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Essential Petroleum Resources Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our conclusion, we draw attention to Note 1 in the financial report which indicates that the consolidated entity incurred a net loss of $1,010,844 during the half year ended 31 December 2009 and at that date has an excess of current liabilities over current assets of $23,236,243. This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and whether they will realise their assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Deloitte Touche Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Craig Bryan
Partner
Chartered Accountants
Melbourne, 16 March 2010