

Essential Petroleum Resources Limited

ABN 38 089 956 150

Half-year financial report for the half-year ended 31 December 2008

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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 2008. 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 \$6,139,135 (31 December 2007: \$1,816,368).

The Group has interests in onshore and offshore petroleum exploration tenements in the Otway Basin in South Eastern Australia. It actively explores these tenements and seeks to add to its successful onshore gas discovery made at East Wing in the vicinity of Peterborough, Western Victoria in September 2008.

The East Wing gas field is expected to be commercialised via pre-existing pipelines. These assets are owned by other parties and hence access for East Wing gas depends on negotiation and coordination of activities with the asset owners.

The elevated CO₂ content of East Wing gas has complicated and delayed this process. Other avenues to commercialisation including onsite power generation are currently being pursued.

Additional prospectivity in PEP168 includes the updip exploration potential at East Wing, other leads and prospects in the vicinity, and new prospects being developed from the existing 3D and 2D seismic coverage.

Seismic recently acquired in the renewed PEP151 is being used to develop the Digby West lead in the northern part of the survey area.

In its offshore tenements, VIC/P46 and VIC/P50, the Company's ability to participate is contingent upon it entering into farmout agreements with third parties on terms which must allow the Company to fulfill its committed obligations.

To date the Company has not yet completed the necessary farmout agreements in either of these tenements. As a result, the Company has not been able to meet the cash call requirements for the Fermat-1 drilling operations in VIC/P46 completed in mid January 2009. The Company is currently in discussions with Beach Petroleum Limited and Mitsui E&P Australia Pty Ltd, with a view of establishing suitable arrangements for the management and settlement of these liabilities.

Notwithstanding that Fermat-1 appears to have been unsuccessful, the Company is continuing its discussions with a Hong Kong based investor group on equity agreements in the offshore tenements based on the overall prospectivity of the Company's acreage.

Further information on likely developments in the operations of the Company and their expected results have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Company.

Auditor's independence declaration

The auditor's independence declaration is included on page 2 of the half-year financial report.

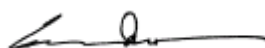
Signed in accordance with a resolution of directors made pursuant to s.306(3) of the *Corporations Act 2001*.



J G Remfry
Managing Director and Chief Executive Officer



J W Cornelius
Non Executive Chairman



G R Higgins
Non Executive Director

Melbourne, 16 March 2009

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

16 March 2009

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.

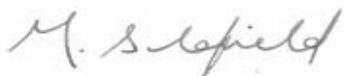
As lead audit partner for the review of the financial statements of Essential Petroleum Resources Limited for the financial half-year ended 31 December 2008, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (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



M J Schofield
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.

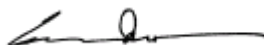
Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the *Corporations Act 2001*.



J G Remfry
Managing Director and Chief Executive Officer



J W Cornelius
Non Executive Chairman



G R Higgins
Non Executive Director

Melbourne, 16 March 2009

**Condensed consolidated income statement
for the half-year ended 31 December 2008**

	Consolidated	
	Half-year ended	
	31 Dec 2008	31 Dec 2007
	\$	\$
Continuing operations		
Revenue	60,930	122,756
Administrative expenditure	(453,061)	(395,946)
Employee benefits expense	(192,492)	(182,228)
Exploration and evaluation expenditure	(5,523,977)	(1,342,040)
Finance costs	(30,535)	(18,910)
Loss before tax	(6,139,135)	(1,816,368)
Income tax expense	-	-
Loss for the period attributable to the members of Essential Petroleum Resources Limited	(6,139,135)	(1,816,368)
Earnings per share		
From continuing operations:		
Basic (cents per share)	(1.0)	(0.5)
Diluted (cents per share)	(1.0)	(0.5)

Notes to the condensed consolidated financial statements are included on pages 8 to 9.

**Condensed consolidated balance sheet
as at 31 December 2008**

	Consolidated	
	31 Dec 2008 \$	30 June 2008 \$
Current assets		
Cash and cash equivalents	242,717	3,113,300
Trade and other receivables	26,796	618,614
Accrued January cash calls payable to JOA partners	8,500,000	-
Other assets	143,359	81,903
Total current assets	8,912,872	3,813,817
Non-current assets		
Environmental bonds	54,121	52,325
Property, plant and equipment	36,731	46,011
Total non-current assets	90,852	98,336
Total assets	9,003,724	3,912,153
Current liabilities		
Trade and other payables	275,958	1,211,733
Accrued cash calls payable to JOA partners	12,155,766	-
Provisions	106,640	98,821
Total current liabilities	12,538,364	1,310,554
Total liabilities	12,538,364	1,310,554
Net (liabilities)/assets	(3,534,640)	2,601,599
Equity		
Issued capital	36,513,626	36,513,626
Reserves	28,962	26,066
Retained earnings	(40,077,228)	(33,938,093)
Total (deficiency)/equity	(3,534,640)	2,601,599

Notes to the condensed consolidated financial statements are included on pages 8 to 9.

**Condensed consolidated statement of changes in equity
for the half-year ended 31 December 2008**

	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	10,023,355	-	-	10,023,355
Share issue costs	(788,503)	-	-	(788,503)
Recognition of share-based payments	-	15,446	-	15,446
Loss attributable to equity holders of parent entity	-	-	(1,816,368)	(1,816,368)
Balance at 31 December 2007	33,898,670	15,446	(24,838,181)	9,075,935
Balance at 1 July 2008	36,513,626	26,066	(33,938,093)	2,601,599
Shares issued during the year	-	-	-	-
Share issue costs	-	-	-	-
Recognition of share-based payments	-	2,896	-	2,896
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)

Notes to the condensed consolidated financial statements are included on pages 8 to 9.

Condensed consolidated cash flow statement for the half-year ended 31 December 2008

	Consolidated	
	Half-year ended	
	31 Dec 2008	31 Dec 2007
	\$	\$
Cash flows from operating activities		
Receipts from customers	91,543	44,609
Payments to suppliers and employees	(665,342)	(511,569)
Exploration and evaluation expenditure incurred	(2,387,084)	(1,373,250)
Interest and other costs of finance paid	-	(18,910)
Interest received	92,533	90,013
Net cash used in operating activities	(2,868,350)	(1,769,107)
Cash flows from investing activities		
Payment for investment deposits	(1,798)	(3,418)
Payment for property, plant and equipment	(435)	-
Net cash provided by investing activities	(2,233)	(3,418)
Cash flows from financing activities		
Proceeds from issues of equity securities	-	8,273,355
Payment for share issue costs	-	(631,384)
Proceeds from borrowings	-	1,750,000
Net cash provided by financing activities	-	9,391,971
Net (decrease)/increase in cash and cash equivalents	(2,870,583)	7,619,446
Cash and cash equivalents at the beginning of the period	3,113,300	1,531,906
Cash and cash equivalents at the end of the period	242,717	9,151,352

Notes to the condensed consolidated financial statements are included on pages 8 to 9.

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 2008 annual financial report for the financial year ended 30 June.

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.

For the reasons described below, there is significant uncertainty whether the consolidated entity will continue as a going concern:

- At 31 December 2008 the consolidated entity has net liabilities of \$3,534,640 and has incurred a loss of \$6,139,135 in the current period,
- As at 31 December 2008 Essential Petroleum Resources Limited had defaulted on the joint operating agreement ("JOA") with Beach Petroleum Limited ("Beach") and Mitsui E&P Australia Pty Limited ("Mitsui E&P") on the following cash calls:
 - December 2008 Cash Call dated 25 November 2008, due on 17 December 2008 for \$3,036,332.
 - January 2009 Cash Call dated 10 December 2008, due on 29 December 2008 for \$9,119,434.

Subsequent to 31 December 2008 Essential Petroleum Resources Limited defaulted on the February Cash Call dated 19 January 2009 due on 29 January 2009 for \$7,710,156. In total this liability as at the date of signing is \$19,865,922. The consolidated entity has sought and received a notice of deferral from Beach and Mitsui E&P stating that they will not exercise their rights and are prepared to defer taking action for the recovery of the debt due by the consolidated entity and to require the consolidated entity to withdraw from the JOA and the permit, until 26 March 2009.

- As at 16 March 2009 the company had cash of \$289,184 and unsecured current liabilities of \$20,502,350 consisting of trade and other payables of \$522,797, accrued cash calls to JOA partners \$19,865,922 and employee provisions of \$113,631. The company is managing cash flows and renegotiating payment arrangements with creditors.

The company is considering proposals in connection with obtaining funding to enable the company to repay and or restructure the debt obligations due under the JOA, and fund future commitments. These proposals include but are not limited to the following:

- Continuing negotiations with a Hong Kong based resources investment group regarding direct participation in the consolidated entity's offshore tenements that would raise sufficient funds to repay the JOA obligations and help fund future commitments under the JOA with a reduced interest in the offshore exploration program.
- Ongoing discussions with Beach and Mitsui E&P to consider a proposal whereby the consolidated entity's debt obligations under the JOA would be restructured. This would be combined with a capital raising which would be expected to fund forecasted operating expenditure for at least the next twelve months.

The ability of the consolidated entity to continue as a going concern is dependent on its ability to achieve the following:

- Successful completion of the capital raising with the Hong Kong based resources investment group and where appropriate other parties to ensure that the amounts owing under the JOA with Beach and Mitsui E&P are repaid in full and any further commitments under this JOA are met. Funding obtained from these capital raisings will also be sufficient for working capital purposes and to fund a scaled-down exploration program, or
- Successfully implementing and concluding the Beach and Mitsui E&P proposal.
- Obtaining the necessary shareholder approvals in connection with one of the proposals outlined above.
- Should the abovementioned proposals not be implemented by 26 March 2009, the consolidated entity will need to receive the continuing support of Beach and Mitsui E&P beyond 26 March 2009 in connection with restructuring and repayment of the amounts due such that Essential's obligations to repay is deferred.
- Obtaining support of its unsecured creditors to defer payments of amounts due.
- Manage the performance of the consolidated entity by reducing overheads and outgoings.

At the date of this report and having considered the above factors, the directors are confident that the consolidated entity will be able to continue as a going concern. Notwithstanding this there is significant uncertainty whether the consolidated entity will continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report

The financial report does 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 consolidated entity 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:

Revenue

Revenue from the rendering of services

Interest revenue

Bank deposits

Expenditure

Depreciation of non-current assets

Operating lease rental expenses

Minimum lease payments

Share-based payments:

Equity-settled share-based payments

Consolidated	
Half-year ended	
31 Dec 2008	31 Dec 2007
\$	\$
7,033	18,180
53,897	104,576
60,930	122,756
9,715	16,988
25,713	30,080
2,896	15,446

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

The Fermat-1 well in VIC/P46 was spudded on 14 December 2008, approximately 30 days ahead of schedule and prior to EPR completing a farmout agreement of VIC/P46. The well was plugged and abandoned on 15 January 2009 not having encountered significant hydrocarbons.

The Company did not have funding arrangements in place to contribute to the drilling of Fermat-1. The Company was issued with default notices for its failure to meet its share of the Fermat-1 cash requirements in December 2008, January 2009 and February 2009. The Company's JOA Partners in VIC/P46, Beach Petroleum Limited and Mitsui E & P Australia Pty Ltd, have issued letters stating that no action for the recovery of the Company's debt would be taken prior to 26 March 2009, pending the outcome of debt management and settlement negotiations.

The Company is in discussions with a Hong Kong based resources investment group regarding direct participation in the Company's offshore tenements. Discussions and negotiations with the Hong Kong based resources investment group, Beach Petroleum Limited and Mitsui E & P Australia Pty Ltd are continuing.

The Company has obtained an unsecured loan of \$250,000 from the Company's major shareholder, Dr Peter Woodford to cover the Company's ongoing operating requirements during the period of negotiations.

5. Segment information

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

7. Contingencies and commitments

In order to maintain current rights of tenure to exploration tenements, the Group 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.

Exploration expenditure

Not longer than 1 year

Longer than 1 year and not longer than 5 years

Longer than 5 years

Consolidated	
31 Dec 2008	30 June 2008
\$	\$
20,000,000	25,700,000
50,000,000	44,000,000
-	-
70,000,000	69,700,000

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 balance sheet as at 31 December 2008, and the income statement, cash flow statement, 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 3 to 10.

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 2008 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.

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:

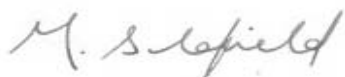
- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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 \$6,139,135 during the half year ended 31 December 2008 and, as of that date, the consolidated entity's total liabilities exceeded its total assets by \$3,534,640. These conditions, 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 it will realise its 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



M J Schofield
Partner
Chartered Accountants
Melbourne, 16 March 2009