

**Essential Petroleum Resources Limited**  
**ABN 38 089 956 150**

**Annual report for the financial year ended 30 June 2008**

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## 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 2008. 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
<b>John W Cornelius</b> 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.
<b>John G Remfry</b> <b>BA (Geophysics) Dip</b> <b>Comp Sc</b> 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.
<b>Garrick R Higgins</b> <b>B. Juris, LLB</b> 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
John W Cornelius	Panaegis Gold Mines Limited	October 2005 to October 2007
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.

Directors	Essential Petroleum Resources Limited	
	Fully paid ordinary shares Number	Share options Number
J W Cornelius	5,548,753	-
G R Higgins	1,555,250	-
J G Remfry	4,587,501	-

### 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 9 to 11.

### Share options granted to directors , senior management and consultants

During the 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 as a part-time consultant. Further information in relation to these share options is set out in the remuneration report of this directors' report, on pages 9 to 11. No other share options were granted during or since the end of the financial year to any directors or any other member of senior management.

## Company secretary

Name	Particulars
<b>Alfonso M G Grillo</b> <b>BA LLB</b> 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 Panaegis Gold Mines 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

Essential Petroleum is focused on unlocking the vast potential of the Otway Basin, onshore and offshore, in southeastern Australia.

The Company's Otway Basin onshore activities are aimed at making commercial oil and gas discoveries to help fund the bigger opportunities offshore.

This strategy is proving to be successful with Essential Petroleum's first onshore gas discovery at East Wing -1 in June 2008. The cash that may be generated from this project will help fund the Company's major objective which is the offshore Otway Basin.

There are three main points in Essential Petroleum's focus on the offshore Otway Basin where the Company holds a 25% interest in VIC/P46 and a 100% interest in VIC/P50.

- (i) The offshore Otway Basin contains a proven hydrocarbon province in its southeastern part, hosting a number of recent commercial discoveries on a feature called the Pecten High.
- (ii) A recently recognised, but much larger feature in the offshore Otway Basin called the Discovery Bay High, has the potential to be at least as productive as the Pecten High.
- (iii) Essential Petroleum has by far the largest acreage position covering the Discovery Bay High making the Company an attractive investment proposition.

Geologically the Discovery Bay High and Pecten High are similar but while the Pecten High has been responsible for discoveries amounting to more than 1.5 TCF of gas, the Discovery Bay High has barely been explored.

No wells have been drilled on the Discovery Bay High based on modern seismic data. The Company believes that the Discovery Bay High has the potential to host more than two billion barrels of oil and 2 TCF of gas (potential recoverable resources).

Offshore drilling will start in December 2008 with the Fermat Prospect in VIC/P46 having the possibility of containing as much as 1.15 TCF of gas (potential recoverable resources).

Essential Petroleum has the largest exposure to the Discovery Bay High area of any oil & gas company, and as such has the greatest leverage to the area of any of any other company operating in the basin.

It must be noted that Essential Petroleum's ability to participate in these exciting offshore opportunities is contingent upon farming out interests in its offshore tenements and being able to raise sufficient funds to cover its joint venture obligations in them. The board is working vigorously towards achieving these necessary objectives.

### Onshore

#### PEP 168 (EPR's Interest: 100%; Onshore Otway Basin, Victoria)

Essential Petroleum undertook detailed prospect scale seismic mapping, calibrating the 3D seismic data to existing wells, in the second half of 2007. This work has enabled Essential Petroleum to identify a number of prospects with associated Direct Hydrocarbon Indicators. The Ayrford and East Wing prospects were selected for drill testing, and a third prospect, Callaghan, was planned for drilling subject to the success of the first two wells.

Essential Petroleum made its first commercial hydrocarbon discovery in the East Wing-1 exploration well which was spudded on 26 April 2008, and reached a total depth of 2,305 mKB on 30 May 2008.

A wireline logging survey was conducted with preliminary analysis identifying two gas saturated intervals in the Flaxman and Waarre formations with a combined net reservoir thickness of 9.1 metres.

Below this interval, an 18 metre transition zone of lower gas saturation was identified within the Waarre Formation. Essential Petroleum believed that this zone could possibly represent moveable hydrocarbon, including oil, above a water contact at 2,243.5 metres.

## **Operating and financial review (cont'd)**

The East Wing-1 ST well was cased and suspended as a gas discovery well with the possibility of a liquid rich zone below the overlying gas zones. The well was perforated and tested over the zones of interest in the Waarre and Flaxman formations in September 2008. The results of this testing are described in the "subsequent events" section on page 6.

The other exploration well drilled in PEP 168 during the reporting period was Ayrford-1. This well began drilling on 7 April 2008, and reached its planned target depth of 1,622 mKB on 16 April 2008. Elevated background gas readings were encountered in the Waarre Formation. However, petrophysical analysis of the wireline logs over the Waarre Formation indicated water saturations close to 100% and a detailed wireline pressure testing program failed to detect a producible gas column.

The Ayrford-1 well was plugged and abandoned as a dry hole on 18 April 2008.

### **PEP 150 (EPR's Interest: 20%; Onshore Otway Basin, Victoria)**

Beach Petroleum Limited (ASX: BPT), as operator of PEP 150, has continued to lead the Native Title negotiations concerning PEP 150 during the 2007/08 financial year.

PEP 150 provides exposure to all 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 mapped during preliminary investigation prior to the formal award of the permit. The most significant lead is the known oil accumulation at Lindon.

### **PEP 151 (EPR's Interest: 75% and Operator; Onshore Otway Basin, Victoria)**

Essential Petroleum started its 2007/08 exploration program in the onshore permit PEP 151 with the acquisition of a 111 line kilometre 2D seismic survey in March 2008. The objective of the survey is to upgrade to drillable prospect status the Digby West and Dartmoor leads. Processing and interpretation of the seismic data is expected to be completed in the third quarter of calendar 2008.

The Digby West and Dartmoor leads are located in the "Dartmoor Trough", an Early Cretaceous half graben in the north-eastern part of the permit. A preliminary review of the newly acquired seismic data suggests that both the Pretty Hill Sandstone and the Casterton Formation are present in the trough. These two sequences are essential elements of the Early Cretaceous petroleum system. The Pretty Hill Sandstone hosts the gas fields and oil accumulations of the productive Penola Trough in South Australia. Organic rich lacustrine shales of the basal Casterton Formation are the hydrocarbon source rocks for these fields.

The seismic data also indicates up to 4 kilometres of Early Cretaceous section in the deepest parts of the trough, sufficient for the maturation and expulsion of hydrocarbons from source rocks at the base of the section.

### **PRL 13 (EPR's Interest: 20%; Onshore Otway Basin, South Australia)**

On 31 January 2007, Beach Petroleum Limited (ASX: BPT; 30% Interest), Origin Energy Limited (ASX: ORG; 50% Interest) and Essential Petroleum were granted the Petroleum Licence PRL 13 which comprises 17.5 square kilometres over the Killanoola oil accumulation in the Penola Trough. PRL 13 is operated by Beach Petroleum Limited.

The Killanoola DW-1 well flowed 25-30 bopd of a waxy crude oil with a 10 to 15% water cut during an extended production test carried out by a previous operator in 1999. The well was cased and suspended, which means it could be converted quickly into a commercial producer if the flow rate can be improved. It is estimated that the Killanoola structure hosts a mean recoverable oil resource of 800,000 bbls.

The Operator, Beach Petroleum, has undertaken preliminary work and is currently looking for a suitable workover rig to conduct an Extended Production Test ("EPT"). The EPT is planned to take place by the end of calendar 2008. New technologies will be employed during the EPT with the objective of achieving commercially viable flow rates.

## **Offshore**

### **VIC/P46 (EPR's Interest: 25%; Offshore Otway Basin, Victoria)**

The Discovery Bay High provides a highly favourable environment for the prospectivity of the Fermat, Bernoulli and Kepler prospects in VIC/P46. Fermat and Bernoulli are located on the western side of the Discovery Bay High where we now expect Waarre and Flaxman formation reservoir sands to be deposited. The Company is greatly encouraged that seismic data attributes support this theory.

VIC/P46 has an extensive mature prospect portfolio of which Fermat and Bernoulli have a combined mean gas resource in excess of 1.3 trillion cubic feet.

In addition, Fermat and Bernoulli are ideally located to trap hydrocarbons migrating out of the Morum Sub-basin. Researchers at Primary Industries and Resources South Australia (PIRSA) have presented a case for an oil-prone marine source rock at the top of the Early Cretaceous section in the Morum Sub-basin.

The operator of VIC/P46, Beach Petroleum Ltd, has advised that the West Triton drilling rig is on schedule to start drilling the Fermat Prospect in December 2008.

The Fermat Prospect has the potential to host a significant hydrocarbon resource, estimated to be 1.15 TCF of potential recoverable gas resource or 670 million barrels of potential recoverable oil resource.

## **Operating and financial review (cont'd)**

Seabed coring at the proposed Fermat and Bernoulli well locations was completed in December 2007. Seabed coring is carried out prior to using jack-up rigs to ensure that the substrate will safely support this type of rig.

In the June quarter the VIC/P46 joint venture undertook detailed analysis of the Bernoulli 3D seismic survey and worked towards a decision on the drilling priorities in the permit.

The VIC/P46 permit covers an area of about 1,800 square kilometres offshore to the west and southwest of Portland in water depths between 50 and 200 metres. It is located close to local gas market potential and the SEAGas pipeline.

Exploration is primarily focussed on the proven Waarre Formation gas play.

The Fermat and Bernoulli prospects in VIC/P46 have been generated by the geological processes associated with the Discovery Bay High. This trend, in the offshore Otway Basin, has the potential to be a new and productive oil and gas province but remains almost totally unexplored.

The VIC/P46 Permit features:

- Quality acreage with a strong prospects and leads inventory;
- Possibility of both oil and gas discovery;
- Combined resource potential in excess of 2 TCF of gas or 750 MMbbls of oil;
- Proximity to gas market infrastructure and growing demand from eastern Australian energy market; and
- Favourable oil price allows small oil discoveries to be appraised.

### **VIC/P50 (EPRL Interest: 100%; Offshore Otway Basin, Victoria)**

The first new lead, the Oliphant Lead, in the western part of VIC/P50, is a faulted rollover sealed by thick marine shales. Significant throw on the northern fault provides favorable juxtaposition of interpreted Waarre reservoir sands against Eumeralla Formation source rocks. Oliphant has a large areal extent and vertical relief with the potential to host an oil resource as much as 660 MMbbls oil in place. The Oliphant lead can be matured to drillable status with the acquisition of a 500 kilometre 2D seismic survey but preferably a 400 square kilometre 3D survey.

The second new play, the Euclid Lead, is a high amplitude seismic package within the Sherbrook Group above a major unconformity in the eastern part of VIC/P50. Limited seismic facies analysis has identified basal channel facies and high amplitude continuous sheet facies consistent with a low-stand fan. The mapped low stand fan package covers an area of 198 square kilometres with an amplitude anomaly of 50 square kilometres and associated AVO anomalies. The Euclid Lead has an unrisks estimated P50 recoverable oil resource of 760 MMbbls.

The Euclid Lead is particularly attractive given the interpreted juxtaposition of the fan package against the Eumeralla Formation in adjacent tilted fault blocks, providing an easy migration pathway from lower Eumeralla Formation source rocks. The reservoir sands contained in the fan are sealed by a regional thick marine shale.

Essential Petroleum deferred the planned 3D seismic survey over the Oliphant and Euclid leads. Essential Petroleum had planned to complete a farm out of the permit ahead of the seismic survey but, while a number of companies have expressed interest, a farm-out has not yet been completed. Vessels suitable to acquire 3D seismic data are in short supply and are unlikely to be available until late in 2008.

### **Otway Basin Offshore, Victoria - General**

Essential Petroleum is continuing its farmout activities for VIC/P50 and VIC/P46. Several potential farminees are continuing their evaluations of the permits.

## **Financial Review**

### **Operating Result**

The loss for the consolidated entity after income tax was \$10,916,280 (2007: \$3,988,488). This result was in line with expectations.

### **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 increased by \$959,594 from \$1,642,005 at 30 June 2007 to \$2,601,599 at 30 June 2008. This is mainly due to an increase in cash reserves of \$1,583,530 from \$1,582,095 at 30 June 2007 to \$3,165,625 at 30 June 2008 as a result of capital raising activities during the year as described below. The capital raised has been used to fund the consolidated entity's petroleum exploration program. The consolidated entity had no borrowings as at 30 June 2008 (2007: Nil).

## **Operating and financial review (cont'd)**

### **Capital Raisings**

On 28 November 2007, Essential Petroleum announced the finalisation of a \$10 million capital raising to pursue opportunities in the Otway Basin.

The successful, fully underwritten offer of new ordinary shares had two components:

1. a 1 for 2 Non-Renounceable Rights Issue to existing shareholders to raise \$6,023,355 from the issue of 150,583,879 new ordinary shares at 4 cents per new ordinary share; and
2. a Public Offer to raise \$4,000,000 from the issue of 100,000,000 new ordinary shares at 4 cents per new ordinary shares.

On 27 March 2008, Essential Petroleum announced a placement of shares to raise approximately \$2.79 million. These funds were used to meet the extra capital requirements from Essential Petroleum's increased equity in permit PEP 168. A comprehensive exploration program in PEP 168 started on 7 April 2008 with the spudding of the Ayrford-1 well.

On 2 April 2008, the Company completed the share placement by issuing approximately 66,490,000 shares to clients of Bell Potter Securities at a price of 4.2 cents each.

### **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**

There was no significant change in the state of affairs of the consolidated entity during the financial year.

### **Subsequent events**

On 1 September 2008 Essential Petroleum Resources Limited's wholly-owned subsidiary Essential Petroleum Exploration Pty Limited commenced testing of the East Wing-1 ST well within PEP168. As a result of this testing it was announced on 12 September 2008 that the well flowed gas at stable rates of up to 9 million cubic feet per day. The flow rate was achieved through a 26/64 inch choke with a surface flowing pressure of 1775 psi and a surface shut-in pressure of 2,220 psi.

The gas flowed from a perforated interval of 12 metres between 2,210.7 metres and 2,222.7 metres in the Waarre Formation. Gas condensate was recovered. No water was produced.

A deeper zone was tested for possible liquid-rich content but was found to be water-bearing. Small amounts of gas and condensate were recovered in this zone indicating that the anomalous log results are the result of residual hydrocarbons. At the time of reporting the full extent of the East Wing-1 discovery and the potential financial affect for the Group was unknown.

There has not been any other matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

### **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

Details of unissued shares or interests under option as at the date of this report are:

Issuing entity	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
Essential Petroleum Resources Limited	3,000,000	Ordinary	\$0.10	31 December 2009

The holders of these options do not have the right, by virtue of the option, to participate in any share issue or interest issue of the company or of any other body corporate or registered scheme. There have been no shares or interests issued during or since the end of the financial year as a result of exercise of an option.

## 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 2008, and the number of meetings attended by each director were:

Directors	Board of directors		Remuneration & benefits committee		Governance committee		Audit & compliance committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
J W Cornelius	11	11	1	1	1	1	2	2
G R Higgins	11	11	1	1	1	1	2	2
J G Remfry	11	11	-	-	1	1	-	-

## 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.

**Essential Petroleum Resources Limited**  
Directors' report

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 2008. 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 (Appointed 6 August 2007), 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 2008:

	30 June 2008	30 June 2007	30 June 2006	30 June 2005	30 June 2004
	\$	\$	\$	\$	\$*
Revenue	460,616	253,336	265,844	393,331	340,067
Net loss before tax	(10,916,280)	(3,988,488)	(2,355,987)	(3,154,179)	(3,558,374)
Net loss after tax	(10,916,280)	(3,988,488)	(2,355,987)	(3,154,179)	(3,558,374)

	30 June 2008	30 June 2007	30 June 2006	30 June 2005	30 June 2004
Share price at start of year	\$0.040	\$0.033	\$0.070	\$0.090	\$0.145
Share price at end of year	\$0.046	\$0.040	\$0.033	\$0.070	\$0.090
Interim dividend	-	-	-	-	-
Final dividend	-	-	-	-	-
Basic earnings per share <sup>1</sup> (cents)	(2.37)	(1.56)	(1.44)	(2.00)	(3.44)
Diluted earnings per share <sup>1</sup> (cents)	(2.37)	(1.56)	(1.44)	(2.00)	(3.44)

<sup>1</sup> Essential Petroleum Resources Limited adopted the Australian equivalents to International Financial Reporting Standards with effect from 1 July 2004, which resulted in various changes to its accounting policies from that date. The results for the year ended 30 June 2004 are reported in accordance with Essential Petroleum Resources Ltd previous accounting policies as permitted under Australian accounting standards as applicable at that time.

There is no direct relationship between the Company's Remuneration Policy and the Company's performance. That is, 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 (cont'd)

### Remuneration of directors and senior management

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

	Short-term employee benefits				Post-employment benefits Super-annuation	Other long-term employee benefits	Share-based payment Options & rights	Total
	Salary & fees	Bonus	Non-monetary	Other				
2007	\$	\$	\$	\$	\$	\$	\$	\$
<b>Non-executive directors</b>								
J W Cornelius	70,000	-	-	-	-	-	-	70,000
G R Higgins	48,000	-	-	-	-	-	-	48,000
<b>Executive officer</b>								
J G Remfry (MD & CEO)	229,358	-	-	-	20,642	-	-	250,000
<b>Company Secretary</b>								
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 employed under a consultancy agreement whereby all fees payable are paid to The Gould Family Trust.

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. For the year ending 30 June 2009, the Company proposes to pay directors' fees of \$70,000 to the Non-Executive Chairman and \$48,000 to the Non-Executive Director.

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.

#### Bonuses and share-based payments granted as compensation for the current 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 2008 was \$0.046.

## Remuneration report (cont'd)

During the financial year, the following share-based payment arrangements were in existence:

Options series	Grant date	Expiry date	Grant date fair value \$	Vesting date
A N Gould	18 Oct 2007	31 Dec 2009	0.0097	Note (i)

(i) The options are subject to the following vesting dates:

- 1,000,000 vested on 18 October 2007;
- 1,000,000 vested on 18 April 2008;
- 1,000,000 vest on 18 October 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 grants of share-based payment compensation to senior management relate to the current financial year:

Name	Option series	During the financial year			% of grant forfeited	% of compensation for the year consisting of options
		No. granted	No. vested	% of grant vested		
A N Gould – Tranche 1	A N Gould	1,000,000	1,000,000	100%	n/a	9.21%
A N Gould – Tranche 2	A N Gould	1,000,000	1,000,000	100%	n/a	9.21%
A N Gould – Tranche 3	A N Gould	1,000,000	nil	nil	nil	9.21%
		<b>3,000,000</b>	<b>2,000,000</b>			<b>27.63%</b>

### 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 is employed 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.

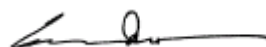
This directors' report is signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.



**J G Remfry**  
Managing Director and Chief Executive Officer



**J W Cornelius**  
Non-Executive Chairman



**G R Higgins**  
Non-Executive Director

Melbourne  
30 September 2008

## 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 best practice recommendations (*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: Encourage enhanced performance.
- 9: Remunerate fairly and responsibly.
- 10: Recognise the legitimate interests of stakeholders.

### 1. Lay Solid Foundations for Management and Oversight

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 business and Company 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 corporate governance statement.

The Company's website contains a number of corporate governance policies adopted by the Board.

### 2. Structure the Board to Add Value

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

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:

- (a) Mr John Cornelius, the Non-Executive Chairman of the Company, and
- (b) Mr Garrick Higgins, also a Non-Executive Director of the Company.

#### ***Recommendation 2.2: The chairperson should be an independent director***

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

#### ***Recommendation 2.3: The roles of chairperson 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: 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 in office 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.

## Corporate governance statement (cont'd)

- (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) 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 3.1.1: Establish a code of conduct to guide the directors, the chief executive officer (or equivalent) and any other executives as to the practices necessary to maintain confidence in the company's integrity***

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.

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. Further, any Director, manager or employee who is unclear about any law relating to their work at the Company, is 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 at the Company's website.

***Recommendation 3.1.2: Establish a code of conduct to guide the directors, the chief executive officer (or equivalent) and any other executives as to the responsibility and accountability of individuals for reporting and investigating reports of unethical practices***

The Company has adopted appropriate policy and procedures including the 'Compliance with the Law Policy' and 'Conflict of Interest Policy'. Directors, management and staff are expected to act ethically and responsibly. 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.

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.

***Recommendation 3.2: Disclose the policy concerning trading in company securities by directors, officers and employees***

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. This 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.

### 4. Safeguard Integrity in Financial Reporting

***Recommendation 4.1: Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards***

The Company does not currently employ a chief financial officer. The Managing Director, Mr John Remfry, has certified that the financial reports give a true and fair view and are in accordance with accounting standards.

***Recommendation 4.2: The board should establish an audit committee***

In accordance with Recommendation 4.2, the Board has established an Audit and Compliance Committee comprising the following members:

- (a) Mr John Cornelius as chairman; and
- (b) Mr Garrick Higgins.

## Corporate government statement (cont'd)

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

**Recommendation 4.3: Structure the audit committee so that it consists of:**

- **only non-executive directors;**
- **a majority of independent directors;**
- **an independent chairperson, who is not chairperson of the board; and**
- **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 2 non-executive directors.

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

**Recommendation 4.4: 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:

- the review of accounting policies;
- the detailed review of the Company's annual, half yearly and quarterly financial reports;
- the effectiveness of accounting and internal control systems;
- addressing the findings of the external auditors;
- the assessment of the scope, quality and cost of the external audit;
- identifying areas of operation, regulatory and legal risk and recommending procedures to the Board to ensure those risks are effectively managed; and
- ensuring that conflicts of interest do not arise from services provided by the Company's external advisors.

**Recommendation 4.5: 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) Two Meetings 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 (1 meeting), Mr Alfonso Grillo (2 meetings) and Mr John Remfry (2 meetings) in attendance.
- (c) The Charter of the Audit and Compliance Committee adopted by the Company is available at 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: Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance**

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.

## Corporate government statement (cont'd)

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 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 personnel 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 at the Company's website.

### 6. Respect the Rights of Shareholders

#### ***Recommendation 6.1: Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings***

The Board aims to ensure that, in accordance with Recommendation 6.1, all shareholders are informed of relevant 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' details the procedures in place to promote communications with shareholders is available at the Company's website.

#### ***Recommendation 6.2: Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and preparation and content of the auditor's report***

The Company has requested that the external auditor attend the Company's annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

### 7. Recognise and Manage Risk

#### ***Recommendation 7.1: The board or appropriate board committee should establish policies on risk oversight and management***

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

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 these policies are available at the Company's website.

#### ***Recommendation 7.2: The Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) should state to the Board in writing that:***

***7.2.1) the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and***

## Corporate governance statement (cont'd)

### **7.2.2) the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material effects**

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.

## **8. Encourage Enhanced Performance**

### **Recommendation 8.1: Disclose the process for performance evaluation of the Board, its committees and individual directors, and key executives:**

The performance of the Board 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 at 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 is 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.

## **9. Remunerate Fairly and Responsibly**

### **Recommendation 9.1: Provide disclosure in relation to the company's remuneration policies to enable investors to understand:**

- (i) the costs and benefits of those policies; and**
- (ii) the link between remuneration paid to Directors and key-executives and corporate performance**

It is the Company's objective to provide maximum shareholder benefit from the retention of high quality Board members having regard to the Company's level of operations and financial resources. Directors are remunerated with reference to market rates for comparable positions. Remuneration policies for each Director is disclosed in the Directors' Report.

The Board determines and reviews the remuneration of the Directors. 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. In making decisions regarding the appointment of Directors, the Board as a whole periodically assesses the appropriate mix of skills and experience represented on the Board.

The Board may obtain information from and consult with, management and external advisers as it considers appropriate.

### **Recommendation 9.2: 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.

### **Recommendation 9.3: Clearly distinguish the structure of Non-Executive Director's remuneration from that of 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 9.4: Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders**

The Company ensures that payment of equity based executive remuneration (if any) to its directors is made in accordance with the remuneration approved by shareholders. No equity based remuneration was paid to directors during the reporting period.

## Corporate governance statement (cont'd)

On 18 October 2007, the Company issued options to the nominee of Andrew Gould, who has been appointed as a General Manager Corporate Development of the Company on a consultancy basis. As Mr Gould is not an employee, and whilst these options were issued in accordance with the Listing Rules, these options were not issued in accordance with the Company's Employee Option Plan or with prior shareholder approval.

### **Recommendation 9.5: Provide the information indicated in the Guide to Reporting on Principle 9**

The 'Guide to Reporting on Principle 9' 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 9', 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 9.

## 10. Recognise the Legitimate Interests of Stakeholders

### **Recommendation 10.1: Establish and disclose a Code of Conduct to guide compliance with legal and other obligations to legitimate stakeholders**

The Board recognises the legitimate interests of shareholders, employees and other stakeholders.

The Company has established a 'Cultural Heritage Policy and an Environmental Policy'. The Company recognises the need to understand the cultural and spiritual significance to the community of the area in which it is licensed to operate. The Company also works closely with interested community groups and people to identify significant sites and any impact the Company's activities may have on them.

The Company is committed to reaching mutually agreeable outcomes on the effects of its activities on cultural and spiritual values.

The Company will specifically undertake to:

- respect and protect cultural heritage sites of regional significance and sites of local spiritual significance;
- embrace the intent and comply with the provisions of the Native Title Act and relevant petroleum legislation;
- communicate openly with Aboriginal peoples and local communities so that all relevant issues may be aired and understood by the participants;
- involve Aboriginal people in the conduct of the Company's operations where these operations impact on their cultural and spiritual heritage; and
- commit to the ongoing monitoring of the implementation of this policy and to amending its approach if the policy proves to be inadequate.

The Company is committed to protecting the environment and safeguarding public and employee health in all aspects of its operations. Environmental protection and safe conduct are the responsibility of the Company, its employees, its alliance partners and suppliers of goods and services.

Specifically, the Company will:

- comply with the intent and provision of all applicable laws, regulations and standards;
- minimise environmental impact;
- ensure that employees, partners, suppliers and the public are made fully aware of the Company's responsibility for the effect of its operations on the environment;
- ensure adequate management systems and procedures are in place to manage and mitigate the risks to the environment from the Company's operations; and
- commit to continual improvement in environmental management performance.

The Company's business ethos is to operate in a manner which addresses three fundamental principles to achieve balanced outcomes. These fundamental principles are:

- social acceptability;
- economic viability; and
- environmental responsibility.

The Company is committed to meeting these objectives, to monitoring the meeting of these objectives and to amending its approach if it proves to be inadequate in complying with its stated intentions and plans. In addition, the Company is committed to the public dissemination of this information.

The Company has established an Environmental Committee to review the Company's compliance and practice with respect to Environmental and Cultural Heritage obligations and responsibilities. The members of the Environmental Committee are Mr John Cornelius, Mr John Remfry and an external environmental. The Committee meets as required.

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

30 September 2008

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

Yours sincerely

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU

*M. J. Schofield*

**M J Schofield**  
Partner  
Chartered Accountants

## **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 2008, 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 42.

#### *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.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of  
Deloitte Touche Tohmatsu

# 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 2008 and of their 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 \$10,916,280 during the year ended 30 June 2008. 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'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.

## **Report on the Remuneration Report**

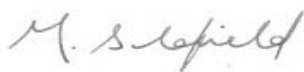
We have audited the Remuneration Report included in pages 9 to 11 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our 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 2008, complies with section 300A of the *Corporations Act 2001*.

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU



M J Schofield  
Partner  
Chartered Accountants  
Melbourne, 30 September 2008

## **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.

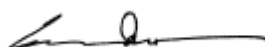
Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.



**J G Remfry**  
Managing Director and Chief Executive Officer



**J W Cornelius**  
Non-Executive Chairman



**G R Higgins**  
Non-Executive Director

Melbourne  
30 September 2008

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**Income statement  
for the financial year ended 30 June 2008**

	Note	Consolidated		Company	
		2008 \$	2007 \$	2008 \$	2007 \$
<b>Continuing operations</b>					
Revenue	3	460,616	253,336	454,815	253,336
Administrative expenses		(721,559)	(487,246)	(719,847)	(483,162)
Employee benefits expense		(368,472)	(343,563)	(368,472)	(343,563)
Exploration and development expenditure		(10,267,955)	(3,411,015)	(5,149,793)	(3,372,990)
Finance costs	4	(18,910)	-	(18,910)	-
Impairment of loan to subsidiary		-	-	(4,606,736)	(42,109)
Loss before tax	5	(10,916,280)	(3,988,488)	(10,408,943)	(3,988,488)
Income tax expense	6	-	-	-	-
<b>Loss attributable to the members of Essential Petroleum Resources Limited</b>		<b>(10,916,280)</b>	<b>(3,988,488)</b>	<b>(10,408,943)</b>	<b>(3,988,488)</b>
<b>Earnings per share</b>					
From continuing operations:					
Basic (cents per share)	16	(2.37)	(1.56)		
Diluted (cents per share)	16	(2.37)	(1.56)		

Notes to the financial statements are included on pages 27 to 42.

**Balance sheet  
as at 30 June 2008**

	Note	Consolidated		Company	
		2008 \$	2007 \$	2008 \$	2007 \$
<b>Current assets</b>					
Cash and cash equivalents	21(a)	3,165,625	1,582,095	2,802,401	1,582,094
Trade and other receivables	7	618,614	188,402	415,679	148,976
Other assets	8	81,903	69,524	81,903	69,524
Other financial assets	9	-	-	-	39,426
<b>Total current assets</b>		<b>3,866,142</b>	<b>1,840,021</b>	<b>3,299,983</b>	<b>1,840,020</b>
<b>Non-current assets</b>					
Other financial assets	9	-	-	1	1
Property, plant and equipment	10	46,011	63,183	46,011	63,183
<b>Total non-current assets</b>		<b>46,011</b>	<b>63,183</b>	<b>46,012</b>	<b>63,184</b>
<b>Total assets</b>		<b>3,912,153</b>	<b>1,903,204</b>	<b>3,345,995</b>	<b>1,903,204</b>
<b>Current liabilities</b>					
Trade and other payables	11	1,211,733	180,905	138,238	180,905
Provisions	12	98,821	80,294	98,821	80,294
<b>Total current liabilities</b>		<b>1,310,554</b>	<b>261,199</b>	<b>237,059</b>	<b>261,199</b>
<b>Total liabilities</b>		<b>1,310,554</b>	<b>261,199</b>	<b>237,059</b>	<b>261,199</b>
<b>Net assets</b>		<b>2,601,599</b>	<b>1,642,005</b>	<b>3,108,936</b>	<b>1,642,005</b>
<b>Equity</b>					
Issued capital	13	36,513,626	24,663,818	36,513,626	24,663,818
Reserves	14	26,066	-	26,066	-
Accumulated losses	15	(33,938,093)	(23,021,813)	(33,430,756)	(23,021,813)
<b>Total equity</b>		<b>2,601,599</b>	<b>1,642,005</b>	<b>3,108,936</b>	<b>1,642,005</b>

Notes to the financial statements are included on pages 27 to 42.

**Statement of changes in equity  
for the financial year ended 30 June 2008**

<b>Consolidated</b>	<b>Fully paid ordinary shares</b>	<b>Equity- settled employee benefits reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Balance at 1 July 2006</b>	21,381,708	-	(19,033,325)	2,348,383
Shares issued during the year	3,614,013	-	-	3,614,013
Share issue costs	(331,903)	-	-	(331,903)
Loss attributable to members of the parent entity	-	-	(3,988,488)	(3,988,488)
<b>Balance at 30 June 2007</b>	<b>24,663,818</b>	<b>-</b>	<b>(23,021,813)</b>	<b>1,642,005</b>
<b>Balance at 1 July 2007</b>	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)
<b>Balance at 30 June 2008</b>	<b>36,513,626</b>	<b>26,066</b>	<b>(33,938,093)</b>	<b>2,601,599</b>

<b>Company</b>	<b>Fully paid ordinary shares</b>	<b>Equity- settled employee benefits reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Balance at 1 July 2006</b>	21,381,708	-	(19,033,325)	2,348,383
Shares issued during the year	3,614,013	-	-	3,614,013
Share issue costs	(331,903)	-	-	(331,903)
Loss attributable to members of the parent entity	-	-	(3,988,488)	(3,988,488)
<b>Balance at 30 June 2007</b>	<b>24,663,818</b>	<b>-</b>	<b>(23,021,813)</b>	<b>1,642,005</b>
<b>Balance at 1 July 2007</b>	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)
<b>Balance at 30 June 2008</b>	<b>36,513,626</b>	<b>26,066</b>	<b>(33,430,756)</b>	<b>3,108,936</b>

Notes to the financial statements are included on pages 27 to 42.

**Cash flow statement  
for the financial year ended 30 June 2008**

	Note	Consolidated		Company	
		2008 \$	2007 \$	2008 \$	2007 \$
<b>Cash flows from operating activities</b>					
Receipts from customers		65,945	140,345	33,226	140,345
Payments to suppliers and employees		(1,017,789)	(883,693)	(903,334)	(883,693)
Exploration and evaluation expenditure incurred		(9,595,488)	(3,550,920)	(5,472,819)	(3,469,385)
Interest and other costs of finance paid	4	(18,910)	-	(18,910)	-
Interest received	3	308,608	219,694	308,291	219,694
Net cash used in operating activities	21(b)	(10,257,634)	(4,074,574)	(6,053,546)	(3,993,039)
<b>Cash flows from investing activities</b>					
Amounts advanced to related parties		-	-	(4,567,311)	(81,535)
Payments for property, plant and equipment	10	(11,394)	(10,135)	(11,394)	(10,135)
Payment for business		-	-	-	(1)
Net cash used in investing activities		(11,394)	(10,135)	(4,578,705)	(91,671)
<b>Cash flows from financing activities</b>					
Proceeds from issues of equity securities		11,065,935	3,614,013	11,065,935	3,614,013
Payment for share issue costs		(963,377)	(331,903)	(963,377)	(331,903)
Proceeds from borrowings	21(c)	1,750,000		1,750,000	
Net cash provided by financing activities		11,852,558	3,282,110	11,852,558	3,282,110
<b>Net increase/(decrease) in cash and cash equivalents</b>		1,583,530	(802,599)	1,220,307	(802,600)
<b>Cash and cash equivalents at the beginning of the financial year</b>		1,582,095	2,384,694	1,582,094	2,384,694
Effects of exchange rate changes on the balance of cash held in foreign currencies		-	-	-	-
<b>Cash and cash equivalents at the end of the financial year</b>	21(a)	3,165,625	1,582,095	2,802,401	1,582,094

Notes to the financial statements are included on pages 27 to 42.

## 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:

<b>Registered office</b>	<b>Principal place of business</b>
Level 9	Level 2
469 La Trobe Street	226 Albert Road
MELBOURNE VIC 3000	SOUTH MELBOURNE VIC 3025
Tel: (03) 9602 9444	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 30 September 2008.

#### 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. Details of the impact of the adoption of these new accounting standards are set out in the individual accounting policy notes set out below. The Group has also adopted the following Standards as listed below which only impacted on the Group's financial statements with respect to disclosure:

- AASB 101 'Presentation of Financial Statements (revised October 2006)
- AASB 7 'Financial Instruments: Disclosures'

#### Issued Standards Not Early Adopted

The Directors have considered the impact of new accounting standards that are not yet applicable and do not believe they will have a material impact on the financial performance or state of affairs of the Company and Consolidated Entity.

#### *Standards and Interpretations issued not yet effective*

At the date of authorisation of the financial report, a number of Standards and Interpretations those of which are appropriate to the entity listed below were in issue but not yet effective.

## 2. Significant accounting policies (cont'd)

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 Group and the company's financial report:

<b>Standard</b>	<b>Effective for annual reporting periods beginning on or after</b>	<b>Expected to be initially applied in the financial year ending</b>
<ul style="list-style-type: none"> <li>AASB 101 "Presentation of Financial Statements" (revised September 2007), AASB 2007-8 "Amendments to Australian Accounting Standards arising from AASB 101"</li> </ul>	1 January 2009	30 June 2010
<ul style="list-style-type: none"> <li>AASB 8 "Operating Segments", AASB 2007-3 "Amendments to Australian Accounting Standards arising from AASB 8"</li> </ul>	1 January 2009	30 June 2010

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

<b>Standard/Interpretation</b>	<b>Effective for annual reporting periods beginning on or after</b>	<b>Expected to be initially applied in the financial year ending</b>
<ul style="list-style-type: none"> <li>AASB 123 "Borrowing Costs" (revised), AASB 2007-6 "Amendments to Australian Accounting Standards arising from AASB 123"</li> </ul>	1 January 2009	30 June 2010
<ul style="list-style-type: none"> <li>AASB 3 "Business Combinations" (2008), AASB 127 "Consolidated and Separate Financial Statements" and AASB 2008-3 "Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127"</li> </ul>	AASB 3 (business combinations occurring after the beginning of annual reporting periods beginning 1 July 2009), AASB 127 and AASB 2008-3 (1 July 2009)	30 June 2010
<ul style="list-style-type: none"> <li>AASB 2008-1 "Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations"</li> </ul>	1 January 2009	30 June 2010
<ul style="list-style-type: none"> <li>Improvements to Australian Accounting Standards (2008)</li> </ul>	1 January 2009	30 June 2010
<ul style="list-style-type: none"> <li>Amendments to AASB 1 "First-time Adoption of International Financial Reporting Standards" and AASB 127 "Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"</li> </ul>	1 January 2009	30 June 2010

### *Revised AASB 101 "Presentation of Financial Statements"*

The impact of this standard will be on disclosure in the financial statements. All non-owner changes in equity must be presented in one statement of comprehensive income, or in a separate income statement and statement of comprehensive income. Components of comprehensive income may not be presented in the statement of changes in equity. Income tax and reclassification adjustments relating to each component of other comprehensive income have to be disclosed. The titles of financial statements will also change.

### *AASB 123 "Borrowing Costs"*

The Standard eliminates the option of expensing borrowing costs related to qualifying assets, instead requiring capitalisation. Transitional provisions require prospective application to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after the application date.

### *AASB 3 "Business Combinations" and AASB 127 "Separate and Consolidated Financial Statements"*

The Standard introduces greater emphasis on the use of fair value through increasing the judgement and subjectivity around business combination accounting and requiring greater involvement of valuation experts. Further volatility in the income statement will be introduced through the separate accounting for transaction costs, changes in the fair value of contingent consideration, settlement of pre-existing contracts and share-based payments.

## **2. Significant accounting policies (cont'd)**

### *AASB 2008-1 'Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations'*

The Standard clarifies for share-based payments what are vesting conditions and restricts the definition to include only service conditions and performance conditions. It also amends the definition of performance conditions to require the completion of a service period in addition to specified performance targets and to specify that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

### *Improvements to Australian Accounting Standards (2008)*

The Standard includes 35 amendments across 20 different Standards that largely clarify the required accounting treatment where previous practice had varied.

The Standard also focuses on changes in control as a significant economic event, with requirements to remeasure interests to fair value on gaining or losing control, and to recognise all transactions between controlling and non-controlling shareholders whilst control is retained in retained earnings.

### *Amendments to AASB 1 First-time Adoption of International Financial Reporting Standards and AASB 127 Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

The amendments:

- allow first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements;
- remove the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor;
- implement consequential amendments to IAS 36, introducing a new indicator of impairment for investments in subsidiaries, jointly controlled entities and associates where a dividend has been recognised; and
- require the separate financial statements of a new parent formed as the result of a specific type of reorganisation to measure the cost of its investment in the previous parent at the carrying amount of its share of the equity items of the previous parent at the date of the reorganisation.

### **Going Concern**

Whilst there are uncertainties as to the exact timing and form of additional fund raising necessary to fund the current level of activities of the consolidated entity and company for at least the next 12 months, the directors have reasonable expectations that they can raise additional cash resources and reduce costs during the period for this purpose. These financial statements have therefore been prepared on a going concern basis which contemplates the continuity of normal business activities and the realization of assets and settlement of liabilities in the ordinary course of business.

To continue as a going concern the company and the consolidated entity require:

- Generation of sufficient funds from operating activities; and/or
- The continued support of its joint venture partners, bankers, creditors and its major shareholders.

The Directors believe the going concern basis of preparation to be appropriate given that the Directors have three options available to them to ensure the Company has the additional funds necessary to fulfill its exploration obligations over the next 12 months. These are:

- The Directors can farm out participating interests in the Company's permits at a premium;
- The Directors can raise capital through the issue of new shares; or
- The Directors can use a combination of the 2 actions above.

The group has recorded a net loss of \$10,916,280 for the financial year recorded, net cash outflows from operating activities of \$10,257,634, has commitments of \$25,700,000 for the next financial year and cash reserves of \$3,165,625 as at 30 June 2008. The company has a net current asset surplus of \$2,555,588 as at 30 June 2008.

Having carefully assessed the uncertainties relating to the likelihood of securing additional funding and the consolidated entity's and company's ability to effectively manage their expenditures and cash flows from operations, the directors believe that the consolidated entity and company 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.

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.

## **2. Significant accounting policies (cont'd)**

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 it 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").

## 2. Significant accounting policies (cont'd)

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.

## 2. Significant accounting policies (cont'd)

### (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	
	2008 \$	2007 \$	2008 \$	2007 \$
<b>Continuing operations</b>				
Revenue from the rendering of services	110,498	25,179	105,015	25,179
Interest revenue:				
Bank deposits	350,118	228,157	349,800	228,157
	<u>460,616</u>	<u>253,336</u>	<u>454,815</u>	<u>253,336</u>

#### 4. Finance costs

	Consolidated		Company	
	2008 \$	2007 \$	2008 \$	2007 \$
Interest on non-bank borrowings	(18,910)	-	(18,910)	-
Total interest expense	(18,910)	-	(18,910)	-

#### 5. Loss for the year before tax

Loss for the year before tax includes the following expenses:

	2008	2007	2008	2007
Depreciation of non-current assets	28,566	50,271	28,566	50,271
Operating lease rental expenses:				
Minimum lease payments	55,408	50,036	55,408	50,036
Share-based payments:				
Equity-settled share-based payments	26,066	-	26,066	-

#### 6. Income taxes

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

	Consolidated		Company	
	2008 \$	2007 \$	2008 \$	2007 \$
Prima facie tax benefit on loss for the period	(3,274,884)	(1,196,546)	(3,122,683)	(1,196,546)
Tax effect of non-deductible differences				
- Entertainment	2,220	1,589	2,220	1,589
- Fringe benefits tax adjustment	609	-	609	-
- Impairment of loan from parent entity	-	-	1,382,021	12,633
- Capital raising costs	(115,983)	(303,009)	(115,983)	(303,009)
Temporary differences and tax losses not brought to account	3,388,038	1,497,966	1,853,816	1,485,333
Income tax benefit attributable to ordinary activities	-	-	-	-

#### Unrecognised deferred tax assets

The following deferred tax assets have not been brought to account as assets:

	2008	2007	2008	2007
Tax losses – revenue	10,476,483	7,088,445	8,929,629	7,075,813

This deferred tax asset has not been recognised and will only be obtained if:

- future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- the conditions for deductibility imposed by tax legislation continue to be complied with; and
- no changes in tax legislation adversely affect the Group in realising the benefit.

#### 7. Trade and other receivables

	Consolidated		Company	
	2008 \$	2007 \$	2008 \$	2007 \$
GST receivable	142,336	14,595	-	14,595
Other receivables (i)	476,278	173,807	415,679	134,381
	618,614	188,402	415,679	148,976

Terms and conditions relating to the above receivables;

- 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		Company	
	2008 \$	2007 \$	2008 \$	2007 \$
Deposits	6,667	6,667	6,667	6,667
Prepayments	75,236	62,857	75,236	62,857
	81,903	69,524	81,903	69,524

## 9. Other financial assets

	Consolidated		Company	
	2008 \$	2007 \$	2008 \$	2007 \$
<b>Current</b>				
Receivable from wholly owned subsidiary (i)	-	-	4,648,845	81,535
Accumulated impairment	-	-	(4,648,845)	(42,109)
	-	-	-	39,426
<b>Non-current</b>				
Investment in subsidiary	-	-	1	1
	-	-	1	1
<b>Movement in the allowance for impairment</b>				
Balance at the beginning of the year	-	-	(42,109)	-
Impairment losses recognised on receivables	-	-	(4,606,736)	(42,109)
	-	-	(4,648,845)	(42,109)

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

## 10. Property, plant and equipment

	Consolidated		Company	
	Plant and equipment at cost	Total	Plant and equipment at cost	Total
<b>Gross carrying amount</b>				
<b>Balance at 1 July 2006</b>	394,971	394,971	394,971	394,971
Additions	10,135	10,135	10,135	10,135
Disposals	(18,023)	(18,023)	(18,023)	(18,023)
<b>Balance at 1 July 2007</b>	387,083	387,083	387,083	387,083
Additions	11,394	11,394	11,394	11,394
Disposals	-	-	-	-
<b>Balance at 30 June 2008</b>	398,477	398,477	398,477	398,477
<b>Accumulated depreciation</b>				
<b>Balance at 1 July 2006</b>	(291,505)	(291,505)	(291,505)	(291,505)
Disposals	17,876	17,876	17,876	17,876
Depreciation expense	(50,271)	(50,271)	(50,271)	(50,271)
<b>Balance at 1 July 2007</b>	(323,900)	(323,900)	(323,900)	(323,900)
Disposals	-	-	-	-
Depreciation expense	(28,566)	(28,566)	(28,566)	(28,566)
<b>Balance at 30 June 2008</b>	(352,466)	(352,466)	(352,466)	(352,466)
<b>Net book value</b>				
As at 30 June 2007	63,183	63,183	63,183	63,183
As at 30 June 2008	46,011	46,011	46,011	46,011

## 11. Trade and other payables

	Consolidated		Company	
	2008 \$	2007 \$	2008 \$	2007 \$
Other payables (i)	999,147	84,342	102,081	84,342
Accruals	205,264	81,428	28,835	81,428
Employee related payables	7,322	15,135	7,322	15,135
	1,211,733	180,905	138,238	180,905

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.

## 12. Provisions

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<i>Current</i>				
Employee benefits				
Annual Leave	38,209	27,059	38,209	27,059
Long Service Leave	60,612	53,235	60,612	53,235
	<b>98,821</b>	<b>80,294</b>	<b>98,821</b>	<b>80,294</b>

## 13. Issued capital

618,241,636 fully paid ordinary shares (2007: 301,167,760)	36,513,626	24,663,818	36,513,626	24,663,818
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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.

	2008		2007	
	No.	\$	No.	\$
<b>Fully paid ordinary shares</b>				
Balance at beginning of financial year	301,167,760	24,663,818	180,700,656	21,381,708
Issue of shares under rights issue (i)	150,583,879	6,023,355	120,467,104	3,614,013
Issue of shares under public offer (i)	100,000,000	4,000,000	-	-
Issue of shares under off market share placement (i)	66,489,997	2,792,580	-	-
Less: Costs of share issues	-	(966,127)	-	(331,903)
Balance at end of financial year	<b>618,241,636</b>	<b>36,513,626</b>	<b>301,167,760</b>	<b>24,663,818</b>

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

(i) During the 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 2008 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	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Equity-settled employee benefits reserve</b>				
Balance at beginning of financial year	-	-	-	-
Share-based payment	26,066	-	26,066	-
Transfer to share capital	-	-	-	-
Balance at end of financial year	<b>26,066</b>	<b>-</b>	<b>26,066</b>	<b>-</b>

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	
	2008 \$	2007 \$	2008 \$	2007 \$
Balance at beginning of financial year	(23,021,813)	(19,033,325)	(23,021,813)	(19,033,325)
Net loss attributable to members of the parent entity	(10,916,280)	(3,988,488)	(10,408,943)	(3,988,488)
Balance at end of financial year	(33,938,093)	(23,021,813)	(33,430,756)	(23,021,813)

## 16. Earnings per share

	Consolidated	
	2008 Cents per share	2007 Cents per share
<b>Basic earnings per share</b>		
From continuing operations	(2.37)	(1.56)
<b>Diluted earnings per share</b>		
From continuing operations	(2.37)	(1.56)

### 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:

	2008 \$	2007 \$
Net loss	(10,916,280)	(3,988,488)
Other	-	-
Earnings used in the calculation of basic EPS	(10,916,280)	(3,988,488)

	2008 No.	2007 No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	461,113,728	255,621,293

The options on issue throughout 2008 are not dilutive, as the consolidated entity recorded a net loss in 2008.

## 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.

	Consolidated		Company	
	2008 \$	2007 \$	2008 \$	2007 \$
<b>Exploration expenditure</b>				
Not longer than 1 year	25,700,000	4,250,000	25,000,000	3,400,000
Longer than 1 year and not longer than 5 years	44,000,000	30,000,000	40,000,000	30,000,000
Longer than 5 years	-	-	-	-
	69,700,000	34,250,000	65,000,000	33,400,000

## 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 \$110,498 (2007: \$25,179) were received from joint venture operators. 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 2007	Interest Acquired	Interest Disposed	Interest 30 June 2008
PRL 13	20.00%	-	-	20.00%
PEL 72	50.00%	-	50.00%	-
PEP 150	20.00%	-	-	20.00%
PEP 151	50.00%	25.00%	-	75.00%
PEP 168	50.00%	50.00%	-	100.00%
VIC/P46	25.00%	-	-	25.00%

## 20. Subsidiaries

Name of subsidiary	Country of incorporation	Ownership interest	
		2008 %	2007 %
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	
	2008 \$	2007 \$	2008 \$	2007 \$
Cash and cash equivalents	3,165,625	1,582,095	2,802,401	1,582,094
Bank overdraft	-	-	-	-
	3,165,625	1,582,095	2,802,401	1,582,094

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

	Consolidated		Company	
	2008 \$	2007 \$	2008 \$	2007 \$
Loss for the year	(10,916,280)	(3,988,488)	(10,408,943)	(3,988,488)
(Gain)/loss on sale or disposal of non-current assets	-	146	-	146
Depreciation and amortisation	28,566	50,271	28,566	50,271
Equity-settled share-based payment	26,066	-	26,066	-
Impairment of loan to subsidiary	-	-	4,606,736	42,902
<b>(Increase)/decrease in assets:</b>				
Trade and other receivables	(287,876)	(44,167)	(266,702)	(5,534)
Prepayments	(12,379)	-	(12,379)	-
<b>Increase/(decrease) in liabilities:</b>				
Trade and other payables	885,742	(97,433)	(45,417)	(97,433)
Provisions	18,527	5,097	18,527	5,097
Net cash from operating activities	(10,257,634)	(4,074,574)	(6,053,546)	(3,993,039)

### (c) Non-cash financing activities

The Company's largest shareholder, Mr 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 Mr 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 derivative instruments

The company does not utilize any off-balance sheet derivative instruments.

### (b) Commodity contracts

As at 30 June 2008, the Company does not have in place any commodity contracts.

### (c) Credit risk exposure

The company does not have any credit risk exposure.

### (d) Categories of financial instruments

	Consolidated		Company	
	2008 \$	2007 \$	2008 \$	2007 \$
<b>Financial assets</b>				
Trade and other receivables	618,614	188,402	415,679	148,976
Cash and cash equivalents	3,165,625	1,582,095	2,802,401	1,582,094
<b>Financial liabilities</b>				
Trade and other payables	1,211,733	180,905	138,238	180,905

### (e) Capital Risk management

The group manages its capital to ensure that entities in the Group will be able to continue as a going concern.

The Group's overall strategy remains unchanged from 2007.

The capital structure of the Group consists of cash and cash equivalents and 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.

### (g) Interest rate risk management

The Company and the Group are exposed to interest rate risk on cash and cash equivalents.

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 an increase in cash and cash equivalents 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 decrease or increase by \$31,656 (2007: decrease or increase by \$15,821).

### (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 and 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.

## 23. Financial instruments (cont'd)

### (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 \$
2008						
Financial Assets						
Non Interest Bearing	-	618,614	-	-	-	-
Financial Liabilities						
Non Interest Bearing	-	1,211,733	-	-	-	-
2007						
Financial Assets						
Non Interest Bearing	-	188,402	-	-	-	-
Financial Liabilities						
Non Interest Bearing	-	180,905	-	-	-	-

Company	Weighted average effective interest rate %	Less than 1 Month \$	1-3 Months \$	3 Months to 1 Year \$	1-5 Years \$	5+ Years \$
2008						
Financial Assets						
Non Interest Bearing	-	415,679	-	-	-	-
Financial Liabilities						
Non Interest Bearing	-	138,238	-	-	-	-
2007						
Financial Assets						
Non Interest Bearing	-	148,976	-	-	-	-
Financial Liabilities						
Non Interest Bearing	-	180,905	-	-	-	-

## 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 2008 was \$0.046

## 24. Share-based payments (cont'd)

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 financial year is \$28,962 (2007: \$Nil). 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%

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

	2008		2007	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of the financial year	-	-	-	-
Granted during the financial year	3,000,000	0.10	-	-
Balance at end of the financial year (ii)	3,000,000	0.10	-	-
Exercisable at end of the financial year	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 (2007: \$Nil), and a weighted average remaining contractual life of 549 days (2007: Nil 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	
	2008 \$	2007 \$	2008 \$	2007 \$
Short-term employee benefits	384,890	347,358	384,890	347,358
Post-employment benefits	58,950	20,642	58,950	20,642
Share-based payment (note 24)	26,066	-	26,066	-
	469,906	368,000	469,906	368,000

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.

## 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 2008 (2007: 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.
<b>2008</b>					
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
<b>2007</b>					
J W Cornelius	1,899,501	-	-	1,266,334	3,165,835
J G Remfry	2,827,501	-	-	350,000	3,177,501
G R Higgins	30,000	-	-	673,500	703,500
	4,757,002	-	-	2,289,834	7,046,836

##### *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 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 2008 and 2007 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 (2007: 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 \$Nil (2007: \$15,400). Total amounts outstanding at balance date were \$Nil (2007: Nil)

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 \$142,842 (2007: \$120,190). Total amounts outstanding at balance date were \$10,835 (2007: \$23,980).

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 (2007: \$36,000). Total amounts outstanding at balance date were \$3,300 (2007: \$3,300).

## 26. Related party transactions (cont'd)

### (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 \$4,567,310 (2007: \$81,535) 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 \$4,648,845 (2007: \$81,535) is receivable from Essential Petroleum Exploration Pty Ltd.
- The Company's largest shareholder Mr P Woodford advanced to Essential Petroleum Resources Limited \$1,750,000 (2007: Nil) on 3 October 2007. Essential Petroleum Resources Limited paid interest on this advance of \$18,910 (2007: Nil) and the advance was setoff against the subscription price payable by Mr 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 Mr P Woodford, Peter J Woodford Pty Ltd was paid \$161,977 (2007: \$87,500) in relation to this share issue.

## 27. Remuneration of auditors

	Consolidated		Company	
	2008 \$	2007 \$	2008 \$	2007 \$
<b>Auditor of the parent entity</b>				
Audit or review of the financial report	31,000	32,000	31,000	32,000
Preparation of tax returns	10,720	9,120	9,920	9,120
	<b>41,720</b>	<b>41,120</b>	<b>40,920</b>	<b>41,120</b>

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

## 28. Subsequent events

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

## Additional securities exchange information as at 10 September 2008

### Number of holders of equity securities

#### Ordinary share capital

618,241,636 fully paid ordinary shares are held by 2,111 individual shareholders.

All issued ordinary shares carry one vote per share, however, partly paid shares do not carry the rights to dividends.

#### Options

3,000,000 options are held by 1 individual optionholder.

Options do not carry a right to vote.

### Distribution of holders of equity securities

	Fully paid ordinary shares	Options
1 – 1,000	34	-
1,001 – 5,000	123	-
5,001 – 10,000	241	-
10,001 – 100,000	1,218	-
100,001 and over	536	1
	<b>2,152</b>	<b>1</b>
Holding less than a marketable parcel	236	

### Substantial shareholders

Ordinary shareholders	Fully paid ordinary shares	
	Number	
Mr Peter John Woodford	198,815,727	
Mr David Neate	60,250,000	
	<b>259,065,727</b>	

### Twenty largest holders of quoted equity securities

Ordinary shareholders	Fully paid ordinary shares	
	Number	Percentage
Mr Peter John Woodford	198,815,727	32.16
Mr David Neate	60,250,000	9.75
Tatankaa Pty Ltd	21,750,000	3.52
ANZ Nominees Limited Cash Income A/C	21,315,910	3.45
Australian Investors Pty Ltd	12,298,540	1.99
Ucan Nominees Pty Ltd	10,000,000	1.62
Crescent Nominees Limited	6,350,000	1.03
Mr John William Cornelius	5,068,753	0.82
JGR Trading Co Pty Ltd	4,107,501	0.66
AAHSF Pty Ltd Alan Hauserman S/F A/C	4,000,000	0.65
Mr Eutilio Buccilli	4,000,000	0.65
Sacosanct Pty Ltd	4,000,000	0.65
Mr Richard John Sandner Mrs Judith Joan Sandner Sandner Pension Fund A/C	4,000,000	0.65
Mr Bruce Duncan Webb Mrs Amanda Jane Webb Webb Super Fund A/C	3,000,000	0.49
Burns Construction Pty Ltd	2,699,058	0.44
Bellset Nominees Pty Ltd	2,662,421	0.43
Mr Daryl William James Mrs Catherine Anne James DW&CA James Super Fund A/C	2,572,000	0.42
Hardings Trading Pty Ltd	2,500,000	0.40
Mr Robert Tasman Warne Permezel Mrs Elizabeth Dorothy Permezel Robert Permezel S/Fund A/C	2,499,000	0.40
H Wallace-Smith and Co Pty Ltd Hugh Wallace Smith S/F A/C	2,397,821	0.39
	<b>374,286,731</b>	<b>60.57</b>

**Essential Petroleum Resources Limited**  
Additional securities exchange information

**Company secretary**

Mr A M G Grillo

**Registered office**  
Level 9  
469 La Trobe Street  
MELBOURNE VIC 3000

**Principal administration office**  
Level 2  
226 Albert Road  
SOUTH MELBOURNE VIC 3205

**Share registry**  
Computershare Investor Services Pty Limited  
Yarra Falls  
452 Johnston Street  
ABBOTSFORD VIC 3067