



## BEACH PETROLEUM LIMITED - AGM 2009

### MANAGING DIRECTOR'S ADDRESS

### 26 NOVEMBER 2009

***Competent Persons Statement:***

This address contains information on Beach's Reserves and Resources which have been compiled by Mr Hector Gordon who is a full time employee of Beach, is qualified in accordance with ASX listing rule 5.11 and has consented to the inclusion of this information in the form and context in which it appears.

Thank you, Ladies and Gentlemen.

We've had a year of growth, but my focus is mostly on what lies ahead and how Beach is going to grow.

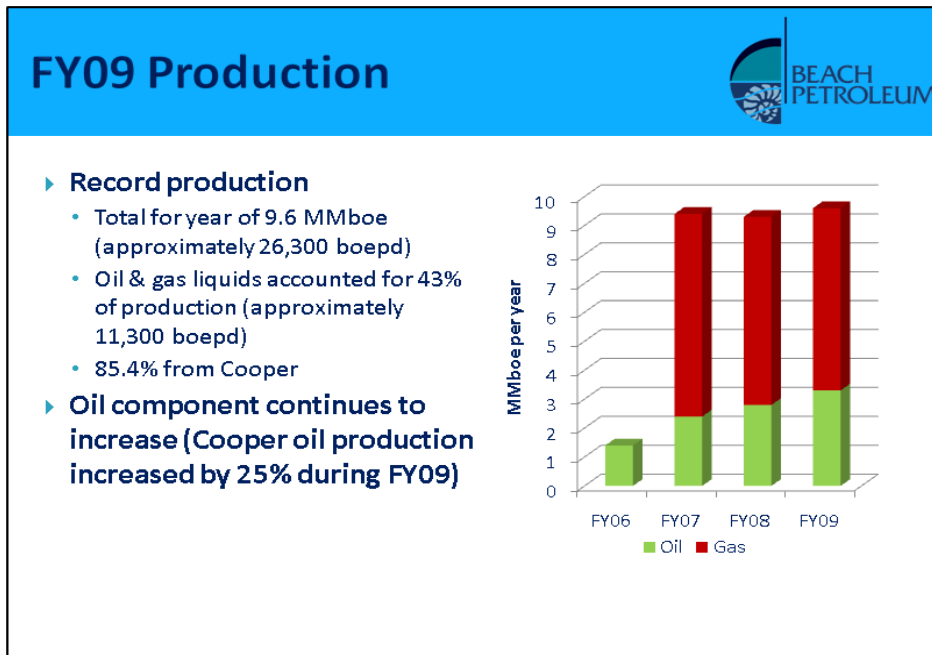
So, it's a good time to articulate some bold strategies and well planned objectives that will propel Beach into the new world of low carbon energy.

A slide titled "Overview" with the Beach Petroleum logo in the top right corner. The slide lists three main bullet points: "Highlights of the year in review", "Reserves and resources for future development", and "Strategy". Under "Strategy", there are two sub-bullets: "Next two to five years" and "Next five to ten years".

**Overview**

- ▶ **Highlights of the year in review**
- ▶ **Reserves and resources for future development**
- ▶ **Strategy**
  - Next two to five years
  - Next five to ten years

*Figure 1: Overview*



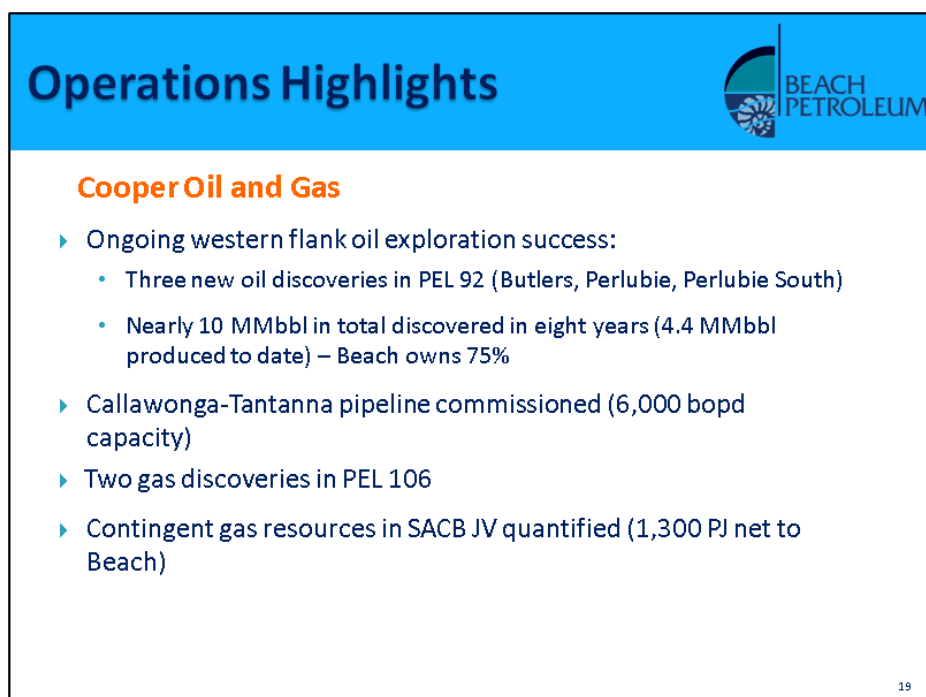
*Figure 2: FY09 Beach Record Production*

But first, a glance back at a good year with record production of 9.6 million barrels of oil equivalent, achieved even though we had sold a producing asset, Tipton West, during the year.

There are two points to note. The first is that the Cooper Basin continues to deliver more than 85% of production. The second is that we are producing more oil – 25% more, in fact, mostly from new and very profitable discoveries along the Cooper’s western flank.

This has offset an expected decline in gas production, which is a reflection of older, long term contracts that will wind down over the next decade.

Of course, this is not to say that there is no more gas available for sales. There is much, much more and I will come to that later.




*Figure 3: Operations Highlights - Cooper oil and gas*

We are confident that western flank exploration will continue to yield good discoveries over the next two to five years. The three new discoveries during the year in review fuel this confidence.

The construction and commissioning of the Callawonga-Tantanna pipeline, with a capacity to take up to 6,000 barrels of oil per day, has proved to be a worthy investment. It will also defray transport costs for any new discoveries that are made in this western region.

Two new gas discoveries in PEL 106, also along the western flank, are also a good indication that gas is still there to be found in conventional plays, although it's worth mentioning the significance of Brownlow-1, which was deliberately and successfully – drilled to test a so-called stratigraphic trap. This sort of trap is very difficult to identify, even with quality 3D seismic, but it is the type of conventional play that could yield quite large fields, in Cooper Basin terms.

However, the most significant trend to emerge in the Cooper is that of unconventional gas. Of this, more later.

Operations Highlights


Tipton West coal seam gas

- ▶ Successful sale of assets for up to \$400 million (from initial investment of \$35 million)

Large gas/condensate targets

- ▶ New 3D seismic to define Pandora Field gas resource in Gulf of Papua (PNG)
- ▶ Burnside-1ST-1 gas discovery in Browse Basin (offshore WA)
- ▶ Large Barque prospect offshore New Zealand to be drilled late 2010

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*Figure 4: Operations Highlights - Tipton West, PNG, Browse, Tanzania*

Beach was an early entrant into CSG through its joint venture in the Tipton West project. We made a decision to take advantage of the higher prices being offered as parties scrambled during the year to secure large gas reserves for LNG projects.


Our initial investment was \$35 million and we were able to achieve a price of up to (or possibly greater than) \$400 million after running a process that included independent advice as to valuation. Our rationale was that to become involved - if indeed we could become involved - in any LNG project would have required Beach to spend hundreds of millions of dollars over the next three or so years, with little prospect of any significant return in that period. We did this also in the knowledge that we had identified a much larger opportunity in the Cooper Basin.

Australia and the surrounding regions tend to be gas-prone, rather than oil-prone. With Talisman as operator, work is proceeding around the Pandora gas field in the Gulf of Papua to define the size of the gas resource there.

In the Browse Basin of Western Australia, with Santos as operator and Inpex as a co-venturer, we made a potentially large discovery of gas in the Burnside-1ST1 well located approximately 40 kilometres from Inpex's Ichthys field.

Looking ahead, the large Barque gas/condensate prospect offshore from the South Island in New Zealand is expected to be drilled next financial year.

## Operations Highlights



**Egypt Oil**

- ▶ Nearshore oil fields in Gulf of Suez being developed, first production 2010 (targeting 10 to 20 MMbbl potential)

**Gippsland Oil**

- ▶ Development program commenced in June 2009
- ▶ Production vessels returned mid November 2009 from statutory inspection

**Geothermal**

- ▶ Paralana-2 drilled to TD of 4012 m
- ▶ Paralana Geothermal Energy Project was awarded a \$62.762 million Renewable Energy Demonstration Program grant by the Federal Government

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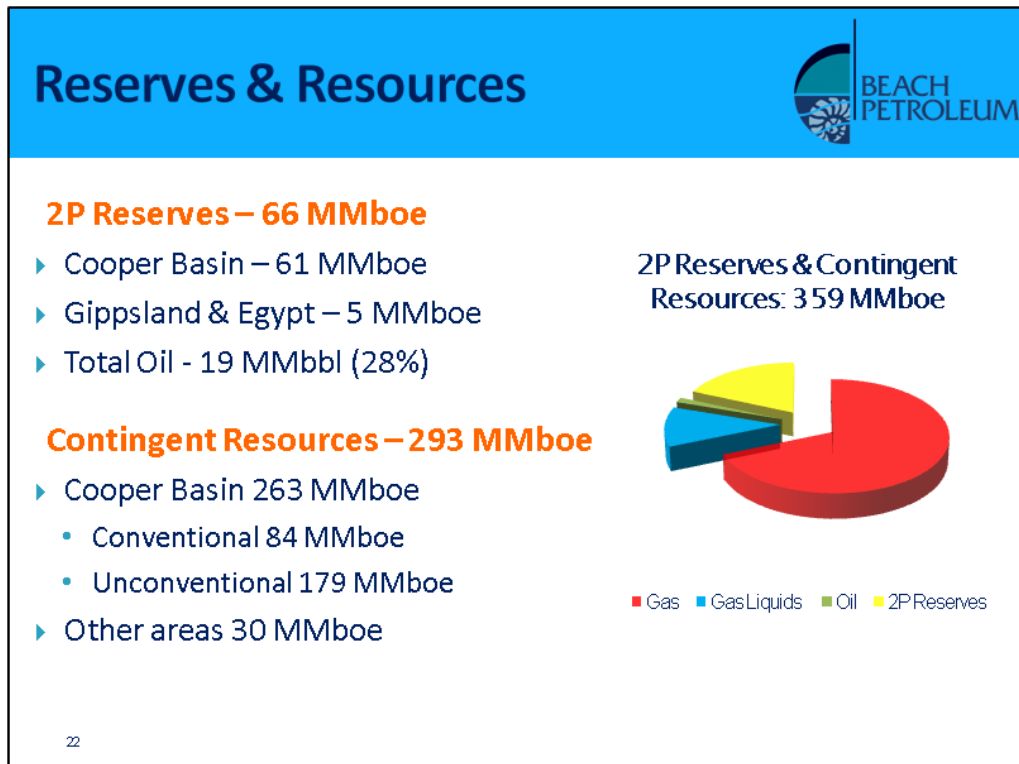
*Figure 5: Operations Highlights - Egypt, Gippsland Oil, Geothermal*

Our entry into Egypt is about to pay dividends, with first oil production from new fields expected less than two years after Beach's entry into the region.

The targets are of an order of magnitude larger than typical Cooper plays; the fiscal and regulatory regimes are not unduly onerous; the prospectivity for oil is excellent; and the opportunities are again of an order of magnitude better for oil discoveries than in Australia.

BMG, the Gippsland Basin project in offshore Victoria, had a more difficult year, but with the return of the production vessels after statutory inspection, we anticipate that the joint venture will be in a better position to focus on the future development of the fields, including the large contingent gas/liquids resource there.

Our involvement with geothermal energy assumed greater impetus, with the drilling of the Paralana-1 well during the latter half of 2009 and the awarding of a \$62.8 million grant by the Federal Government to assist the project's development.



*Figure 6: Reserves and Resources*

Beach's currently booked reserves of 66 million barrels of oil equivalent ("boe") and production of the order of 8 to 10 million boe each year, equate to a reserves:production ratio of around seven to eight years' life.

However, the Company's large contingent resource base is more than four times greater. These are resources that we are confident are in place, ready to be developed under the right market conditions which we are confident will be there.

If we did nothing but develop these resources, we should be able to continue to deliver solid production with growth. Our goal, however, is accelerated growth.



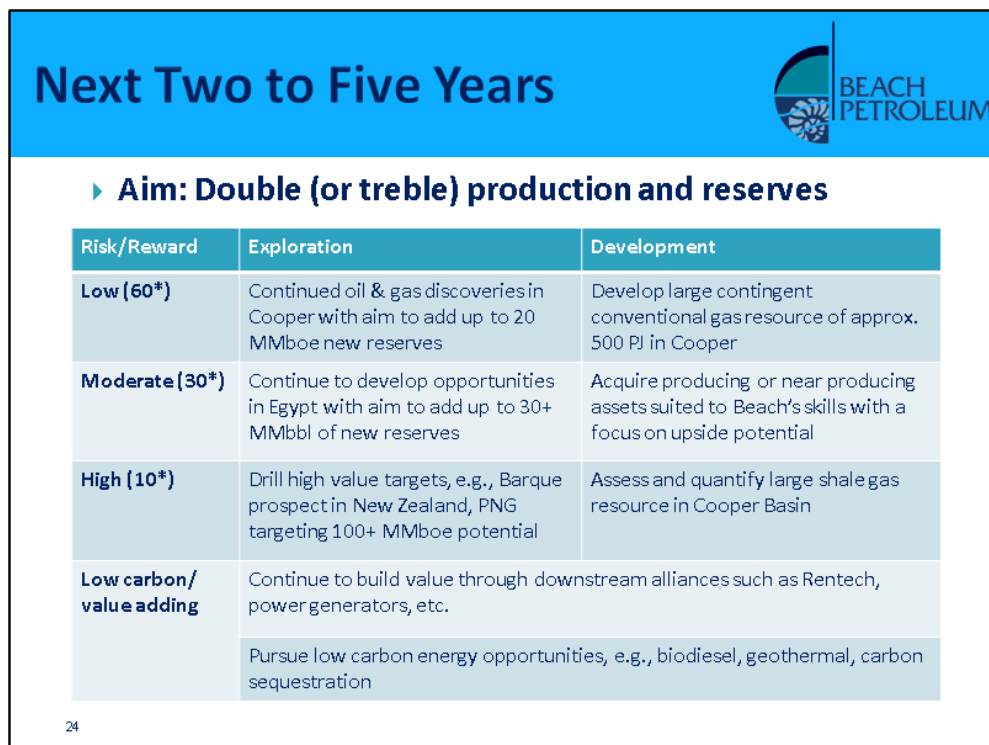
*Figure 7: Beach's strategy in the next ten years*

Let me now put forward our strategy for the next ten years:

- **accelerated growth at 60:30:10.**

The latter is something of a mantra for us, because it is inherent in the way we consciously try to approach all manner of things, to balance risk with reward. It reflects a portfolio approach, with 60% of our activities aimed at low risk, predictable growth; 30% in activities with moderate risk but the chance of greater return; and 10% in higher risk projects with the chance of a discovery that would give large stepwise growth.

We believe that this approach is how best to build a long term, robust business in the petroleum exploration and production industry. It has allowed Beach to build to become a significant Australian oil and gas producer. It has certainly been one of the reasons why Beach has been kept on an even keel during the last twelve months of financial turmoil.



*Figure 8: Beach's strategy - next two to five years*

We have a very clear objective over the next two to five years.

We aim – as a minimum – to double production and reserves during that period.

I say, as a minimum, because we believe that Beach's existing assets and its undeveloped contingent resource base are capable of delivering that outcome.


Our number one objective in this period is to find more oil. During the next two to five years we expect that the world will face some very real issues through falling supply. It's not so much a question of "peak oil", but more because projects that could have been brought on to address future global supply have been deferred as the global financial turmoil savaged their source of funding. There has been an even greater impact on exploration efforts that are vital to identify oil reserves for the future. World oil supply is facing a real squeeze as a result.

Hence, we are going to drill low risk, one to two million barrel recoverable targets in the Cooper; moderate risk, ten to twenty million barrel targets in Egypt; and some high risk one hundred to two hundred million barrel targets elsewhere – for example, the large Barque prospect in New Zealand.


During the same time, we expect that we will continue to unlock the existing large conventional gas resource of about 500 PJ that Beach holds in the Cooper Basin and to look for new producing assets that suit our skills.

A low carbon energy world can be a world of opportunities and we will continue to identify those opportunities and move on them.

## Finding More Oil in Egypt



- ▶ Highly prospective region with long established industry and favourable legislative and fiscal regime
- ▶ Home to giant oil fields (500 to 800 million barrels) such as Morgan, July & Ramadan)
- ▶ First oil production from North Shadwan concession (BPT 20%) expected within months from NS 377 & 385 near-shore oil discoveries



*Figure 9: Finding more oil in Egypt*

I mentioned Beach's existing skills.

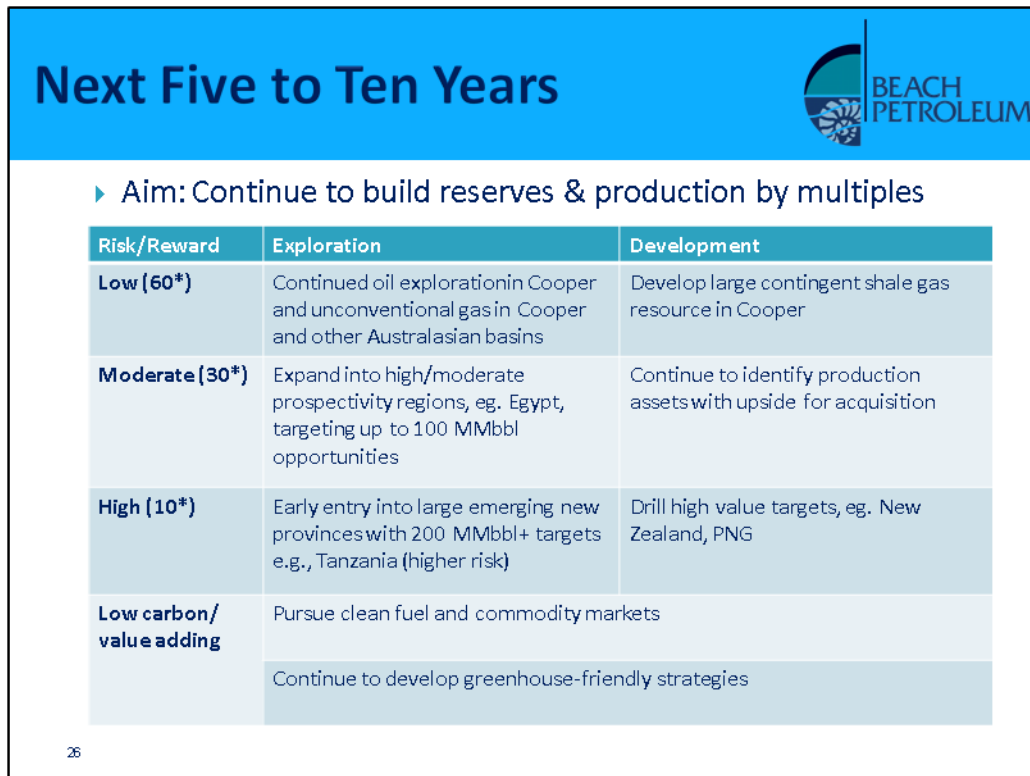
This is what we do well: Beach is a proven, low cost operator of exploration, development and production in onshore, remote areas. We have proved this in the Cooper Basin of Australia. Our plan is to use those skills in even more prospective parts of the world, such as Egypt.

With partners, BP and Tri Ocean Energy, Beach is developing some near shore fields in the Gulf of Suez. Although BP is operating this development program, the concept aligns with Beach's approach to projects of this nature and that is to drill from the shoreline, close to existing pipeline and processing facilities, at much lower cost than by drilling from an offshore location. The initial drilling has been highly successful, with the first of three wells planned in the present drilling campaign intersecting a thicker oil reservoir than expected – a net oil column of 145 m in the NS377-3 well. With only 7 km of new pipeline required to tie in to Petrobel's nearby Ras Ghara processing facility, production is expected to begin in the first half of 2010.

The largest oil field in the Cooper/Eromanga Basin is Jackson, which holds about 50 million barrels of ultimately recoverable oil. The Gulf of Suez has giant fields, such as the July Field, an order of magnitude greater. The lower risk prospects in Egypt, such as the targets Beach is now addressing, also tend to be an order of magnitude greater than the Cooper/Eromanga – that is, around ten to twenty million barrels.

More oil is why we are in Egypt. We are pleased with our progress there, with first oil production expected in less than two years since Beach's entry. We have good, substantial and experienced partners in BP, Tri Ocean and Dana Petroleum.

We expect that within two to five years Egypt will be to Beach what the Cooper was five years ago – but much larger.



*Figure 10: Beach's strategy, five to ten years*

Beyond five years, we have a very solid and ambitious long term plan that could set Beach up as a very much larger and substantial company.

Our five to ten year plan is set out here, but I want to focus on two aspects, in particular, because they offer huge potential.

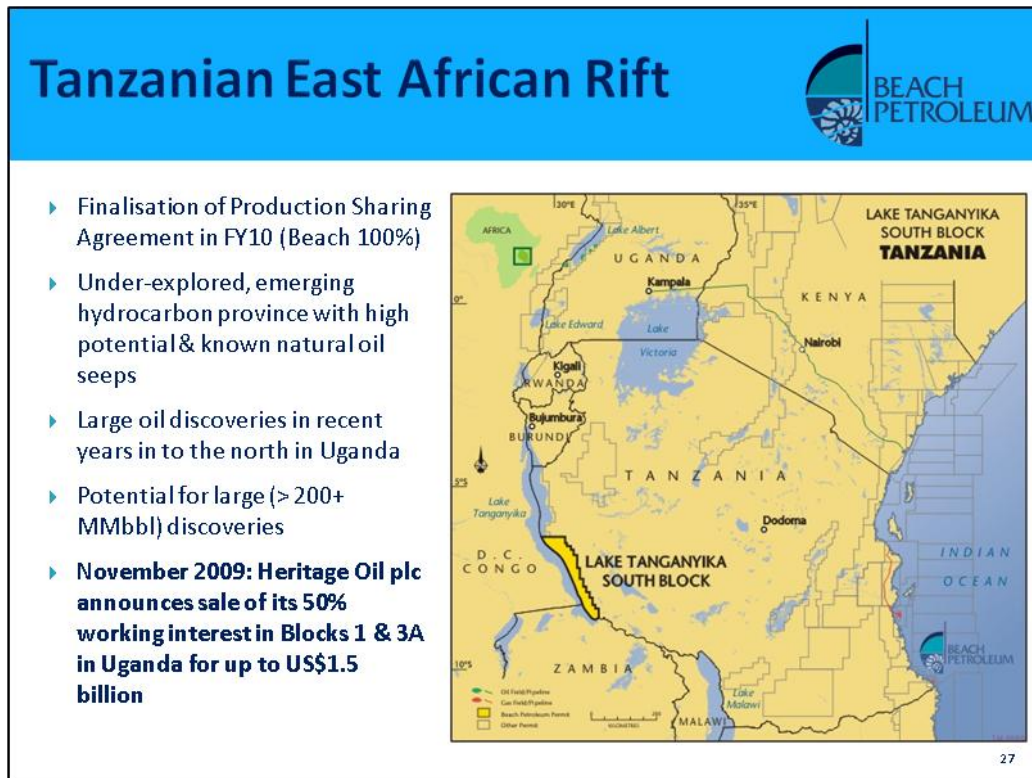
The first is in Tanzania, because it offers Beach the chance to take an early position in the East Africa Rift. This region is shaping up as one with potential to become a significant component of future world supplies.

The second is back in our home ground, the Cooper Basin. Part of our initial five year plan is to assess the unconventional gas potential of Beach's large position in the basin, particularly for shale gas. To many of you, this will be a new word. I imagine you felt that way about coal seam gas a few years ago, but probably not so now, after observing some of the large transactions since then (Beach's Tipton West sale included), as major companies such as BG Group, Conoco Phillips and Shell moved to acquire large gas reserves earmarked for export as LNG.

It may not be as well known in Australia, but shale gas has had a profound impact in recent years in the USA. Shale gas asset sales there have been, if anything, more frenetic than the CSG sales here. For example, earlier this year, BG Group paid a consideration of US\$1.06 billion in June this year to Exco Resources to acquire a 50% interest in 120,000 net acres in east Texas and Louisiana, covering the Haynesville shale gas formation.

It's worth noting that Beach's net holdings in the prime area of the Nappamerri Trough of the Cooper Basin are approximately 600,000 acres.





*Figure 11: Tanzanian East African Rift*

More oil – and lots of it!

To achieve that we need to go where few have been before.

The Gulf of Suez, as I have noted, hosts very large oil fields. It is part of a rifting of the earth's crust that has allowed rapid sedimentation.

The East African Rift is similar, but barely explored until recently – and yet it has a long history of natural oil seeps.

"We have a rich seam of oil in East Africa, the likes of which have never been seen before", according to Brian Glover, Tullow Uganda's Managing Director. Tullow (and its partner Heritage Oil plc) have reportedly drilled 27 exploration wells in the Lake Albert basin and an astonishing 26 have hit oil.

We are actively working with the Tanzanian Government on an exclusive basis to finalise a Production Sharing Agreement that will allow Beach to start exploring the rift system south of Tullow's and Heritage's blocks.

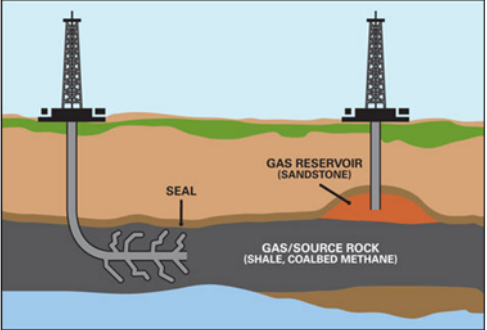
**STOP PRESS: on 23 November 2009, Heritage announced the proposed sale of its 50% working interests in Blocks 1 & 3A in Uganda to Eni S.p.A. for up to US\$1.5 billion (US\$1.35 cash and a further contingent consideration of US\$150 million).**

We believe that there is good potential for large discoveries of the order of 200 million barrels – or greater – and, frankly, we can't wait to get started.

## Cooper Basin Shale Gas

### What is Shale Gas?

- ▶ Main unconventional gas sources in the Cooper are shale gas, tight gas and deep coal gas
- ▶ Shales are typically high porosity, low permeability rocks that are often the source of oil and gas generated in a petroleum basin – and retain large volumes of gas
- ▶ New technology can create higher permeability and greater gas flow into horizontal well bores by high pressure hydraulic fracturing



The diagram illustrates the geological structure of the Cooper Basin. It shows a cross-section of the earth with a surface layer, a green vegetation layer, and a brown soil layer. Below the surface, there is a sandstone layer labeled 'GAS RESERVOIR (SANDSTONE)'. A 'SEAL' is shown between the sandstone and the underlying 'GAS/SOURCE ROCK (SHALE, COALBED METHANE)'. Two drilling rigs are shown on the surface. One rig has a vertical well that goes down to the sandstone reservoir. The other rig has a vertical well that goes down to the shale source rock, where it turns into a horizontal well with several fractures. A small number '28' is visible in the bottom right corner of the diagram area.

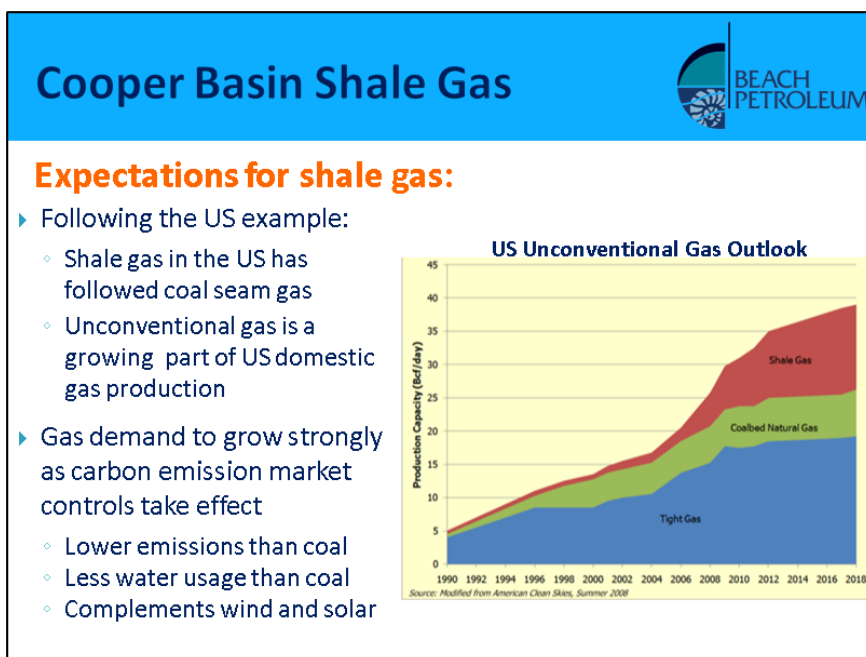
*Figure 12: Cooper Basin Shale Gas*

Unconventional gas is natural gas that is trapped or bound up in rock formations other than those conventionally recognised as reservoir rocks. It includes gas trapped in low porosity sandstones ("tight" gas), or in shales ("shale gas"), as well as gas trapped by influences of pressure at depth near the centre of gas-generating basins ("Deep Basin" gas). Coal seam gas ("CSG") is also classed as unconventional gas.

All these types of gas are likely to be present in the Cooper/Eromanga Basins where Beach has built a dominant position, we have even encountered shallow gassy coal seams in recent drilling in the Nappamerri Trough.

While Australia's focus has been on coal seam gas, activity in the United States has increasingly focused on shale and other unconventional gas and oil opportunities. Shale gas in 2007 accounted for 80% of the increase in US gas supply that year and it continues to grow.

In most instances, the shales in question are the actual source of the gas and retain the bulk of gas generated. The challenge has always been how to unlock this huge resource. New technology development in the US – mostly over the last ten years and particularly over the last three or so years – has delivered the answer, through horizontal well bores and sophisticated high pressure hydraulic fracturing ('fracking') of the shale rocks.



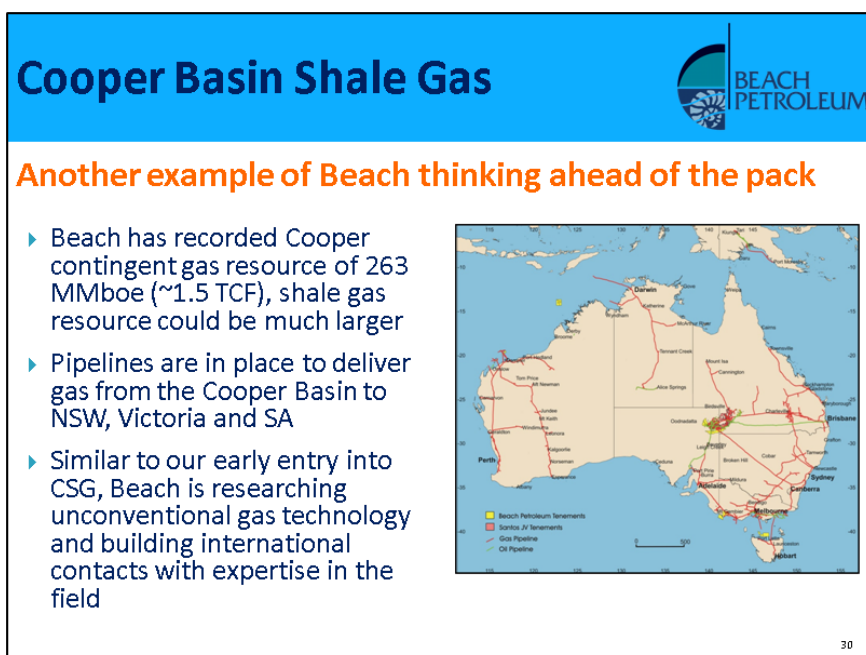
*Figure 13: Cooper Basin Shale Gas (continued)*

The US is a mature shale gas market and has enjoyed explosive growth in recent years to the extent that unconventional gas production in the US has overtaken conventional gas.

Analysts have suggested that by 2011, 50-60% of gas reserves growth in the US will come from unconventional shale gas reservoirs – a scenario that attracted US\$35 billion in investment into that sector in calendar 2008.

We expect to see Australia follow suit, with accelerated demand as realisation dawns that gas is the now and future fuel, that greater use of gas is the one, sensible solution to meet greenhouse targets and use less water than coal, while facilitating the use of renewable forms of energy in a rational economic environment.

To quote Robert F. Kennedy Jr, in his recent address to the Solar Power International conference in Anaheim, California (28 October 2009), specifically in relation to US shale gas, "...natural gas (is) a 'natural ally' for renewable energy because it's the cleanest of the fossil fuels and it's needed to balance out variable sources of power, such as solar and wind, until a better storage solution is developed."



*Figure 14: Cooper Basin Shale Gas (continued)*

This is another example of Beach's thinking ahead of the pack.


We did it with oil in the Cooper, when the naysayers said the Cooper was finished.

We did it with coal seam gas, when the naysayers were predicting that gas from Papua New Guinea would swamp the market.

We have already booked an unconventional "contingent" gas resource in the Cooper of nearly 1.5 TCF, but we believe that the shale gas resource could be ten - or many more - times greater than this. This is not a new game plan. We have been researching the concept and building our knowledge of technology developments in the USA for quite some time, as we have worked quietly to amass a dominant position in Australia.

The emergence of an Australian shale gas industry on a scale comparable to the US appears inevitable. Beach's strategy is to be a leader in any such charge.

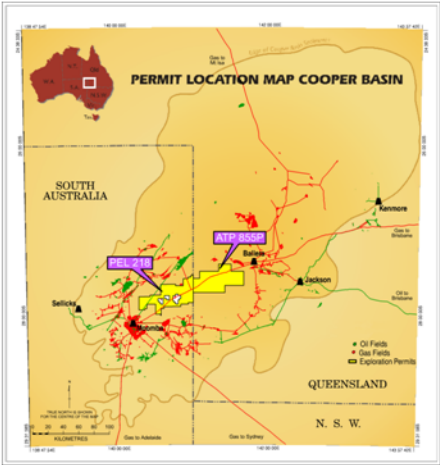
Our objective is that Beach should be the largest shale gas producer in Australia by 2015, connected to high value markets through alliances to access those markets and provide skills from upstream to downstream to distribution.



## Cooper Basin Shale Gas

### Preparing for Commercialisation

- ▶ Nappamerri Trough farms in to build a dominant position
- ▶ Sundance Energy Limited alliance for unconventional oil and gas
- ▶ Rentech agreement to evaluate feasibility of applying the Rentech Process to Cooper basin shale gas
  - Fertiliser production
  - Speciality fuels such as jet fuel (now FAA accredited)
- ▶ Power generators for electricity
- ▶ LNG



***"this new method of producing gas is the biggest energy innovation of the decade"***

***- Daniel Yergin, chairman of the IHS Cambridge Energy Research Associates Consulting Group***

*Source: New York Times 9 October 2009 "New way to tap gas may expand global supply" by Clifford Krauss*

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*Figure 15: Cooper Basin Shale Gas (continued)*

We agree with Daniel Yergin, a noted industry expert and the acclaimed author of 'The Prize', one of the outstanding books about the petroleum industry:

**"This new method of producing gas is the biggest energy innovation of the decade."**

Beach now has a dominant position in what we consider to be the prime shale gas acreage in the best onshore region of eastern Australia. The Nappamerri Trough shales, particularly in the western portion of the trough, have been the undoubted source for the gas in very large gas fields such as Moomba and Big Lake. Wells drilled within the trough have demonstrated that the Permian section has gas saturated sandstones. There is strong evidence that the thick Roseneath-Epsilon-Murteree shale section has high levels of gas adsorption and an optimum level of hydrocarbon maturity. Beach's operated interests now account for most of the zones of interest within the Nappamerri Trough.

To quote a colleague of mine in the US:

“to lock up the rights to an entire sedimentary basin is unheard of here in the States.”

Beach is moving ahead on all fronts. We will drill Holdfast-1 within the Nappamerri Trough in the first half of 2010 to test the shales more definitively. We have access to the US experience in a variety of shale basin plays and in technology development through our new alliance with Sundance Energy. We are working on ways to commercialise any large resource through downstream alliances, such as Rentech for fertiliser and specialty liquid fuels, such as jet fuel, or with power generators for electricity. There is potential to build in production of biofuels and to use carbon dioxide productively rather than as waste through fugitive emissions.

We really do believe that we are on the cusp of some great advances in providing low carbon energy for Australia – and Asia.



## Key Strategy & Objectives

- ▶ Consistent, targeted growth
  - ◊ Long-term cash flow, production and reserves
  - ◊ Value driven investments
  - ◊ At least double (or treble) production over next 2-5 years
- ▶ Thinking ahead of the pack:
  - ◊ Early entry, low risk, high return (e.g., CSG and now Shale Gas)
  - ◊ Participation in emerging technologies and opportunities
- ▶ Balanced portfolio:
  - ◊ 60:30:10 risk profile
- ▶ Conservative and flexible balance sheet (cash and no debt)
- ▶ Poised to take advantage of emerging opportunities

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*Figure 16: Beach's key strategy and objectives*

So, to summarise, we do believe that Beach will offer investors consistent, targeted growth through value-driven investments. Our immediate target is at the very least to double the Company's production and reserves over the next few years – it may be in a stepwise sense, as new fields come on stream, but we believe that this is achievable from within Beach's existing assets.

Beach's team has a long history of thinking ahead of the pack. We believe that its position in exciting new frontier regions such as the East African Rift and in shale gas are yet more examples of this.

We will continue to look for new ideas and new opportunities, but always in a balanced and sensible manner.



## The Way Forward

### “Beach Energy Limited”

- ▶ Highlights our fundamental strategy of investing in affordable low pollutant energy
- ▶ A more modern label
- ▶ Continued sound decision making in a new world of energy opportunities



*Figure 17: The way forward*

A low carbon energy world demands new ideas. It offers new opportunities.

That is why you are asked today to consent to a change of the Company’s name to “Beach Energy Limited.”

We believe that it is a name that is appropriate for the times. It does not abandon old ties and traditions – I know that Reg Sprigg would have been the first to embrace new ways forward.

It will give your Company new, fresh recognition and invigoration.

Thank you, fellow shareholders for your patience while we have worked quietly to put this new brand together. My thanks also go to our Chairman, Bob Kennedy, who puts in enormous levels of effort, well beyond the call of duty, who is always there when he is needed and who always provides creative ideas. The same can be said of all my fellow directors and all the Beach team - employees, consultants and contractors.

Thank you all.