

Letter to Shareholders – June 2010



Bob Kennedy

Dear Shareholder,

This is my first opportunity to address you under the Company's new name of "Beach Energy."

I believe that Beach is on the verge of some truly important developments and I thought it fitting to review some of the highlights during the financial year to the end of June 2010 and to outline our strategies for game-changing growth.

At our Annual General Meeting last November, I said that the new name, "Beach Energy Limited", reflected "not so much a change of direction, but a new world of opportunities." We are aiming to position our portfolio to take advantage of emerging clean energy technologies, solutions and alliances, including unconventional gas and oil, geothermal and geosequestration of CO₂.

... some truly important developments

During the last year, our drilling activities and some of our production in Australia have been somewhat restricted by an extensive forty year flood event in the Cooper Creek region.

Fortunately, most of our production is delivered by pipeline and there are only a few instances where fields have had to be shut in. Our operators in the field have done a magnificent job to keep things working under severely testing conditions. Sales of gas have been little impacted, even though production has been down, because we have been able to utilise gas held in storage as back up for just such events.

Even with these challenges, Beach continued to discover new fields and additional reserves in the Cooper, notably the Butlers and Chiton discoveries on the western flank.

The successful development of the first of the North Shadwan oil fields in Egypt has also added some initial new reserves, with production expected to start early in the new financial year. After two years in the country, Beach has now established both a presence and a reputation as a trustworthy partner in Egypt: increasingly, we are now approached regarding new opportunities there.

The proposal by the Australian Government to introduce a Resources Super Profit Tax (RSPT) has created uncertainty in Australia, reinforcing our move to establish a presence in countries such as Egypt, where the fiscal and regulatory regimes are well understood as opposed to the fiscal regime in Australia which became less certain when the proposed RSPT was announced on 3 May 2010.

Despite a year of challenges, Beach's balance sheet remains strong, with no drawn-down debt and a good cash position of over \$140 million. During the year, further cash was realised from the sale of shares in Arrow Energy Limited, acquired through the sale of Beach's Tipton West coal seam gas assets to Arrow. This yielded approximately \$47 million, with a further \$31 million realised in the previous financial year - in total \$78 million from the sale of shares. In the event that the offer by Royal Dutch Shell plc and a subsidiary of Petrochina Company Limited is effected a further \$43 million will be received from Arrow and will be brought to account in

the 2009/10 financial year. This would mean that Beach will have received approximately \$384 million net cash from the sale of Tipton West up to that point, with a further \$27 million to be received after certain milestones have been achieved.

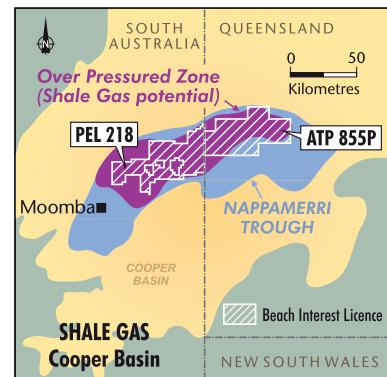
... balance sheet remains strong

With sound financial backing and a robust reserves and resource base, your company is in a good position to move quickly on new opportunities. One of these is the potentially huge shale gas resource of the Nappamerri Trough in the Cooper Basin.

Beach also now has a good position in two other basins close to gas markets in eastern Australia through its holdings in the onshore Otway Basin (both directly and indirectly through its majority shareholding in Somerton Energy Limited) and through its farm in with Lakes Oil Limited in the onshore Gippsland Basin of eastern Victoria.

Beach's technical team is rapidly building its knowledge and expertise of unconventional oil and gas development through its activities in the Bakken oil play of North Dakota (through its joint venture with Sundance Energy Limited) and its activities in the Cooper Basin, where the first test wells for the Nappamerri shale gas play are imminent.

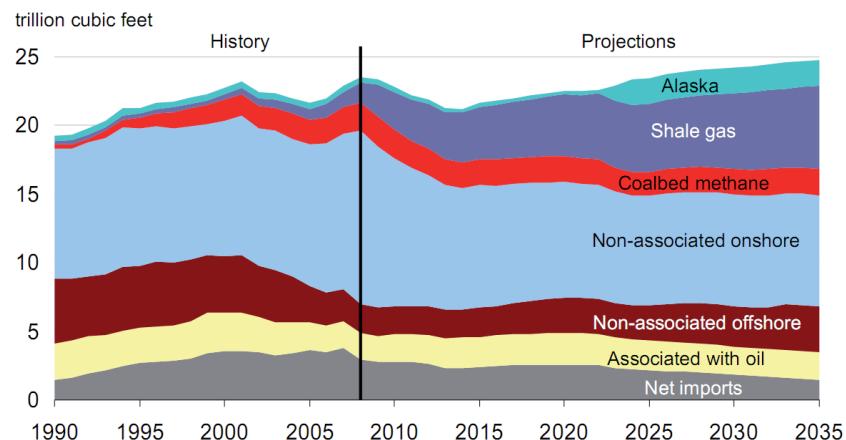
We anticipate that the year end results will show that Beach's underlying profitability, whilst expected to be lower than the previous financial year still remains sound. The reported net profit after tax, as always will be determined by factors as they pertain to year end (for example, the mark-to-market effects of financial instruments, the value of shareholdings in other companies and any decisions to impair our oil and gas development and exploration assets). The unknowns surrounding the proposed RSPT, in our view, also present uncertainties at this stage, and we are obliged to note them as additional risk factors in respect of some of our Australian operations. As we move decisively in our chosen new directions, we intend to apply some prudent housekeeping in those areas that are no longer a focus. Thus, for example, following unsuccessful exploration efforts in the Bass Basin, we see no compelling reason to continue there and we have chosen to write off the approximately \$64 million spent in that basin to date in the 2009/10 financial year.



... dominant position in shale gas opportunities

It is apparent that the market has yet to attribute value to Beach's dominant position in shale gas opportunities in eastern Australia (refer to the Financial Review of 2 June 2010, "Local investors shun shale gas despite US love-in"). To us, this brings back memories of coal seam gas in Australia, which was treated in the same fashion when Beach first became involved in 2005. A recent 'forecast of US gas production' (illustrated in the graph) tells a quite different story: it indicates that coal seam gas production is expected to remain relatively static in the USA over the next 25 years, while shale gas is set to overtake it by multiples of production.

Forecast of US gas production



Source: Energy Information Administration (EIA), US Department of Energy

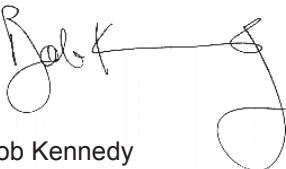
Similarly, the market is yet to recognise Beach's ground floor position in one of the most exciting new petroleum provinces seen in recent years: the East African Rift. Beach has just recently been granted tenure over a substantial portion of a region in the Rift in Tanzania. Further north along the Rift, in Uganda, Tullow Oil plc and Heritage Oil plc have experienced great success, having discovered around 700 million barrels of oil in aggregate to date.

The attached paper by our Managing Director, Reg Nelson, outlines Beach's strategy for game-changing growth.

... exciting new petroleum province the East African Rift

The oil and gas industry continues to be a vital and exciting part of Australia's economy. We have followed the transformation of gas supply through shale gas in North America over the last three years and now see the technology being applied to unlocking billions of barrels of oil reserves in North Dakota and elsewhere.

These are truly transformational factors for world energy and I am delighted that Beach has acquired a dominant position in Australia to ensure its own transformation into the new world of cleaner energy.



Bob Kennedy
CHAIRMAN
Beach Energy

Strategy, Objectives and Direction - May 2010

Overall Objectives

Beach's objective is to create wealth and add value for its shareholders; and to act with integrity, trust and respect whether in a commercial, contractual, social or environmental setting.

Strategic Directions

In general, our approach to growth is through a balanced asset portfolio of 60% low risk, 30% moderate risk and 10% high risk (with commensurate levels of reward).

Currently, the main goals in our plan for growth are to:

- build revenue and the asset base by developing existing reserves and resources;
- add to the reserves and resource base through exploration success;
- achieve strong asset growth through the identification and development of resource plays such as coal seam gas and shale gas or oil;
- add value through exposure to downstream activities through appropriate alliances with companies such as power generators or technology providers.

Present Objectives

Our stated aim over the next two to five years is to double production and reserves. We aim to do this through successes in exploration and development:

- exploration targets
 - new oil or gas discoveries in the Cooper/Eromanga with a target of 20 million barrels of oil equivalent (MMboe)
 - new opportunities in Egypt with a target of 30 million barrels of oil (MMbbl)
 - high value targets such as Barque in NZ and the newly acquired Rift Valley in Tanzania with 100 MMboe + potential
- development targets
 - developing Beach's booked 500 PJ 2C contingent gas/liquids resource
 - acquiring producing assets with a focus on upside, including unconventional
 - assessing the large shale gas resource within the Cooper Basin and elsewhere

Goal:
To double production and reserves through successes in exploration and development



During this period, and over the next five to ten year period, we will continue to pursue opportunities with potential to transform the company, and will aim to be one of Australia's leading shale gas and shale oil producers within five years, with recognised technical skills and knowledge to take advantage of other opportunities worldwide.