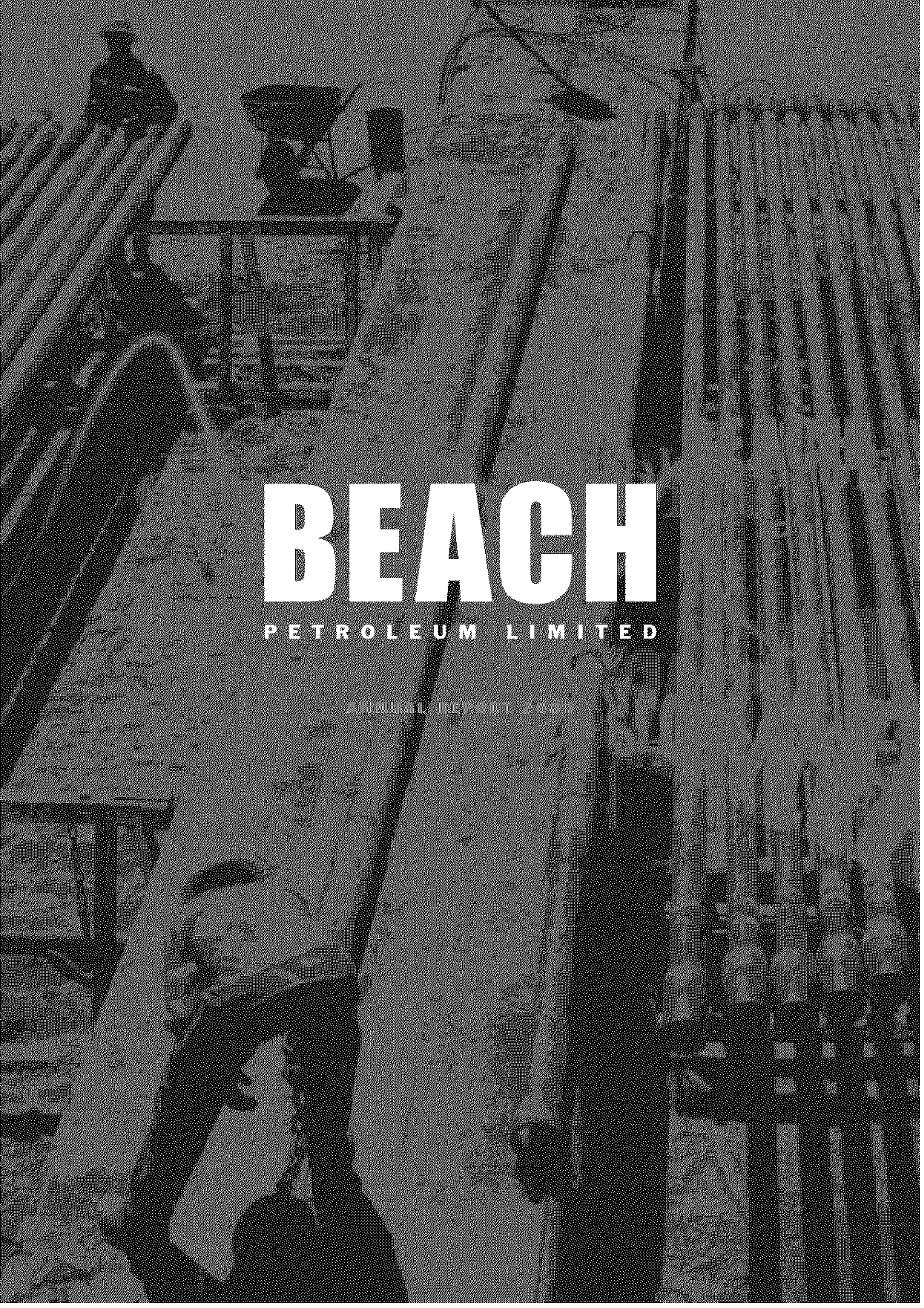


# BEACH

PETROLEUM LIMITED

ANNUAL REPORT [illegible]

Beach confirms new Eromanga Basin oil producer

Beach poised to crack million-barrel milestone for the first time

BEACH PLANS MAJOR DRILLING PROGRAMME

Cooper

BEACH STRIKES DEAL ON OFFSHORE OIL FIELD

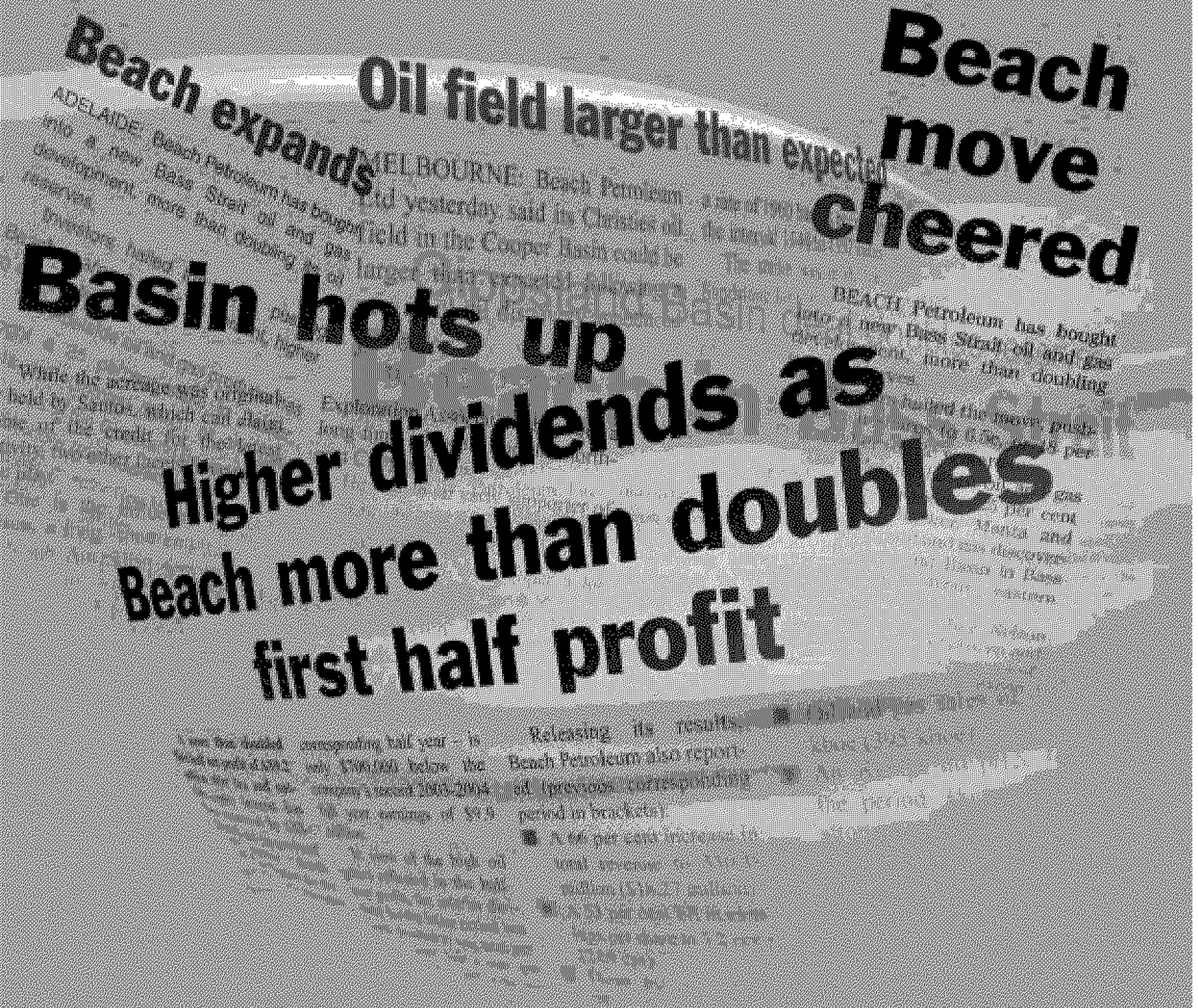
Beach Petroleum riding high

MELBOURNE – Shares in Beach Petroleum Ltd hit their highest levels in six years yesterday after the oil and gas explorer/ producer more than doubled its reserves on acquiring a key stake in

ANNUAL GENERAL MEETING: The 2005 Annual General Meeting will be held at the Australian Mineral Foundation Centre, 63 Conyngham Street, Glenside, South Australia on Thursday 17 November 2005 commencing at 10.30 am. A formal notice is mailed to shareholders with the distribution of this report.

BEACH PETROLEUM

Beach Petroleum Limited
ACN 007 617 969
ABN 20 007 617 969




**. . . The year further consolidated the Cooper/Eromanga Basin as the mainstay for our oil and gas exploration and production business, delivering as a result, record revenue, production, earnings and dividend performance . . .**


### Website

Beach maintains a website at:

*www.beachpetroleum.com.au*

On our website you will find full information about the Company. Every announcement made to the ASX is published on the website. You will also find detailed information about the Company's exploration and production tenements.

### Stock Exchange Listing

Beach Petroleum Limited shares and options are listed on the Australian Stock Exchange Listing.

ASX Code – shares: BPT

ASX Code – bonus options: BPTO

### CONTENTS

## 2004-2005 FULL YEAR HIGHLIGHTS

- **Record production of 1.05 million barrels of oil equivalent (mmboe)**
- **253% rise in reserves to 10.8 mmboe**
- **Record revenue and after tax profit**
- **105% higher net profit after tax of $20.36 million from $9.9 million**
- **Continued dividend stream – eighth successive payment**
- **Low gearing of 1%**
- **Acquisition of 25% of Basker-Manta-Gummy (BMG) project (Gippsland Basin, Vic)**
- **Successful appraisal and development drilling program in the Christies, Kenmore, Bodalla South and Jackson fields**
- **Oil discovery at Coolum-1 (Eromanga Basin, Qld)**
- **Gas discovery at Hurricane-1 (Carnarvon Basin, WA)**

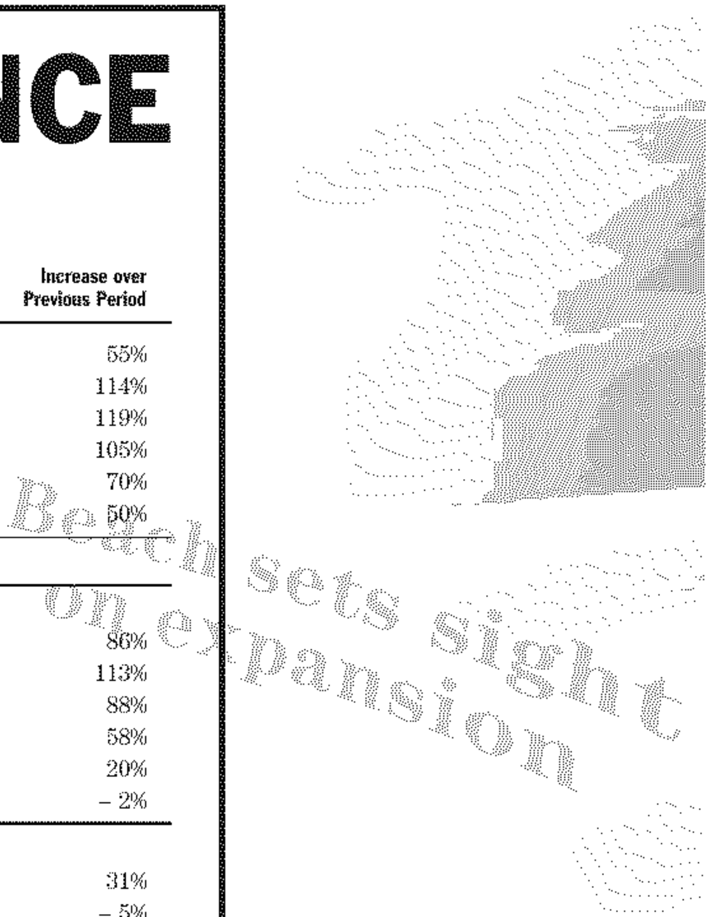
## POST 30 JUNE 2005 BALANCE DATE

- **$39 million acquisition of further 12.5% in BMG project**
- **Now control 37.5% of BMG project and retain right to move to 50%**
- **Successfully completed drilling of first BMG development well**
- **Kiana oil and gas discovery (Cooper Basin, SA)**
- **First foray into coal seam gas – $35 million farm-in to Tipton West, Qld**

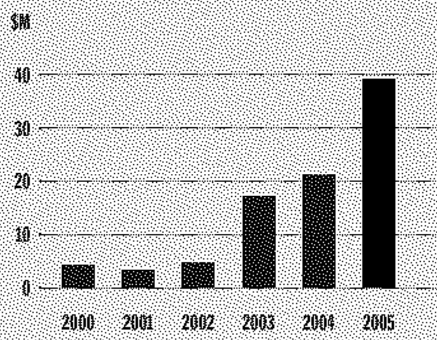
# PERFORMANCE

## Financial overview

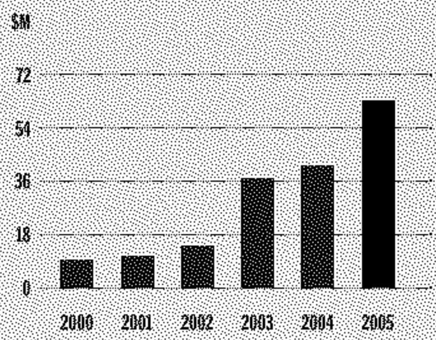
| | | 12 Months June 2005 | 12 Months June 2004 | Increase over Previous Period |
|---|---|---|---|---|
| Total Revenue | *$'000* | 63,761 | 41,261 | 55% |
| Profit before Tax | *$'000* | 28,436 | 13,318 | 114% |
| EBIT | *$'000* | 26,691 | 12,174 | 119% |
| NPAT | *$'000* | 20,361 | 9,920 | 105% |
| Basic EPS | *cps* | 6.81 | 4.00 | 70% |
| Dividend | *cps* | 1.50 | 1.00 | 50% |
| EBIT/Sales | | 41.9% | 29.5% | |
| **Cash Flows** | | | | |
| Net Cash from Ops | *$'000* | 38,890 | 20,941 | 86% |
| Investing Cash Flow | *$'000* | (50,294) | (23,650) | 113% |
| Exploration & Dev | *$'000* | (35,492) | (18,852) | 88% |
| Property & Plant | *$'000* | (4,949) | (3,127) | 58% |
| Operating | *$'000* | (22,025) | (18,388) | 20% |
| Cash on Hand | *$'000* | 34,625 | 35,189 | – 2% |
| **Balance Sheet** | | | | |
| Net Assets | *$'000* | 128,235 | 97,951 | 31% |
| Debt | *$'000* | 1,120 | 1,184 | – 5% |
| Debt/Debt+Equity | | 0.9% | 1.2% | – 28% |



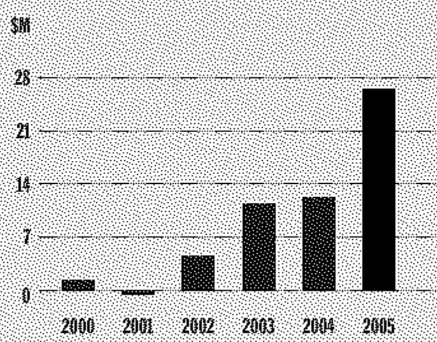

**Operating Cash Flow**



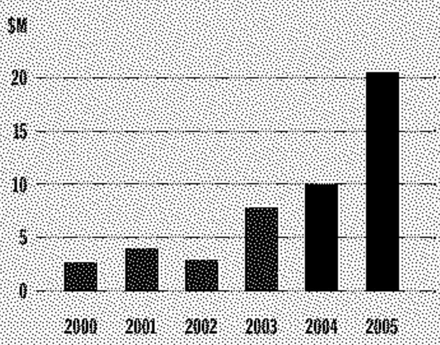

**Total Revenue**




**Earnings before Interest & Tax (EBIT)**




**Net Profit After Tax (NPAT)**



# Chairman's Report

ADELAIDE: BEACH Petroleum's chairman, Bob Kennedy
(pictured) said Beach had grown quickly in recent years and
now has a share market capitalisation of around [illegible] million.
Its operations span onshore South Australia, Queensland
and Victoria, and offshore Western Australia and Victoria.
"We have hit the million barrel per year production milestone
for the first time this financial year and together with continuing
strong oil prices the company posted a record $20.4 million net
profit, up from $8.9 million in the previous year," he said.

**Actions for Diversification and Growth**

My closing comments in my report to shareholders last year dwelt on Beach's solid financial depth and the skills and capabilities of its people. These remarks were made in the context of seeking diversification and the potential for even stronger growth.

I am very pleased to be able to report that those words have been translated swiftly into some immediate actions. The Basker-Manta-Gummy (BMG) project, in particular, has demonstrated management's ability to identify promising opportunities and to turn these into tangible oil field development ventures.

Through a combination of corporate and project related transactions, Beach secured a 25% interest in the BMG project and an approximate 10% interest in the now-listed Anzon Australia Limited during 2004-2005, as well as other rights to acquire further interests in the project. Subsequent to the financial year's end, Beach had increased its equity interest in the project to 37.5%, while retaining an option to acquire up to a further 12.5% and move towards a 50% level of participation.

The Company and its joint venture partner, Anzon Australia Limited (the operator of the project) have moved quickly to secure scarce resources and equipment and develop the BMG project, which consists of two oil fields at Basker and Manta and a gas-condensate resource at Manta and Gummy.

The $260 million Basker-Manta phase of the BMG project is Australia's latest offshore oil field development, using an innovative process in the offshore Gippsland Basin in Bass Strait.

The arrival of the Floating Production, Storage and Offtake (FPSO) vessel, the ***Crystal Ocean***, in Port Melbourne in August 2005, signaled an important phase of the project that was initiated only ten months earlier, when Beach entered into agreements with the then unlisted Anzon Australia Limited.

The Victorian Minister for Energy Industries and Resources has congratulated the joint venturers, saying: *"The **Crystal Ocean** is a first for Bass Strait, marking an important historical event for oil development in offshore Victoria. In particular, the vessel is unique in its compact size (101 metres long) and utilises the most modern technology available in the industry. The overall development involves a zero 'onshore footprint' and minimal 'offshore footprint.'"*

Based upon the operator's forecasts and a 37.5% equity in the project, development of the Basker-Manta oil fields could add up to a further three million barrels per year to Beach's production in 2006-2007 and has increased the Company's proved plus probable reserves base to nearly 13.7 million barrels of oil.

Development of the Manta-Gummy gas-condensate resource is planned to begin in 2008. This has the potential to add a further 7.2 million barrels of oil equivalent to reserves.

The BMG project represents the Company's entry into offshore production and has provided invaluable experience in that sphere. It has allowed Beach to secure a strong position in the offshore Gippsland Basin, analogous to its now strong position in the onshore Cooper-Eromanga Basins. This diversification augurs well for our other efforts to expand and diversify.

The Company's return to participating in exploration drilling offshore (in the Carnarvon Basin of Western Australia) also occurred during the year. The drilling of Hurricane-1, close to the producing Legendre Field, resulted in a gas discovery. However, in our view, there is very good potential that there may be a deeper oil pool associated with the gas. This is expected to be tested later in 2005-2006.

## Milestone for Beach

**SYDNEY: BEACH Petroleum's annual oil and gas production passed a milestone of 1 million barrels of oil eqivalent (boe), a nearly six-fold increase compared to production in the 2000-01 financial year.**

**Production has maintained a solid rate of growth during the 2004-05 financial year, culminating in the highest quarterly output in the Company's history for the June quarter.**

A substantial oil discovery could build Beach's reserves base further, while opening up other exploration prospects of a similar nature in close proximity.

Beyond these exciting developments, the Company has remained active on all its other fronts. Our forward drilling program is comprehensive and itself reflects the diversity of Beach's exploration and production assets. New opportunities are increasingly presented to us for evaluation and participation as a result of the Company's financial strength and the perception that we can and do act quickly and decisively from a background of experience. It is a tribute to management and staff that Beach is a sought-after participant by others in the industry.

**Production, Revenues and Profits Increase for Fifth Year in Succession**

I am very pleased to report another substantial increase in full year oil and gas production, sales and revenue, further reflecting the Company's substantial growth over the past five years.

Total oil and gas revenue increased by 63% to $62.7 million (before adjusting for a forward hedging premium of $1.5 million), compared with $38.5 million in the previous year. Four years ago, Beach's annual sales revenue was $9.2 million.

Similarly, the Company's annual oil and gas production passed a milestone of one million barrels of oil equivalent (mmboe), a nearly six-fold increase compared to production in the 2000-2001 financial year. I note, in particular, that production has maintained a solid rate of growth during the 2004-2005 financial year, culminating in the highest quarterly output in the Company's history for the June quarter.

The average price per barrel of oil equivalent in Australian dollars (including gas sales as well as oil) received for Beach's 2004-2005 sales was $61 per boe, compared with $43 per boe in 2003-2004, an increase of 40%. Oil prices continued to increase during the year and the average price realised by the Company during the June quarter was $74 per barrel.

Before taking into account adjustments that all companies must now consider under the new International Financial Reporting Standards (IFRS), I am delighted to report that the Company made a net profit after tax of nearly $20.4 million, compared with $9.9 million for the previous year.

The IFRS place considerable emphasis upon writing down exploration costs during a given financial year, rather than capitalising such expenditure until a discovery is made that results in production and future revenue. Your Board is of the view that, given the nature of exploration, in many project areas, exploration is carried out as an overall campaign, which may take a number of years before a reasonable assessment of a particular area's prospectivity can be made. For example, it would not necessarily be reasonable to write off the costs of a large 3D seismic survey carried in one year, before drilling any prospects that may have been identified. We have therefore adopted a commonsense approach that has resulted in a partial write down of some of the Company's exploration efforts during the year, while retaining and capitalising exploration costs in areas that we consider are likely to yield future discoveries.

**Returns to Shareholders**

The Board is conscious of using every sensible opportunity to reward shareholders, notably by paying dividends and through issuing bonus options.

The net profit after tax and the application of IFRS-related write-downs applicable to this financial year of $3.407 million less tax adjustments, has still resulted in a net profit after tax of $17.817 million which is 80% higher than the net profit after tax of $9.9 million for the previous financial year. On this basis, the Board has recommended a final dividend payment of 0.5 cents per fully paid ordinary share, providing a total dividend to shareholders of 1.5 cents per fully paid ordinary share for the full year.

In addition, the latest issue of bonus options occurred in March 2005. I quote from the Company's advice to the ASX of 21 February 2005: *"Directors wish shareholders to get the benefits of Beach's ongoing investments in projects that offer the potential for increased value – such as the Basker-Manta-Gummy (BMG) project due to start offshore Victoria in mid-year.*

*We believe that the new bonus options will be well received by shareholders as it allows them the opportunity to increase their exposure to the numerous projects that Beach will be pursuing this year."*

The bonus options are listed, giving those shareholders the option (if they so wish) to sell them on market. However, shareholders can convert the options and acquire shares at any time until 30 June 2006 at a price of 60 cents.

The rewards associated with the previous issue of bonus options were quite tangible. Shareholders who elected, prior to 31 March 2005, to convert the previous bonus options that expired on 31 May 2005 received the benefit of a one cent per share interim dividend payment. The 90% or so of those who converted prior to the expiry of these older options were able to acquire shares in the Company for 33.5 cents, and at a considerable discount to the then market price of shares.

I believe that the Board has demonstrated a commitment to reward shareholders as well as seeking to build the Company into a significant Australian energy company. We intend to maintain that commitment. We know that it is only through the support of shareholders that we have been able to achieve such strong levels of growth in recent years.

Your support has allowed the Company to build a team of management and staff that is highly respected in Australia and increasingly, internationally. As I do every year, and with unabashed sincerity, I thank these good people and the Board for their unstinting efforts.

Yours sincerely,

**Bob Kennedy**
Chairman
September 2005

# BEACH IS NOW WELL BALANCED

**SALE: Beach Petroleum has bought into a new Bass Strait oil and gas development, more than doubling its oil reserves.**

The South Australian oil and gas producer has bought a 25 per cent stake in the Basker, Manta and Gummy (BMG) oil and gas discoveries in the Gippsland Basin, off the southeast Victorian coast.

Managing Director Reg Nelson (pictured) said the BMG fields had proven and probable recoverable oil reserves of 23.3 million barrels and the expansion would more than double Beach's reserves to 10.8 million barrels.

## Managing Director's Report

**Company's Performance**

During the 2004-2005 financial year, Beach outperformed the ASX 300 companies index and the relative increases in world oil price. The Company has now achieved a good balance between existing production and an aggressive forward exploration program in an increasingly diverse portfolio of onshore and offshore acreage. This augurs well for our outlook at a time of sustained strength in world oil prices.

We have made a number of significant additions to the Company's proved plus probable (2P) reserves during the year. At year's end, 2P reserves stood at 10.8 million boe, an increase of 6.5 million boe, or 253% since 30 June 2004.
The acquisition of a 25% interest in the BMG project accounted for 5.8 million boe, but a significant increase of 16% in Cooper/Eromanga reserves resulted from new oil pool discoveries in the Christies oil field in the South Australian portion and from successful appraisal wells in the Kenmore and Bodalla South oil fields.

This increase in reserves occurred even though the Company has consistently achieved record production from its Cooper/Eromanga fields for the past four years. In fact, 2P reserves have increased by more than tenfold in the four year period since 30 June 2001*, through the addition of 16.2 million boe, offset by production during the period of approximately 3.5 million boe.

The Kenmore oil field, even after more than twenty years of production, has continued to deliver well beyond its original expectations following its discovery in 1985. We have recently reviewed the production history of the field to identify the underlying reasons for the consistent underestimations of ultimately recoverable reserves and field life. That review suggests that other fields presently producing from the relatively complex geological environment that characterises the main Hutton/Birkhead reservoir system may be subject to underestimation of their reserves and production lifetime. The Christies field may be one such example.

The acquisition of a 25% interest in the Basker-Manta-Gummy oil, gas and condensate fields during the year added 5.8 million barrels of 2P oil reserves and a contingent gas-condensate resource of 4.8 million barrels of oil equivalent. The fields are located in Retention Licences VIC/RL 6, VIC/RL 9 and VIC/RL 10 in the Gippsland Basin in Bass Strait, offshore eastern Victoria.

* The company's oil reserves in the Cooper/Eromanga Basin are based upon assessments by full time employees of Beach. Gippsland Basin oil reserves are based upon an independent assessment conducted by Gaffney, Cline and Associates in July 2004. I must note that reserves figures are expressed in probalistic terms and are inherently uncertain. The term, 2P, refers to reserves that are proved and probable, notionally indicating at least a 50% certainty of recovery.

As discussed below, development of the Basker and Manta oil fields is expected to occur late in 2005, with commercialisation of the gas-condensate Manta and Gummy fields targeted for 2008.

We think that this project fits our objectives of quality, diversification and the potential to add real value to the Company.

**Key Aspects of the Financial Year 2004-2005**

1 ***The Basker-Manta-Gummy (BMG) Project***

As mentioned, the Company was able to acquire a 25% interest in the BMG project in October 2004, in conjunction with an approximately 10% interest in the project's operator, Anzon Australia Limited, which owned the remaining 75% interest at the close of the financial year. Subsequent to year's end, Beach increased its interest to 37.5% and still holds an option to acquire up to a further 12.5% before 15 December 2005.

Beach's entry into the project enabled the joint venture to proceed swiftly with project development.

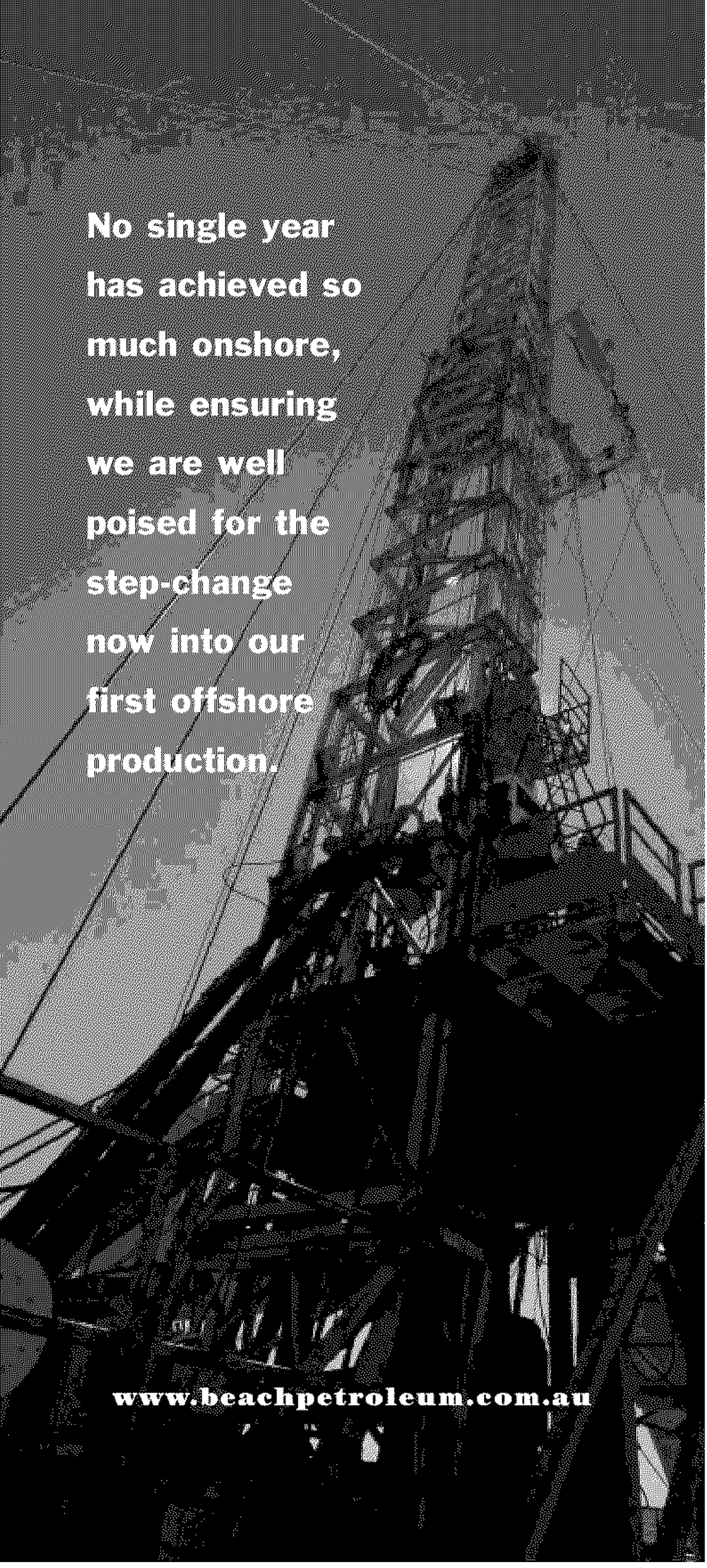

# BASS STRAIT INNOVATION

**MELBOURNE: The arrival here of the Floating, Production, Storage and Offtake (FPSO) vessel, the Crystal Ocean, (pictured) marks an inaugural and innovative oil production process in Bass Strait.**

Australia's latest offshore oil field – the $260 million Basker-Manta Project – a Beach Petroleum Limited (BPT) and Anzon Australia Limited (AZA and Operator) joint venture, will utilise the FPSO facility in conjunction with the 680,000 barrel capacity storage tanker – Basker Spirit – streamlining the production and distribution process.

First production is due in October, 2005.

Basker-2 will deliver up to 8,000 barrels of oil per day (bopd) and is the first of at least four proposed sub-sea production wells to be drilled by the Basker Manta JV.






In particular, it is worth noting that that swiftness of action secured drilling rig schedules, the contracting of the ***Crystal Ocean*** FPSO and its associated tanker, the ***Basker Spirit***, and other essential items of equipment. This is a significant achievement in itself at a time when, driven by higher world oil prices, such resources are becoming all too scarce. The demand for such resources has also driven prices upward, but it is pleasing to report that early action by the joint venture has managed to contain these costs to a high degree.

The ***Crystal Ocean*** was built for North Sea conditions in Glasgow in 1999. Designed specifically for production, stabilizing and storing crude oil for transfer to tankers, it has a crude oil capacity of 40,000 barrels (approximately 6.3 million litres) stored in eight tanks and is capable of reaching 12.5 knots at full speed when fully loaded. It can be moored "without anchors" by using a Dynamic Positioning System with computer-driven bow, stern and central thrusters to maintain geographic position over the production wells, to within 10 metres, utilizing information from satellites and other sources of data on sea states and weather conditions.

The vessel has been contracted until at least January 2008, with an option for three extensions for an additional four years on location at Basker-Manta.

The production wells and a gas injection well will be connected from the sea floor 155 metres below the vessel, via flexible composite steel flowlines and control umbilicals to a disconnectable turret mooring.
In heavier sea-state conditions, the vessel can remotely and safely disconnect from the turret mooring and take shelter until weather conditions improve and allow reconnection.

An oil flowline will be used to transfer the processed and stabilised crude oil to a shuttle tanker, the ***Basker Spirit***, that will be moored 1.5 km from the ***Crystal Ocean***. The ***Basker Spirit*** has a storage capacity of 680,000 barrels (approximately 60 million litres), making it one of the largest tankers to be permanently anchored in Australian waters for oil storage and distribution. When filled, the tanker can disconnect and ship the oil to a nearby refinery in southeastern Australia or further offload its cargo to another crude oil tanker for shipment further afield, possibly even for export.

The initial development phase will comprise drilling and testing an appraisal well, Basker-2, close to the discovery well for the Basker field. The joint venture has received approval for a six month extended production test, using the ***Crystal Ocean***.
The operator estimates that initial production rates will be up to 6,000 to 8,000 barrels of oil per day.

Based upon estimates supplied by the project's operator, at its peak production, the Basker-Manta project could be capable of producing 20,000 to 25,000 barrels of oil per day, which is approximately 25% of Victoria's current oil production.

## 2 *Successful Drilling Program*

Beach participated in drilling sixteen exploration, appraisal and development wells during the year, of which eleven were successfully completed as producers. The Company acted as operator for ten of these wells.

*Successful Appraisal Wells in Bodalla Block and Adjacent Exploration Permit*

A five well oil appraisal drilling program in the Kenmore and Bodalla South fields commenced in November 2004. All five wells were successful and were completed as producers in a very short period of time. In particular, Bodalla South-15 was drilled, cased and completed in just over 7 days.

The time of four days taken from spud to reaching total depth (1,629m) is the fastest achieved so far in the Bodalla South field. An initial analysis of the wells' results indicates that the program has increased ultimate oil recovery from the fields by approximately 700,000 bbls.

Coolum-1 was drilled approximately 10 km south of the Kenmore field. Good oil shows were encountered and the well was cased and completed for oil production.

*Successful Drilling In South Australian Sector of the Cooper/Eromanga Basin*

Christies-2 & 3 were drilled to appraise the Christies oil field in PEL 92 (Beach 75%). The wireline logging and testing program at these wells has confirmed two new pool oil discoveries in the Namur Sandstone and increased assessed reserves for the Birkhead Formation/Hutton Sandstone reservoir.

As a result, the assessed 2P reserves have increased by 0.74 to 1.35 million barrels (Beach share 0.55 and 1.0 million barrels respectively).

Production from the new Christies wells began in mid October 2004, although constrained temporarily by the lack of available trucking resources.

# Managing Director's Report

*Offshore Gas Discovery in Carnarvon Basin with Oil Potential*

Hurricane-1, located approximately 11 kilometres west of the producing Legendre oil field, was drilled in January 2005. The well penetrated a gross gas column of 76 metres in the primary objective with, importantly, no gas-water contact intersected. This has confirmed that the hydrocarbon trapping mechanism works and that there may be an associated oil leg.

Data from the well was evaluated to determine the significance of this discovery including the possibility of an oil leg being present downdip of the Hurricane-1 well location. If so, up to 40 million barrels could be present below the gas cap. As a result of these studies, a further well, Hurricane-2, is planned by the Santos Limited operated joint venture during financial year 2005-2006.

Several other exploration prospects within the permit offer the opportunity for further exploration.

**3 *Low Cost Base Maintained***

Beach continues to be an efficient, high quality, low cost producer.

The Company's overall operating and transport costs (not including royalty payments) during 2004-2005 averaged an impressive AUD14.63 per barrel, with Bodalla block costs averaging AUD12.76 per barrel, considerably below the industry average for the region. Our new discovery wells to the south of the Kenmore oil field contributed strongly to this result.

**4 *Gas Production Declined but Exploration Opportunities Increased***

During the financial year, and as anticipated, gas production from the Company's onshore Otway Basin gas fields in western Victoria declined. Significant water production from the McIntee-1 and Naylor-1 wells foreshadowed the end of the economic life of the associated fields and the wells were eventually shut in.

As a result, the bulk of Beach's production during the financial year comprised 98% oil and 2% gas. With higher oil prices and static domestic gas prices, this is not at all adverse. However, we consider that there are some longer term prospects for domestic gas, as existing sources of supply for the eastern seaboard of Australia continue to deplete. Accordingly, we are looking for opportunities to rebuild the Company's gas and gas/liquids reserves and production to give a more balanced portfolio, especially those that offer longevity of production. The Manta-Gummy gas-condensate resource provides one such opportunity.

The BMG joint venture aims to begin developing the Manta-Gummy gas-condensate by 2008, thus extending the life of the Gippsland project and helping to maintain a solid production profile for Beach well into the next decade.

Beach has also farmed into the VIC/P46 tenement offshore and adjacent to the Portland coastline in western Victoria.

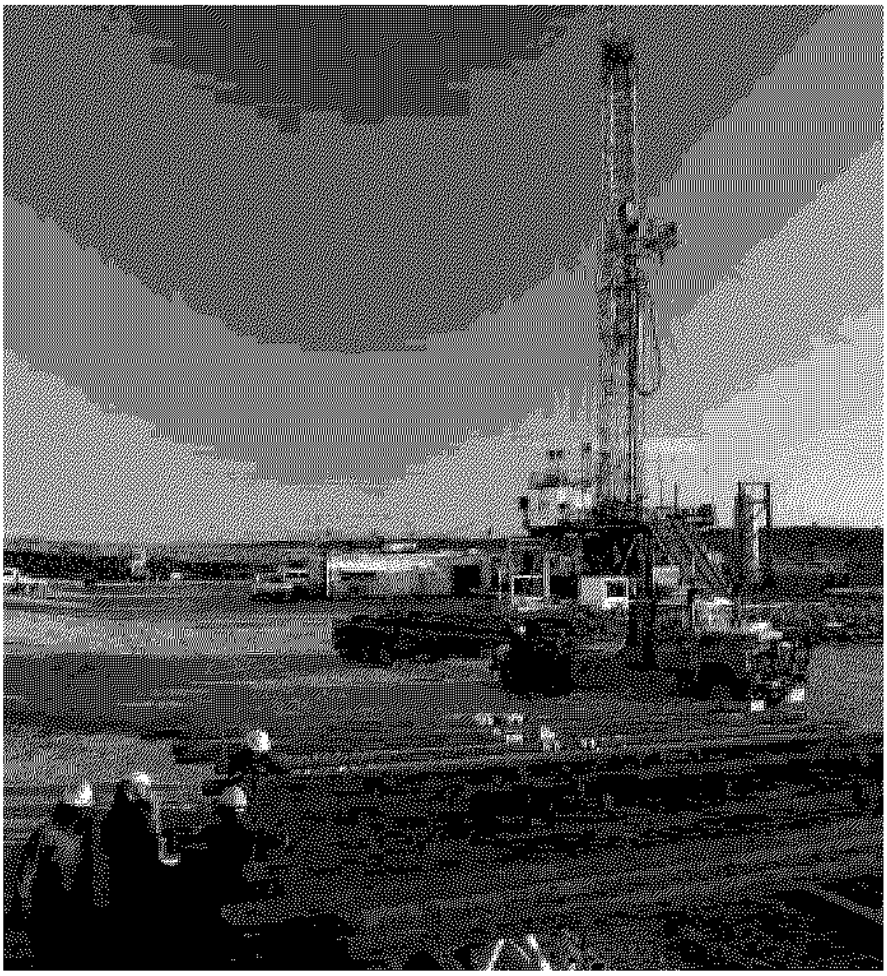
Three of the lead prospects in the tenement mapped to date, Fermat, Bernoulli and Kepler, are large, with highside reserves potentially of the order of 1 TCF in the case of Fermat.

**Growth Strategy**

Beach has secured a very strong position in some of the premium petroleum regions of the country.

It holds most of its interests at high levels of equity.

# CONTINUED COOPER SUCCESS



The Company has continued to run its operations efficiently and has increased its profitability. It has a strong balance sheet, low debt and strong and increasing earnings, all of which have provided for entry into new projects, such as the BMG project.

We are now active, or about to become active, in four major Australian basins that are proven petroleum production provinces.

These are:

- Our solid mainstay – the Cooper/Eromanga region of South Australia and Queensland;
- Another familiar region, the Otway Basin of South Australia and Victoria, but also now with an offshore flavour;
- The offshore Carnarvon Basin of Western Australia – relatively new to Beach, but very familiar to many of its staff and consultants; and
- The offshore Gippsland Basin.

We are already looking beyond these areas for new exploration and production opportunities.

We have continued to build alliances with substantial industry partners to increase the level of skills and experience for particular projects.

Our model for growth has been based upon platform cashflow generators, such as the Bodalla Block oil fields. We have utilised investing cash flow from such platforms, firstly, to reinvest in the fields themselves in order to maintain and build reserves and production; secondly, to expand our drilling efforts elsewhere in the region to make new discoveries; thirdly, to diversify into new regions or to pursue high reward opportunities; and finally, to provide returns to shareholders by way of dividends or bonus options.

This has been our model to build cashflow from existing underdeveloped fields and new discoveries in the Cooper/Eromanga region, for so long dominated and left underexplored by major companies.

With the BMG project, we are about to apply the same model in an even bigger playing field, the offshore Gippsland Basin, home to the giant Bass Strait oil and gas fields.

**Objectives for Financial Year 2005-2006**

Beach's drilling program is expected to comprise at least twenty wells, compared with sixteen wells in the year in review. With this program, we aim to build reserves and production in existing fields, including Basker and Manta, expand our discoveries in the South Australian sector of the Cooper/Eromanga region, target new gas plays in the onshore and offshore Otway Basin and further appraise the potential for oil discoveries in the offshore Carnarvon Basin.

# Managing Director's Report

Increased oil prices have provided the financial means and the incentive to accelerate our efforts to increase production and make new discoveries.

However, we also believe that in the medium to longer term, gas demand along Australia's eastern seaboard will become of increasing importance. Our objectives in financial year 2005-2006 will also be to rebuild the Company's gas reserves and production for this market.

In the Cooper/Eromanga region, we expect to be able to move back into the Western Patchawarra Flank area. Exploration activities in this area have been hampered for the past eighteen months because of local flooding in the Cooper Creek.

At the date of this report, Beach had drilling success in this area with the Kiana-1 well, southeast of the Sellicks and Christies oil fields. This is being followed by the Tyringa-1 well in that immediate vicinity, followed by several appraisal wells at Sellicks and Christies and a further seven exploration wells further to the north and northwest.

We are also reviewing a comprehensive program to drill further appraisal wells in the Bodalla South and Kenmore fields later in the year.

Beach's activities in the onshore Otway Basin have also increased during the year under review, with seismic and gravity surveys in the South Australian portion. We have also entered into a farmin agreement with Origin Energy Limited to earn a 60% interest in relation to PEL 27 by contributing to the cost of drilling Cowrie-1 northwest of the township of Penola during the summer of 2005-2006. Cowrie-1 will test an oil prospect with a highside potential of 5 million barrels of recoverable oil.

In addition to the planned development of the Basker and Manta oil fields, we expect that the exploration program in VIC/P46, in the Otway Basin, offshore from Portland will progress, targeting proven gas play formations. As mentioned, several large structures have already been identified in the near-shore portion of the permit within 25 km of the coast and in water depths of less than 150 metres. Additional 2D and 3D seismic will be conducted in early 2006 to firm up the potential of the structure prior to choosing the best prospect and a drill location.

Also, as I have previously indicated, we expect that Hurricane-2 in the offshore Carnarvon Basin will be drilled later in the financial year.

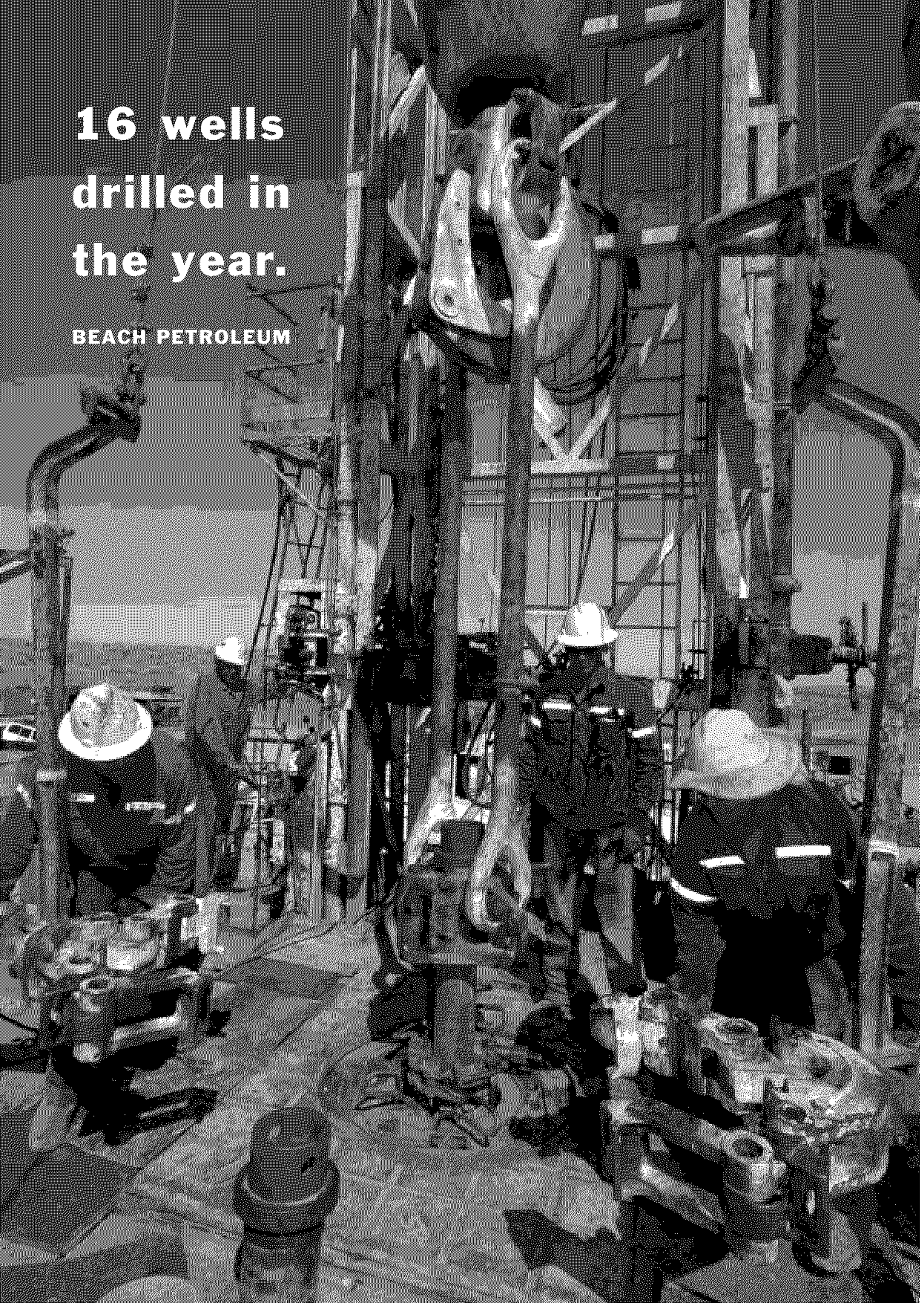
We expect to expand our offshore exploration activities even further during the next financial year.

These represent only a few of the many opportunities we are examining for financial year 2005-2006. I am confident that Beach's program will continue to expand throughout the year, as it has for the year in review.

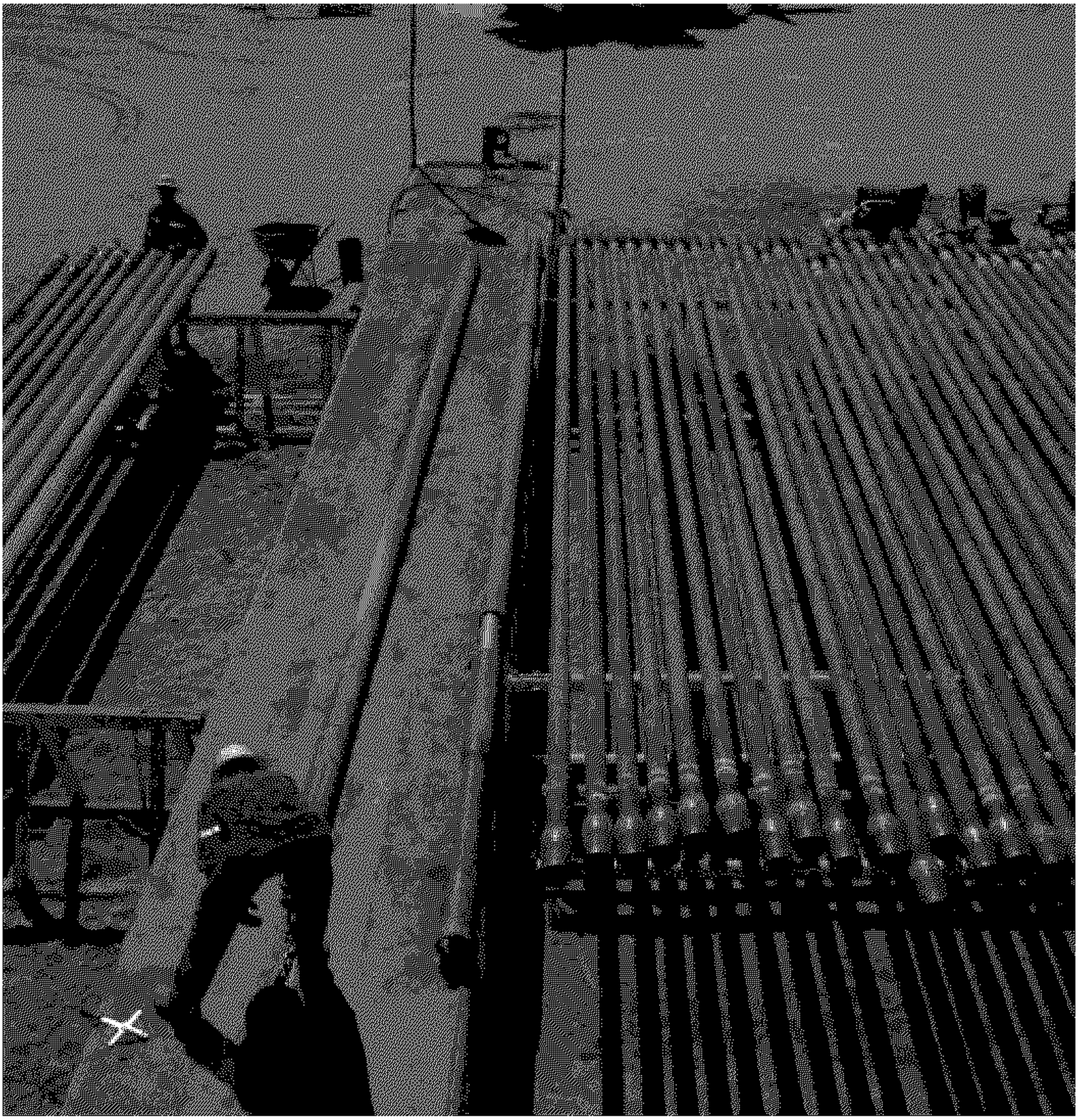
The key to this will lie in the Company's ability to continue to retain and attract quality staff and consultants in a period of high demand for such skills.

As always, I thank our people for their fine and dedicated efforts during the year, the Board for its backing and shareholders for their continued and valued support for our efforts to build the Company.

**Reg Nelson**
Managing Director
September 2005


16 wells drilled in the year.
BEACH PETROLEUM

# A REVIEW OF THE COMPANY'S ACTIVITIES DURING 2004-2005



The Company has financial depth, exploration and operational skills and capabilities, a diversified tenement portfolio, the ability to contain production costs and the capability to move quickly to profitably exploit new challenges.

**HIGHLIGHTS** of Beach Petroleum's operations during the year were:

- Production of 1.05 million barrels of oil equivalent (mmboe), a record for the Company;
- Successful appraisal and development drilling program in the Christies, Kenmore, Bodalla South and Jackson fields;
- Oil discovery at Coolum-1; and
- Gas discovery at Hurricane-1.

# Operations Report

## Production

| State | Tenement | Beach Equity | Net Production (kboe) | |
|---|---|---|---|---|
| | | | 2004-2005 | 2003-2004 |
| Queensland | Bodalla Block (Kenmore, Bodalla South and Black Stump) | 100.0% | 624 | 622 |
| | ATP 269P (Bargie, Glenvale) | 93.9% | 4 | 6 |
| | Naccowlah Block (Jackson and associated fields) | 6.5% | 51 | 57 |
| South Australia | PEL 90 (Acrasia) | 25.0% | 26 | 58 |
| | PEL 92 (Sellicks and Christies) | 75.0% | 315 | 125 |
| | PEL 95 (Aldinga) | 50.0% | 5 | 8 |
| | PEL 113 (Harpoono) | 33.3% | 7 | - |
| Victoria | PPLs 6 & 10 (McIntee, Croft, Naylor) | 10.0% | 17 | 91 |
| | Total | | 1,049 | 967 |

Beach holds interests in eight oil and gas producing assets in the Cooper/Eromanga and Otway Basins.

Beach's share of production during the 2004-2005 financial year from these areas totalled 1.05 mmboe. This is 8% above the previous year's production of 967 thousand barrels of oil equivalent (kboe) and is the highest annual production achieved by the Company in its 43 year history. Oil production accounted for 98% of the total annual production for the Company.

Two successful appraisal wells were drilled in the Christies field in 2004, discovering 2 new oil pools, increasing reserves and enhancing production from the field. After commencing production in October 2004, these wells contributed 259 thousand barrels (kbbls) to Beach's production in the 2004-2005 year.

Five successful appraisal wells were drilled in the Kenmore and Bodalla South fields in late 2004/early 2005. After commencing production in early 2005, these wells contributed 117 kbbls to the Company's production for the financial year. The Glenvale development facilities were completed in May 2005 with Glenvale-1 commencing production on beam pump at approximately 25 bopd. A total of 191 barrels of oil was produced by year-end.

One successful development well and one successful appraisal well were drilled in the Jackson field in March and June 2005 respectively and after the development well commenced production in May 2005, contributed 0.2 kbbls to Beach's production in the 2004-2005 year. The appraisal well will commence production early in the next financial year.

## Reserves

Beach's proved and probable oil and gas reserves as at 30 June 2005 were 10.8 million boe (mmboe), consisting of:

| Area | Proved and Probable Recoverable Reserves (mmboe) |
|---|---|
| Queensland Eromanga | 3.5 |
| SA Cooper/Eromanga | 1.5 |
| Gippsland Basin | 5.8 |
| Total | 10.8 |

| Date | Proved and Probable Reserves (mmboe) |
|---|---|
| 30 June 2001 | 1.0 |
| 30 June 2002 | 3.8 |
| 30 June 2003 | 4.5 |
| 30 June 2004 | 4.3 |
| 30 June 2005 | 10.8 |

# Operations Report

As at 30 June 2005, the Company's proved and probable reserves were 100% oil.

The Company's gas fields in the Otway Basin have now reached the end of their economic life. As a result, the Company carries no reserves of gas and/or gas liquids.

This 2005 outcome represents an increase in reserves of 6.5 mmboe to a level at 253% of reserves at 30 June 2004.

Cooper/Eromanga oil reserves have risen by 0.7 mmboe as a result of reserve additions (arising from exploration and appraisal drilling and the reassessment of ultimate recovery from existing fields) totalling 1.7 mmboe, offset by production of 1.0 mmboe.

Net oil reserves of 5.8 mmboe are identified in the Gippsland Basin Basker and Manta oil fields, in which the Company acquired a 25% interest in October 2004. These oil reserves are based upon an independent assessment conducted by Gaffney, Cline and Associates in July 2004.

The Company's petroleum reserves have now increased by more than tenfold in the four year period since 30 June 2001.

Subsequent to year-end, Beach exercised its pre-emptive right to acquire a further 12.5% interest in VIC/RLs 6,9 and 10, which contain the Basker, Manta and Gummy oil and gas fields, from Anzon Australia Limited. This takes Beach's interest in the fields to 37.5% and increased proved and probable reserves for the Company by 2.9 mmboe.

## Exploration and Development

During the year, Beach participated in the drilling of 15 exploration and appraisal wells, with a total success rate of 60%. Although results of the exploration drilling program were below expectation (1 wildcat success from 7 wells), the appraisal drilling program in the Bodalla Block, Christies field and Jackson field was 100% successful, yielding 8 successes from 8 wells. One development well (Jackson-44) drilled during the year yielded a successful result.

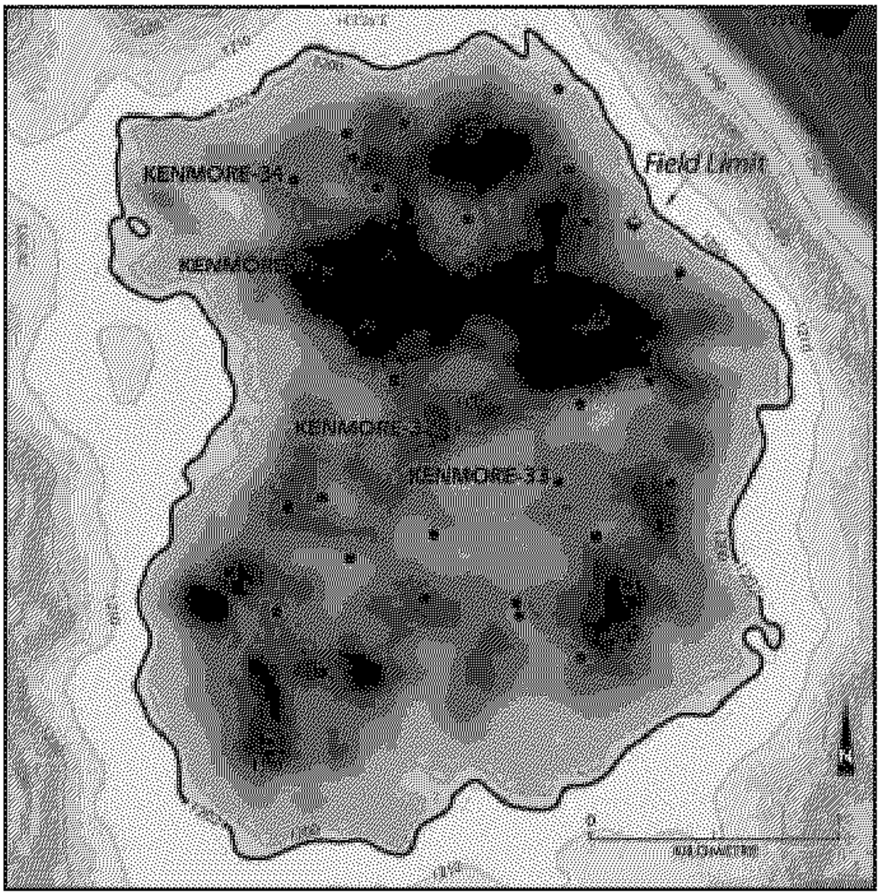
Beach's exploration drilling success rate over the five year period since July 2000 now stands at 27% (10 discoveries from 37 exploration wells).

Total exploration/appraisal success rate over the same period is 43% (22 successes from 51 wells).

Key outcomes of the 2004-2005 program were:

- New field discovery at Coolum-1 (ATP 269P Coolum Block, Beach 46.95%);
- Sub-commercial gas discovery at Hurricane-1 (WA-208-P, Beach 10%), with potential for an oil leg;
- Christies appraisal program discovered two new oil pools, increased reserves by 0.96 million barrels (mmb) and enhanced production from the field's main reservoir;
- Kenmore and Bodalla appraisal program increased ultimate recovery by 0.7 mmb, representing a 23% increase in the field's remaining reserves;
- Failure of Noarlunga-1 has downgraded the prospectivity of southern PEL 95;
- Failure of Corowa East-1 (WA-264-P, Beach 16.67%) to encounter significant hydrocarbons indicates the Corowa oil pool is sub-commercial.

# Kenmore Field




| DRILLING PROGRAM 2004-2005 | | | | |
|---|---|---|---|---|
| **Category** | **Area** | **Well** | **Tenement** | **Result** |
| Exploration | Cooper/Eromanga | Noarlunga-1 | PEL 95 | Plugged and Abandoned |
| | | Jezabeel-1 | PEL 113 | Plugged and Abandoned |
| | | Almonta-1 | PEL 95 | Plugged and Abandoned |
| | | Baystone-1 | PEL 90 | Plugged and Abandoned |
| | | Coolum-1 | ATP 269P | Oil Discovery |
| | Carnarvon | Hurricane-1 | WA-208-P | Sub-commercial Gas Discovery |
| | | Corowa East-1 | WA-264-P | Plugged and Abandoned |
| Appraisal | Cooper/Eromanga | Christies-2 | PPL 205 | Oil Well |
| | | Christies-3 | PPL 205 | Oil Well |
| | | Kenmore-31 | PL 32 | Oil Well |
| | | Kenmore-32 | PL 32 | Oil Well |
| | | Kenmore-33 | PL 32 | Oil Well |
| | | Kenmore-34 | PL 32 | Oil Well |
| | | Bodalla South-15 | PL 31 | Oil Well |
| | | Jackson-45 | PL 23 | Oil Well |
| Development | Cooper/Eromanga | Jackson-44 | PL 23 | Oil Well |

| | Number of Wells | | Drilling Success Rate | | |
|---|---|---|---|---|---|
| **Year** | **Exploration** | **Appraisal** | **Exploration** | **Appraisal** | **Total** |
| 2000-2001 | 6 | 0 | 50% | - | 50% |
| 2001-2002 | 6 | 0 | 33% | - | 33% |
| 2002-2003 | 6 | 1 | 25% | 100% | 43% |
| 2003-2004 | 12 | 5 | 17% | 60% | 29% |
| 2004-2005 | 7 | 8 | 14% | 100% | 60% |
| **Total** | **37** | **14** | **27%** | **85%** | **43%** |

## Cooper/Eromanga Basin

**Bodalla Block Oil Fields** *(Beach 100%)*

The Bodalla Block fields comprise the Bodalla South, Kenmore and Black Stump fields located in the Eromanga Basin of southwest Queensland, approximately 900 km west of Brisbane. Beach has been a participant in the Bodalla Block fields since their discovery in 1984-1986 and assumed full ownership and operatorship of the fields in 2002.

In October 2002, Beach acquired 3D seismic surveys over the Kenmore and Bodalla South fields. Subsequent interpretation and mapping of this data led to a successful three well drilling program in the Kenmore field, commencing in September 2003. The success of that program and further reservoir engineering work during 2004, led to a five well drilling program in the fields. Starting in November 2004, four wells were drilled in the Kenmore field and one well in the Bodalla South field.

This drilling successfully tested a northwesterly extension to the Kenmore field and an extension of productive reservoir section into the central portion of this field. Before acquisition of the 3D seismic, this central area was interpreted to be structurally low and consequently remained relatively undrilled.

# Operations Report

Kenmore-31, 32, 33 and 34 commenced production on free flow by February 2005 and were producing at a combined rate of 380 bopd at 30 June 2005. The wells are forecast to produce a combined 0.45 mmb of oil.

Bodalla South-15 was drilled during February 2005 in the northern portion of the Bodalla South field and intersected the reservoir at the highest point encountered thus far in the field. The well commenced production in March 2005 and subsequent installation of artificial lift (jet pump) lifted performance to an initial water free rate of over 1,000 bopd. As at 30 June 2005, the well had produced 72 kbbls of oil and is forecast to increase recoverable reserves from the field by 0.25 mmb.

Scope for further appraisal drilling in the Kenmore and Bodalla South fields is being investigated.

**Jackson Oil Field** *(Beach 6.5%)*

A two well drilling program was undertaken in the Jackson field. Jackson-44, an oil development well, was drilled in March 2005 and encountered pay in the Murta and Westbourne Formations. Production commenced from the well in May and at 30 June 2005, 3,470 barrels of oil had been produced.

Jackson-45, an oil appraisal well on the northern flank of the field, was drilled in May/June 2005 and intersected 13 metres of pay in the Westbourne Formation. Subsequent to year-end, the well is expected to commence production in September 2005 at an initial rate of 250 bopd.

**Sellicks Oil Field** *(Beach 75%)*

The Sellicks field was discovered in PEL 92 in July 2002. Sellicks-1 commenced production on free flow in November 2002 and continued until December 2003 when artificial lift via jet pumping commenced. At 30 June 2005, cumulative production had reached 230 kbbls. Interpretation of the 3D seismic survey acquired in 2004 and the performance of Sellicks-1 indicates the well will ultimately produce approximately 320 kbbls of oil and that further appraisal/development drilling is warranted on the Sellicks field. An appraisal well is planned for early 2006.

**Christies Oil Field** *(Beach 75%)*

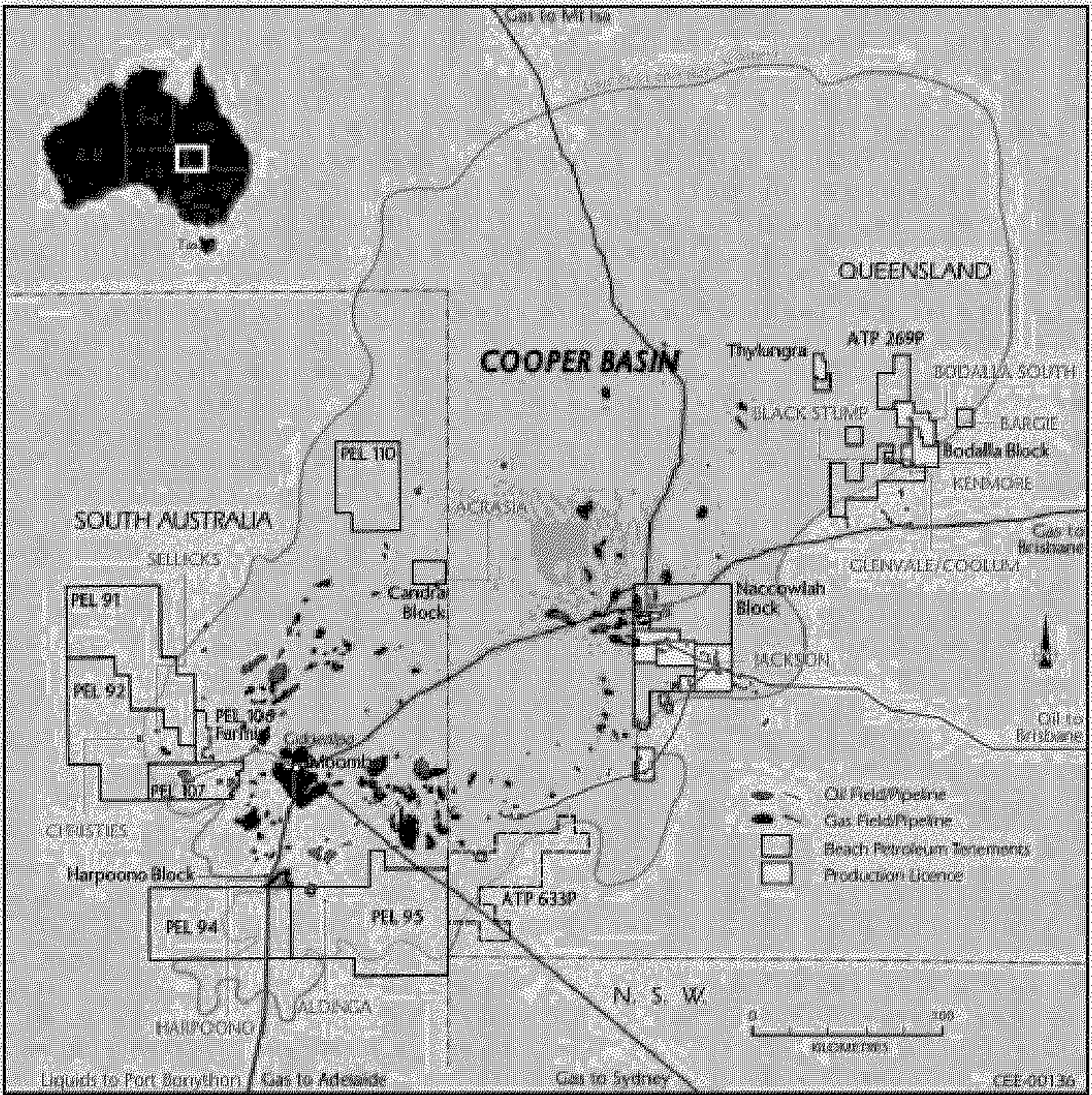
Christies-1, drilled in June/July 2003, discovered oil in the Birkhead Formation and commenced production, on beam pump, in October of that year. Production continued until mid-April 2004, when floodwaters from Cooper Creek cut the access road to the well, necessitating its shut-in until the construction of a new access road allowed production to re-commence in July 2004.

Interpretation of the 3D seismic survey acquired over the Christies field in October 2003 led to the drilling of 2 appraisal wells during August/September 2004.

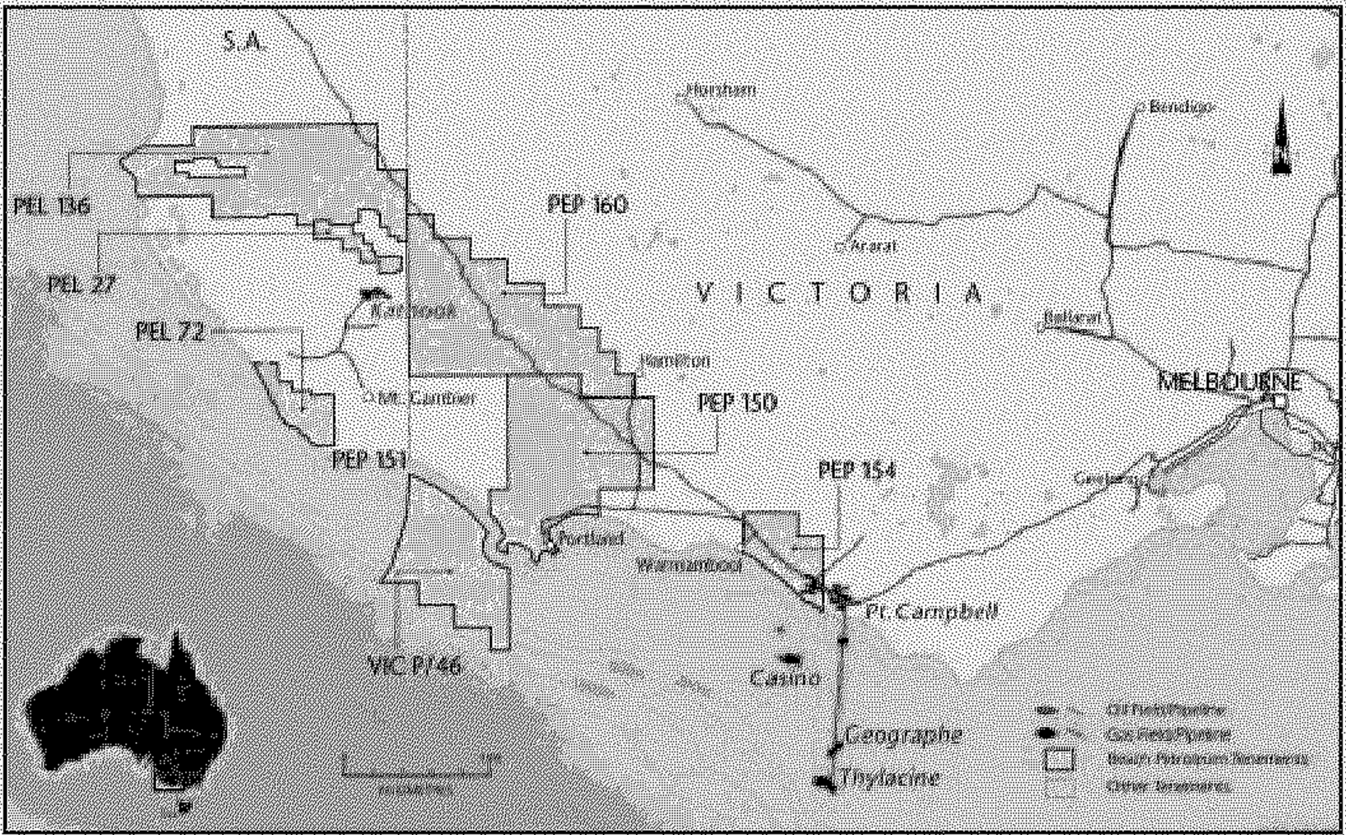
Christies-2 & 3 confirmed the continuity of the Birkhead Formation pool and lowered the interpreted oil/water contact by approximately 5 metres. In addition, two new oil pools within the Namur Sandstone were discovered. As a result of the success of Christies-2 & 3, further wells are being considered for drilling in early 2006 to appraise and develop the Birkhead and Namur oil pools.

Cumulative production from the Christies field at 30 June 2005 was 455 kbbls. Based upon the results of Christies-2 & 3, the estimated ultimate recovery (on a Proved and Probable basis) from the field has been increased by 1.3 mmb to approximately 2.0 mmb, with remaining reserves of 1.5 mmb. Christies-2 & 3 commenced production in October 2004 and produced 260 kbbls of oil to 30 June 2005. At 30 June 2005, the wells were producing at a combined rate of approximately 1,000 bopd. After installation of water handling facilities and artificial lift in August/September 2005, the wells are expected to produce at a combined rate in excess of 2,000 bopd.

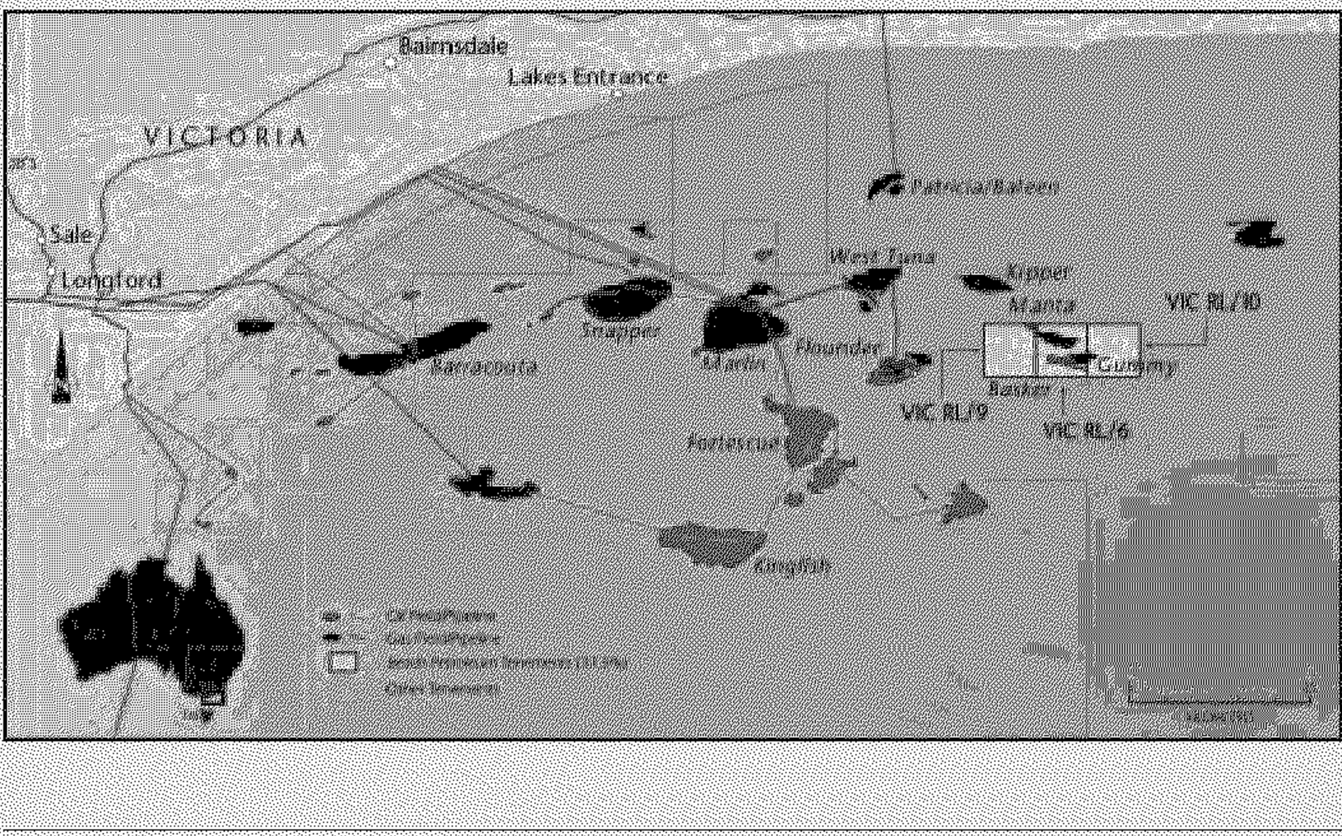
# Cooper/Eromanga Basin



# Otway Basin




# Gippsland Basin



# Operations Report

**Acrasia Oil Field** *(Beach 25%)*

During the year, production from the Acrasia field declined to 170 bopd at 30 June 2005. Subsequent to year-end, Acrasia-4, a development well targeting the Hutton Sandstone, was drilled to improve drainage of the Hutton Sandstone. Hydrocarbon shows were encountered during drilling but poor hole conditions prevented successful testing during drilling. The well was cased and completed for future production.

**Aldinga-1** *(Beach 50%)*

Aldinga-1 continued to produce during the year, with the production rate stabilising at about 25-30 bopd with minimal water. The well is now expected to continue producing economically for the next year or more. Further drilling on the Aldinga structure is being considered.

**Harpoono-1** *(Beach 33.3%)*

Harpoono-1, drilled in May/June 2004, discovered oil in the Murta Formation and commenced production in November 2004. Artificial lift was installed in May 2005 and at 30 June 2005 the well was producing at a rate of 100 bopd. Cumulative production at year-end was 14 kbbls. Further drilling on the field, by early-mid 2006, is being considered.

**Exploration Drilling**

During the year, five exploration wells were drilled, resulting in one commercial oil discovery.

Coolum-1 (ATP 269P Coolum Block, Beach 46.95%), 11 km southwest of the Kenmore oil field and 0.5 km north of the Glenvale-1 oil well, was drilled during February 2005 and discovered oil in the Westbourne Formation. The well was cased and completed and production facilities were installed during April/June 2005. Subsequent to year-end, production commenced in July 2005 at a rate of 30 bopd on free flow. Artificial lift was installed during August 2005 and an initial rate on pump of 65 bopd was achieved.

The presence of oil at this location has highlighted the prospectivity of the Glenvale-Coolum structural high and other similar trends in the ATP 269P. Further drilling will be considered after analysis of the initial production performance of Coolum-1.

Unsuccessful wells were drilled in PEL 90 (Baystone-1), PEL 95 (Noarlunga-1 and Almonta-1) and PEL 113 (Jezabeel-1).

Noarlunga-1 (PEL 95, Beach 50%), drilled to test an anticline in the central portion of the permit, is interpreted to have failed due to an ineffective hydrocarbon migration pathway, thus downgrading prospectivity of the southern half of PEL 95. Failures of the remaining wells are considered to be more prospect specific and do not have significant implications for permit prospectivity beyond the immediate vicinity of the prospect tested.

**ATP 633P**

Negotiations with the Wangkumarra Native Title claimants on a “Right to Negotiate Agreement” were nearing completion at year-end. Following execution of this agreement, it is anticipated the tenement will be granted by the State shortly thereafter and exploration activities will commence during 2006.

## Otway Basin

Gas production continued from PEP 154 during the year, with total production of 0.90 bcf (Beach share 0.09 bcf) achieved during the year. Subsequent to year-end, the gas fields reached the end of their economic life when production from Croft-1 and Naylor-1 ceased. Two exploration wells are planned for drilling in PEP 154 during August/September 2005.

During the year, Beach entered into a farmin arrangement with Essential Petroleum Resources Limited in relation to VIC/P46, in the Victorian offshore Otway Basin, under which Beach will earn a 17.5% interest in that tenement by contributing to the cost of acquiring seismic and drilling, one exploration well.

# Operations Report

This well is planned for drilling late in 2006/early 2007. The location of the well will be decided after review of 2D seismic recorded in 2005 and 3D seismic acquisition planned for late 2005.

Activity in Beach's Otway Basin tenements consisted of the acquisition of 360 km of 2D seismic in VIC/P46 (Beach 17.5%). No drilling was carried out during the reporting period.

During the year, Beach diluted its interest in PEL 27, in the South Australian onshore Otway Basin, from 50% to 30%. Cowrie-1, in PEL 27, will be drilled during October/November 2005 and will test an oil prospect located about 25 km northwest of Penola.

Subsequent to year-end, Beach reached an agreement with Santos Limited and Origin Energy Resources Limited under which it will acquire a 50% interest in PEP 160, an exploration tenement located in the onshore Otway Basin in western Victoria. Under the terms of the agreement, Beach will acquire the 50% interest in PEP 160 by contributing to the cost of drilling the Lindsay-1 exploration well. This well will be drilled early in 2006 to test the gas potential of the Pretty Hill Sandstone in a prospect located approximately 30 km to the southeast of Penola. Beach has assumed operatorship of the PEP 160 joint venture.

## Gippsland Basin

In October 2004, Beach acquired a 25% interest in VIC/RLs 6, 9 & 10, containing the Basker, Manta and Gummy oil and gas fields in the Gippsland Basin, offshore Victoria. Oil development of the Basker and Manta fields will be undertaken in the 2005-2006 financial year.

Subsequent to year-end, Beach acquired a further 12.5% interest in the project (taking its equity to 37.5%) and Basker-2 was drilled as the first step in the development of the Basker-Manta fields for oil production. This well achieved its primary objectives, encountering 21 metres of net hydrocarbon bearing sandstone, updip of Basker-1.

Basker-2 will be completed for oil production and subjected to an extended production test of approximately 6 months duration, commencing in November 2005. Three further oil development wells will be drilled in the Basker and Manta fields in early 2006, with full field production expected to commence in July 2006.

## Browse Basin

Activity in WA-281-P during 2004-2005 consisted of regional geological studies for defining reservoir trends within the tenement and 1,133 km of 2D seismic acquisition, which took place in August 2004.

## Carnarvon Basin

Late in 2004, Beach entered into a farm-in agreement with Santos Limited under which it acquired a 10% interest in offshore Carnarvon Basin tenement WA-208-P. This tenement is located in the Carnarvon Basin, approximately 100 km offshore.

During the year, two exploration wells were drilled, resulting in one sub-commercial gas discovery:

- Hurricane-1 (WA-208-P, Beach 10%), drilled on a fault/stratigraphic trap of upper Jurassic basin floor sandstones, located approximately 11 km west of the Legendre oil field in the Carnarvon Basin, penetrated a gross gas column of 76 metres in the primary objective. No gas/water contact was intersected.

  If the accumulation contains only gas it would likely be sub-economic, however data from the well has been evaluated and indicates that an oil leg may be present down-dip of the Hurricane-1 well location. Options are being pursued for drilling Hurricane-2 during 2006.

- Corowa-East-1 (WA-264-P, Beach 16.67%) intersected the target low to prognosis and failed to encounter any significant hydrocarbons.

## Pandora Gas Discovery

This RL covers the offshore Pandora gas discovery (Beach 6.36% interest), which lies in the Gulf of Papua. Pandora is assessed to have a potential ultimate recoverable resource in the range of 0.2 to 1.6 TCF of natural gas.

There was no significant exploration or development activity within the tenement during the year.

### Tenements Acquired 2004-2005

VIC/RLs 6, 9, 10 (Basker, Manta, Gummy)
WA-208-P

### Production Licences Awarded 2004-2005

PPL 209 (Harpoono)
PPL 210 (Aldinga)
PPL 205 (Christies)

### Tenements Divested in 2004-2005

PEL 66
Equity was diluted in ATP 269P (Coolum Block).
The application for PELA 116A was withdrawn.

# Exploration and Production Tenements

as at 30 June 2005

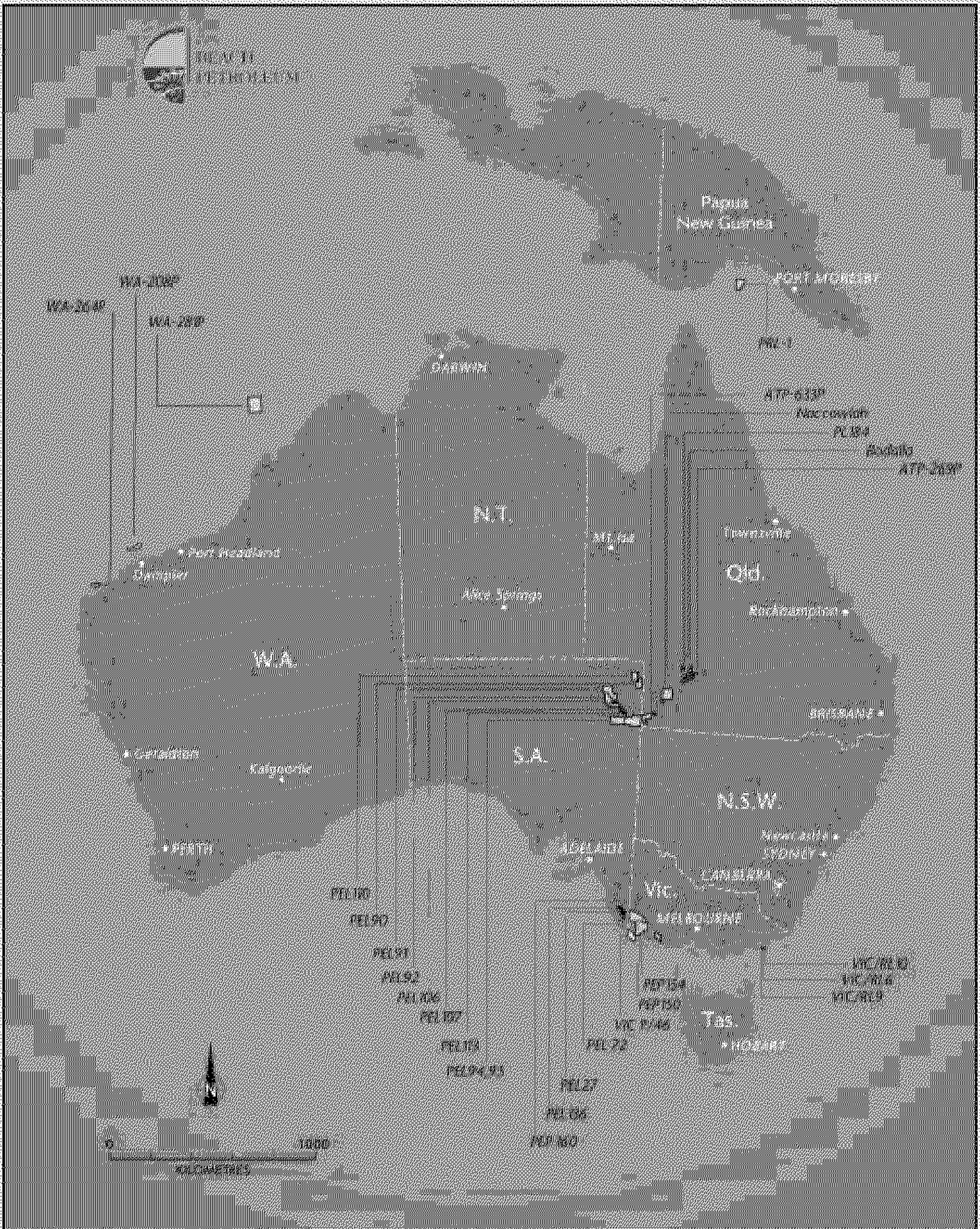
| Area | Tenement | Interest % |
|---|---|---|
| Cooper/Eromanga - Queensland | Naccowlah Block * | 6.50 |
| | Bodalla Block (PLs 31, 32, 47) | 100.00 |
| | PL 184 (Thylungra) | 75.40 |
| | ATP 269P | 93.90 |
| | ATP 269P (Coolum Block) | 46.95 |
| | ATP 633P ** + | 100.00 |
| Cooper/Eromanga - South Australia | PPL 203 (Acrasia) | 25.00 |
| | PPL 204 (Sellicks) | 75.00 |
| | PPL 205 (Christies) | 75.00 |
| | PPL 209 (Harpoono) | 33.33 |
| | PPL 210 (Aldinga) | 50.00 |
| | PEL 90 (Candra Block) | 25.00 |
| | PEL 91 | 40.00 |
| | PEL 92 | 75.00 |
| | PEL 94 | 50.00 |
| | PEL 95 | 50.00 |
| | PEL 107 | 40.00 |
| | PEL 110 | 37.50 |
| | PEL 113 (Saintly) | 33.33 |
| | PEL 113 (Harpoono) | 33.33 |
| | Reg Sprigg West Unit | 6.25 |
| Otway - Victoria | PPL 6 (McIntee) | 10.00 |
| | PPL 9 (Lavers) | 10.00 |
| | PPL 10 (Croft/Naylor) | 10.00 |
| | PPL 11 (Buttress) | 10.00 |
| | PRL 1 (Buttress North) | 10.00 |
| | PEP 154 | 10.00 |
| | PEP 150 ** | 50.00 |
| | VIC/P46 | 17.50 |
| Otway - South Australia | PEL 27 | 30.00 |
| | PEL 72 | 50.00 |
| | PEL 136 | 100.00 |
| Gippsland - Victoria | VIC/RLs 6,9,10 (Basker, Manta, Gummy) | 25.00 |
| Browse - Western Australia | WA-281-P | 10.00 |
| Carnarvon - Western Australia | WA-208-P | 10.00 |
| | WA-264-P | 16.67 |
| Papua New Guinea | PRL-1 | 6.36 |

* *The Naccowlah Block consists of ATP 259P (Naccowlah) and PLs 23-26, 35, 36, 62, 76-79, 82, 87, 105, 107, 109, 133, 149, 175, 181, 182 and 189.*

** *Award of tenement awaiting resolution of Native Title issues.*

\+ *Strike Oil holds an option to acquire from Beach up to a 15% interest in ATP 633P.*

# Beach Tenements September 2005



# Company Directors

**Robert Michael Kennedy**
NON-EXECUTIVE CHAIRMAN

*ASAIT, Grad Dip (Systems Analysis), FCA, ACIS, Life Member AIM, FAICD*

A Chartered Accountant and a consultant to Kennedy & Co, Chartered Accountants, a firm he founded. Joined in December 1991 as a non-executive director. Chairman of Beach Petroleum Limited (since 1995), Flinders Diamonds Limited (since 2001), Ramelius Resources Limited (since 1995) and Monax Mining Limited (since 2004). Special responsibilities include chairmanship of the Corporate Development and Remuneration/ Succession Planning/ Litigation Committees and membership of the Audit Committee.

**Reginald George Nelson**
MANAGING DIRECTOR

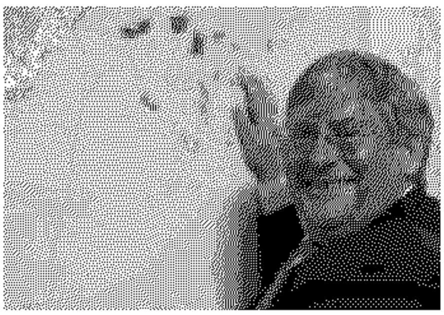
*BSc, Hon Life Member Society of Exploration Geophysicists, FAusIMM, FAICD, Chairman of the Australian Petroleum Production and Exploration Association*

Joined in May 1992 as an executive director, appointed Chief Executive Officer in October 1995 and then Managing Director in May 2002. He is an exploration geophysicist with 35 years experience in the minerals and petroleum industries and the chairman of the Australian Petroleum Production and Exploration Association Council. He is also a director of Anzon Australia Limited (since 2004), Ramelius Resources Limited (since 1995), and Monax Mining Limited (since 2004). His special responsibilities include membership of the Corporate Development and Remuneration/Succession Planning/ Litigation Committees.

**John Charles Butler**
NON-EXECUTIVE DIRECTOR

*FCPA, FAICD, FIFS*

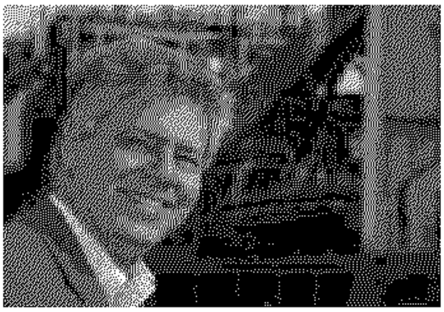
Joined in June 1999 as a non-executive director, having been previously the alternate director to Mr R G Nelson from 1994 to 1998. He was employed in senior management positions in the financial services industry from 1974 to 1992 and has been a business consultant and company director since 1992. Other directorships include the chairmanship of Friendly Society Medical Association Limited and Lifeplan Australia Friendly Society Group. His special responsibilities include chairmanship of the Audit Committee and membership of the Corporate Governance Committee.



**Robert Kennedy**

**Reg Nelson**

**John Butler**


Hector Gordon


Michael Frost


Franco Moretti

**Hector Mackenzie Gordon**

EXECUTIVE DIRECTOR/CHIEF OPERATING OFFICER

*BSc (Hons), FAICD*

Alternate Director to Mr J C Butler for the period February 2000 to June 2005. Appointed as an executive director in June 2005, Mr Gordon is a geologist with 30 years of experience in the petroleum industry. His previous employers include Delhi Petroleum, Esso Australia, AGL Petroleum and Santos Limited. He is a member of the American Association of Petroleum Geologists, the Society of Petroleum Engineers and is currently the president of the South Australian branch of the Petroleum Exploration Society of Australia.

**Michael Francis Frost**

NON-EXECUTIVE DIRECTOR

*BSc (Hons), FAICD*

Joined Beach as a director in December 2000, is a geologist with 36 years experience in the international and Australian petroleum industry. He spent 27 years with Conoco Inc in technical and managerial positions. From 1996 to mid-2000, he was General Manager, Exploration for Santos Limited. Mr Frost is the managing director of Cotopaxi International Pty Limited, which offers strategic consulting, technology and management advice to the international oil and gas industry. He is chairman of the St Vincent de Paul Foundation Inc. Special responsibilities include chairman of the Corporate Governance Committee and member of the Audit Committee.

**Franco Giacomo Moretti**

NON-EXECUTIVE DIRECTOR

*BE (Hons), FIEAust, CPEng*

Joined Beach as a director in March 2005, is an engineer with over 40 years experience in engineering, procurement and project management of major projects with Kellogg Brown & Root as Director, Infrastructure Investment and Kinhill where he was a board director.
Mr Moretti was formally bid director and Chief Executive Officer of Asia Pacific Transport Pty Limited, responsible for the building, owning, financing and operating of the $1.35 billion Alice Springs to Darwin railway project. His special responsibilities include membership of the Corporate Governance and Corporate Development Committees.

## Company Secretaries

**Kathryn Anne Presser**

CHIEF FINANCIAL OFFICER AND
JOINT COMPANY SECRETARY

*BA (Accounting), Grad Dip CSP, FAICD, CPA, ACIS, AFAIM*

Alternate Director to Mr R G Nelson for the period January 2000 to June 2005. Joined Beach in January 1997 and was appointed to the role of Company Secretary in January 1998.

Appointed as the Chief Financial Officer in June 2005, Ms Presser has over 23 years experience in senior accounting and company secretarial roles. She is also a member of the Petroleum Society of Australia. A qualified chartered secretary, she also holds the rank of Major in the Australian Army Reserves. She is also a director of the Australian Dance Theatre.

**Catherine Louise Oster**

LEGAL & CORPORATE COUNSEL AND
JOINT COMPANY SECRETARY

*BA (Jurisprudence), LLB, LLM (Corporate & Commercial)*

Appointed joint Company Secretary in July 2005. Ms Oster has more than 14 years experience as a lawyer and a partner in private practice, advising on corporate and commercial transactions. She is a member of the Law Society of South Australia and the Australian Corporate Lawyers Association. She also serves on the board of a not for profit aged care provider.

# Corporate Governance

The Board is responsible for corporate governance of Beach. It oversees the business and affairs of the Company, establishes the strategies and financial objectives to be implemented by management and monitors standards of performance.

This statement is intended to summarise the main corporate governance practices the Company had in place during the past financial year.

Other than as set out in this statement, the Board believes that the Company's policies and practices have complied in all substantial respects with the corporate governance best practice recommendations of the ASX Corporate Governance Council for the entire financial year ended 30 June 2005.

## The Role of the Board and Management

The respective roles and responsibilities of both the Board and management are summarised below. The Board charter also sets out these details and can be viewed in the corporate governance section of the Company's website.

**The Role of the Board**

The full range of the Board's responsibilities is extensive and includes the following:

*Performance*

- ensuring the Company's long term viability and enhancing the financial position;
- formulating and overseeing implementation of the Company's corporate strategy;
- approving the business plan, budget and corporate policies;
- monitoring/assessing performance of the Company, the Board itself, management and major projects;
- overseeing the risk management framework and monitoring of Company business risks; and
- monitoring developments in the oil and gas industry and the operating environment.

*Compliance/Legal Conformance*

- understanding and protecting the Company's financial position;
- monitoring legal and regulatory compliance including compliance with accounting standards, Trade Practices Act, OH&S and environmental standards;
- approving annual accounts, Annual Report and other public documents/ sensitive reports; and
- ensuring a system of internal controls exists and is operating effectively.

*Overall Operations*

- establishing the Company's vision, mission, values and ethical standards to be reflected in a Code of Conduct;
- delegating an appropriate level of authority to management;
- demonstrating corporate leadership;
- assuming responsibility for the relationship with the Managing Director including his/her appointment, succession, performance assessment, remuneration and dismissal;
- overseeing aspects of the employment of the management team including remuneration, performance and succession planning;
- selecting auditors and new directors;
- ensuring effective communication to shareholders and stakeholders; and
- approving risk management policies and compliance therewith.

# Corporate Governance

### The Role of Management

The responsibilities of management include:

- managing the Company's human, physical and financial resources to achieve the Company's objectives;
- achieving the performance targets set by the Board;
- recommending the strategic direction and translating the strategic plan into the operations of the business;
- assuming day to day responsibility for the Company's conformance with relevant laws and regulations and its compliance framework;
- developing, implementing and managing the Company's risk management and internal control frameworks;
- developing, implementing and updating the Company's policies and procedures;
- monitoring relevant trends in the oil and gas industry and the Company's operating environment;
- providing information to the Board; and
- acting as a conduit between the Board and the Company's activities.

## Board Composition

At the date of this report, the Board has six directors. Mr Reginald George Nelson is the Managing Director and Mr Hector Mackenzie Gordon is an executive director. The remaining four, including the Chairman, are non-executives. A majority of the Board consists of independent directors. They are Mr Robert Michael Kennedy, Mr John Charles Butler, Mr Michael Francis Frost and Mr Franco Giacomo Moretti. The Board considers that a director is independent using the criteria set out in the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations and the Investment & Financial Services Association Limited Blue Book.

The criteria provides that an independent director:

- is not a member of management;
- is not a substantial shareholder of the Company or an officer of, or otherwise associated directly or indirectly with, a substantial shareholder of the Company;
- has not within the last three years been employed in an executive capacity by the Company or another group member, or been a director after ceasing to hold any such employment;
- has not within the last three years been a principal or employee of a material professional adviser or a material consultant to the Company, or another group member;
- is not a material supplier or customer of the Company, or another group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the Company or another group member, other than as a director of the Company;
- is free from any interest and any business or other relationship which could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company; and
- has not served on the Board for a period, which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

The Board assesses materiality on a case by case basis.

In particular, the Board has concluded that the length of a director's tenure does not automatically disqualify a director from being considered independent.

# Christies field tests to boost potential of Western flank

**ADELAIDE – The potential for areas on the western flanks of the Cooper Basin to host a new oil fairway have strengthened after tests overnight by Beach Petroleum Limited confirmed additional oil from the primary reservoir zone in Christies-2 and lowered the field oil water contact for this reservoir by 5 m.**

The latest drill stem test, the third on Christies-2, returned a flow rate of 528 barrels of oil per day (bopd) between 1,636 – 1,641 metres in the Birkhead/Hutton Formation.

The result is in addition to the two new oil zone discoveries in the shallower Namur Sandstone reported from Christies-2 in the past week.

Christies-2 is located 85 kilometres west of Moomba.

Mr R M Kennedy has served on the Board for 14 years, 10 of which have been as Chairman.

The skills, experience, qualifications and expertise relevant to the position of each director who is in office at the date of the Annual Report and their term of office are detailed on pages 27 and 28, and 40 and 41 of the Annual Report.

The constitution of the Company specifies the number of directors shall be not less than three or more than seven. The Board may at any time appoint a director to fill a casual vacancy.

The Board has not established a separate nomination committee to oversee the procedure for the selection and appointment of new directors to the Company.

The Board oversees this function, as it does not consider a separate committee would deal with this function more effectively. However, the Remuneration/Succession Planning/Litigation Committee has a function to consider succession planning issues generally for the Company.

The Board actively considers qualified and suitable candidates who might bring appropriate and complementary skills and experience to the Board. The Board has made two additional appointments to the Board in the past financial year.

The constitution of the Company and the ASX Listing Rules require that at each annual general meeting, one third of directors (excluding the Managing Director) together with any director appointed since the last annual general meeting, retire from office. Retiring directors are eligible for re-election.

## Performance Evaluation

The Managing Director and key executives participate in annual performance reviews.

No formal performance evaluation for the Board, its individual members and committees has been conducted during the reporting period. However, the Board is currently reviewing the need for a formal process for performance evaluation of the Board, its individual members and committees.

## Remuneration Policy – Non-executive Directors

Details of the remuneration of non-executive directors are set out in the Remuneration Report at pages 42 and 43 of the Annual Report.

# Corporate Governance

## Remuneration Policy – Managing Director and Executive Officers

The structure and details of the remuneration of the Managing Director and executive officers is set out in the Remuneration Report at page 44 of the Annual Report.

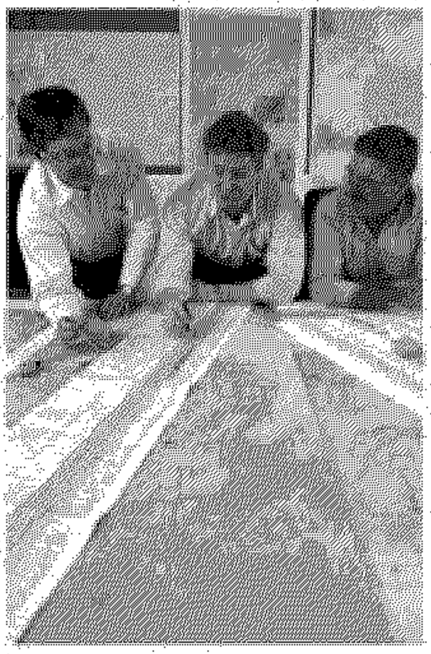
## Conflicts of Interest

Each director has signed a letter of disclosure obliging him or her to provide the following information to the Company on a regular basis:

- details of all securities held in the Company, registered both in the director's/officer's name and in any other entity that the director has a relevant interest within the meaning of the Corporations Act 2001; and
- details of all contracts to which the director/officer is a party to or under which the director is entitled to a benefit made available to him or her by the Company.

In addition, directors and executives have to disclose to the Board any material contract in which they may have an interest. In compliance with the Corporations Act 2001, any director with a material personal interest in a matter being considered by the Board, will not be present when the matter is being considered, unless invited to remain by the non-conflicted directors, will not receive reports or papers regarding the matter and will not vote on the matter.

**HIGHLY RESPECTED TECHNICAL TEAM**



ADELAIDE: Beach's technical team, Malcolm Altmann, Neil Gibbins and Danny Burns (above) reviewing well results.

## Trading in Company Securities

The Company's securities trading policy restricts directors and employees from dealing in its securities where price sensitive information is known within the Company but is not available to the market. The Board's role is to advise of designated trading windows and blackouts. Directors are obliged to report their dealings in the Company's securities so that information can be notified to the ASX. The Company's Share Trading Policy can be viewed on the Company's website.

## Independent Professional Advice

A director has the right to seek independent professional advice concerning or in relation to the rights, duties and obligations of the director in relation to the affairs of the Company, at the Company's expense. The Chairman's prior approval of such expenditure is required.

## Board Committees

The Board has established an Audit Committee, a Corporate Governance Committee, a Corporate Development Committee and a Remuneration/Succession Planning/Litigation Committee to assist in the execution of its responsibilities. Each committee has a specific function that has been detailed in a charter.

### Audit Committee

The Audit Committee consists of three non-executive directors (Mr R M Kennedy, Mr J C Butler and Mr M F Frost). Mr Frost was appointed to the committee in June 2005. The Chairman chaired the Audit Committee until Mr J C Butler assumed the role in June 2005. The change in the chair of the committee and the appointment of a new member occurred to comply with best practice following a review of the Board's committee structure and membership.

The committee:

- reviews the financial statements and reports and makes recommendations to the Board;

## First of five new Qld wells

BRISBANE – Beach Petroleum has announced the spudding of Kenmore-31, an appraisal well in the Kenmore oil field in the Eromanga Basin of south-west Queensland, at 21:30 hours EST on 16 November 2004.

This well is the first well in a 5 well drilling program being undertaken by Beach in the Bodalla Block and ATP 269P.

- liaises with external auditors and reviews their reports;
- ensures compliance with current laws, accounting standards and ASX Listing Rules;
- assesses management's effectiveness and financial controls;
- reviews the Company's policies and procedures to assess, monitor and manage business risk; and
- makes recommendations to the Board concerning the appointment of the Company's external auditor.

The committee meets at least twice a year and the external auditors, Managing Director, Company Secretary/Chief Financial Officer are invited to attend the meetings, at the discretion of the committee. Details of the number of meetings held and its attendee's are set out on page 45 of the Annual Report. Further details of the qualifications of the committee's members are set out on page 40 and 41 of the Annual Report.

## Other Board Committees

The Board established a Corporate Governance Committee in June 2005 when it held its inaugural meeting. Its members are Mr M F Frost (chairman), Mr J C Butler and Mr F G Moretti. Its role is to oversee the corporate governance policies and practices of the Company. This function had previously been dealt with by the Board.

The Board established a Corporate Development Committee in June 2005 to consider and assess corporate opportunities for the Company.
Its members are the Chairman, the Managing Director and Mr F G Moretti.

The Board has a Remuneration/Succession Planning/Litigation Committee whose members are the Chairman and the Managing Director and other directors co-opted as necessary. The committee meets regularly. The role of the committee is to set the remuneration of all employees, other than the Managing Director, and to consider succession planning issues generally for the Company. Its role of monitoring litigation has diminished as the Company is no longer engaged in any material litigation.

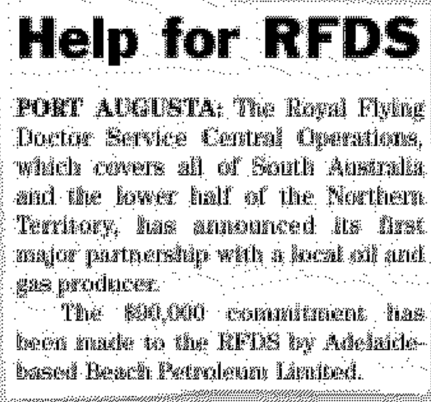
## Recognise and Manage Risk

### Risk Oversight and Management

The Board has overall responsibility for the Company's system of risk oversight and management. The Company has put in place certain procedures to ensure effective and efficient operations to assist identifying risks and to manage the risk of failure to achieve its business objectives in order to protect its assets and interests and to ensure the integrity of reporting. Those procedures cannot however guarantee assurance against a risk of material loss.

To assist in discharging its responsibility for risk management, the Board has a framework comprising various policies and practices. The policies and practices fall into a number of categories that include:

- *Financial budgeting and management reporting:* The Company presents financial statements to the ASX half yearly. A detailed budgeting process operates with an annual budget approved by the Board. Monthly management accounts are prepared to compare actual results against budget. Forecasts are prepared and revised on a regular basis. Hedging activities are regularly reported to the Board. The Audit Committee reports on its activities to the Board;
- *Limits of authority:* The Company has policies and practices in place specifying delegated authority and limits of authority in areas such as its hedging activities and capital expenditure;
- *Operational reporting:* The Board receives regular reports on the Company's main operations including operations, production and development, exploration and appraisal, corporate and corporate opportunities;



# Help for RFDS

PORT AUGUSTA: The Royal Flying Doctor Service Central Operations, which covers all of South Australia and the lower half of the Northern Territory, has announced its first major partnership with a local oil and gas producer.

The $90,000 commitment has been made to the RFDS by Adelaide-based Beach Petroleum Limited.

Simon McMahon

- *Special reporting:* The Board receives regular reports on issues concerning occupational health and safety, environment and cultural heritage, corporate risk and insurance, human resources and administration; and
- *Corporate opportunity reviews:* The Company has practices in place to review new corporate opportunities. They include, in the case of new acquisitions detailed due diligence exercises and budgeting.

The Company also engages specialised contractors and external advisers to assist with identifying and managing risk issues for the Company.

In accordance with best practice, for the annual and half-yearly financial statements, the Managing Director and the Chief Financial Officer provide to the Board a written certificate stating that:

- the integrity of the financial statements are founded on a sound system of risk management and internal compliance and control, which in all material respects, implements the policies and arrangements assumed by the Board; and
- the risk management and internal compliance and control systems of the Company are operating efficiently and effectively, in all material respects, based on criteria for effective internal control established in the Company's policies and procedures manual.

The Company continues to review, and where required, make improvements to its risk management and internal compliance and control systems. The Company is in the process of preparing a description of its risk management policy and internal control systems to be placed on its website.

### Insurance

The Company regularly reviews and the Board approves all aspects of the Company's insurance program.
The Company engages independent consultants to undertake a regular review of its insurance program and special reviews for new projects being undertaken by the Company.

### External audit

The Company's external auditor is Grant Thornton.

The lead audit partner and review partner of the external auditor must rotate every five years. The current lead auditor and review partner were first appointed for the 1999-2000 audit of the Company.

The external auditor will not be engaged to perform any non-audit services that may impair the judgement of the external auditor or independence in respect of the Company. It is the Audit Committee's role to assess and approve any audit and non-audit services that might be provided by the external auditor. The committee may delegate authority to a pre approval value to a member of the committee to engage the auditor for appropriate non-audit services.

Representatives of the external auditor will be invited to attend the annual general meeting and will be available to answer questions from shareholders as appropriate.

## Disclosure and Communication with Shareholders

### Timely and Balanced Disclosure

The Company operates under the ASX's continuous disclosure regime whereby relevant information that could be seen to affect the share price in any way is immediately made available to shareholders and the public as a release to the ASX. The release is also placed on the Company's website.

Candace Moore

Cathy Oster

Gordon Moseby and Trevor Wadham

The Company's Continuous Disclosure Policy sets out the requirements and processes put in place by the Company to ensure that its obligations to disclose relevant information are met. The policy can be viewed on the Company's website.

**Communication with Shareholders**

The Company's website is available for all shareholders/investors and other interested parties to access up to date, publicly available information on the Company. The Company has also employed an investor relations consultant to assist in responding to shareholders' enquiries.

The Company encourages it shareholders to attend its annual general meetings and to discuss and question its Board and management.

## Code of Conduct

**Ethical Standards**

The Company seeks to be a good corporate citizen and protect and preserve all stakeholders' interests. The Board is currently in the process of establishing a formal Code of Conduct, to include the principles by which both directors and employees can appropriately balance, protect and preserve all stakeholders' interests.

Beach aims to ensure a high standard of corporate governance practice and ethical conduct by all directors and employees. Although a formal code is being developed, the Board has determined that the Managing Director is responsible for implementing certain standards, which include the following:

- to act properly and efficiently in pursuing the objectives of the Company;
- to maintain confidentiality in the affairs of the Company and its joint venture partners;
- to avoid or deal with, in an independent and objective manner, situations which may give rise to a conflict of interest;
- not to use the information of the Company other than for the benefit of the Company;
- to actively promote compliance with all laws and regulations including occupational health and safety and environmental standards; and
- to encourage the reporting of unlawful/unethical behaviour by active promotion of ethical behaviour and protecting those who report violations.

Many of those standards have been formalised in specific policies that have been adopted by the Board.

**Community Relations**

Many of Beach's exploration and production areas are subject to issues associated with Native Title and cultural heritage. Beach is a party to agreements with Aboriginal claimants for a number of petroleum exploration and production licences in the South Australian portion of the Cooper Basin and is undertaking both exploration and production operations with the co-operation and assistance of the Aboriginal claimants. Already, the discoveries made following exploration in some of these areas have resulted in real economic benefits to the claimants.

Beach is putting its commitment to working with claimants into practice, with jobs and training in the field being offered where possible to claimants. Aboriginal groups and anthropologists also advise Beach in relation to potential cultural heritage issues, and work undertaken has resulted in an opportunity for parties to better understand the cultural heritage issues related to the areas of Beach's operations.

In southwest Queensland and in the Otway Basin area of Victoria, Beach is currently undertaking Commonwealth Native Title Act negotiation procedures with claimants. Beach will be actively progressing these negotiations in line with its historical approach to Native Title.

Corporate

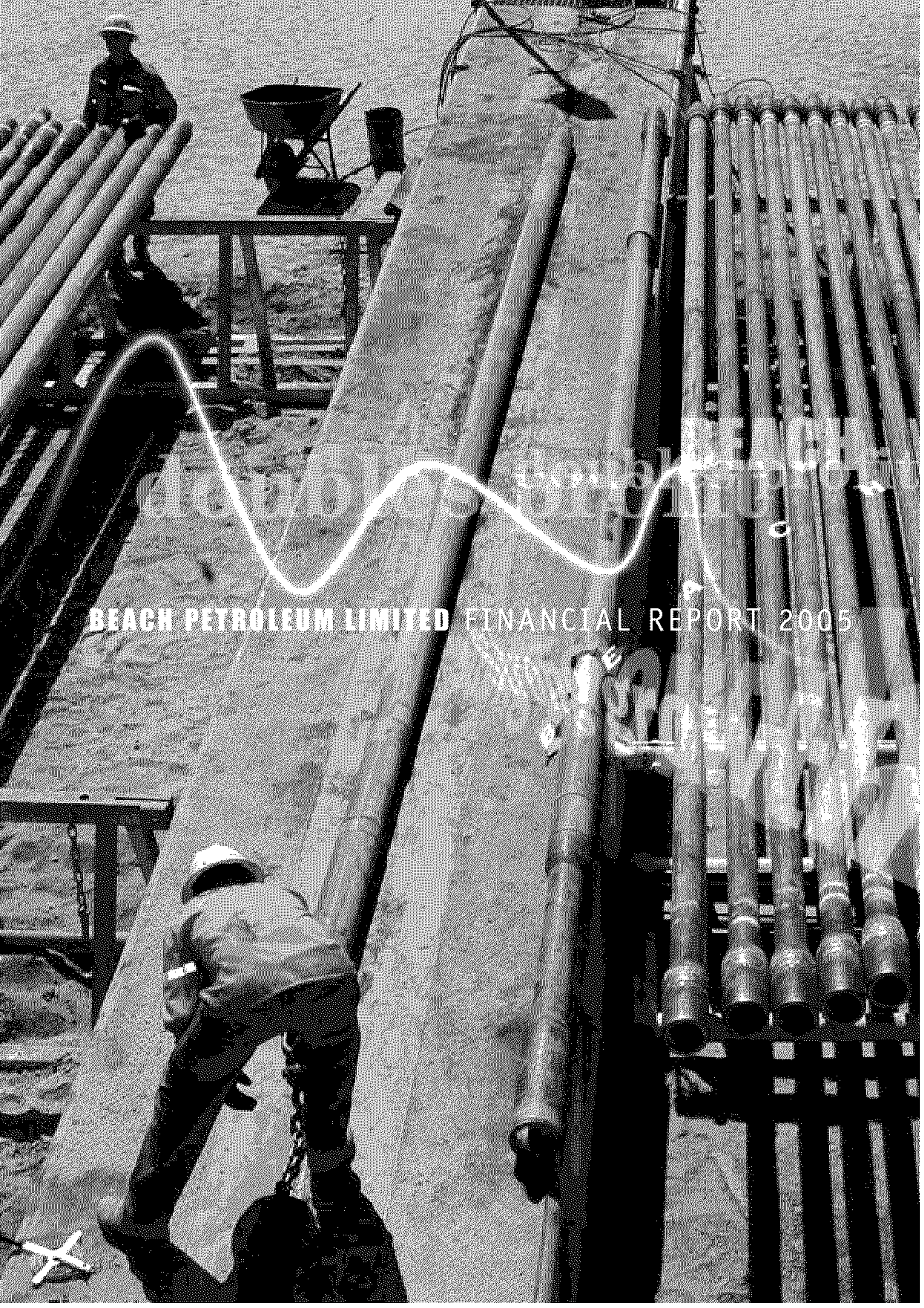
Governance

## Policies and Charters on Website

Some of the charters and policies (or summaries of them) that form the basis of the corporate governance practices of the Company can be found on the Company's website. To comply with the best practice recommendations, the Company is currently adding to and updating this section of the website as further charters and policies are reviewed and/or developed.

# Glossary of Terms

| | |
|---|---|
| **ASX** | Australian Stock Exchange Limited (ACN 008 624 691) |
| **ATP** | Authority to Prospect |
| **Beach or Company** | Beach Petroleum Ltd (ACN 007 617 969) and its controlled entities |
| **Board** | The board of directors of Beach Petroleum Limited |
| **bbls** | Barrels |
| **bcf** | Billion cubic feet (in relation to gas, approximately equal to 1 petajoule of energy) |
| **boe** | Barrels of oil equivalent |
| **bopd** | Barrels of oil per day |
| **Chairman** | Chairman of the Board |
| **DST** | Drill Stem Test |
| **kboe** | Thousand barrels of oil equivalent |
| **km** | Kilometre(s) |
| **Mawson** | Mawson Petroleum Pty Limited (ACN 009 815 632) |
| **M** | Mining Lease |
| **m** | Metre(s) |
| **mcf** | Thousand cubic feet |
| **MLA** | Mining Lease Application |
| **mmb** | Million barrels |
| **mmboe** | Million barrels of oil equivalent |
| **mscf** | Thousand standard cubic feet |
| **Native Title** | The term "native title" refers to those rights held by indigenous inhabitants of Australia at and since the time of European settlement that are recognised by the common law. It differs from conventional land titles and in its nature may vary from group to group according to laws and customs. The *Commonwealth Native Title Act 1993* provides statutory recognition and protection for the concept of native title as recognised by the High Court in the case of *Mabo v The State of Queensland (1992)*. Substantial amendments in 1998 make provision inter alia for reaching indigenous land use agreements, the right to negotiate and a new test to be applied in the registration of claims for native title. |
| **PEL** | Petroleum Exploration Licence |
| **PELA** | Petroleum Exploration Licence Application |
| **P & A** | Plugged and Abandoned |
| **PEP** | Petroleum Exploration Permit |
| **Petajoule** | $1x10^{15}$ joules (unit of energy measurement) |
| **PL** | Prospecting Licence |
| **PLA** | Prospecting Licence Application |
| **PLs** | Petroleum Leases |
| **PPL** | Petroleum Production Licence |
| **PRL** | Petroleum Retention Licence |
| **RL** | Retention Licence |
| **TCF** | Trillion cubic feet |
| **Trillion** | $1x10^{12}$ |
| **3P Recoverable Resource** | Proved, probable and possible recoverable resource |


BEACH PETROLEUM LIMITED FINANCIAL REPORT 2005

# DIRECTORS' REPORT

The directors of Beach Petroleum Limited (Beach or Company) submit the financial statements and consolidated accounts for the financial year ended 30 June 2005 and report as follows:

## 1 Principal activities

The principal activities of the consolidated entity constituted by Beach and the entities it controlled from time to time during the financial year continue to be oil and gas exploration, development and production and investment in the resources industry.

## 2 Operating results

Net consolidated profit attributable to members of the parent entity after income tax was $20,361,000.

## 3 Dividends paid or recommended

Dividends paid or declared during the financial year are as follows:

- Final ordinary unfranked dividend of 0.5 cents per share paid on 2003/2004 full financial results to all shareholders registered at 11 November 2004 – $1,442,453
- Ordinary unfranked dividend of 1.0 cents per share paid on 2004/2005 half-year results to all shareholders registered at 31 March 2005 – $3,222,214

Dividends recommended for payment subsequent to the financial year are as follows:

- Final ordinary unfranked dividend of 0.5 cents per share payable on 2004/2005 full financial results recommended by directors – $2,265,000.

## 5 Review of operations

A review of operations of the consolidated entity during the financial year and the results of those operations is included in the Operations Report contained in the Annual Report.

## 6 State of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review not otherwise disclosed in the Chairman's, Managing Director's or Operations Report or the financial statements.

## 7 Subsequent events

Apart from the matters listed below, there has not arisen in the interval since 30 June 2005 and up to the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect substantially the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years, other than as mentioned elsewhere in the financial report.

**Capital Raising**

In early August 2005, the Company issued 49.6 million fully paid ordinary shares at 64 cents per fully paid ordinary share in a placement to institutional and sophisticated investors. Euroz Securities Limited (Euroz) managed the placement. The new shares were issued on the same terms as other ordinary shares in the Company quoted on the Australian Stock Exchange.

## 4 Share options

During the financial year, the following movement in share options occurred:

| Options | Balance at beginning of financial year | Issued during the financial year | Exercised during the financial year | Expired during the year and not exercised | Balance at end of financial year |
|---|---|---|---|---|---|
| 2002 Bonus Options expiring 31 May 2005 | 43,921,730 | - | 39,882,626 | 4,039,104 | - |
| 2005 Bonus Options expiring 30 June 2006 | - | 80,095,705 | 344,905 | - | 79,750,800 |

*Capital Raising continued*

The funds raised by the placement were used to acquire a 12.5% interest in VIC/RLs 6,9 &10, which contain the Basker, Manta and Gummy oil and gas fields from Anzon Australia Limited by exercising a pre-emptive right under the Joint Operating Agreement.

In early September 2005, shareholders approved the issue by the Company of a further 70.4 million fully paid ordinary shares at a price of 64 cents per fully paid ordinary share to institutional and sophisticated investors. Euroz managed the placement.

The new shares were issued on the same terms as other ordinary shares in the Company quoted on the Australian Stock Exchange. The funds raised by the placement will be used to strengthen the Company's balance sheet to take advantage of future corporate acquisitions and opportunities and for working capital.

**Farm-in to Tipton West Coal Seam Gas (CSG) Project**

Subject to final documentation, Beach has agreed to fund the initial capital expenditure of $35 million to develop Stage 1 of the Tipton West Coal Seam Gas (CSG) project. In return for funding the initial capital expenditure, Beach will take a 40% upstream equity in the project through interests in the Dalby Block (ATP 683P) and the neighbouring Production Licence 198, currently held 100% by Arrow Energy NL.

Beach will have a further option to earn a 40% interest in each of the Dalby South and Millmerran Blocks of ATP 683P and ATP 689P by contributing $7 million towards CSG exploration in these blocks.

## 8 Future developments

Other than matters included in this report or elsewhere in the Annual Report, disclosure of any further information would be likely to result in unreasonable prejudice to the consolidated entity.

## 9 Idemnity of Directors and Officers

The Company has arranged directors' and officers' liability insurance policies that cover all the directors and officers of the Company and its controlled entities. The terms of the policies prohibit disclosure of details of the amount of the insurance cover, the nature thereof and the premium paid.

## 10 Rounding off of amounts

The Company is an entity to which ASIC Class Order 98/100 applies. Accordingly, amounts in the financial statements have been rounded to the nearest thousand dollars, unless shown otherwise.

## 11 Environmental regulations and performance statement

The consolidated entity participates in projects and production activities that are subject to the relevant exploration and development licences prescribed by government. These licences specify the environmental regulations applicable to the exploration, construction and operations of petroleum activities as appropriate. For properties operated by other companies, this is achieved by monitoring the performance of these companies.

There have been no known significant breaches of the environmental obligations of the consolidated entity's contracts or licences.

## 12 Proceedings on behalf of the Company

No person has applied to the Court under Section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to 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 part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under Section 237 of the Corporations Act 2001.

## 13 Remuneration Report

**Audited**

**Directors**

The names of the directors of Beach who held office during the financial year and at the date of this report are:

**Robert Michael Kennedy**

*Non-Executive Chairman – ASAIT, Grad Dip (Systems Analysis), FCA, ACIS, Life Member AIM, FAICD*

A chartered accountant and a consultant to Kennedy & Co, Chartered Accountants, a firm he founded. Joined in December 1991 as a non-executive director. Chairman of Beach Petroleum Ltd, Flinders Diamonds Limited, Ramelius Resources Limited, GTL Energy Limited, Monax Mining Ltd, Maximus Resources Limited, the Australian Dance Theatre and Greyhound Racing SA Limited, and is also a director of Friendly Society Medical Association Limited and Greyhounds Australasia. Special responsibilities include chairmanship of the Corporate Development and Remuneration/Succession Planning/Litigation Committees and membership of the Audit Committee.

**John Charles Butler**

*Non-Executive Director – FCPA, FAICD, FIFS*

Joined in June 1999 as a non-executive director, having been previously the alternate director to Mr R G Nelson from 1994-1998. He was employed in senior management positions in the financial services industry from 1974 to 1992 and has been a business consultant and company director since 1992. Other directorships include the chairmanship of Friendly Society Medical Association Limited and Lifeplan Australia Friendly Society Group. His special responsibilities include chairmanship of the Audit Committee and membership of the Corporate Governance Committee.

**Reginald George Nelson**

*Managing Director – BSc, Hon Life Member Society of Exploration Geophysicists, FAusIMM, FAICD, Chairman of the Australian Petroleum Production and Exploration Association*

Joined in May 1992 as an executive director, appointed Chief Executive Officer in October 1995 and then Managing Director in May 2002. He is an exploration geophysicist with 35 years experience in the minerals and petroleum industries and the chairman of the Australian Petroleum Production and Exploration Association Council. He is also a director of Anzon Australia Limited, Ramelius Resources Limited, GTL Energy Limited and Monax Mining Ltd. His special responsibilities include membership of the Corporate Development and Remuneration/Succession Planning/Litigation Committees.

**Michael Francis Frost**

*Non-Executive Director – BSc (Hons), FAICD*

Joined Beach as a director in December 2000, is a geologist with 36 years experience in the Australian and international petroleum industry. He spent 27 years with Conoco Inc in technical and managerial positions. From 1996 to mid-2000, he was General Manager, Exploration for Santos Ltd. Mr Frost is the managing director of Cotopaxi International Pty Ltd, a private company offering strategic consulting, technology and general management advice to the international oil and gas industry. He is chairman of the St Vincent de Paul Foundation Inc. His special responsibilities include chairmanship of the Corporate Governance Committee and membership of the Audit Committee.

**Franco Giacomo Moretti**

*Non-Executive Director – BE (Hons), FIEAust CPEng*

Joined Beach, as a director in March 2005, is an engineer with over 40 years experience in engineering, procurement and project management of major projects with Kellogg Brown & Root as Director, Infrastructure Investment and Kinhill where he was a board director. Mr Moretti was formally bid director and Chief Executive Officer of Asia Pacific Transport Pty Ltd, responsible for the building, owning, financing and operating of the $1.35 billion Alice Springs to Darwin railway project. His special responsibilities include membership of the Corporate Governance and Corporate Development Committees.

**Hector Mackenzie Gordon**

*Executive Director / Chief Operating Officer – BSc (Hons), FAICD*
*Alternate Director to Mr J C Butler for the period February 2000 – June 2005*

Appointed as an executive director in June 2005, Mr Gordon is a geologist with 30 years of experience in the petroleum industry. His previous employers include Delhi Petroleum, Esso Australia, AGL Petroleum and Santos Limited. He is a member of the American Association of Petroleum Geologists, the Society of Petroleum Engineers and is currently the president of the South Australian branch of the Petroleum Exploration Society of Australia.

**Date of appointment of Directors**

The names of those persons who were directors of Beach during the financial year are as follows:

| Name | Alternate To | Date of Appointment | |
|---|---|---|---|
| Robert Michael Kennedy | - | 5 December 1991 | Re-elected 20 November 2003 |
| Reginald George Nelson | - | 25 May 1992 | Managing Director |
| John Charles Butler | - | 23 June 1999 | Re-elected 21 November 2002 |
| Michael Francis Frost | - | 20 December 2000 | Re-elected 11 November 2004 |
| Franco Giacomo Moretti | - | 1 March 2005 | For election 17 November 2005 |
| Hector Mackenzie Gordon | - | 14 June 2005 | For election 17 November 2005 |
| Hector Mackenzie Gordon | J C Butler | 3 February 2000 | Ceased on 14 June 2005 |
| Kathryn Anne Presser | R G Nelson | 14 January 2000 | Ceased on 14 June 2005 |

**Company Secretaries**

**Kathryn Anne Presser**

*Chief Financial Officer and Joint Company Secretary – BA (Accounting), Grad Dip CSP, FAICD, CPA, ACIS, AFAIM*
*Alternate Director to Mr R G Nelson for the period January 2000 – June 2005*

Joined Beach in January 1997 and was appointed to the role of Company Secretary in January 1998. Appointed as the Chief Financial Officer in June 2005, Ms Presser has over 21 years experience in senior accounting and company secretarial roles. She is also a member of the Petroleum Society of Australia. A qualified chartered secretary, she also holds the rank of Major in the Australian Army Reserves. She is also a director of the Australian Dance Theatre.

**Catherine Louise Oster**

*Legal & Corporate Counsel and Joint Company Secretary – BA (Jurisprudence), LLB, LLM (Corporate & Commercial)*

Appointed joint Company Secretary in July 2005. Ms Oster has more than 14 years experience as a lawyer and a partner in private practice, advising on corporate and commercial transactions. She is a member of the Law Society of South Australia and the Australian Corporate Lawyers Association. She also serves on the board of a not for profit aged care provider.

*Remuneration Report – Audited continued*

**Directors and Executive Officers' Remuneration for the Year Ending 30 June 2005**

Details of the nature and amount of each element of the emolument for the financial year and of the previous financial year of each director of the consolidated entity and each of the executive officers of the Company are detailed below:

| Beach Petroleum Limited | Salary $ | Directors' Fees $ | Non-Cash Benefits $ | Super Contributions $ | Total $ |
|---|---|---|---|---|---|
| Mr R M Kennedy | - | 98,582 | - | 81,000 | 179,582 |
| Mr R G Nelson | 410,270 | - | 5,451 | 37,415 | 453,136 |
| Mr J C Butler | - | 50,250 | - | 13,500 | 63,750 |
| Mr M F Frost | - | 44,667 | - | 12,000 | 56,667 |
| Mr F G Moretti | - | 16,000 | - | 1,440 | 17,440 |
| Mr H M Gordon | 236,064 | - | - | 21,246 | 257,310 |
| Ms K A Presser | 153,540 | - | - | 13,819 | 167,359 |
| **Total** | **799,874** | **209,499** | **5,451** | **180,420** | **1,195,244** |

**Directors and Executive Officers' Remuneration for the Year Ending 30 June 2004**

| Beach Petroleum Limited | Salary $ | Directors' Fees $ | Non-Cash Benefits $ | Super Contributions $ | Total $ |
|---|---|---|---|---|---|
| Mr R M Kennedy | - | 92,700 | - | 81,000 | 173,700 |
| Mr R G Nelson | 356,984 | - | 10,849 | 32,129 | 399,962 |
| Mr J C Butler | - | 42,230 | - | 12,300 | 54,530 |
| Mr M F Frost | - | 37,080 | - | 10,800 | 47,880 |
| Mr H M Gordon | 211,813 | - | - | 19,063 | 230,876 |
| Ms K A Presser | 141,351 | - | - | 12,722 | 154,073 |
| **Total** | **710,148** | **172,010** | **10,849** | **168,014** | **1,061,021** |

**Executives**

The following were the only executives who had authority for strategic direction and management of Beach:

| Name | Position |
|---|---|
| Reginald George Nelson | Managing Director |
| Hector Mackenzie Gordon | Chief Operating Officer |
| Kathryn Anne Presser | Company Secretary and Chief Financial Officer |

**Remuneration Principles for Non-Executive Directors**
Details of the amounts paid to non-executive directors for the last reporting period are set out below. The total amount of fees paid is within the aggregate annual limit of $450,000 approved by shareholders at the Annual General Meeting held in November 2004. The fees paid to non-executive directors are determined by reference to their role and time commitments given in the performance of their duties and are based upon the advice of independent external advisers engaged by the Company for this purpose.

While the Company does not have a retirement plan for non-executive directors, three non-executive directors have received additional superannuation contributions from the Company in recognition of their service to the Company. It is not expected that this practice will continue.

The fees paid to non-executive directors is fixed. No Company incentive plans are available to non-executive directors.

**Remuneration Objectives – Executive Officers and Senior Management**
To achieve its financial, corporate and operating objectives, Beach aims to attract and retain a skilled senior management team who is focused on contributing to these objectives. To do this the Board has established certain principles to attract and reward its executive officers and senior managers. These are:

- Offering competitive remuneration packages to attract and retain skilled personnel;
- Where appropriate, linking reward to Company and individual performance;
- Encouraging executive officers and senior managers to participate in employee incentive plans; and
- Ensuring severance payments are competitive and comply with any regulatory requirements.

**Remuneration Structure – Executive Officers and Senior Management**
The remuneration for all executives officers and senior management, other than the Managing Director is made up of a base salary amount, statutory superannuation contributions and other incidental benefits. Base salaries are reviewed annually by the Managing Director after consultation with the Remuneration/Succession Planning/Litigation Committee and are ultimately approved by the Board. The Company engages independent external advisers to assist with benchmarking salaries against industry standards. Cash bonuses may be paid annually as determined by the Board on a recommendation from the Remuneration/Succession Planning/Litigation Committee. Bonuses are determined by reference to the Company's overall performance.

In addition to a base salary amount, the Managing Director may be entitled to a long-term incentive payment based on performance criteria. Details of the criteria are set out below.

Executive officers, senior managers and other employees after a probation period may, at the discretion of the Board, be offered fully paid ordinary shares or options to acquire fully paid ordinary shares in Beach by way of interest free loans, which are repaid under the terms of a shareholder approved Employee Incentive Plan (Plan). Any additional opportunity to further participate in the Plan is determined by the Board based on length of service and individual performance. The Company is also required to obtain shareholder approval for the issue of any shares under the Plan to executive directors.

**Service Agreements – Executive Officers**
Remuneration and other terms of employment for the Managing Director and executive officers are formalised in service agreements. The remuneration of Mr R G Nelson (Managing Director) is determined by the Board. Remuneration of executive officers is determined by the Managing Director in consultation with the Remuneration/Succession Planning/Litigation Committee and is ultimately, subject to approval by the Board.

*Remuneration Report – Audited continued*

The major provisions relating to remuneration of the Managing Director and executive officers are as follows:

**Mr R G Nelson – Managing Director**

- Term of Agreement – 5 year contract commencing on 1 July 2005 expiring 30 June 2010, unless terminated earlier as detailed below.
- Salary set at 1 July 2005 – $493,500 inclusive of superannuation guarantee contributions, to be reviewed annually.
- Long Term Incentive Payment – as determined by the Board Mr Nelson may also be paid an annual Long Term Incentive payment of $60,000 upon meeting key performance indicators as determined by the Board. The Board assesses the key performance indicators twice annually. If Mr Nelson attains a predetermined score on both occasions, the payment will be made. The key performance indicators include overall Company and individual performance, identification of emerging opportunities for the Company, management and achievement of the Company's desired portfolio of projects, fundraising activities, staff morale and perceived external relationships within the industry.
- Other benefits – permanent disablement insurance and reimbursement of reasonable out of pocket expenses.
- Termination of Agreement other than for cause – the Company may terminate Mr Nelson's appointment for cause (for example, for breach) without notice. The Company must pay any amount owing but unpaid to Mr Nelson at the date of termination, such as accrued leave entitlements.
- Termination of Agreement without cause – if the Company terminates Mr Nelson's appointment other than for cause or Mr Nelson resigns upon giving 3 months notice or Mr Nelson resigns due to a permanent relocation of his workplace to a location other than Adelaide, then Mr Nelson is entitled to an amount equal to 1.6 times his final annual salary plus an additional 1.5 months for every full year of service after 30 June 2002. The final salary amount for this calculation may include cash bonuses (if any) and an amount of interest that would have been payable by Mr Nelson on any loan granted to Mr Nelson under the Employee Incentive Plan, had that loan not been granted free of interest.

**Mr H M Gordon – Chief Operating Officer**

- Term of Agreement – 5 year contract commencing 1 July 2005 expiring 30 June 2010, unless terminated earlier as detailed below.
- Salary set at 1 July 2005 – $260,190 inclusive of superannuation guarantee contributions, to be reviewed annually.
- Other benefits – reimbursement of reasonable out of pocket expenses.
- Termination of Agreement for cause – the Company may terminate Mr Gordon's appointment for cause (for example, for breach) without notice. The Company must pay any amount owing but unpaid to Mr Gordon at the date of termination, such as accrued leave entitlements.
- Termination of Agreement other than for cause – if the Company terminates Mr Gordon's appointment other than for cause or Mr Gordon resigns upon giving 3 months notice or Mr Gordon resigns due to a permanent relocation of his workplace to a location other than Adelaide, then Mr Gordon is entitled to an amount equal to 1 times his final annual salary.

**Ms K A Presser – Company Secretary / Chief Financial Officer**

- Term of Agreement – 5 year contract commencing on 1 July 2005 expiring 30 June 2010, unless terminated earlier as detailed below.
- Salary set at 1 July 2005 – $168,560 inclusive of superannuation guarantee contributions, to be reviewed annually.
- Other benefits – reimbursement of reasonable out of pocket expenses.
- Termination of Agreement for cause – the Company may terminate Ms Presser's appointment for cause (for example, for breach) without notice. The Company must pay any amount owing but unpaid to Ms Presser at the date of termination, such as accrued leave entitlements.
- Termination of Agreement other than for cause – if the Company terminates Ms Presser's appointment other than for cause or Ms Presser resigns upon giving 3 months notice or Ms Presser resigns due to a permanent relocation of her workplace to a location other than Adelaide, then Ms Presser is entitled to an amount equal to 1 times her final annual salary.

**Directors' and Executive Officers' Interests and benefits**

The relevant interest of each director and executive officer in the ordinary share capital of Beach or in a related body corporate at the date of this report is:

| Shares and Options in Beach Petroleum Limited | Shares | Bonus Options |
|---|---|---|
| Mr R M Kennedy | 59,987(1) | 14,758(1) |
| | 830,596(2) | 204,332(2) |
| Mr R G Nelson | 1,578,407(1) | 392,572(1) |
| | 234,957(2) | 57,801(2) |
| Mr J C Butler | 66,470(1) | 16,353(1) |
| Mr M F Frost | 104,438(1) | 26,110(1) |
| Mr F G Moretti | 40,871(2) | 10,055(2) |
| Mr H M Gordon(3) | 631,608(1) | 157,903(1) |
| Ms K A Presser(4) | 539,168(1) | 134,793(1) |

*(1) Held by directors and officers*
*(2) Held by entities in which directors and officers have a relevant interest*
*(3) Mr H M Gordon was an alternate director to Mr J C Butler until 14 June 2005 when he was appointed to the Board in his own right.*
*(4) Ms K A Presser was an alternate director to Mr R G Nelson until 14 June 2005. She was appointed a director of Mawson Petroleum Pty Limited (a wholly owned subsidiary of Beach Petroleum Limited) on 14 June 2005.*

The Managing Director, Mr R G Nelson, has been advanced an interest free loan of $632,800 from Beach under the terms of the Employee Incentive Plan for the issue of 285,715 fully paid ordinary shares in Beach issued in December 1997 and 1,200,000 fully paid ordinary shares in Beach issued in November 2002. Executive director of Beach, Mr H M Gordon has been advanced an interest free loan of $239,750 from Beach under the terms of the Employee Incentive Plan for the issue of 610,715 fully paid ordinary shares in Beach and executive director of wholly owned Mawson Petroleum Pty Ltd, Ms K A Presser has been advanced an interest free loan of $163,100 from Beach under the terms of the Employee Incentive Plan for the issue of 478,572 fully paid ordinary shares in Beach.

| Shares and Options in Ramelius Resources Limited | Shares | Options |
|---|---|---|
| Mr R M Kennedy | 3,198,600(2) | 2,707,150(2) |
| Mr R G Nelson | 20,000(1) | 5,000(1) |
| | 1,627,727(2) | 2,705,000(2) |
| Mr F G Moretti | 40,000(2) | –(2) |
| Ms K A Presser | 10,000(1) | 5,000(1) |

*(1) Held by directors and officers*
*(2) Held by entities in which directors and officers have a relevant interest*

## Un-audited

**Directors' meetings**

The Board of Beach met thirteen times, the Audit Committee met four times and the Corporate Governance Committee met once during the financial year. In addition to formal meetings held, members of the Board also participated in site visits to the Cooper Basin and participated in the annual conference of the Australian Petroleum Production and Exploration Association. The number of meetings attended by each of the directors of Beach during the financial year was:

| | Number of Directors Meetings | | Audit Committee Meetings | | Corporate Governance | |
|---|---|---|---|---|---|---|
| | Held(1) | Attended(2) | Held(1) | Attended(2) | Held(1) | Attended(2) |
| Mr R M Kennedy(3) | 13 | 13 | 4 | 4 | - | - |
| Mr R G Nelson | 13 | 13 | - | - | - | - |
| Mr J C Butler(3)(4) | 13 | 13 | 4 | 4 | 1 | 1 |
| Mr M F Frost(3)(4) | 13 | 13 | - | - | 1 | 1 |
| Mr F G Moretti(4) | 5 | 5 | - | - | 1 | 1 |
| Mr H M Gordon | 13 | - | - | - | - | - |
| Ms K A Presser | 13 | - | - | - | - | - |

*(1) The number of meetings held during the time the director held office during the year.*
*(2) The number of meetings attended by alternate directors where they attended in the capacity as director.*
*(3) Audit Committee Member during the year.*
*(4) Corporate Governance Committee Member during the year.*

*Remuneration Report – Un-audited continued*

**Board Committees**

In addition to the Audit Committee, a Corporate Governance Committee and Corporate Development Committee were established in June 2005. The Remuneration/Succession/Planning/Litigation Committee that was established in the early 1990's was also formally recognised in June 2005 as a committee of the Board. Chairmanship and membership of each of these committees are as follows:

| Committee | Chairman | Members |
|---|---|---|
| Audit | J C Butler | M F Frost, R M Kennedy |
| Corporate Governance | M F Frost | J C Butler, F G Moretti |
| Corporate Development | R M Kennedy | R G Nelson, F G Moretti |
| Remuneration / Succession Planning / Litigation | R M Kennedy | R G Nelson, other Board members co-opted as required |

**Company Performance**

Aspects of Beach's remuneration policy have been tailored to link shareholder wealth with executive officer and senior management performance. Cash bonuses are determined in part by reference to the Company's overall performance. In addition, executives and senior managers are invited to participate in the Employee Incentive Plan to encourage alignment of personal and shareholder interests.

The following table shows Beach's gross revenue, net profits after tax and dividends for the last 5 financial years. It also shows the share price at the end of each of those financial years. The table shows an increase in net profit after tax in each year as well as an increase or maintenance of dividends declared on annual results. The continuing improvement in Beach's performance over the past 5 financial years has also been reflected in an increase in the Company's share price at each year-end with the exception of 2002 and 2004, when the share price fell slightly.

| Company Performance | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Gross revenue | $10.3m | $15.3m | $36.2m | $41.3m | $63.8m |
| Net profit after tax | $2.8m | $2.9m | $8.0m | $9.9m | $20.4m |
| Share price at year-end | 31.3 cents | 29.4 cents | 32.6 cents | 25.5 cents | 64.5 cents |
| Dividends declared on annual results | 0 cents | 0.5 cents | 1.5 cents | 1.0 cent | 1.5 cents |

It is the Board's view that the results detailed in the table can in part be attributed to Beach's remuneration policy.

## 14 Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company are important.

The Board has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor as set out below, did not compromise the audit independence requirement of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the Board to ensure they do not impact the impartiality and objectivity of the auditor
- None of the services undermine the general principle relating to auditor independence as set out in Professional Standard F1, including reviewing or auditing the auditor's own work, acting in a management or a decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and reward.

Details of the amounts paid or payable to the auditor (Grant Thornton) for audit and non-audit services provided during the year are set out at Note 7 to the financial statements.

Section 307C of the Corporations Act 2001 requires the auditor, Grant Thornton, to provide the directors of Beach with an Independence Declaration in relation to the review of the full year financial statements. This Independence Declaration is made on the following page and forms part of this Directors' Report.

Dated in Adelaide this 13th day of September 2005 and signed in accordance with a resolution of the directors.

**R M Kennedy**
*Director*
*Chairman*

Grant Thornton

Chartered Accountants
Business Advisers and Consultants

**Auditor's Independence Declaration to the Directors of Beach Petroleum Limited**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Beach Petroleum Limited for the year ended 30 June 2005, I declare that, to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

**S J Gray**
*Partner*

Signed at Adelaide this 13th day of September 2005

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# STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2005

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | Note | $000 | $000 | $000 | $000 |
| **Current assets** | | | | | |
| Cash assets | | **34,625** | 35,189 | **34,100** | 32,894 |
| Receivables | 8 | **12,601** | 4,907 | **12,443** | 9,963 |
| Inventories | 9 | **3,962** | 2,602 | **3,231** | 1,917 |
| Other financial assets | 10 | **-** | 2,223 | **-** | - |
| Other | 11 | **937** | 642 | **918** | 596 |
| **Total current assets** | | **52,125** | 45,563 | **50,692** | 45,370 |
| **Non-current assets** | | | | | |
| Receivables | 12 | **1,275** | 1,443 | **1,275** | 1,443 |
| Other financial assets | 13 | **10,000** | 22 | **13,586** | 3,586 |
| Property, plant and equipment | 14 | **10,520** | 7,087 | **8,715** | 5,976 |
| Petroleum licences | 15 | **47,778** | 27,774 | **40,457** | 21,559 |
| Exploration and evaluation expenditure | 16 | **36,348** | 29,666 | **27,995** | 22,506 |
| Deferred tax assets | 17 | **2,831** | 4,600 | **2,506** | 4,600 |
| Other | 18 | **357** | 1,814 | **357** | 1,814 |
| **Total non-current assets** | | **109,109** | 72,406 | **94,891** | 61,484 |
| **Total assets** | | **161,234** | 117,969 | **145,583** | 106,854 |
| **Current liabilities** | | | | | |
| Payables | 19 | **10,625** | 5,663 | **9,370** | 4,763 |
| Provisions | 20 | **691** | 606 | **423** | 352 |
| Current tax liabilities | 21 | **953** | - | **953** | - |
| Interest bearing liabilities | 22 | **20** | 20 | **20** | 20 |
| **Total current liabilities** | | **12,289** | 6,289 | **10,766** | 5,135 |
| **Non-current liabilities** | | | | | |
| Interest bearing liabilities | 22 | **1,100** | 1,164 | **1,100** | 1,164 |
| Deferred tax liabilities | 23 | **15,742** | 9,931 | **15,742** | 9,931 |
| Provisions | 24 | **3,868** | 2,634 | **3,355** | 1,585 |
| **Total non-current liabilities** | | **20,710** | 13,729 | **20,197** | 12,680 |
| **Total liabilities** | | **32,999** | 20,018 | **30,963** | 17,815 |
| **Net assets** | | **128,235** | 97,951 | **114,620** | 89,039 |
| **Equity** | | | | | |
| Contributed equity | 25 | **170,509** | 155,453 | **170,509** | 155,453 |
| Accumulated losses | 26 | **(45,977)** | (61,673) | **(55,889)** | (66,414) |
| **Parent entity interest** | | **124,532** | 93,780 | **114,620** | 89,039 |
| Outside equity interest | 27 | **3,703** | 4,171 | **-** | - |
| **Total equity** | | **128,235** | 97,951 | **114,620** | 89,039 |

*The above statement of financial position should be read in conjunction with the accompanying notes.*

# STATEMENT OF FINANCIAL PERFORMANCE FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

| | Note | Consolidated 2005 $000 | Consolidated 2004 $000 | Company 2005 $000 | Company 2004 $000 |
|---|---|---|---|---|---|
| Revenues from ordinary activities | 2 | **63,761** | 41,261 | **50,093** | 30,635 |
| Changes in inventories of finished goods and work in progress | | **1,371** | 630 | **1,313** | 883 |
| Raw materials and consumables used | | **(20,636)** | (15,592) | **(15,293)** | (10,755) |
| Employee benefits expense | | **(3,239)** | (2,728) | **(3,031)** | (2,499) |
| Depreciation and amortisation expense | | **(9,604)** | (8,287) | **(8,301)** | (6,498) |
| Borrowing costs expense | | **(100)** | (101) | **(100)** | (101) |
| Other expenses from ordinary activities | | **(3,117)** | (1,865) | **(3,241)** | (1,512) |
| **Profit from ordinary activities before income tax expense** | | **28,436** | 13,318 | **21,440** | 10,153 |
| Income tax expense relating to ordinary activities | 4 | **(8,527)** | (3,749) | **(6,250)** | (2,665) |
| **Profit from ordinary activities after related income tax expense** | | **19,909** | 9,569 | **15,190** | 7,488 |
| Net loss attributable to outside equity interests | | **452** | 351 | **-** | - |
| **Net profit attributable to members of the parent entity** | | **20,361** | 9,920 | **15,190** | 7,488 |
| Basic earnings per share (cents per share) | 33 | **6.81¢** | 4.00¢ | | - |
| Diluted earnings per share (cents per share) | 33 | **5.84¢** | 3.58¢ | | - |

*The above statement of financial performance should be read in conjunction with the accompanying notes.*

# STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

| | Note | Consolidated 2005 $000 | Consolidated 2004 $000 | Company 2005 $000 | Company 2004 $000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Receipts from oil and gas operations | | **58,632** | 37,738 | **45,469** | 26,599 |
| Operating and personnel costs paid | | **(22,025)** | (18,388) | **(16,857)** | (12,278) |
| Interest received | | **1,851** | 1,465 | **1,770** | 1,256 |
| Other receipts | | **532** | 227 | **254** | 191 |
| Borrowing costs | | **(100)** | (101) | **(100)** | (101) |
| **Net cash provided by operating activities** | 31 | **38,890** | 20,941 | **30,536** | 15,667 |
| **Cash flows from investing activities** | | | | | |
| Payments for property, plant and equipment | | **(4,949)** | (3,127) | **(4,045)** | (2,688) |
| Payments for exploration and development | | **(35,492)** | (18,852) | **(32,246)** | (14,599) |
| Proceeds from disposal of non-current assets | | **38** | 19 | **38** | 19 |
| Investment in Listed Entity | | **(10,000)** | - | **(10,000)** | - |
| Purchase of investments | | **-** | (2,041) | **-** | (2,042) |
| Proceeds from sale of investments | | **109** | 351 | **109** | 351 |
| Receipts from controlled entities | | **-** | - | **5,974** | 2,625 |
| **Net cash used in investing activities** | | **(50,294)** | (23,650) | **(40,170)** | (16,334) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issue of shares | | **-** | 34,500 | **-** | 32,000 |
| Proceeds from options converted to shares | | **13,676** | 200 | **13,676** | 199 |
| Costs associated with issue of shares | | **(116)** | (2,064) | **(116)** | (1,768) |
| Share buy-back | | **(3)** | (5) | **(3)** | (5) |
| Repayment of borrowings | | **(64)** | (25) | **(64)** | (25) |
| Repayment of Employee Incentive Loans | | **53** | - | **53** | - |
| Litigation Recovery | | **378** | 375 | **378** | 375 |
| Payment for Forward Hedging Contract | | **-** | (1,814) | **-** | (1,814) |
| Dividends paid | | **(3,084)** | (2,143) | **(3,084)** | (2,143) |
| **Net cash provided by financing activities** | | **10,840** | 29,024 | **10,840** | 26,819 |
| Net increase/(decrease) in cash held | | **(564)** | 26,315 | **1,206** | 26,152 |
| Cash at beginning of financial year | | **35,189** | 8,874 | **32,894** | 6,742 |
| **Cash at end of financial year** | 31 | **34,625** | 35,189 | **34,100** | 32,894 |

*The above statement of financial cash flows should be read in conjunction with the accompanying notes.*

## 1 Statement of significant accounting policies

The financial report is a general-purpose financial report, which has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001. It has been prepared on the basis of historical costs and except where stated do not take into account changing money values or current valuations of non-current assets.

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to International Accounting Standards Board (IASB) interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. These Australian equivalents to IFRS are referred hereafter as AIFRS. The adoption of AIFRS will be first reflected in the entity's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

Entities complying with AIFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required on transition to AIFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The key differences in accounting policies that are expected to arise in the transition to Australian equivalents to IFRS together with the impact on the statement of financial performance for the year ended 30 June 2005 and the statement of financial position had the accounts been prepared under the new standards are set out in Note 37.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial report. The accounting policies have been consistently applied with those of the previous year, unless otherwise stated.

a) **Principles of consolidation:** The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Beach Petroleum Limited (Beach or Company). A controlled entity is any entity controlled by Beach. Control exists where Beach has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with Beach to achieve its objectives. A list of controlled entities is contained in Note 13 to the financial statements.

   All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation.

   Where controlled entities have entered or left the consolidated entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

b) **Recoverable amount of non-current assets:** Non-current assets are written down to their recoverable amounts where the carrying value of any non-current asset exceeds its recoverable amount. Recoverable amount is determined, where appropriate, as the present value of the amount expected to be recovered through the cash inflows and outflows arising from the continued use and subsequent disposal of the non-current asset, except for expenditure in respect of oil and gas properties in the exploration/evaluation and development phase which is accounted for on the basis described in Note 1(d) of the notes to the financial statements.

c) **Interests in joint ventures:** The consolidated entity's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated statements of financial performance and financial position. Details of the consolidated entity's interests are shown in Note 28.

   The consolidated entity's interests in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements. The parent entity's interests in joint venture entities are brought to account using the cost method.

d) **Exploration/evaluation and development expenditure:** The consolidated entity follows the area of interest method of accounting whereby all exploration costs related to individual areas are accumulated and carried forward as an asset provided that one of the following conditions is met:
   i) Such costs are expected to be recouped through successful development of the area of interest, or alternatively by its sale; or
   ii) Exploration and/or evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations are continuing.

   Where the consolidated entity has significantly reduced its holding in an area of interest and/or there is uncertainty regarding the recoupment of costs or there is a permanent diminution in value, the accumulated costs in respect of the area of interest are written down.

Accumulated costs in respect of areas of interest, which have been abandoned, are written off in the year of abandonment.

On commencement of production in an area of interest, accumulated exploration/evaluation and development costs are transferred to petroleum and gas licences and are amortised on a unit of production basis over the estimated life of the field.

**e) Petroleum licences:** Petroleum licences are carried at cost. The carrying amount of petroleum licences, property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows, which will be received from the assets' employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

**f) Property, plant and equipment:** Oil and gas production plant and equipment are included in the financial statements at cost and are depreciated on a unit of production basis over the estimated life of the field or the asset, whichever is the shorter.

All other fixed assets are included in the financial statements at cost and are depreciated over their expected economic lives using either the straight line or diminishing value basis.

The depreciation rates used for each class of depreciable assets are:

| Class of fixed asset | Depreciation rate |
|---|---|
| Buildings | 2% |
| Leasehold improvements | 4 – 5% |
| Office furniture and equipment | 5 – 33% |
| Production facilities and field equipment | Based on the estimated recoverable reserves |
| Petroleum and gas licences | Based on the estimated recoverable reserves |

**g) Foreign currencies:**

i) *Transactions*

Transactions in foreign currencies have been converted into Australian dollars at the rate of exchange ruling at the date of each transaction. Foreign currency assets and liabilities are converted to Australian dollars at rates of exchange ruling at balance date. Exchange differences are brought to account in the statement of financial performance for the financial period in which they arise.

ii) *Hedges*

The consolidated entity enters into hedge contracts fixing the exchange rate with monthly settlements in relation to a proportion of the consolidated entity's future oil sales revenue, which is receivable in foreign currency. Costs or gains arising at the time of entering hedged transactions are exchange differences that occur up to the date of receipt of oil sale proceeds, are deferred and included in the measurement of the sale.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur, the deferred gains and losses that arose on the foreign currency hedge prior to its termination continue to be deferred and are included in the measurement of the purchase or sale when it occurs. Where a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur, deferred gains and losses that arose on the foreign currency hedge prior to its termination are included in the statement of financial performance for the period.

**h) Accounts payable:** These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**i) Investments:**

i) *Controlled entities*

Investments in controlled entities are included in non-current assets and are initially recorded in the financial statements at cost. These investments have subsequently been written down to their recoverable amount determined by reference to the net assets of the controlled entities at balance date where this is less than cost.

ii) *Non-current investments*

Shares held in quoted and unquoted companies as long-term investments are initially recorded in the financial statements at cost. Where there is considered to be a permanent diminution in the value of an investment, it is written down or a provision for diminution in value is raised.

**j) Inventories:** Stocks of petroleum products have been valued at the lower of cost and net realisable value. Cost is derived on an absorption costing basis and includes direct processing costs and an appropriate portion of fixed and variable overheads.

Consumable supplies and maintenance spares are valued at cost with due allowance for obsolescence.

*Statement of significant accounting policies continued*

k) **Employee benefits:** Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

   *Superannuation Commitments:* Each employee nominates their own superannuation fund into which the Company contributes. The Company contributes voluntarily to each employee's nominated plan based on a percentage of each member's salary. It is at the discretion of employees to seek their individual financial advice with regards to each employee's own personal superannuation fund.

l) **Receivables:** Trade debtors to be settled within 30 days are carried at amounts due. The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts.

m) **Revenue:** The consolidated entity's revenue is mainly derived from the sale of oil. Revenue is brought to account in the month in which these oil sales have been made as notified by the joint venture operator. Interest revenue is recognised on accrual basis taking into account the interest rates applicable to the financial assets.

n) **Income tax:** The consolidated entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

   Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

   A future income tax benefit is brought to account on the belief that there is virtual certainty of realisation of the benefit. The amount of the benefit brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

   Beach and its wholly owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. Beach is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. The Australian Tax Office has notified the Company that it has been registered as an income tax consolidated group with effect 1 July 2003. The tax-consolidated group has entered into tax sharing agreements with its wholly owned subsidiaries whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

o) **Rehabilitation and restoration costs:** A provision for rehabilitation and restoration is provided by the consolidated entity to meet all future obligations for the restoration and rehabilitation of oil producing areas when oil reserves are exhausted and the oil fields are abandoned. Recognition of restoration expenses including well abandonment costs are determined on a gradual basis over the economic life of the associated plant and facilities in the area. In determining the consolidated entity's exposure to restoration obligations, the consolidated entity uses estimated current costs. These costs have not been discounted to their present values.

p) **Transaction costs arising on the issue of equity instruments:** Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs related. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

q) **Goods and services tax:** Revenues, expenses and assets are recognised net of the amount of goods and services tax (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 statement of cash flows on a gross basis.

r) **Dividends:** A provision is recognised for dividends when they have been declared, determined or publicly recommended by the directors on or before the reporting date.

s) **Cash:** For the purpose of the statements of cash flows, cash includes cash on hand, cash at bank and term deposits with banks.

t) **Rounding of amounts:** The Company is of a kind referred to in Class Order 98/100 issued by the Australian Securities and Investment Commission, relating to the rounding of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that class order to the nearest thousand dollars or in certain cases the nearest dollar.

| | Consolidated 2005 $000 | 2004 $000 | Company 2005 $000 | 2004 $000 |
|---|---|---|---|---|

## 2 Revenue

| | Consolidated 2005 $000 | Consolidated 2004 $000 | Company 2005 $000 | Company 2004 $000 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Oil and gas revenue | **61,234** | 38,527 | **47,848** | 27,969 |
| Interest received | **1,845** | 1,245 | **1,841** | 1,370 |
| Other revenue | **278** | 139 | **-** | - |
| | **63,357** | 39,911 | **49,689** | 29,339 |
| **Non-operating activities** | | | | |
| Sale of non-current investments | **109** | 350 | **109** | 350 |
| Rental revenue | **177** | 171 | **177** | 171 |
| Recovery from litigation | **3** | 750 | **3** | 750 |
| Other revenue | **77** | 79 | **77** | 25 |
| Sale of fixed assets | **38** | - | **38** | - |
| | **404** | 1,350 | **404** | 1,296 |
| **Total revenue** | **63,761** | 41,261 | **50,093** | 30,635 |
| a) Interest revenue from: | | | | |
| Wholly-owned controlled entity | **-** | - | **76** | 230 |
| Other | **1,845** | 1,245 | **1,765** | 1,140 |
| **Total interest revenue** | **1,845** | 1,245 | **1,841** | 1,370 |

| | Consolidated 2005 $000 | Consolidated 2004 $000 | Company 2005 $000 | Company 2004 $000 |
|---|---|---|---|---|
| **3 Profit from ordinary activities** | | | | |
| Profit from ordinary activities before income tax has been determined after: | | | | |
| **Expenses:** | | | | |
| a) Borrowing costs: | | | | |
| Interest paid or payable | | | | |
| – other corporations | **100** | 101 | **100** | 101 |
| b) Depreciation of non-current assets: | | | | |
| Depreciation of buildings | **29** | 27 | **29** | 27 |
| Depreciation of property, plant and equipment | **1,712** | 1,506 | **1,503** | 1,280 |
| Total depreciation | **1,741** | 1,533 | **1,532** | 1,307 |
| c) Amortisation of exploration, evaluation and development costs | **7,863** | 6,754 | **6,769** | 5,191 |
| d) Other costs: | | | | |
| Increase in provision for restoration | **1,200** | 500 | **1,770** | 500 |
| Government royalties | **5,107** | 2,924 | **4,039** | 2,279 |
| Write-down of investments | **-** | 39 | **-** | - |
| Foreign exchange loss | **52** | - | **52** | - |
| Exploration expenditure written off | **1,289** | 565 | **1,189** | 556 |
| **Revenue and net gains:** | | | | |
| a) Foreign exchange gain | **-** | 1 | **-** | 1 |

| | Consolidated 2005 $000 | 2004 $000 | Company 2005 $000 | 2004 $000 |
|---|---|---|---|---|
| **4 Income tax expense** | | | | |
| Reconciliation of the prima facie income tax expense calculated on profit with income tax expense included in the statement of financial performance | | | | |
| Operating profit before tax | **28,436** | 13,318 | **21,440** | 10,153 |
| Prima facie tax payable on profit from ordinary activities before income tax at 30% | **(8,531)** | (3,995) | **(6,432)** | (3,046) |
| Decrease/(increase) in income tax expense due to non-assessable and other items: | | | | |
| – capital raising costs | **157** | 219 | **157** | 154 |
| – litigation recovery | **-** | 225 | **-** | 225 |
| – sale of non-current assets | **66** | 57 | **68** | 57 |
| – bad debt recovery | **-** | - | **-** | - |
| – tax losses of controlled entity not recognised | **(175)** | (199) | **-** | - |
| – other | **(44)** | (56) | **(43)** | (55) |
| **Income Tax Expense** | **(8,527)** | (3,749) | **(6,250)** | (2,665) |
| **5 Dividends** | | | | |
| Final Ordinary Dividend of 0.5 cents paid on 2002/2003 final results declared on 5 September 2003, record date of 20 November 2003 and paid in December 2003 | **-** | 936 | **-** | 936 |
| Final Special Dividend of 0.5 cents paid on 2002/2003 final results declared on 5 September 2003, record date of 20 November 2003 and paid in December 2003 | **-** | 936 | **-** | 936 |
| Interim Dividend of 0.5 cents paid on 2003/2004 half year results, declared on 20 February 2004, record date of 5 March 2004 and paid in March 2004 | **-** | 1,430 | **-** | 1,430 |
| Final Dividend of 0.5 cents paid on 2003/2004 final results declared on 27 August 2004, record date of 11 November 2004 and paid in November 2004 | **1,443** | - | **1,443** | - |
| Interim Dividend of 1.0 cents paid on 2004/2005 half year results, declared on 18 February 2005, record date of 31 March 2005 and paid in April 2005. | **3,222** | - | **3,222** | - |

## 6 Remuneration of Directors and Executives

The Company has applied the exemption under Corporations Amendments Regulation 2005 which exempts listed companies from providing remuneration disclosures in relation to their specified directors and specified executives in their Annual Financial Reports by Accounting Standard AASB1046. Therefore the remuneration disclosures are provided in Note 13 of the Directors' Report designated as audited.

| | Consolidated 2005 $000 | 2004 $000 | Company 2005 $000 | 2004 $000 |
|---|---|---|---|---|
| **7 Auditor's remuneration** | | | | |
| Amounts received or due and receivable by the auditor of the Company for: | | | | |
| – auditing the financial statements | **60** | 38 | **48** | 38 |
| – other services | **10** | 19 | **10** | 19 |
| | **70** | 57 | **58** | 57 |
| **8 Current receivables** | | | | |
| Trade debtors | **12,446** | 4,742 | **11,613** | 4,236 |
| Cash on deposit, held as collateral | **28** | 28 | **28** | 28 |
| Interest receivable from other corporations | **127** | 137 | **127** | 132 |
| Amounts receivable from controlled entities | **-** | - | **675** | 5,567 |
| | **12,601** | 4,907 | **12,443** | 9,963 |
| **9 Current inventories** | | | | |
| Crude oil and condensate at cost | **3,742** | 2,371 | **3,127** | 1,814 |
| Consumable supplies at cost | **220** | 231 | **104** | 103 |
| | **3,962** | 2,602 | **3,231** | 1,917 |
| **10 Other current financial assets** | | | | |
| Shares in listed corporations at cost[1] | **-** | 2,223 | **-** | - |

*(1) Market value of investment at 30 June 2004 – $1,997,000*
*This investment was sold during the financial year, resulting in a profit of $45,631 to the Company.*

| | Consolidated 2005 $000 | Consolidated 2004 $000 | Company 2005 $000 | Company 2004 $000 |
|---|---|---|---|---|
| **11 Other current assets** | | | | |
| Prepayments | **506** | 391 | **487** | 345 |
| Loan advanced as per the Employee Incentive Plan (1) | **716** | 536 | **716** | 536 |
| Less provision for write-down | **(285)** | (285) | **(285)** | (285) |
| | **431** | 251 | **431** | 251 |
| | **937** | 642 | **918** | 596 |

*(1) In 1997, shareholders of the Company approved an Employee Incentive Plan. This Plan enables the Board to offer eligible employees of the Company, fully paid ordinary shares and/or options for fully paid ordinary shares in the Company.*
*Under the terms of the Plan, shares may be offered to permanent employees of the Company by way of an interest free loan, which is to be repaid in accordance with the terms and conditions of the Plan.*
*The issue price of the shares is determined by the average share price for the previous five business days prior to issue.*

The following employee shares are currently on issue:

| Date | No. of Shares on issue | Issue Price |
|---|---|---|
| **Issued prior to the Financial Year:** | | |
| 1 December 1997 | 503,574 | 87.50 cents |
| 18 January 2000 | 132,144 | 21.00 cents |
| 8 November 2001 | 28,572 | 37.80 cents |
| 20 December 2001 | 60,001 | 34.30 cents |
| 17 January 2002 | 42,858 | 37.38 cents |
| 5 April 2002 | 42,858 | 33.60 cents |
| 22 April 2002 | 14,286 | 34.30 cents |
| 18 December 2002 | 4,325,000 | 31.90 cents |
| 1 July 2003 | 55,000 | 33.70 cents |
| 1 September 2003 | 120,000 | 37.70 cents |
| Balance as at 30 June 2004 | 5,324,293 | |
| **Issued during the Financial Year:** | | |
| 30 July 2004 | 225,000 | 28.63 cents |
| **Sold during the Financial Year:** | | |
| 4 December 2004 | 17,857 | |
| 4 January 2005 | 110,000 | |
| 4 April 2005 | 42,858 | |
| **Total on Issue** | 5,378,578 | |

The ASX share price of Beach fully paid ordinary shares at 30 June 2005 was 64.50 cents as compared to 25.51 cents as at 30 June 2004.

| | Consolidated 2005 $000 | Consolidated 2004 $000 | Company 2005 $000 | Company 2004 $000 |
|---|---|---|---|---|

## 12 Non-current receivables

| | 2005 $000 | 2004 $000 | 2005 $000 | 2004 $000 |
|---|---|---|---|---|
| Loans advanced as per the Employee Incentive Plan | **1,275** | 1,443 | **1,275** | 1,443 |

## 13 Other non-current financial assets

| | 2005 $000 | 2004 $000 | 2005 $000 | 2004 $000 |
|---|---|---|---|---|
| **Investment in non-controlled entities** | | | | |
| Shares in listed corporation at cost (1) | **10,000** | - | **10,000** | - |
| Investment in non-listed corporation | **-** | 22 | **-** | - |
| **Total investments in non-controlled entities** | **10,000** | 22 | **10,000** | - |

*(1) Market Value of investment at 30 June 2005 = $22,489,000*

**Investment in controlled entities**

| Name of Company | Place of incorporation | Percentage of shares held % 2005 | Percentage of shares held % 2004 | Investment in Company held $000 2005 | Investment in Company held $000 2004 |
|---|---|---|---|---|---|
| Beach Petroleum Limited (Holding Coy) | South Australia | | | | |
| South Coast Petroleum Pty Ltd | South Australia | **100** | 100 | **-** | - |
| Beach Oil and Gas Pty Ltd | New South Wales | **100** | 100 | **-** | - |
| Ramelius Resources Ltd (2) | New South Wales | **23** | 23 | **1,340** | 1,340 |
| Beach Production Services Pty Ltd | South Australia | **100** | 100 | **-** | - |
| Mazeley Ltd | Liberia | **100** | 100 | **-** | - |
| Mawson Petroleum Pty Ltd | Queensland | **100** | 100 | **2,246** | 2,246 |
| Claremont Petroleum (USA) Pty Ltd | Victoria | **100** | 100 | **-** | - |
| Wandata Pty Ltd | New South Wales | **100** | 100 | **-** | - |
| Tagday Pty Ltd | New South Wales | **100** | 100 | **-** | - |
| Claremont Petroleum PNG Ltd (3) | Papua New Guinea | **100** | 100 | **-** | - |
| Midland Exploration Pty Ltd | South Australia | **100** | 100 | **-** | - |
| Petrogulf Resources Ltd (In Liquidation) | New South Wales | **-** | - | **-** | - |
| Ocita Pty Ltd | Western Australia | **100** | 100 | **-** | - |
| | | | | **3,586** | 3,586 |

All shares held are ordinary shares. All shares except for Ramelius Resources Ltd are not listed on a prescribed stock exchange.

*(2) Formerly Comserv (No. 779) Pty Ltd, listed on the Australian Stock Exchange as Ramelius Resources Ltd on 31 March 2003. Beach holds 13,400,002 of the 59,016,275 shares on issue. Of these shares held, 7,500,002 shares came out of escrow on 31 March 2005. Beach currently holds a $1,340,000 investment at cost in Ramelius Resources Limited.*
*The market value of the investment at 30 June 2005 - $2,010,000*

*(3) Holds a Retention Licence in Papua New Guinea.*

| | Consolidated 2005 $000 | Consolidated 2004 $000 | Company 2005 $000 | Company 2004 $000 |
|---|---|---|---|---|
| **14 Property, plant and equipment** | | | | |
| **Land and building at cost** | | | | |
| Freehold land at cost | **500** | 500 | **500** | 500 |
| Buildings at beginning of financial year | **1,355** | 1,329 | **1,355** | 1,329 |
| Additions | **151** | 26 | **151** | 26 |
| Less accumulated depreciation | **(140)** | (111) | **(140)** | (111) |
| Total building | **1,366** | 1,244 | **1,366** | 1,244 |
| Total land and building | **1,866** | 1,744 | **1,866** | 1,744 |
| *In August 2005 an independent valuation of the land and building was completed. The valuation was completed by a professional valuer who has set the market value of the land and building at $2,750,000.* | | | | |
| **Office furniture and equipment at cost** | | | | |
| At beginning of financial year | **915** | 777 | **898** | 767 |
| Additions | **173** | 138 | **168** | 131 |
| Less accumulated depreciation | **(786)** | (591) | **(780)** | (589) |
| | **302** | 324 | **286** | 309 |
| **Production facilities and field equipment at cost** | | | | |
| At beginning of financial year | **7,686** | 4,721 | **5,450** | 2,917 |
| Additions | **4,850** | 2,965 | **3,952** | 2,533 |
| Less accumulated depreciation | **(4,184)** | (2,809) | **(2,839)** | (1,669) |
| | **8,352** | 4,877 | **6,563** | 3,781 |
| **Gas production facilities and field equipment at cost** | | | | |
| At beginning of financial year | **680** | 682 | **680** | 682 |
| Disposals | **-** | (2) | **-** | (2) |
| Less accumulated depreciation | **(680)** | (538) | **(680)** | (538) |
| | **-** | 142 | **-** | 142 |
| **Total property, plant and equipment** | **10,520** | 7,087 | **8,715** | 5,976 |

| | Consolidated 2005 $000 | 2004 $000 | Company 2005 $000 | 2004 $000 |
|---|---|---|---|---|

## 15 Petroleum and gas licences

| | Consolidated 2005 $000 | Consolidated 2004 $000 | Company 2005 $000 | Company 2004 $000 |
|---|---|---|---|---|
| **Petroleum licences at cost** | | | | |
| At beginning of financial year | **43,426** | 38,038 | **32,105** | 27,913 |
| Additions | **21,853** | 5,388 | **21,895** | 4,192 |
| Transfer from exploration and evaluation expenditure | **6,002** | - | **4,606** | - |
| Less accumulated amortisation | **(23,503)** | (16,046) | **(18,149)** | (10,940) |
| | **47,778** | 27,380 | **40,457** | 21,165 |
| **Gas licences at cost** | | | | |
| At beginning of financial year | **1,891** | 1,851 | **1,891** | 1,851 |
| Transfer to exploration and evaluation expenditure | **-** | (9) | **-** | (9) |
| Additions | **12** | 49 | **12** | 49 |
| Less accumulated amortisation | **(1,903)** | (1,497) | **(1,903)** | (1,497) |
| | **-** | 394 | **-** | 394 |
| **Total petroleum and gas licences** | **47,778** | 27,774 | **40,457** | 21,559 |

## 16 Exploration and evaluation expenditure

| | Consolidated 2005 $000 | Consolidated 2004 $000 | Company 2005 $000 | Company 2004 $000 |
|---|---|---|---|---|
| **Petroleum and gas exploration permits at cost** | | | | |
| Exploration and evaluation areas at beginning of financial year (net of amounts written off) | **26,273** | 13,021 | **22,506** | 12,078 |
| Additions | **12,784** | 13,799 | **11,284** | 10,975 |
| Transfer (to) / from petroleum and gas licences | **(6,002)** | 9 | **(4,606)** | 9 |
| Write-down of exploration permits | **(1,189)** | (556) | **(1,189)** | (556) |
| **Total petroleum and gas exploration** | **31,866** | 26,273 | **27,995** | 22,506 |
| **Gold exploration permits at cost** | | | | |
| At beginning of financial year | **3,393** | 1,819 | **-** | - |
| Additions | **1,189** | 1,583 | **-** | - |
| Write-down of gold exploration permits | **(100)** | (9) | **-** | - |
| **Total gold exploration** | **4,482** | 3,393 | **-** | - |
| **Total exploration and evaluation expenditure** | **36,348** | 29,666 | **27,995** | 22,506 |

| | Consolidated 2005 $000 | 2004 $000 | Company 2005 $000 | 2004 $000 |
|---|---|---|---|---|

## 17 Deferred tax assets

| | Consolidated 2005 $000 | 2004 $000 | Company 2005 $000 | 2004 $000 |
|---|---|---|---|---|
| Future income tax benefit | **2,831** | 4,600 | **2,506** | 4,600 |
| a) The future income tax benefit is made up of the following estimated tax benefits: | | | | |
| – tax losses | **2,699** | 4,281 | **2,374** | 4,281 |
| – timing differences | **132** | 319 | **132** | 319 |
| | **2,831** | 4,600 | **2,506** | 4,600 |
| b) Future income tax benefits calculated at 30% not recognised as an asset because there is uncertainty as to their eventual recovery comprise: | | | | |
| – capital | **45,957** | 45,957 | **45,957** | 45,957 |
| – overseas operations not available for grouping | **2,188** | 2,188 | **2,188** | 2,188 |
| – capital losses attributable to timing differences | **4,072** | 3,536 | **4,072** | 3,536 |
| | **52,217** | 51,681 | **52,217** | 51,681 |

The taxation benefits will only be obtained if:

i) assessable income is derived of a nature and of an amount sufficient to enable the benefit from the deductions to be realised;

ii) conditions for deductibility imposed by the law are complied with; and

iii) no changes in tax legislation adversely affect the realisation of the benefit from the deductions.

## 18 Other non-current assets

| | Consolidated 2005 $000 | 2004 $000 | Company 2005 $000 | 2004 $000 |
|---|---|---|---|---|
| Prepayments | **357** | 1,814 | **357** | 1,814 |

## 19 Current payables

| | Consolidated 2005 $000 | 2004 $000 | Company 2005 $000 | 2004 $000 |
|---|---|---|---|---|
| Trade creditors | **9,686** | 5,425 | **9,095** | 4,525 |
| Other creditors | **939** | 238 | **275** | 238 |
| | **10,625** | 5,663 | **9,370** | 4,763 |

| | Consolidated 2005 $000 | 2004 $000 | Company 2005 $000 | 2004 $000 |
|---|---|---|---|---|

## 20 Current provisions

| | | | | |
|---|---|---|---|---|
| Employee entitlements | **691** | 606 | **423** | 352 |
| Number of employees at year end | **38** | 34 | **22** | 18 |

## 21 Current tax liabilities

| | | | | |
|---|---|---|---|---|
| Tax payable | **953** | - | **953** | - |

## 22 Interest bearing liabilities – secured

| | | | | |
|---|---|---|---|---|
| Amounts owed to financial institution (1) | | | | |
| Current | **20** | 20 | **20** | 20 |
| Non-current | **1,100** | 1,164 | **1,100** | 1,164 |
| | **1,120** | 1,184 | **1,120** | 1,184 |

*(1) A mortgage loan is secured by a registered first mortgage over the land and building of the parent entity.*

## 23 Deferred tax liabilities

| | | | | |
|---|---|---|---|---|
| Provision for deferred income tax | **15,742** | 9,931 | **15,742** | 9,931 |

## 24 Non-current provisions

| | | | | |
|---|---|---|---|---|
| Employee entitlements | **140** | 105 | **74** | 74 |
| Rehabilitation and restoration costs | **3,728** | 2,529 | **3,281** | 1,511 |
| | **3,868** | 2,634 | **3,355** | 1,585 |

## 25 Contributed equity

| | Number of Shares | 2005 $000 | Company 2004 $000 |
|---|---|---|---|
| **Ordinary shares** | | | |
| Issued and fully paid ordinary shares at 30 June 2003 | 186,460,446 | - | 123,807 |
| **Issued during the 2003-2004 financial year** | | | |
| Bonus Options converted during the 2003-2004 financial year | 593,417 | - | 199 |
| Less Cost of Bonus Option Conversion | - | - | (2) |
| 31 March 2003 - 1999 Options converted prior to expiry | 586 | - | 1 |
| 11 July 2003 - Employee Share Plan (1) | 55,000 | - | 19 |
| 11 September 2003 - Employee Share Plan (1) | 120,000 | - | 45 |
| Cost of Capital Raising | - | - | (19) |
| 23 October 2003 - Share Placement to Institutional Investors at $0.33 | 23,000,000 | - | 7,590 |
| Less Cost of Placement | - | - | (429) |
| 24 November 2003 - Share Placement to Institutional Investors at $0.33 | 28,516,000 | - | 9,410 |
| Less Cost of Placement | - | - | (501) |
| 28 November 2003 & 4 December 2003 - Share Purchase Plan offered to all shareholders at $0.33 | 45,455,000 | - | 15,000 |
| Less Cost of Share Purchase Plan | - | - | (816) |
| 12 December 2003 - Shares issued under the terms of the Dividend Reinvestment Plan | 1,900,245 | - | 635 |
| 19 March 2004 - Shares issued under the terms of the Dividend Reinvestment Plan | 1,617,627 | - | 516 |
| Less Cost of Dividend Reinvestment Plan | - | - | (2) |
| **Issued and fully paid ordinary shares at 30 June 2004** | 287,718,321 | **155,453** | 155,453 |
| **Issued during the 2004-2005 financial year** | | | |
| 2002 Bonus Options converted during the 2004-2005 financial year | 39,882,626 | **13,361** | - |
| Less Cost of Bonus Option Conversion | - | **(100)** | - |
| 9 July 2004 - Employee Share Plan (1) | 225,000 | **64** | - |
| 2005 Bonus Options converted during the 2004-2005 financial year | 344,905 | **207** | - |
| Less Cost of Bonus Option Conversion | - | **(2)** | - |
| 25 November 2004 - Shares issued under the terms of the Dividend Reinvestment Plan | 950,569 | **411** | - |
| Less Cost of Dividend Reinvestment Plan | - | **(13)** | - |
| 11 April 2005 - Shares issued under the terms of the Dividend Reinvestment Plan | 1,836,352 | **1,128** | - |
| Less Cost of Dividend Reinvestment Plan | - | **-** | - |
| **Issued and fully paid ordinary shares at 30 June 2005** | 330,957,773 | **170,509** | 155,453 |

(1) *The Company has established an Employee Incentive Plan. Shares are allotted to employees under this Plan at the Board's discretion. Shares acquired by employees are funded by interest free loans for a term of 10 years which are repayable on cessation of employment with the consolidated entity or expiry of the loan term. At balance date, 5,378,578 fully paid ordinary shares were issued to employees. Information regarding the interest free loans is disclosed in Note 11 to the financial statements.*

*Contributed equity continued*

**Expired Options**

| Date of Issue | Number of shares subject to option | Exercise price | Exercisable by |
|---|---|---|---|
| **2002 Bonus Options** (1) | | | |
| 24 May 2002 | **45,204,050** | $0.335 | 31 May 2005 |
| Exercised during the 2002-2003 financial year | **(688,903)** | | |
| Exercised during the 2003-2004 financial year | **(593,417)** | | |
| Exercised during the 2004-2005 financial year | **(39,882,626)** | | |
| Options expired during the 2004-2005 financial year that were not exercised | **(4,039,104)** | | |
| | **-** | | |

(1) As a result of the capital consolidation in May 2002, 45,204,050 Bonus Options were issued to shareholders at an exercise price of 33.5 cents. These options were listed on the Australian Stock Exchange on 21 November 2002 and expired on 31 May 2005.

**Current Options**

| Date of Issue | Number of shares subject to option | Exercise price | Exercisable by |
|---|---|---|---|
| **2005 Bonus Options** (2) | | | |
| 31 March 2005 | **80,095,705** | $0.60 | 30 June 2006 |
| Exercised during the 2004-2005 financial year | **(344,905)** | | |
| | **79,750,800** | | |

*(2) On 31 March 2005, Bonus Options were issued to all shareholders on the share register as at 31 March 2005 on a 1:4 basis. These options were listed on the Australian Stock Exchange on 1 July 2005.*

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2005 $000** | 2004 $000 | **2005 $000** | 2004 $000 |
| **26 Accumulated losses** | | | | |
| Accumulated losses at the beginning of the financial year | **(61,673)** | (68,291) | **(66,414)** | (70,600) |
| Net profit attributable to the members of the parent entity | **20,361** | 9,920 | **15,190** | 7,488 |
| Dividends paid during the financial year: | | | | |
| – Final dividend 2002/2003 | **-** | (936) | **-** | (936) |
| – Special dividend 2002/2003 | **-** | (936) | **-** | (936) |
| – Interim dividend 2003/2004 | **-** | (1,430) | **-** | (1,430) |
| – Final dividend 2003/2004 | **(1,443)** | - | **(1,443)** | - |
| – Interim dividend 2004/2005 | **(3,222)** | - | **(3,222)** | - |
| **Accumulated losses at the end of the financial year** | **(45,977)** | (61,673) | **(55,889)** | (66,414) |
| **27 Outside equity interests in controlled entities** | | | | |
| Outside equity interest comprises: | | | | |
| – Share capital | **4,591** | 4,591 | **-** | - |
| – Retained losses | **(888)** | (420) | **-** | - |
| | **3,703** | 4,171 | **-** | - |

## 28 Interest in joint ventures

| | Consolidated 2005 $000 | Consolidated 2004 $000 | Company 2005 $000 | Company 2004 $000 |
|---|---|---|---|---|
| a) The consolidated entity has a direct interest in a number of unincorporated joint ventures, the details of which are listed in the Operations Report of the Annual Report. | | | | |
| b) The consolidated entity's share of assets employed in unincorporated joint ventures is as follows: | | | | |
| **Non-current assets** | | | | |
| Production facilities and field equipment | **8,739** | 4,568 | **5,622** | 2,332 |
| Less accumulated depreciation | **(2,949)** | (1,989) | **(1,604)** | (849) |
| Fixed assets (included in Note 14) | **5,790** | 2,579 | **4,018** | 1,483 |
| Petroleum and gas licences | **36,122** | 14,524 | **27,226** | 7,643 |
| Less accumulated amortisation | **(8,567)** | (5,526) | **(4,956)** | (2,613) |
| Total petroleum and gas licences (included in Note 15) | **27,555** | 8,998 | **22,270** | 5,030 |
| Exploration and evaluation expenditure (included in Note 16) | **36,347** | 29,666 | **27,995** | 22,506 |
| **Total non-current assets** | **69,692** | 41,243 | **54,283** | 29,019 |
| **Current assets** (including advance contributions, prepayments, cash and consumables) | **116** | 168 | **-** | - |
| **Total assets employed in joint ventures** | **69,808** | 41,411 | **54,283** | 29,019 |
| c) Material interests in joint ventures: | | | | |
| Contribution to profit: | | | | |
| – PEL 92 – Sellicks & Christies | **12,646** | 1,639 | **12,646** | 1,639 |
| – PEL 95 – Aldinga | **(13)** | (68) | **(13)** | (68) |
| – PEP 154 | **(327)** | 35 | **(327)** | 35 |
| – ATP 269P Bargie & Glenvale | **175** | (66) | **175** | (66) |
| – ATP 259P Naccowlah Block | **1,322** | 1,191 | **-** | - |
| – PEL113 – Harpoono | **161** | - | **-** | - |
| – PEL 90 – RSWU | **3** | - | **-** | - |
| – PEL 90 – Acrasia | **367** | 129 | **-** | - |
| | **14,334** | 2,860 | **12,481** | 1,540 |
| Capital interest in joint ventures: | | | | |
| – PEL 92 – Sellicks & Christies | **8,984** | 4,674 | **8,984** | 4,674 |
| – PEL 95 – Aldinga | **317** | 533 | **317** | 533 |
| – PL 184 – Thylungra | **815** | 764 | **815** | 764 |
| – PEP 154 | **-** | 537 | **-** | 537 |
| – ATP 269P Bargie & Glenvale | **2,267** | 5 | **2,267** | 5 |
| – VIC/RL 6,9,10 – BMG | **13,700** | - | **13,700** | - |
| – ATP 259P Naccowlah Block | **2,391** | 1,826 | **-** | - |
| – PEL113 – Harpoono | **1,699** | - | **-** | - |
| – PEL 90 – RSWU | **205** | - | **-** | - |
| – PEL 90 – Acrasia | **3,083** | 3,302 | **-** | - |
| | **33,461** | 11,641 | **26,083** | 6,513 |

## 29 Related party disclosures

The names of persons who were directors of Beach at any time during the financial year are Robert Michael Kennedy, Reginald George Nelson, John Charles Butler, Michael Francis Frost, Franco Giacomo Moretti, Kathryn Anne Presser and Hector Mackenzie Gordon. Ms K A Presser ceased to be an alternate director to Mr R G Nelson with effect 14 June 2005. Mr H G Gordon ceased to be an alternate director to Mr J C Butler with effect 14 June 2005 and was appointed as an executive director to the Board on 14 June 2005.

Information on related party transactions of the consolidated entity not disclosed elsewhere in this financial report are as follows:

**Transactions with wholly-owned controlled entities**
The Company advanced interest free loans to wholly-owned controlled entities except to Mawson Petroleum Pty Ltd (Mawson). During the year, the Company had the following transactions with Mawson - advances on inter-company accounts on which the Company has received interest at commercial rates amounting to $76,000 (2004: $230,000).

**Ramelius Resources Limited (Ramelius)**
At the end of the financial year Beach held 13,400,002 fully paid ordinary shares in Ramelius (a 22.71% interest).

The following Ramelius shares and options are held by entities in which the following directors have a relevant interest:

| | Shares | Options |
|---|---|---|
| Mr R G Nelson * | 1,627,727 | 2,705,000 |
| Mr R G Nelson - held in own name | 20,000 | 5,000 |
| Mr R M Kennedy * | 3,198,600 | 2,707,150 |
| Ms K A Presser - held in own name | 10,000 | 5,000 |
| Mr F G Moretti * | 40,000 | - |

* *Held by an entity in which the director has a relevant interest.*

During the financial year ended 30 June 2005, Ramelius paid $76,300 to Mr R M Kennedy and $32,700 to Mr R G Nelson for directors' fees, associated superannuation and non-cash benefits.

Further details on Ramelius can be obtained in the company's Annual Report or on its website at www.rameliusresources.com.au.

**Transactions with other related parties**
Nil

**Transactions with Director or Director-related entities**
The Managing Director, Mr R G Nelson, has been advanced an interest free loan of $632,800 from Beach under the terms of the Employee Incentive Plan for the issue of 285,715 fully paid ordinary shares in Beach issued in December 1997 and 1,200,000 fully paid ordinary shares in Beach issued in November 2002. Executive director of Beach, Mr H M Gordon has been advanced an interest free loan of $239,750 from Beach under the terms of the Employee Incentive Plan for the issue of 610,715 fully paid ordinary shares in Beach and executive director of wholly owned Mawson Petroleum Pty Ltd, Ms K A Presser has been advanced an interest free loan of $163,100 from Beach under the terms of the Employee Incentive Plan for the issue of 478,572 fully paid ordinary shares in Beach.

**Directors' holding of shares and options**
The relevant interests of directors and their director-related entities in shares of entities within the consolidated entity as at 30 June 2005 are as follows:

| | 2005 | 2004 |
|---|---|---|
| Number of fully paid ordinary shares in Beach | **4,086,502** | 3,693,327 |
| Number of 2002 Bonus Options in Beach | **-** | 351,247 |
| Number of 2005 Bonus Options in Beach | **1,014,677** | - |
| Number of fully paid ordinary shares in Ramelius | **4,896,327** | 4,856,327 |
| Number of options in Ramelius | **5,422,150** | 5,422,150 |

## 30 Segment information

The consolidated entity operates predominantly in the oil and gas industry within Australia and as such has no material reportable segments.

| | Consolidated 2005 $000 | Consolidated 2004 $000 | Company 2005 $000 | Company 2004 $000 |
|---|---|---|---|---|
| **31 Cash flow information** | | | | |
| **a) Reconciliation of cash** | | | | |
| For the purposes of the statement of cash flows, cash includes cash on hand and in banks and highly liquid investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows: | | | | |
| Cash | **8,568** | 3,868 | **8,043** | 1,573 |
| Cash on deposit | **26,057** | 31,321 | **26,057** | 31,321 |
| | **34,625** | 35,189 | **34,100** | 32,894 |
| **b) Reconciliation of net profit to net cash provided by operating activities:** | | | | |
| Net profit | **19,909** | 9,569 | **15,189** | 7,488 |
| Less items classified as investing/financing activities: | | | | |
| - Proceeds from disposal of non-current assets | **(147)** | (19) | **(147)** | (19) |
| - Litigation Recovery | **(3)** | - | **(3)** | - |
| - Interest received | **-** | - | **(76)** | (230) |
| | **19,759** | 9,550 | **14,963** | 7,239 |
| Add/(less) non-cash items: | | | | |
| - Depreciation | **1,741** | 1,533 | **1,532** | 1,307 |
| - Amortisation | **7,863** | 6,754 | **6,769** | 5,191 |
| - Write-down of exploration areas | **1,289** | 565 | **1,189** | 556 |
| - Unrealised Exchange Loss | **52** | - | **52** | - |
| - Write-down of investments | **-** | 39 | **-** | - |
| - Increase in provision for employee entitlements | **71** | 69 | **71** | 69 |
| - Increase in provision for rehabilitation | **1,200** | 500 | **1,770** | 500 |
| - Increase in current income tax provision | **953** | - | **953** | - |
| - Decrease/(increase) in future income tax benefit | **2,094** | (4,669) | **2,094** | (4,165) |
| - Increase in deferred income tax provision | **5,811** | 6,179 | **5,811** | 4,994 |
| Net cash provided by operating activities before changes in assets and liabilities | **40,833** | 20,520 | **35,204** | 15,691 |
| Changes in assets and liabilities: | | | | |
| - (Increase)/decrease in receivables | **(981)** | 1,402 | **(3,931)** | 1,005 |
| - Increase in inventories | **(1,360)** | (651) | **(1,314)** | (902) |
| - Increase in other current assets | **(98)** | (67) | **(142)** | (130) |
| - (Increase)/decrease in other non-current assets | **-** | (648) | **399** | 28 |
| - Increase/(decrease) in current and non-current creditors and borrowings | **496** | 385 | **320** | (25) |
| **Net cash provided by operating activities** | **38,890** | 20,941 | **30,536** | 15,667 |

## 32 Financial instruments

**a) Interest rate risk exposure:**

The consolidated entity's exposure to interest rate risk for each class of financial assets and financial liabilities is set out below:

| | | Floating interest rate | | Fixed interest maturing in 1 year or less | | Fixed interest maturing in Over 1 to 5 years | Non-interest bearing | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 | | 2005 | 2004 | 2005 | 2004 |
| | Note | $000 | $000 | $000 | $000 | $000 | $000 | $000 | $000 | $000 |
| **Financial assets** | | | | | | | | | | |
| Cash | | **8,568** | 5,148 | **26,057** | 30,041 | **-** | **-** | - | **34,625** | 35,189 |
| Current receivables | 8 | **28** | 45 | **-** | - | **-** | **12,573** | 4,862 | **12,601** | 4,907 |
| Current Investments | 10 | **-** | - | **-** | - | **-** | **-** | 2,223 | **-** | 2,223 |
| Non-current receivables | 11 | **-** | - | **-** | - | **-** | **-** | 642 | **937** | 642 |
| Non-current Investments | 13 | **10,000** | - | **-** | - | **-** | **-** | 22 | **10,000** | 22 |
| | | **18,596** | 5,193 | **26,057** | 30,041 | **-** | **12,573** | 7,749 | **58,163** | 42,983 |
| *Weighted average effective interest rate* | | ***5.45%*** | *5.20%* | ***5.56%*** | 5.42% | **-** | **-** | - | **-** | - |
| **Financial liabilities** | | | | | | | | | | |
| Payables | 19 | **-** | - | **-** | - | **-** | **10,625** | 5,663 | **10,625** | 5,663 |
| Tax Payables | 22 | **-** | - | **-** | - | **-** | **953** | - | **953** | - |
| Interest bearing liabilities | 21 | **-** | - | **-** | - | **1,120** | **-** | - | **1,120** | 1,184 |
| | | **-** | - | **-** | - | **1,120** | **11,578** | 5,663 | **12,698** | 6,847 |
| *Weighted average effective interest rate* | | | - | **-** | - | ***8.56%*** | **-** | - | - | - |
| **Net financial assets/(liabilities)** | | **18,596** | 5,193 | **26,057** | 30,041 | **(1,120)** | **995** | 2,086 | **45,465** | 36,136 |

**Credit risk**

The carrying amount of financial assets in the consolidated statement of financial position, represents the consolidated entity's maximum exposure to credit risk in relation to these assets.

**Net fair value**

The net fair value of financial assets and liabilities in the consolidated statement of financial position, approximates their carrying amounts.

**b) Commodity and currency hedging**

In order to protect the Company against any wide variations in oil price fluctuations, the Company entered into currency and commodity hedging. As these contracts are hedging anticipated future revenue, any unrealised gains and losses on the contracts are deferred and will be recognised in the measurement of the underlying transaction, provided the underlying transaction is still expected to occur as originally designated.

b) *Commodity and currency hedging continued*

At 30 June 2005, the Company held the following forward hedging transactions:

- Oil Price Fixed Floor with Macquarie Bank in AUD$35 at a cost of AUD$1,814,250, for the period July 2005 to June 2009 at 17,917bbls, 14,583bbls, 10,417bbls and 8,333bbls of oil per month for each year respectively.
- A USD$1.5 million per month Currency Option with the Commonwealth Bank between US$0.728 and US$0.82 for the months of July to December 2005 and a USD$1.5 million per month Currency Ceiling capped at US$0.82 for the months of January to June 2006 at a total cost of AUD$119,356.
- A USD$1.5 million per month Currency Kick in Knock Out Option with Bell Potter Securities between US$0.740 and US$0.82 for the months of July to December 2005 and a USD$1.5 million per month Currency Ceiling capped at US$0.82 for the months of January to June 2006 at a total cost of AUD$133,000.
- An Oil Price Zero Cost Collar with the Commonwealth Bank for 10,000bbls of oil for the months of July 2005 to June 2006 for Tapis USD$40 to Tapis USD$67.20
- A fixed Oil Price Hedge with the Commonwealth Bank to fix 10,000bbls per month at Tapis US$51.95 per month for the months of July 2005 to June 2006.
- An Oil Price Zero Cost Collar with Macquarie Bank for 20,000bbls of oil for the months of July 2005 to June 2006 for WTI USD$40 to WTI USD$65.25
- An Oil Price Zero Cost Collar with BP Oil International Limited for 20,000bbls of oil for the months of August 2005 to July 2006 for WTI USD$45 to WTI USD$80.

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| **33 Earnings per share** | | | | |
| a) Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share. | **298,901,230** | 248,283,148 | | |
| b) Diluted earnings per share are calculated after classifying all options on issue at 30 June 2004 as potential ordinary shares. | **378,878,144** | 291,996,195 | | |
| c) Since the end of the financial year and before the completion of this report, the following ordinary shares were issued upon the conversion of options as follows: | | | | |
| – Bonus options expiring 31 May 2005 | **-** | 6,037 | | |
| – Bonus options expiring 30 June 2006 | **2,218,585** | - | | |
| | **$000** | $000 | **$000** | $000 |
| **34 Commitments** | | | | |
| The Company and consolidated entity are required to meet minimum expenditure requirements of various government regulatory bodies and joint ventures. These obligations may be subject to renegotiation, may be farmed out or may be relinquished and have not been provided for in the financial statements. | | | | |
| – Due within 1 year | **71,680** | 7,290 | **71,680** | 7,290 |
| – Due within 1-2 years | **3,555** | 1,800 | **3,555** | 1,800 |
| – Due within 2-5 years | **-** | - | **-** | - |
| | **75,235** | 9,090 | **75,235** | 9,090 |

## 35 Contingent liabilities

Service agreements exist with the Managing Director and executive officers under which termination benefits may, in appropriate circumstances, become payable. The maximum contingent liability at 30 June 2005 under the service agreements is $1,403,450 (2004: $818,900).

The Commonwealth Bank has provided Beach with a negative pledge credit faciity of $750,000 of which $322,600 has been utilised by way of bank guarantees at the date of this report.

## 36 Subsequent events

Apart from the matters listed below, there has not arisen in the interval since 30 June 2005 and up to the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect substantially the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years, other than as mentioned elsewhere in the financial report.

**Capital Raising**
In early August 2005, the Company issued 49.6 million fully paid ordinary shares at 64 cents per fully paid ordinary share in a placement to institutional and sophisticated investors. Euroz Securities Limited (Euroz) managed the placement. The new shares were issued on the same terms as other ordinary shares in the Company quoted on the Australian Stock Exchange. The funds raised by the placement were used to acquire a 12.5% interest in VIC/RLs 6,9 &10, which contain the Basker, Manta and Gummy oil and gas fields from Anzon Australia Limited by exercising a pre-emptive right under the Joint Operating Agreement.

In early September 2005, shareholders approved the issue by the Company of a further 70.4 million fully paid ordinary shares at a price of 64 cents per fully paid ordinary share to institutional and sophisticated investors. Euroz managed the placement.

The new shares were issued on the same terms as other ordinary shares in the Company quoted on the Australian Stock Exchange. The funds raised by the placement will be used to strengthen the Company's balance sheet to take advantage of future corporate acquisitions and opportunities and for working capital.

**Farm-in to Tipton West Coal Seam Gas (CSG) Project**
Subject to final documentation, Beach has agreed to fund the initial capital expenditure of $35 million to develop Stage 1 of the Tipton West Coal Seam Gas (CSG) project. In return for funding the initial capital expenditure, Beach will take a 40% upstream equity in the project through interests in the Dalby Block (ATP 683P) and the neighbouring Production Licence 198, currently held 100% by Arrow Energy NL.

Beach will have a further option to earn a 40% interest in each of the Dalby South and Millmerran Blocks of ATP 683P and ATP 689P by contributing $7 million towards CSG exploration in these blocks.

## 37 International Financial Reporting Standards

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. These Australian equivalents to IFRS are referred hereafter as AIFRS. The adoption of AIFRS will be first reflected in the entity's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

Entities complying with AIFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required on transition to AIFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004. All of the AIFRS have been analysed and changes to accounting policies and changes that will be required to accounting policies identified. In some cases choices of accounting policies are available, including elective exemptions under Accounting Standards AASB 1 – First time Adoption of Australian Equivalents to International Financial Reporting Standards. These choices have been analysed to determine the most appropriate accounting policies for the entity.

Under current Australian GAAP the financial report is generally prepared on the basis of historical costs while under the IASB conceptual framework there is an emphasis on recording assets and liabilities at their fair value. Whilst this will increase the volatility in reported results in future earnings, it is not expected to change the company's business operations nor have any impact on either the quantity or the value of current or future oil and gas reserves.

Although the adjustments disclosed in this note are based on management's best knowledge of expected standards and interpretations and current facts and circumstances, these may change. For example amended or additional standards or interpretations may be issued by the AASB and IASB.

Therefore until the Company prepares its first full AIFRS financial statements, the possibility cannot be excluded that the accompanying disclosures may have to be adjusted.

On transition to AIFRS the estimated cumulative financial effect of the reliably known differences on the parent and consolidated entity's reported net profit and equity as at 30 June 2005 is summarised below. No impacts are expected in relation to the statement of cash flows. As noted above, these amounts represent management's best estimates and could differ from actuals.

| | Consolidated 2005 $000 | Company 2005 $000 |
|---|---|---|
| **Reconciliation of Equity** | | |
| Total Equity reported under Australian Accounting Standards | 128,235 | 114,620 |
| Retrospective adjustments to equity at 1 July 2004 | | |
| – Write down of Exploration Assets | (6,630) | (6,245) |
| – Recognition of deferred tax on write-downs | 1,989 | 1,874 |
| – Increase in Rehab & Restoration Assets | 2,000 | 1,500 |
| – Increase in Rehab & Restoration Provision | (2,000) | (1,500) |
| – Tax effect of capital raising costs taken direct to equity | 522 | 522 |
| **Total equity** | 124,116 | 110,771 |
| Decrease in current year profit resulting from transition to AIFRS | | |
| – Total transitional adjustments | (2,544) | (2,544) |
| **Total equity under AIFRS** | 121,572 | 108,227 |
| **Reconciliation of Net Profit** | | |
| Net profit reported under Australian Accounting Standards | 20,361 | 15,190 |
| Key transitional adjustments: | | |
| – Write down of Exploration Assets | (3,407) | (3,407) |
| – Income Tax expense – deferred tax | 1,022 | 1,022 |
| – Tax effect of capital raising costs taken direct to equity | (159) | (159) |
| Total transitional adjustments | (2,544) | (2,544) |
| **Net Profit under AIFRS** | 17,817 | 12,646 |

**a) Non-current Investments**

Under AASB139: Financial Instruments: Recognition and Measurement, financial assets are required to be classified into four categories, which determines the accounting treatment of the item. The categories and various treatments are:

- Held to maturity, measured at amortised cost;
- Held for trading, measured at fair value with unrealised gains or losses charged to the profit and loss;
- Loans and receivables, measured at amortised cost; and
- Available for sale instruments, measured at fair value with unrealised gains or losses taken to equity.

The consolidated entity's financial assets comprise available for sale financial instruments. Under AASB139: Financial Instruments: Recognition and Measurement, the measurement of available for sale instruments at fair value differs to current accounting policy which measures non-current investments at cost with an annual review by directors to ensure the carrying amounts are not in excess of the recoverable value of the instrument. The impact of the change is likely to increase the value of non-current other financial assets in relation to available for sale instruments.

AASB1 provides an election whereby the requirements of AASB139 dealing with financial instruments are not required to be applied to the first AIFRS comparative year and the first time adoption of this standard will apply from 1 July 2005. The consolidated entity has decided that it will adopt this election and will not restate comparative information for the 30 June 2005 financial year.

**b) Derivative Financial Instruments**

The Company does not currently recognise derivative financial instruments in the financial statements. AASB139: Financial Instruments: Recognition and Measurement requires a change to the method of accounting for derivative financial instruments and hedging activities so that they are recorded in the financial statements. AASB 1 provides an election whereby the requirements of AASB 139 dealing with financial instruments are not required to be applied to the first AIFRS comparative year and the first time adoption of this standard will apply from 1 July 2005. The consolidated entity has decided that it will adopt this election and will not restate comparative information for the 30 June 2005 financial year.

**c) Impairment of Assets**

Under AASB136: Impairment of Assets, the recoverable amount of an asset is determined as the higher of the fair value less costs to sell, and value in use. In determining value in use, projected future cash flows are discounted using a risk adjusted pre-tax discount rate and impairment is assessed for relevant assets. The Company's existing approach to impairment is consistent with the requirements of AASB 136. As a result the introduction of this standard will have no impact on the Company's financial statements.

**d) Income Tax**

Currently the consolidated entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Under AASB 112: Income Taxes, the entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between income and accounting profit.

There will be a change to accounting policy whereby deferred tax balances are determined using the balance sheet approach which results in an adjustment for the tax effect of capital raising costs taken direct to equity which will be made to the Company's financial statements as at 30 June 2005.

There will also be an adjustment to both the Future Income Tax Benefit and the Deferred Income Tax Liability as a result of the adjustments to both Restoration Liabilities and Exploration and Evaluation Expenditure.

**e) Restoration Liabilities**

In accordance with AASB 137: Provisions, Contingent Liabilities and Contingent Assets, restoration liabilities will be discounted to present value and capitalised as a component part of capitalised development expenditure and property, plant and equipment as applicable. The capitalised costs are amortised over the life of the assets and the provision is allocated periodically to the profit and loss as the discounting of the liability unwinds. The increase in the provision is treated as borrowing costs.

If the policy required by AASB 137 had been applied during the year ended 30 June 2005, the impact as at 1 July 2004 would have been an increase in development and property, plant and equipment by $2,000,000 and a corresponding increase in the restoration liability.

**f) Exploration and Evaluation**

AASB 6 was issued in December 2004 to facilitate the introduction of Australian equivalents to IFRS in respect of the treatment of exploration and evaluation expenditure. There is still no comprehensive international standard covering the extractive industries and AASB 6 provides no real guidance other than allowing entities to "grandfather" previous accounting policies adopted for the extractive industries. The new AASB 6 retains the Area of Interest approach as contained in AASB 1022.

In light of these changes, the Board initiated a review of the Company's accounting policy for exploration and evaluation expenditure.

Following this review, the Board has elected to adopt the following key policies keeping strictly in line with AASB6:

- The consolidated entity will continue to use the Area of Interest Method to define its exploration and evaluation expenditure; further defining areas of interest to sedimentary basins, with a basin defined as a depression in the crust of the Earth in which sediments accumulate. Sedimentary basins vary from bowl-shaped to elongated troughs;
- Only expenditures which fall within the definition of exploration and evaluation activities will be allowed to be capitalised;
- Initial recognition will only be permitted on the basis of historical cost;
- Costs will include appropriate direct and indirect costs;
- All exploration and evaluation expenditure will be capitalised until a "trigger event" occurs that will enact impairment testing. A trigger event could arise from a significant change in the forward looking assessment of geo-technical and/or commercial risk. This could involve a series of dry holes, the relinquishment of an area, a significant farm-out of an area or any similar type event. Once impairment-testing events arise the company will complete a full assessment of the recoverable value of the area of interest, which may result in a write-down of the carry value of the area of interest.

In the transition to AASB 6 during the financial year, the Company has completed Impairment Testing on all of its exploration and evaluation expenditure that is currently carried in the statement of financial position which has resulted in a write-down of $10,037,000 of which $6,630,000 is to be applied to retained earnings and $3,407,000 is to be applied to the profit ending 30 June 2005. A relevant reduction in the deferred tax liability for this write-down has also been made of $3,011,000.

# DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Beach Petroleum Limited, I state that:

In the opinion of the directors:

a) the financial statements and notes and additional disclosures included in the Directors' Report, as audited, of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, and:

   i) give a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and

   ii) comply with Accounting Standards and Corporations Regulations 2001; and

b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The directors have been given the declarations by the Managing Director and the Chief Financial Officer required by section 295A of the Corporations Act 2001.

On behalf of the Board,

**R M Kennedy**
*Director*

Adelaide, 13 September 2005

# INDEPENDENT AUDIT REPORT

Grant Thornton
Chartered Accountants and Business Advisers

Grant Thornton

**INDEPENDENT AUDIT REPORT**
**TO MEMBERS OF BEACH PETROLEUM LIMITED**

**Scope**

***The financial report and directors' responsibility***

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, the disclosures made by the Company in accordance with the Corporations Regulations 2001 as required by AASB 1046 "Directors and Executive Disclosures by Disclosing Entities" in the "Remuneration Report" in the Directors Report designated as "Audited" and the directors' declaration for Beach Petroleum Limited (the company) and consolidated entities, for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

***Audit approach***

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

### *Independence*

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

### *Audit opinion*

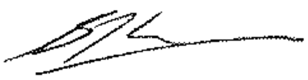
In our opinion, the financial report of Beach Petroleum Limited, including the remuneration disclosures included in the Directors' Report and designated audited, are in accordance with:

a) the Corporations Act 2001, including:

   i) giving a true and fair view of the Beach Petroleum's Consolidated entity's financial position as at 30 June 2005, and of its performance for the year ended on that date; and
   ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b) other mandatory financial reporting requirements in Australia.

**Grant Thornton**
**Chartered Accountants**



**S J Gray**
*Partner*

Signed at Adelaide this 13th day of September 2005

Chartered Accountants
Business Advisers and Consultants

Level 1, 67 Greenhill Road
Wayville SA 5034
GPO Box 1270
Adelaide SA 5001
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A South Australian Partnership

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The Australian Member of Grant Thornton International

# SHAREHOLDERS' INFORMATION

**Beach Petroleum Limited**

Share and option details – Distribution as at 19 September 2005

| | Number of shareholders Fully paid ordinary shares | Number of optionholders Expiring 30 June 2006 |
|---|---|---|
| 1 – 1,000 | 1,862 | 4,768 |
| 1,001 – 5,000 | 5,679 | 4,987 |
| 5,001 – 10,000 | 3,114 | 1,416 |
| 10,001 and over | 5,388 | 1,166 |
| | 16,043 | 12,337 |

Shareholders with non-marketable parcels 1,080

**Voting rights – Fully paid ordinary shares:**

On a show of hands, every person qualified to vote, whether as a member or proxy or attorney or representative, shall have one vote. Upon a poll, every member shall have one vote for each share held.

**TWENTY LARGEST SHAREHOLDERS** as at 19 September 2005

| | | Fully paid ordinary shares Units | % |
|---|---|---|---|
| 1 | ANZ Nominees Limited | 70,643,728 | 15.57 |
| 2 | J P Morgan Nominees Australia Limited | 30,704,640 | 6.77 |
| 3 | National Nominees Limited | 21,148,215 | 4.66 |
| 4 | RBC Global Services Australia Nominees Pty Ltd | 15,863,408 | 3.50 |
| 5 | Westpac Custodian Nominees Limited | 12,978,290 | 2.86 |
| 6 | Invia Custodian Pty Limited | 10,905,757 | 2.40 |
| 7 | Citicorp Nominees Pty Limited | 7,340,720 | 1.62 |
| 8 | Equity Trustees Limited SGH PI Smaller Co's Fund | 3,906,250 | 0.86 |
| 9 | Zero Nominees Pty Ltd | 2,664,270 | 0.59 |
| 10 | Australia Executor Trustees Limited | 2,462,533 | 0.54 |
| 11 | Queensland Investment Corporation | 2,349,494 | 0.52 |
| 12 | UBS Nominees Pty Ltd Prime Booking A/C | 1,925,735 | 0.42 |
| 13 | Bond Street Custodian Limited | 1,845,624 | 0.41 |
| 14 | Cogent Nominees Pty Limited | 1,558,058 | 0.34 |
| 15 | Mr Reginald George Nelson | 1,555,371 | 0.34 |
| 16 | Bapal No. 17 Pty Ltd | 1,328,550 | 0.29 |
| 17 | Health Super Pty Ltd | 1,303,942 | 0.29 |
| 18 | Pinehurst Nominees Pty Ltd | 1,281,820 | 0.28 |
| 19 | Carnethy Investments Pty Ltd | 1,250,000 | 0.28 |
| 20 | CSFB Fourth Nominees Pty Ltd Unpaid A/C | 1,207,935 | 0.27 |
| | | 194,224,340 | 42.81 |

**TWENTY LARGEST OPTION HOLDERS** as at 19 September 2005

| | | Options expiring 30 June 2006 Units | % |
|---|---|---|---|
| 1 | ANZ Nominees Limited | 3,234,909 | 4.18 |
| 2 | National Nominees Limited | 2,407,627 | 3.11 |
| 3 | Invia Custodian Pty Limited | 1,307,485 | 1.69 |
| 4 | Mr Phillip Geoffrey Davies | 765,744 | 0.99 |
| 5 | Citicorp Nominees Pty Limited | 722,665 | 0.93 |
| 6 | Mr Stig Hakan Hellsing | 560,000 | 0.72 |
| 7 | Davies Asset Management Pty Ltd | 549,897 | 0.71 |
| 8 | Fook Lok Sau Pty Ltd Yuen Family A/C | 500,000 | 0.65 |
| 9 | Mr Brian Leonard | 476,739 | 0.62 |
| 10 | Rypowl Pty Ltd | 471,896 | 0.61 |
| 11 | Mr Graham Robinson | 460,000 | 0.59 |
| 12 | Parken Parken Superfund A/C | 442,500 | 0.57 |
| 13 | RBC Global Services Australia Nominees Pty Ltd | 437,002 | 0.56 |
| 14 | JP Morgan Nominees Australia Limited | 409,427 | 0.53 |
| 15 | Mr Brian Elliott, Mrs Linda Elliott, BW Elliott Family S/F | 400,000 | 0.52 |
| 16 | Tie Fabrications Pty Ltd Tie Fabrications S/F A/C | 400,000 | 0.52 |
| 17 | Mr Reginald George Nelson | 386,813 | 0.50 |
| 18 | Roebuck the Roebuck Family A/C | 377,500 | 0.49 |
| 19 | Icon Holdings Pty Ltd – the KJ Paganin Family A/C | 375,000 | 0.48 |
| 20 | Mrs Jeong Hee Davies | 370,000 | 0.48 |
| | | 15,055,204 | 19.45 |

# 5 YEAR FINANCIAL SUMMARY

**Beach Petroleum Limited**

| Year ended | 30 June 05<br>$000 | 30 June 04<br>$000 | 30 June 03<br>$000 | 30 June 02<br>$000 | 30 June 01<br>$000 |
|---|---|---|---|---|---|
| **Operating revenue** | | | | | |
| Income from oil and gas production | **61,234** | 38,527 | 35,512 | 14,373 | 9,599 |
| Other revenue (excluding extraordinary items) | **2,527** | 2,734 | 657 | 971 | 678 |
| **Total revenue** | **63,761** | 41,261 | 36,169 | 15,344 | 10,277 |
| Consolidated profit/(loss) from ordinary activities before income tax and extraordinary items | **28,436** | 13,318 | 11,212 | 4,210 | 532 |
| **Less income tax (expense)/benefit** | | | | | |
| Current | **(953)** | - | - | - | - |
| Deferred | **(7,574)** | (3,749) | (3,317) | (1,347) | 3,082 |
| **Consolidated profit from ordinary activities after tax** | **19,909** | 9,569 | 7,895 | 2,863 | 3,614 |
| Extraordinary items (net of tax) | **-** | - | - | - | (798) |
| Net loss attributable to outside equity interest | **452** | 351 | 55 | - | - |
| **Consolidated net profit/ (loss)** | **20,361** | 9,920 | 7,950 | 2,863 | 2,816 |
| **Dividend per share (paid or payable)** | **1.5 cents** | 1.0 cent | 1.5 cents | 0.5 cents | - |

PHOTOGRAPHY: NEIL DUNCAN PHOTOGRAPHY – SYDNEY

# CORPORATE DIRECTORY

**Beach Petroleum Limited**
ACN 007 617 969
ABN 20 007 617 969

**Website**
www.beachpetroleum.com.au

**Chairman**

**Robert Michael Kennedy**
*ASAIT, Grad Dip (Systems Analysis), FCA, ACIS, Fellow AIM, FAICD*
Non-Executive

**Directors**

**Reginald George Nelson**
*B Science (Mathematics), FAusIMM, FAICD*
Managing Director

**John Charles Butler**
*FCPA, FAICD, FIFS*
Non-Executive

**Michael Francis Frost**
*BSc (Hons), FAICD*
Non-Executive

**Franco Giacomo Moretti**
*BE (Hons), FIEAust, CPEng*
Non-Executive

**Hector Mackenzie Gordon**
*BSc (Hons), FAICD*
Chief Operating Officer

**Company Secretaries**

**Kathryn Anne Presser**
*BA(Acc), Grad Dip CSP, CPA, FAICD, ACIS*
Chief Financial Officer and
Joint Company Secretary

**Catherine Louise Oster**
*BA (Jurisprudence), LLB, LLM (Corporate & Commercial)*
Legal & Corporate Counsel and
Joint Company Secretary

**Registered Office**
Level 1, 25 Conyngham Street
GLENSIDE SA 5065
Telephone: (08) 8338 2833
Facsimile: (08) 8338 2336
Email: info@beachpetroleum.com.au

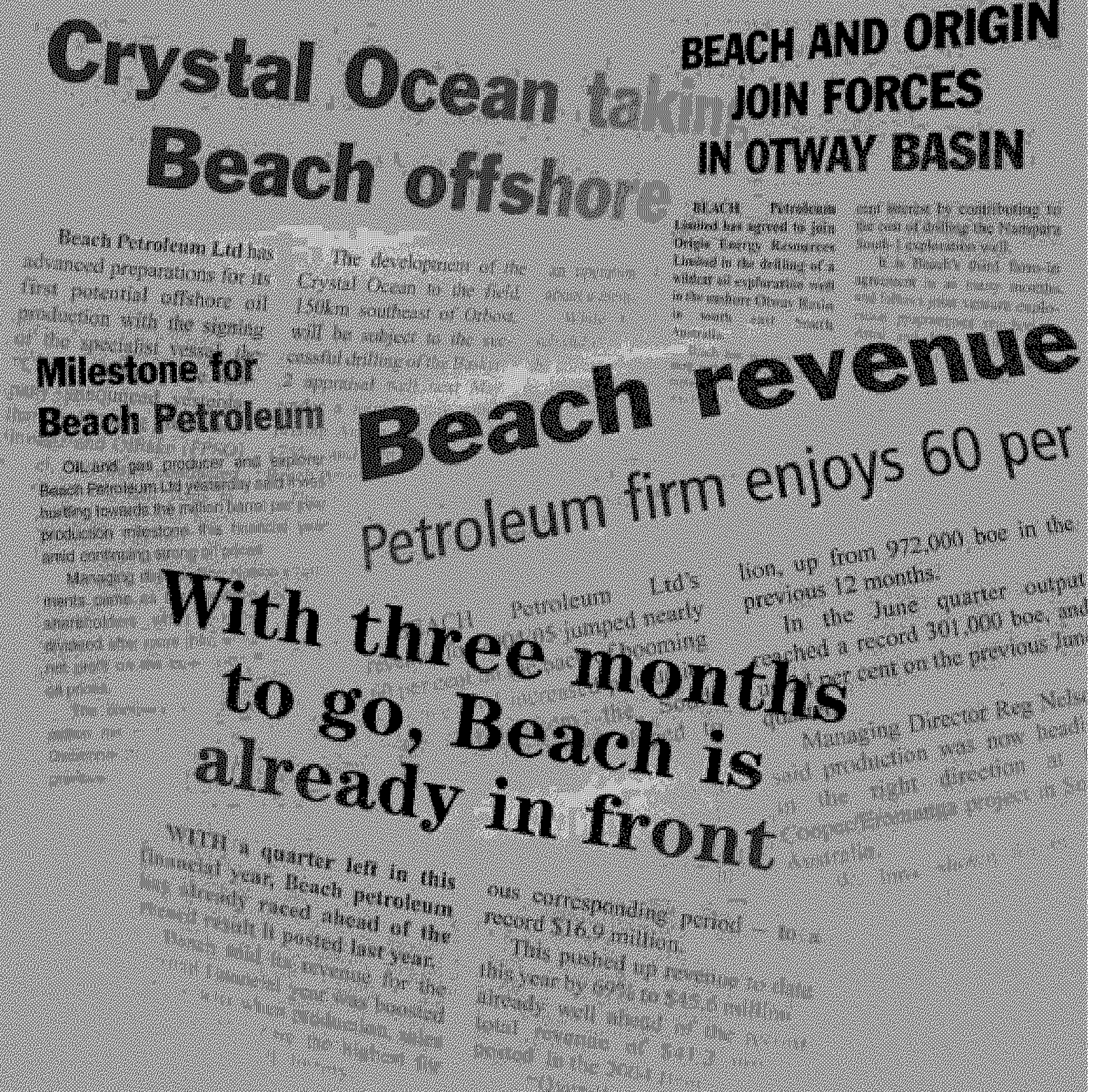
**Share Registry – South Australia**
Computershare Investor Services Pty Ltd
Level 5, 115 Grenfell Street
ADELAIDE SA 5000
Telephone: (08) 8236 2300
Facsimile: (08) 8236 2305

**Auditors**
Grant Thornton
67 Greenhill Road
WAYVILLE SA 5034

**Stock Exchange Listing**
Beach Petroleum Limited shares and options are listed on the
AUSTRALIAN STOCK EXCHANGE LIMITED
(ASX Code: Shares: BPT)
(ASX Code: Bonus Options: BPTO)
91 King William Street
ADELAIDE SA 5000

**BEACH PETROLEUM LIMITED**
ACN 007 617 969
ABN 20 007 617 969

**Website**
www.beachpetroleum.com.au




**. . . we have established the foundations for the step-change this year to our first offshore oil production, a move potentially tripling annual production by 2007, while . . .**


. . . delivering the right diversity, balance and in-house expertise to add value as we move into the ranks of Australia's more senior petroleum operators . . .

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