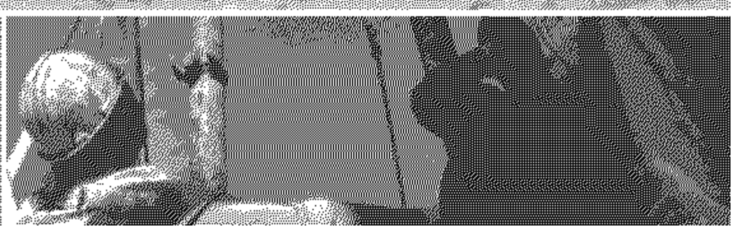
BEACH PETROLEUM

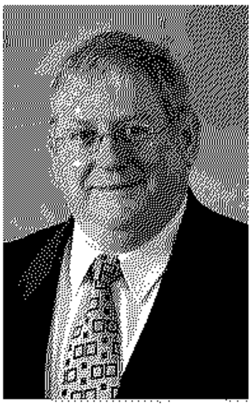
HALF YEARLY UPDATE TO SHAREHOLDERS MARCH 2007

www.beachpetroleum.com.au



Chairman's letter

for the Half-Year Ended 31 December 2006



Bob Kennedy - Chairman

"I am confident that throughout 2007 the market will understand and value more and more Beach Petroleum's strong reserves base; its diversified range of assets; its position as a supplier of oil, gas, LPG and other products."

Among Australian-listed oil and gas companies, Beach Petroleum now ranks among the top five (as of 1 July 2006) in terms of its Proved and Probable reserves base of 101 million of barrels of oil equivalent (mmboe). Upon commitment to a sales contract and development of the BMG gas project, this reserves base will increase substantially, placing the Company in fourth place after Woodside Petroleum, Santos and Origin Energy.

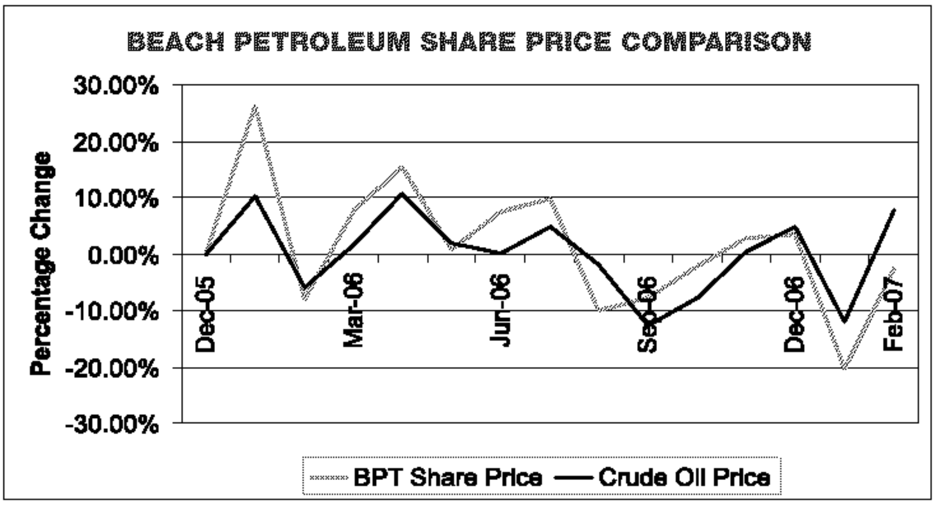
The reserves base itself is comprised of a healthy mix of oil, gas-liquids and gas, yielding production for Australian domestic and international markets from both onshore and offshore facilities. We expect that it will support robust revenues and further growth over the coming decade as Beach Petroleum moves towards record production in excess of 10 mmboe per annum.

In accordance with that expectation, I am pleased to advise that an interim dividend payment of 0.75 cents per share will be paid on the basis of the first half-year financial results for 2006-07 - the Company's eleventh successive dividend since 2002.

Much was achieved during the half year and we expect that the rewards of very strenuous efforts will be recognized over coming years as the Company consolidates its position:

- Our market cap has broken through the $1 billion barrier;
- Record first half revenue of $214 million, that is almost 5 times the revenue of the previous corresponding half year;
- We had a 100% success rate from drilling on the Cooper Oil project and a new oil field discovery has been made with Pasticcio-1;
- Production levels of 4,696 kboe.

If we contemplate the outlook for Beach Petroleum for the next decade it is worth considering some important new factors. Australia's oil and gas industry may now comprehend some greatly changed forces, with the abandonment of the PNG gas pipeline.



We believe that there are strong implications for increases in the domestic gas price with these new dynamics.

Beach Petroleum has established a strong position as a gas supplier for the eastern seaboard through its entry more than a year ago into the coal seam gas industry and its more recent acquisition of Delhi Petroleum. It is a reflection of strong and visionary management.

This is not to say that we have any lesser view of the oil potential of Beach Petroleum's numerous projects. World oil prices have retreated from the peaks of 2006, but our view is still that, in the longer term, prices will continue to firm. Higher oil prices over the last few years have certainly resulted in much higher levels of investment worldwide and increased supply, alleviating some of the tension between supply and demand that led to the rapid price rise.

By means of hedging the Company is guaranteed a minimum price of USD60 per barrel for much of its production over the next few years, while retaining the right to achieve higher prices if these are obtainable.

I noted above that Beach Petroleum has strong and visionary management. I believe that this has again been displayed by Beach Petroleum's re-entry into the geothermal industry. I say that, because I should remind shareholders that Beach Petroleum, together with CSIRO and other partners obtained one of the first geothermal licences to be issued in Australia. That licence was subsumed in Geodynamic's Cooper Basin project in South Australia and Beach Petroleum ultimately disposed of its shareholding in that company.

I am confident that throughout 2007 the market will understand and value more and more Beach Petroleum's strong reserves base; its diversified range of assets; its position as a supplier of oil, gas, LPG and other products from a wide geographical base and access to pipelines through Moomba and other entry points in the eastern seaboard pipeline network; its proven ability to enhance assets through visionary but conservative management; and its potential to grow through new discoveries and acquisitions.

Bob Kennedy

From the **Managing Director**

Reg Nelson - Managing Director

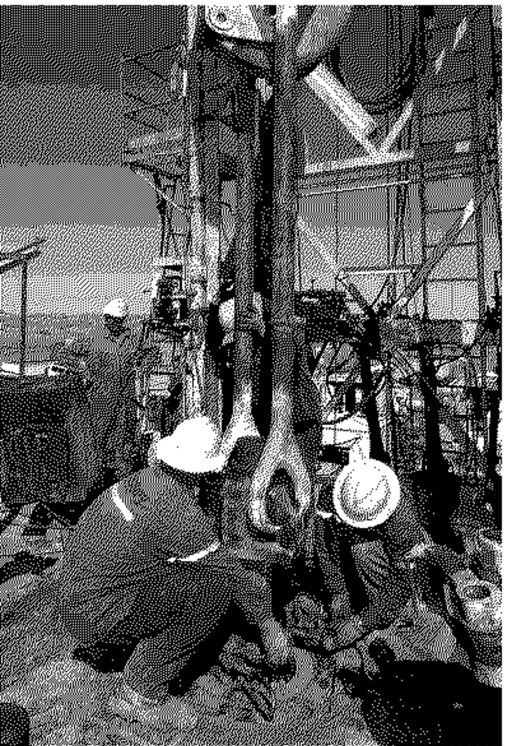
> *"We anticipate market confidence in the Cooper Oil Project will grow (and probably surprise on the upside) as results are converted in to production and reserves*
>
> Euroz Securities Ltd - March 2007

Operations Review

Production

The Company's oil and gas production is derived from the Cooper and Eromanga Basins of south-western Queensland and north-eastern South Australia and the Gippsland Basin, offshore Victoria.

Drilling in the Cooper Basin



Production for the half-year totalled 4,696 thousand barrels of oil equivalent (kboe) compared with 591 kboe for the previous corresponding period, the increase resulting from the incorporation of assets owned by Delhi Petroleum, which was acquired by the Company effective 1 July 2006.

Production comprised approximately 17% oil and 83% gas/gas liquids. Oil production was 91% from the Cooper/Eromanga and 9% from the Gippsland Basin. Gas production was entirely from the Cooper Basin.

Sales & Revenue

The Company's oil and gas sales for the half year totalled 5,386 kboe (including sale of third party oil and gas purchases) yielding revenue of $214.4 million. Oil sales revenue contributed approximately 40% of total revenue, with sale of Gas/Gas Liquids providing the balance.

Cooper & Eromanga Basins

During the period the Company participated in the drilling of 38 wells in the Cooper & Eromanga Basins. This includes the new wells acquired as a result of the Delhi Acquisition.

The key outcomes of the program were the discovery of 5 new oil fields and successful oil appraisal and development program in the Yanda Field (Beach Petroleum 20%), as part of the Cooper Oil Project.

The most significant discovery was the Callawonga Field in PEL 92 (Beach Petroleum 75%), which was discovered in July and has estimated recoverable reserves of 1.5 mmb. Production commenced in November and during December averaged approximately 1,375 bopd (gross).

During the period drilling associated with the Santos operated "Cooper Oil Project" commenced in tenements held by Beach Petroleum. Eleven wells were drilled, all of which were successful.

Outlook

Key activity in the forthcoming months will be further Cooper Oil Project drilling, particularly in the Naccowlah Block in Southwest Queensland (Beach Petroleum 38.5%). The initial program will consist of the drilling of 24 exploration/appraisal wells. The program commenced in March 2007.

During 2007 Beach Petroleum expects to participate in up to 130 wells associated with the Cooper Oil Project.

	Number of Wells	Number of Successes	Success Rate
Exploration	13	5	38%
Appraisal	14	10	71%
Development	11	11	100%
Total	**38**	**26**	**68%**

Gippsland Basin – BMG Project (Beach Petroleum 50%)

In August, significant increases to the oil reserves and the gas/condensate resource in the Basker, Manta and Gummy Fields were announced. Proved and Probable oil reserves increased by 33% to 39.2 mmb and a 'Best Estimate' Contingent Gas Resource of 379 PJ of gas and 19 mmb of oil and condensate identified. This equates to total reserves and resources of 118 mmboe, an increase of 240% above the previous estimate.

During the period the modifications to the Crystal Ocean FPSO and Basker Spirit FSO were completed and both vessels mobilised to the site for commissioning and production activities. Subsea equipment and flowline connections were also completed during the period.

Production of oil from the Basker and Manta fields commenced on the 17th of December. Commissioning difficulties restricted production rates to an average of 5,526 bopd until December 2006, with a total of 83 kbbls produced.

Subsequent to December 2006, the development was successfully commissioned. However some process control issues

Half-Yearly Production	Area	July-Dec 2005	July-Dec 2006	% Change
Oil (kbbl)	Cooper & Eromanga Basins	506	817	61%
	Gippsland Basin	85	41	-52%
	Total Oil	**591**	**858**	**45%**
Sales Gas & Ethane (PJ)	Cooper Basin	-	19	-
LPG (ktonne)	Cooper Basin	-	34	-
Condensate (kbbl)	Cooper Basin	-	280	-
	Total Gas & Gas Liquids	-	**3,838**	-
TOTAL OIL & GAS (kboe)		**591**	**4,696**	**695%**

continued to restrict production during January, with January production totalling 302 kbbls (equivalent to an average rate of 9,750 bopd).

Two cargos totalling approximately 382 kbbls of crude were delivered to Shell's Melbourne refinery in January and February.

Outlook

Beach Petroleum expects that oil production will average in the range 15,000-20,000 bopd once process control modifications, which are primarily associated with the gas compression system, are implemented. This rate is within the range of pre-production expectations, albeit it at the lower end primarily due to higher than expected gas production. (The observed Gas Oil Ratio of approximately 2,000 cubic feet/bbl is above that expected from the interpreted solution gas content of 1,200 cubic feet/bbl).

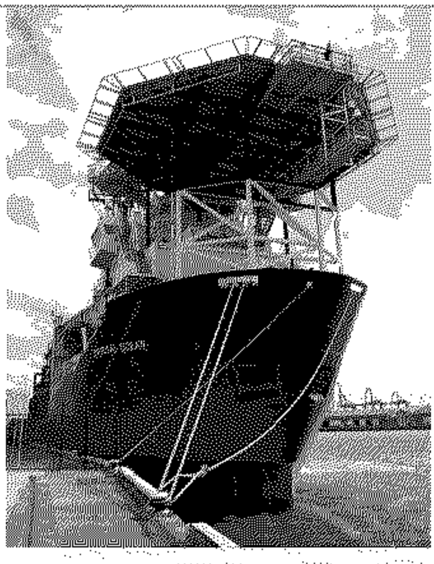
This year's increase in the reserve and gas resource base have led to the commencement of planning for a development and appraisal program to address the increased oil reserves and the substantial undeveloped gas/condensate resource. This program is expected to add significant value to the project.

Therefore, the reserves base and the medium to long term outlook and life for the project remain robust.

The oil development program will involve the drilling, completion and tie-in of up to 3 wells at a cost of approximately $300 million, with the amount dependent upon the extent of the drilling program, which is in turn dependent upon production performance over the next 12-18 months. Drilling is currently expected to be undertaken in late 2007 and/or 2008.

The gas appraisal/development program is expected to involve the drilling of wells in the Manta and Gummy Fields, their completion and connection to the FPSO and the construction of a gas pipeline to shore. This project, at an estimated cost of approximately $500 million (Beach Petroleum's share $250 million), would not only allow the commercialisation of the now substantially increased gas/condensate resource but would also allow oil production at greater off-take rates than are possible with the current facilities.

The gas project is also likely to involve the replacement of the Crystal Ocean FPSO and the Basker Spirit shuttle tanker with a single, larger FPSO capable of processing gas to sales gas quality and allowing



Crystal Ocean FSPO

higher oil production rates. This would also reduce long term operating costs, in light of the likely increase in project life beyond 10 years which would arise from the gas project.

Negotiation of a conditional Gas Sales Agreement ("GSA") was completed in March 2007. Front End Engineering and Design (FEED) for the gas processing facilities has commenced and, subject to the GSA becoming unconditional, is expected to lead to project approval in the second quarter of 2007. This would allow drilling to be undertaken in late 2007 and/or 2008 and commencement of gas sales in mid 2009.

High Reward Exploration

Surat Basin

Champagne Creek-2A was drilled, cased and suspended to allow later testing of potentially commercial gas zones encountered while drilling. (Beach Petroleum has the option to earn a 50% interest in ATP 768P). A testing program to determine commerciality of the well is likely to be undertaken in the first half of 2007.

Otway Basin – onshore Victoria

Glenaire-1 (PEP 160, Beach Petroleum 50%), was drilled to a depth of 3702m and was cased for further evaluation of oil and gas shows. The well was subsequently completed as a freeflow producer with a small volume of oil recovered following the completion. A testing program to determine commerciality of the well will be undertaken in the first quarter of 2007.

Canterbury Basin – offshore New Zealand PEP 38259 (Beach 20%)

This exploration permit is located off the east coast of New Zealand's South Island, in the lightly explored offshore Canterbury Basin. A working petroleum system is already indicated in the basin by the Galleon-1 sub-commercial gas-condensate discovery in the south of the permit. The permit provides Beach with exposure to a high upside exploration project in a lightly explored basin and, in particular, to large gas-condenste prospects.

Beach has earned a 20% interest by contributing to the cost of drilling Cutter-1, which was drilled in October 2006. Although Cutter-1 was plugged and abandoned as a dry hole, the joint venture is encouraged by the oil and gas shows recorded in the well and by the excellent quality sandstones intersected in the Shag Point Formation.

The main focus of Beach's entry into the permit is a much larger prospect, Barque, located 35km to the SE of Cutter-1 (about 60km offshore) and in about 850 metres water depth. Barque is assessed by the Operator to have potential recoverable volumes of 5 to 6 trillion cubic feet of gas wih 500 million barrels of condensate. Drilling of this large structure is being considered for 2008, subject to the availability of a deep-water rig.

"Beach Petroleum is entering a strong growth phase. It is set to benefit from the Delhi acquisition, and first production from Basker Manta and Tipton West."

ABN AMRO - 29 January 2007

Outlook

Key exploration activity during the first half of 2007 is expected to include:

Testing of Champagne Creek-2A and Glenaire-1 to establish whether commercial hydrocarbons are present in either well.

Drilling of Hurricane-2 (Carnarvon Basin, WA-208-P, Beach Petroleum 10%).

Two exploration wells in ATP 633P (Eromanga Basin, Beach Petroleum 85%).

Acquisition of 3D Seismic in Vic/P46 (Otway Basin, Beach Petroleum 50%).

Reg Nelson

Tipton West Rig and Pipes

Tipton West Project

(Beach Petroleum 40%)

Development drilling in the Tipton West Coal Seam Gas Field continued during the period and was completed in January, with a total of 82 wells drilled. Dewatering and gas production commenced, with the gas rate rising above 3.5 mmcfd in December.

Exploration drilling in the vicinity of the Tipton West field provided encouragement that the productive area is likely to be extended. During the period Beach Petroleum exercised its option to increase its involvement in the project by earning a 40% equity in the Dalby South Block of ATP 683P.

Outlook

Commissioning of the Tipton West facilities and first gas sales, at approximately 2.5 TJ/day, commenced in February. Following the completion of commissioning, sales are expected to progressively increase towards the target rate of 30 TJ/day.

A pilot project to assess the production capacity of the Taroom Coal Measures in the Tipton West Field is likely to commence in the first half of 2007. These coal measures underlie the existing gas productive units in the field and are considered to have the potential to yield similar reserves.

An exploration program comprising 6 coreholes in the Dalby South Block commenced in February.

Paralana Energy Joint Venture

Beach Petroleum Farm-In to form the Paralana Energy Joint Venture

The Paralana "hot-rock" project, located 11 kilometres from the Beverley Uranium Mine in South Australia, is to be jointly developed by Petratherm and Beach Petroleum under a Farm-In that will establish the Paralana Energy Joint Venture.

The terms of the Farm-In are:

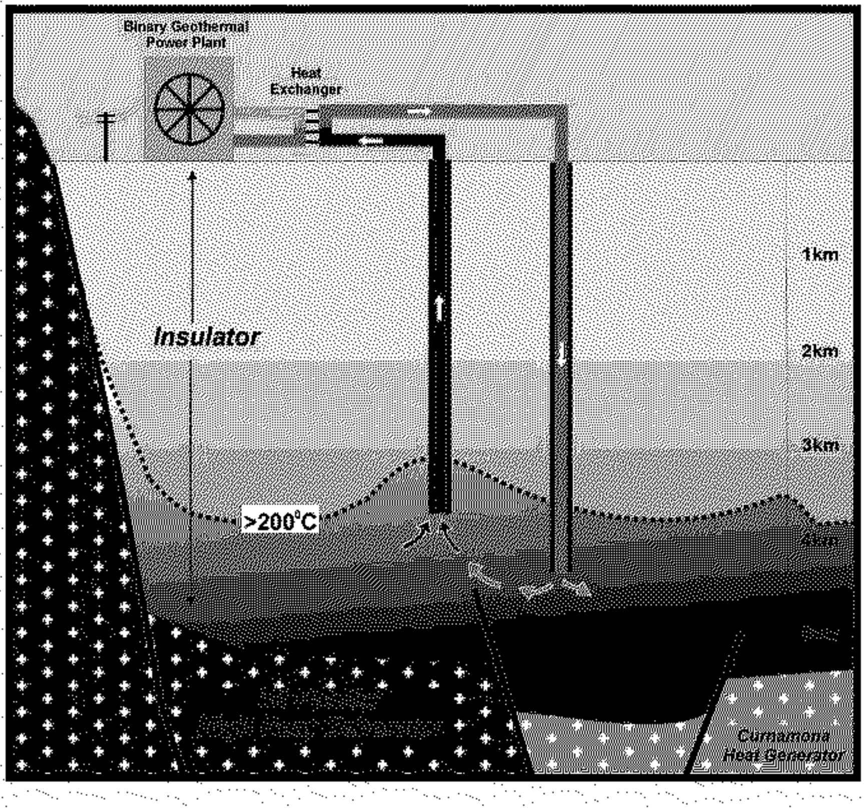
- **Beach Petroleum may earn a 21% equity for a contribution of $10,000,000 by**
  - › **contributing the initial $5,000,000 in drilling and stimulating the first well, and;**
  - › **contributing the initial $5,000,000 in drilling and stimulating the second well and circulation tests between the wells;**
- **Beach Petroleum may withdraw without equity after the completion of the first well;**
- **Beach Petroleum may earn an additional 15% equity by contributing a further $20,000,000 following completion of drilling and stimulation of the second well and circulation tests between the wells.**

In addition, the two companies are investigating the possibility of extending their relationship to other hot-rock, geothermal projects in Australia.

The initial drilling and stimulation of the two wells will create an underground heat exchanger involving circulation of water between the wells through rock fractures – to demonstrate a commercial "hot rock" energy resource.

Beach Petroleum brings to the Paralana Project a wealth of experience and expertise in drilling operations and fracture stimulation. This will be invaluable to the success of the next stage of work on the Paralana Project and is consistent with Petratherm's continuous drive to reduce cost and risk wherever possible.

Petratherm's flagship Paralana Project aims to initially provide electricity to the local market – the growing needs of the Beverley Uranium Mine, from around 7.5 MW building to 30 MW – and then to expand to around 520 MW and supplying the National Electrcity Market, via two entry points, namely, Port Augusta and Olympic Dam.



The Heat Exchanger Within Insulator (HEWI) Model. The HEWI model aims to exploit potential higher flow rates within the overlying insulator rather than the granite below.

Financial Overview

Beach Petroleum reaped the full impact of the acquisition of Delhi Petroleum in the first half year to December 31 with revenue from oil and gas sales increasing almost five fold from $44 million to $214 million. Other revenue, including foreign exchange gains, increased total revenue to nearly $247 million.

"Beach Petroleum is now the fifth largest E&P in market capitilisation and still growing."

Net profit before tax for the interim reporting period was $32.26 million and the directors have announced that the Company will pay an unfranked interim dividend of 0.75 cents per share, payable on 31 March 2007.

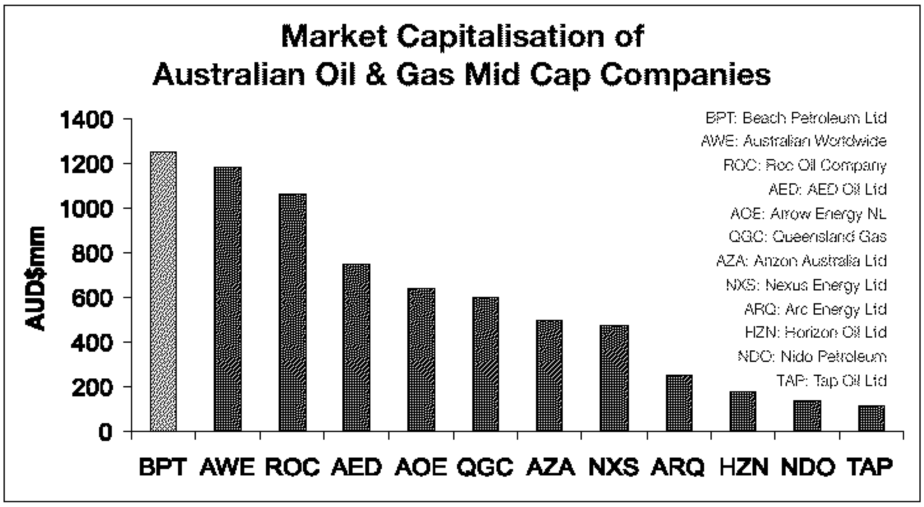
While the acquisition of Delhi Petroleum materially increased Beach Petroleum's sales revenue there were no sales from the Basker Manta Gummy project during the half year, due to project commissioning.

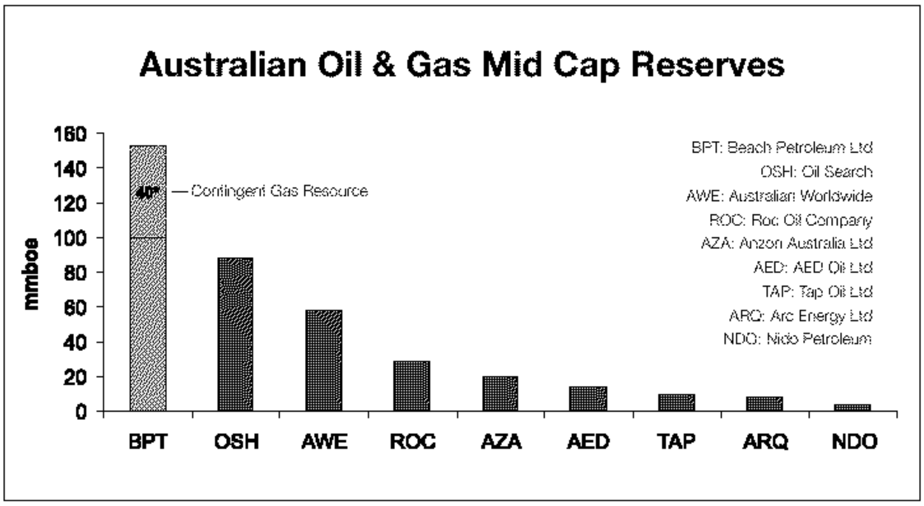
Beach Petroleum expects oil and gas revenue to increase significantly in the current half year as a result of oil sales from the BMG project which began in January.

As anticipated, financial accounting for primarily one-off acquisition and financing costs associated with the Delhi acquisition have affected net profit for the half year. However, after adjusting for these one-off effects, the net profit before tax of $32.26 million compares favourably with the $41.17 million earned in the first half of 2005, which was inflated by a one-off gain of $24 million on the sale of shares in Anzon Australia Ltd.

Beach Petroleum Managing Director, Reg Nelson, said, "With new oil sales from the BMG project, five new oil field discoveries in the Cooper Basin and gas sales commencing from Tipton West, we expect that oil and gas revenue will build significantly throughout the remainder of the financial year and in subsequent years."

	Six months ended 31 December 2006	Six months ended 31 December 2005	% INCREASE / (DECREASE)
Profit and Loss ('000)			
Product sales revenue	214,400	44,089	386%
Other revenue	32,557	26,276	24%
Cost of sales	(111,690)	(13,336)	738%
Profit before tax	32,261	41,171	(22%)
NPAT and OEI	20,344	31,267	(35%)
Dividend paid - cents	1.00	0.50	100%
Dividend declared - cents	0.75	0.50	50%
Balance Sheet ($'000)	**December 2006**	June 2006	
Total assets	1,259,620	384,995	227%
Loans and other borrowings	238,633	1,011	23,504%
Other Liabilities	272,850	100,949	170%
Total equity	748,137	283,035	164%





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