



Annual Report

on

PRL 13 (Killanoola)

Petroleum Retention Licence Year 3

31 January 2009 - 30 January 2010

(Licence Term: 31 January 2007 - 30 January 2012)

***Onshore Otway Basin
-South Australia-***

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1 Introduction

Petroleum Retention Licence (PRL) 13 is located in the onshore Otway Basin, South Australia. The Licence was granted to Beach Petroleum Ltd, Origin Energy Resources Ltd and Essential Petroleum Resources Ltd on 31 January, 2007 for a five year term, in order that the Joint Venture could evaluate the nature and extent of the Killanoola oil accumulation and establish the commercial feasibility of production from the accumulation.

Killanoola-1 was spudded on 19 April 1998. Twelve (12) barrels of gas-cut oil was recovered from a drillstem test of a 1.5 metre pay interval within the Sawpit Sandstone. The well was sidetracked in order to intersect the oil saturated interval in an updip position. Killanoola-1 DW-1 kicked off on 27 April 1998 and intersected the Sawpit Sandstone 23.5 metres shallower than at Killanoola-1. A drillstem test of the interval resulted in the recovery of 11 barrels of gas-cut 35 degree oil with no water, from an interpreted 6.5 metre net pay interval.

An extended production test was conducted in January - February 1999 in order to gain an assessment of reservoir drive and recoverable reserves. Approximately 1000 barrels of oil were produced during the test period with a stabilised off-take rate of 25-30 BOPD and a water cut of 10-15 percent. The EPT was terminated due to low oil price, high operating costs and wax problems at the surface.

This report details the work conducted during Licence Year 3 of the Licence (31 January 2009 – 30 January 2010), in accordance with Regulation 33 of the Petroleum and Geothermal Energy Act 2000.

2 Licence Summary

Petroleum Retention Licence (PRL) 13 was awarded on 31 January 2007 to:

- *Beach Petroleum Ltd (Operator).* 30%
- *Origin Energy Resources Ltd.* 50%
- *Essential Petroleum Resources Ltd.* 20%

A Notation of Change of Company Name from Beach Petroleum Limited to Beach Energy Limited was entered into the Public Register on 7 January 2010.

The original work commitments associated with the awarding of PRL 13 are shown in **Table 1**:

Table 1 Original work commitments by licence year

Licence Year	Licence Dates	Minimum Work Program
Year 1	<i>31 January 2007 – 30 January 2008</i>	<i>Engineering, Geological and Commercial Studies</i>
Year 2	<i>31 January 2008 – 30 January 2009</i>	<i>Engineering Studies</i>
Year 3	<i>31 January 2009 – 30 January 2010</i>	<i>Engineering Studies</i>
Year 4	<i>31 January 2010 – 30 January 2011</i>	<i>Engineering Studies</i>
Year 5	<i>31 January 2011 – 30 January 2012</i>	<i>Engineering Studies</i>

3 Regulated Activities

Pursuant to Regulation 33(2)(a) under the Act, an annual report must include:

“a summary of the regulated activities conducted under the licence during the [current reporting] year.”

Production and Processing

No production or processing activities were undertaken within PRL 13 during the Year 3 report period.

Even in the current oil price climate, the Killanoola accumulation continues to fall short of being commercially viable to produce on EPT. The key issues affecting the economics of the development and EPT are the low producing oil rate, no immediate source available to provide diluent for the high pour point crude (unable to transport or store) and the requirement to fully develop the site. There is no infrastructure, no water handling / disposal system, facility / tankage, earthworks or access road. Hence an EPT currently remains placed on hold.

4 Compliance Issues

Licence and Regulatory Compliance

Pursuant to Regulations 33(2) (b) & (c), an annual report must include:

“a report for the year on compliance with the Act, these regulations, the licence and any relevant statement of environmental objectives;” and

“a statement concerning any action to rectify non compliance with obligations imposed by the Act, these regulations or the licence, and to minimise the likelihood of recurrence of any such non-compliances.”

Beach Energy Ltd., as Operator of the PRL 13 area, complies with all relevant conditions under the Petroleum and Geothermal Energy Act 2000 and the Petroleum and Geothermal Energy Regulations 2000. Compliance is achieved by working under the Beach Production SEO November 2003. No drilling, seismic or production operations took place in PRL 13 during Licence Year 3. There were no instances of non-compliance with the Regulations in regard to these operations in PRL 13.

Drilling

No drilling took place in PRL 13 during Licence Year 3 and there were no instances of non-compliance with the Regulations in regard to Beach’s **drilling operations** in PRL 13.

Seismic

There were no seismic field operations and there was no reprocessing of existing seismic data during Licence Year 3. There were no instances of non-compliance with the Regulations in regard to **seismic operations** in PRL 13 during Year 3 of the Licence.

Production

No production operations were undertaken within PRL 13 during Licence Year 3. There were no instances of non-compliance with the Regulations in regard to **production operations** in PRL 13 during Year 3 of the Licence.

Management System Audits

Pursuant to Regulation 33(2) (d) under the Act, an annual report must include:

“a summary of any management system audits undertaken during the relevant licence year including information on any failure or deficiency identified by the audit and any corrective actions that has, or will be taken”.

No management system audits specific to PRL 13 (Killanoola) were conducted during the Year 3 Licence reporting period. Only minimal operational activity took place in the Licence during the Report Year.

An audit of Beach's South Australian Operations was conducted from the 15 – 19 June 2009. The audit, conducted in order to assess the level of compliance with the Management System by Beach's South Australian Operations, was attended by PIRSA, at the request of Beach.

The secondary purpose of the audit was to meet Beach's obligation as part of the Fitness for Purpose review submitted to PIRSA. The audit was conducted in accordance with the requirements detailed in the Beach Management System, Management Audits Procedure HSE PRO 10 Rev 1.

The audit is to be followed up in early 2010 by a full systems audit.

Report and Data Submissions

Pursuant to Regulation 33(2) (e) under the Act, an annual report must include:

“a list of all reports and data relevant to the operation of the Act generated by the licensee during the licence year”.

The Annual Report for PRL 13 for Year 2 of the five year term was submitted to PIRSA on 19 March, 2009. The Report was resubmitted with amendments requested by PIRSA on 27 May, 2009. No other reports or data pertaining to PRL 13 were submitted during Licence Year 3.

Table 2 List of report and data submissions during Licence Year 3

Description of Report / Data	Date Due	Date Submitted	Compliant / Non-Compliant
Annual Production Report PRL 13 for Licence Year 2	31-03-09	19 -03-09	Compliant
Annual Production Report PRL 13 for Licence Year 2 (resubmission)		27-05-09	

Incidents

Pursuant to Regulation 33(2) (f), an annual report must include:

“in relation to any incidents reported to the Minister under the Act and these Regulations during the relevant licence year –

- (i) an overall assessment and analysis of the incidents, including the identification and analysis of any trends that have emerged; and*
- (ii) an overall assessment of the effectiveness of any action taken to rectify non-compliance with obligations imposed by the Act, these regulations or the licence, or to minimise the risk of recurrence of any such non-compliance”.*

No reportable incidents occurred during the Licence Year 3 period.

Threat Prevention

Pursuant to Regulation 33(2) (g) under the Act, an annual report must include:

“a report on any reasonably foreseeable threats (other than threats previously reported on) that reasonably presents, or may present, a hazard to facilities or activities under the licence, and a report on any corrective action that has, or will be taken”.

Beach Energy sees no perceived threats that may present a hazard to either facilities or activities under the PRL 13 Licence.

Future Work Program

Pursuant to Regulation 33(2) (h) under the Act, an annual report must include:

“unless the relevant licence year is the last year in which the licence is to remain in force – a statement outlining operations proposed for the ensuing year”.

Two lines of 2D seismic totalling 14 km. will be acquired by the Joint Venture during the early part of Licence Year 4, to better define the Killanoola structure.

Further work that will be undertaken for PRL 13 during Year 4 will remain minimal, commensurate with the current economic climate. The site will be visited and wellhead integrity checked during Year 4. When economics become viable, including sourcing of a suitable diluent (high pour point crude), a workover and EPT would be planned for Killanoola.

5 Expenditure Statement

Pursuant to Regulation 33 (3) under the Act, an Annual Report must contain:

“An annual report must be accompanied by a statement of expenditure on regulated activities conducted under the licence for the relevant licence year, showing expenditure under each of the following headings:

- a) drilling activities;*
- b) seismic activities;*
- c) technical evaluation and analysis;*
- d) other surveys;*
- e) facility construction and modification;*
- f) operating and administration expenses (not already covered under another heading)”.*

Please refer to **Appendix 1** (attached) for the expenditure statement for the current reporting period (31 January 2009 to 30 January 2010).