



## **ASX Announcement**

# **Record AWE full year profit**

**August 22, 2008**

### **Performance**

Australian Worldwide Exploration Limited (“AWE”) has earned a profit after tax of \$264 million for the financial year.

The profit result before tax was a record \$504 million and was derived from annual revenue of \$821 million generated from strong oil and gas production and unprecedented international crude oil prices.

The company substantially exceeded budgeted production rates generating 9.9 million barrels of oil equivalent (oil and gas combined) in the year largely due to better than expected production from the Tui oil field (AWE 42.5%).

AWE finished the 2007/08 financial year with a very strong balance sheet having repaid all corporate debt during the year, completing capital expenditure on all four cornerstone assets and carrying \$339 million in cash at June 30.

### **Outlook**

AWE is in a strong position to finance the next phase in the company’s growth.

This growth includes the development of the Henry gas field, expected to produce gas in the first half of 2009 and the likely development of the nearby Netherby gas discovery, both located in the offshore Otway basin.

Since the end of the financial year AWE has received all approvals necessary to complete a merger with ARC Energy Ltd (“ARC”) which will add substantially to AWE’s 2008/09 oil and gas production rates.

The completion of the merger with ARC will give AWE a greater share of revenues from the BassGas and Cliff Head projects and provide significant exposure to the onshore Perth basin.

**AWE's Managing Director, Bruce Wood said:**

“AWE has completed the 2007/08 financial year in excellent financial shape and with a number of growth opportunities still ahead.

The company will maintain our traditional focus on growth from exploration success but is also very well positioned to take advantage of any corporate opportunities which may arise.

AWE is keen to build on the success of the past financial year to continue to create value for shareholders.”

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# **Australian Worldwide Exploration Limited**

## **Commentary for the 12 months to June 30, 2008**

### **Highlights**

#### **Financial**

- Profit after tax reached a record level of \$264 million (representing earnings per share of 58.8 cents), up from just \$35 million previously. Pre-tax profit totalled \$504 million.
- Sales revenue jumped 476% to a record \$821 million in the financial year, as a result of strong production and record oil prices.
- Net field contribution (sales revenue less field production costs) also rose substantially, to \$739 million.
- AWE's balance sheet is strong with year end cash reserves totalling \$339 million and zero corporate debt after the completion of major capital spending on the company's four cornerstone assets.

#### **Production**

- Record production of 9.9 million barrels of oil equivalent ("BOE"), substantially higher than budget, was achieved, principally driven by the strong performance of the Tui oil project.
- Following the merger implementation, the ARC assets are expected to contribute significantly to AWE's production into the future.

#### **Development Activity**

- The Tui oil field (AWE 42.5% and operator) was bought on stream during the year and produced 14.2 million barrels (gross) to the joint venture.
- The Henry gas field (AWE 25%) was sanctioned for development during the year. The project is progressing on schedule and is expected to produce first gas in the first half of 2009.

#### **Exploration**

- Gas discoveries at Lengo in Indonesia and Netherby in the offshore Otway basin were made over the past 12 months.
- Substantial appraisal and exploration drilling is expected in the Bass and Taranaki basins in early 2009.

## 1. Summary Statistics

	Year to June	2008	2007	% Change
Gas production (PJ)		15.6	16.1	-3%
LPG production (tonnes)		13,197	11,582	+14%
Condensate production (bbls)		239,000	247,561	-3%
Oil production (bbls)		6,876,000	862,652	+697%
Total production ('000 BOE)		9,875	3,926	+152%
Sales revenue (\$'000)		821,230	142,690	+476%
Net field contribution (\$'000) *		738,749	113,594	+551%
Pre-tax Profit (\$'000)		503,971	35,533	+1,318%
Net profit after taxation (\$'000)		264,355	35,382	+647%

\* Sales revenue less Production costs.

## 2. Financial Performance

AWE's sales revenues increased significantly again during the financial year, following the commissioning and exceptional initial performance of the Tui oil fields in New Zealand. Revenue growth was also supported by continued strong performance from the Casino and Cliff Head projects, which achieved or exceeded budgeted production. Increasing international oil prices also contributed to the growth in revenues.

Net Field Contribution to profit rose by 551% to \$739 million for the year. This increase was driven by the sharp lift in oil production volumes and the stronger product prices.

A pre-tax profit of \$504 million was reported for the year, after the write-off of \$81 million in exploration, evaluation and development expenditures. After tax AWE reported a profit of \$264 million, a substantial lift on the 2007 results. This represents earnings per share of 58.8 cents.

Record production of 9.9 million barrels of oil equivalent was achieved during the year, following the successful commissioning of the Tui oil fields. The production rate represented a rise of 152% over the previous corresponding period. The Tui project produced 14.2 million barrels of oil (100% basis) during the first 11 months of production which was substantially in excess of joint venture expectations.

## 3. Financial Position

The strong revenue and cashflow has resulted in a substantial improvement of AWE's financial position. The increased cash flow allowed the company to repay the remaining tranches of the corporate debt facility in December 2007 and January 2008. At the end of the year, cash reserves had grown to \$339 million.

Development and exploration expenditure fell during the past year, following the completion of the development phases on the cornerstone projects. Exploration activity remained at a high level and is expected to continue at these levels in the foreseeable future. Capital spending on the Henry gas

project is expected to see development and exploration expenditure rise in the 2008-09 financial year.

AWE retains access to the unsecured corporate loan facility. This facility, with redraw limits of up to \$135 million, remains undrawn at the end of June, 2008.

#### **4. Progress on Cornerstone Assets**

In New Zealand, **the Tui Area oil project (PMP 38158, offshore Taranaki basin, New Zealand, AWE share 42.5%)** began commercial production on July 30, 2007. During the year, gross oil production reached 14.2 million barrels of oil, in excess of expectations. The expected project life was extended to the end of 2022 following the extension of the FPSO contract. Proved and probable oil reserves were increased to 50.1 million barrels of oil following the strong reserve performance and the term extension. If high oil prices remain and production performs in line with expectations it is possible that the Net Cash Interest referred to in Note 29(d) of the Annual Financial Report will become payable in the 2008-09 financial year in respect of AWE Taranaki Limited's 22.5% participating interest in the block.

The **BassGas project (T/L1, Bass basin, offshore southern Australia, AWE share 30%, following implementation of the merger with ARC, AWE's share of the BassGas project will rise from 30.0% to 42.5%)** continued commercial production during the year. Gross gas production of 18.4 Petajoules ("PJ") was achieved during the year, marginally below contract and budgeted rates. Associated liquid recoveries rates have improved during the year, with the onshore plant achieving design capacity, with full liquid recovery at the end of the financial year.

The **Casino gas project (VIC/L 24, Otway basin, offshore southern Australia, AWE share 25%)** managed strong gas production again this year and reached a milestone of 100 PJ of production during the June quarter. The project achieved gross gas sales of 40 PJ during the year, marginally above the long term contracted rate.

The **Cliff Head oil project (WA 31 L, Perth basin, offshore Western Australia, AWE share 27.5%, following implementation of the merger with ARC, AWE's share of the Cliff Head oil project will rise from 27.5% to 57.5%)** averaged 8,260 barrels of oil per day ("bopd") for the year, marginally down on the previous corresponding period. The fall was due to natural field decline which was partially offset by the pump replacement programme. Stronger oil prices improved the project return, despite the slight reduction in oil sales.

The **Henry gas project (VIC/P 44, Otway basin, offshore southern Australia, AWE share 25%)** was sanctioned for development during the year utilising some of the existing infrastructure in the region. The development has progressed, with engineering, fabrication and procurement operations progressing on schedule at year end. The Henry-2 development well is scheduled for completion in the September 2008 quarter. First gas production is currently planned from the Henry gas field in the first half of 2009.

#### **5. Merger with ARC Energy Limited ("ARC")**

AWE and ARC announced a merger on April 24, 2008. The merger will be undertaken as a Scheme of Arrangement ("Scheme") in ARC.

AWE will acquire ARC for a cash and scrip consideration, with existing ARC shareholders also receiving shares in Buru Energy Limited, an exploration entity with a focus on the Canning basin. Under the Scheme, ARC shareholders will receive \$0.19 cash, 0.3 new AWE shares and 0.425 new

Buru shares for each existing ARC share. ARC shareholders have elected to take up the maximum cash alternative capped at \$100 million in lieu of AWE shares.

The merger with ARC will increase AWE's interests in the BassGas and Cliff Head projects, where AWE is already a major participant and will expand the exploration and development options for the company. The transaction will also add immediately to the cash generation for the combined business.

The transaction was approved by ARC shareholders and the Federal Court in early August, implementation of the merger is proceeding and is expected to be completed on August 25, 2008.

## **6. Drilling Activity**

AWE completed a substantial exploration programme in the Taranaki basin of New Zealand in the period. The programme did not encounter any commercial oil accumulations, although two of the wells, Taranui-1 and Kopuwai-1 both intersected oil in tight reservoirs, thus proving oil generation and migration over a larger area of the basin.

In the East Java basin in Indonesia, AWE completed two wells in the prospective Bulu PSC, where encouragement was noted in both. Additional seismic has been acquired in the PSC to upgrade further drilling candidates.

In the Perth basin, an exploration and appraisal programme was undertaken with disappointing results.

### **2007-2008**

<b>Well Name</b>	<b>Location</b>	<b>AWE share</b>	<b>Comments</b>
Hector-1	Taranaki	44.3%	Plugged and abandoned
Taranui-1	Taranaki	42.5%	Plugged and abandoned with oil shows
West Cape-1	Taranaki	40.0%	Plugged and abandoned
Kopuwai-1	Taranaki	50.0%	Plugged and abandoned with oil shows
Lilac-1	Perth	27.5%	Plugged and abandoned
Lisah-1	East Java	42.5%	Plugged and abandoned with oil shows
Frankland-2	Perth	27.5%	Plugged and abandoned
Lengo-1	East Java	42.5%	Gas discovery
Dunsborough-2	Perth	27.5%	Plugged and abandoned with oil shows

Based on our current drilling schedule, the company expects to participate in the following wells during the 2009 financial year:

## 2008-2009

Well Name	Location	AWE share	Timing/Comments
Pecten East-1	Otway	25.0%	Plugged and abandoned with gas shows
Netherby-1	Otway	25.0%	Commercial gas discovery
Netherby-1 ST1	Otway	25.0%	Successful gas development well
Henry-2	Otway	25.0%	September quarter 2008
Rockhopper-1	Bass	30.0-42.5%*	March quarter 2009
Trefoil-2	Bass	30.0-42.5%*	June quarter 2009
NZ Drilling	Taranaki	40.0-50.0%	Drilling programme of up to 7 wells starting in March quarter 2009, but contingent on signing of suitable drilling rig contract.

- \* AWE's share in the Bass basin drilling programme will increase post the merger with ARC. These wells are approved by the T/18 P joint venture, but remain subject to the availability of a suitable drilling rig.

## 7. Corporate Outlook

The full year operational, production and financial results achieved by AWE reflect an outstanding performance by the company and all its people. The increase in revenue and cash flow will provide a substantial funding platform for the next phase of growth for the company.

Following the merger with ARC, oil and gas production from the increased equity in the BassGas and Cliff Head projects and the new core area in the onshore Perth basin, will partially offset the expected decline in Tui oil output.

The AWE Board continues to review its strong cash position. The first priority of cash management is to repay financial obligations. The second priority is to fund ongoing exploration and new growth opportunities. The overriding objective is to provide strong total shareholder returns. The payment of dividends is regularly reviewed by the Board which has determined that dividends would only be paid to shareholders if continual payment of a dividend could be reasonably sustained over a longer period in a tax effective manner.