

## ASX Announcement

27 August 2013



# AWE reports full year net profit of \$20 million

AWE Limited (ASX: AWE) today announced its full year results for the 12 months to 30 June 2013. Highlights include:

- **Statutory NPAT of \$20.0 million**
- **Underlying NPAT of \$17.1 million, up 15.5%**
- **Production of 5.0 million BOE, up 6%**
- **Sales revenue of \$301 million, up 1%**
- **EBITDAX of \$185 million, down 2%**
- **Net operating cash flow of \$118 million**
- **Net 2P Reserves more than doubled to 110 million BOE**

Statutory net profit after tax was \$20.0 million, up substantially over the previous year's net loss after tax of \$66.5 million which included \$81.3 million (after tax) of non-recurring items. Underlying profit after tax of \$17.1 million was up 15.5% over the previous year.

AWE's Managing Director, Mr Bruce Clement, said that this was a strong financial and operating result for the company, further enhanced by 2P Reserves more than doubling since December 2012 to 110 million BOE, representing more than 20 years of current production.

"The statutory net profit after tax of \$20 million, and the underlying profit of \$17.1 million, reflects a strong operating and financial performance for the 2012-13 financial year.

"Production increased by 6% and oil prices remained above \$100 per barrel, resulting in sales revenue of \$301 million that was slightly ahead of market guidance.

"The standout production asset was Sugarloaf, up 273% over the previous year and with 91 wells (gross) producing at the end of June, and it was particularly pleasing to have BassGas back online and producing near plant capacity after the successful Yolla-3 and Yolla-4 workovers.

"The BassGas Joint Venture has recently decided to proceed with Stage 2 of the MLE project which will see two development wells drilled in 2014, subject to FID.

"Significant progress was made on the development of the AAL project with regulatory approvals secured for the optimised plan of development and a 33% increase in estimated gross recoverable oil to 101 million barrels in the K-Sand reservoir.

"The addition of 35 million barrels of gross 2C Contingent Resources in the G-Sand reservoir will provide the basis for future growth opportunities," Clement said.

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He added, "Subsequent to year end, AWE announced the sale of a 50% interest in the Northwest Natuna PSC, which includes the AAL oil project, to a subsidiary of Santos Limited for USD188 million (approximately AUD209 million). The sale is subject to Indonesian regulatory approval of the transfer of a 50% interest in the PSC and operatorship from AWE to Santos.

"This successful transaction highlights AWE's ability to create significant value and underlines our strategic commitment to expansion in Asia. We look forward to working with Santos to fully develop this important asset and realise the significant additional potential already identified.

"The sale will also strengthen our balance sheet and, looking ahead, our capex requirements are well funded. We will continue to pursue conventional and unconventional oil and gas opportunities in Australia, New Zealand and Asia with a particular focus on appraisal and pre-development type assets where AWE possesses the core skills to add significant value."

## **Production and Financial Performance**

Total oil and gas production was 5.0 million BOE, an increase of 6% over the previous year and within market guidance, largely due to the BassGas project coming back online in October 2012 and increased production at Sugarloaf.

Sales revenue of \$301 million was up 1% due to sustained high oil prices and was slightly ahead of market guidance. The average realized oil price was 4% lower at \$107 per barrel.

EBITDAX was down slightly at \$185 million, primarily a result of marginally higher operating costs that reflected higher production volumes and increased workover and maintenance activity at BassGas and Casino.

Cash flow from operating activities was \$118.2 million, after payment of income tax and borrowing costs. Lower cash payments for exploration and evaluation were offset by higher tax payments in Australia and New Zealand.

Development expenditure was \$143 million, below original forecast, due to the deferral of the BassGas MLE Stage 1b construction works and a reduction in the number of wells drilled annually at Sugarloaf.

Exploration expenditure was \$34 million, also below original forecast, as a result of the deferral of some exploration drilling in the Perth Basin and Indonesia into 2014. Exploration expense was down 73% to \$9.7 million.

At 30 June 2013, AWE's balance sheet and financial position is strong with cash of \$41 million, drawn debt of \$78 million and undrawn facilities of \$222 million. This position will be further strengthened on receipt of proceeds from the sale of a 50% interest in the Ande Ande Lumut oil project.

## **Reserves and Resources**

AWE increased its estimate of gross recoverable oil for the AAL K-Sand reservoir by 33% to 101 million barrels, confirmed by an independent review by RPS Energy Services, and reclassified the K-Sand to 2P Reserves. In addition, 35 million barrels of gross recoverable oil were assessed in the underlying G-Sand reservoir and classified as 2C Contingent Resources. As a result of these increases and reclassifications, AWE booked 50 million barrels of Net 2P Reserves and 15 million barrels of Net 2C Contingent Resources for AAL.

An independent review of Sugarloaf AMI reserves by DeGolyer & MacNaughton was completed during the year and subsequently AWE increased its Net 2P Reserves for Sugarloaf to 14.8 million BOE at 30 June 2013, based on approximately 60-acre spacing. 2C Contingent Resources of 5.0 million BOE now reflect only part of the Austin Chalk.

AWE's Net 2P Reserves increased substantially to 110.4 million BOE and 2P Reserves plus 2C Contingent Resources now totals 206.6 million BOE.

## **Development Projects**

Good progress was made on the AAL oil field development project during the period with front end engineering and design ("FEED") on the wellhead platform and tender pre-qualification for the FPSO in progress at year end. The final investment decision for the project is planned for the first half of 2014 after the FPSO design competition has been completed and tenders have been received for the FPSO contract. Regulatory approval was received for the optimised well development plan, which involves drilling 33 longer reach horizontal wells instead of the 43 wells under the original plan of development.

At Sugarloaf, 91 wells (gross) were producing with a further 15 wells drilled and in various stages of completion at the end of June 2013. Two of these wells are targeting the Austin Chalk formation, which lies above the Eagle Ford Shale. The Operator is expected to release updated test results for 60 acre and 40 acre well spacing before the end of the 2013 calendar year. These results will be important for determining further potential to upgrade 2P Reserves based on tighter well spacing in the Eagle Ford Shale.

The BassGas joint venture completed a review of the sequencing and timing for the next two stages of the MLE project comprising the drilling and tie-in of two development wells and the deferred installation of gas compression and condensate pumping modules at the Yolla platform. The joint venture agreed to prioritise the development drilling phase of work and FID approval for the two development wells is scheduled for the first quarter of financial year 2013-14, with drilling planned for 2014.

## **Exploration and Appraisal**

Significant progress was made in appraising the unconventional gas potential of the onshore Perth Basin in Western Australia following the hydraulic fracture stimulation of Senecio-2, Arrowsmith-2 and Woodada Deep-1 wells in July 2012. In total, 8 zones were successfully fracture stimulated and hydrocarbons were observed from all zones during well flow back and clean-up.

A gas flow rate of 1.35 mmscf/d was recorded at Senecio-2 (L1/L2) and a development feasibility study has been completed. AWE is currently reviewing possible development options for this tight gas field. A staged development approach is likely which will enable AWE to better assess the total reservoir potential and optimise the field-wide development plan.

At Arrowsmith-2 (EP413), a gas flow rate of 0.78 mmscf/d was recorded from the High Cliff Sandstones and the Kockatea Shale flowed back gas and oil. The well is currently being recompleted using a smaller diameter tubing to assist well flow back and clean-up and testing is expected to continue for the remainder of 2013.

The Operator of EP413 has provided an independent evaluation of the unconventional Prospective Resource potential for Arrowsmith, undertaken by DeGolyer & MacNaughton, that concluded that the Best Estimate (P50) for gross unconventional Prospective Resources (unrisked) was 450 million BOE, including 2.6 TCF of gas.

In New Zealand, preparations are well advanced for the Oi exploration well in Permit PMP38158 (AWE 42.5%, Operator) and the Kan Tan IV drill rig has arrived in New Zealand waters. The Oi prospect is located 12 km to the northeast of the Tui field and represents a Prospective Resource of 11 million barrels of recoverable oil (gross, unrisks P50 estimate). AWE has elected to participate in the Oi exploration well at reduced equity of 25% with the option to increase participation to 42.5% in any development of Oi by paying a promote on drilling costs. AWE is the Operator of the well and the spud date is scheduled for early November, subject to rig availability after fulfilling prior commitments.

The successful drilling and testing of the Lengo-2 appraisal well in the Bulu PSC (AWE 42.5%) achieved gas flow rates of 4.5 mmscf/d for DST1 and 21.2 mmscf/d for DST2 (flow rate limited by surface equipment). Preliminary analysis of the DSTs indicated an average gas composition of Methane 64%, CO2 13%, Nitrogen 20% and other hydrocarbon gases 3% which are similar to gas composition results from the Lengo-1 well.

AWE's Joint Study submission to secure Indonesian Shale Gas opportunities in Central Sumatra was assessed and approved by the regulator. The award of any PSC will be subject to the regulator finalising rules and regulations concerning production sharing for shale gas resource projects.

## Outlook

As we enter the 2013-14 financial year, AWE is in a strong financial position, well placed to progress its exploration and development initiatives.

The sale of a 50% interest in AAL will substantially strengthen AWE's financial position and reduce its funding commitments for the project. Following completion, AWE will be in a net cash position with an undrawn AUD300 million debt facility. The sale is expected to generate an estimated unaudited after tax profit of approximately AUD60 million.

AWE will continue to progress a range of other exploration and new business opportunities in conventional and unconventional oil and gas and related new energy areas, with a particular focus on appraisal and pre-development type assets where AWE has demonstrated the core skills to add significant value.

## Guidance

The company provides the following guidance for its key performance indicators:

Oil and gas production	5.0 – 5.5 million BOE
Sales revenue	\$290 million - \$320 million
Exploration expenditure	\$50 million
Development expenditure	\$160 million - \$180 million

For information please see our website [www.awexplore.com](http://www.awexplore.com) or contact:

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**Appendix to follow.**

## Financial Summary

	30 June 2013	30 June 2012	Variance
	mmboe <sup>(1)</sup>	mmboe	%
<b>Production</b>			
Gas	2.88	2.58	11%
LPG production	0.25	0.14	79%
Condensate production	0.54	0.28	93%
Oil	1.30	1.69	(23%)
<b>Total production</b>	<b>4.97</b>	<b>4.69</b>	<b>6%</b>

Financial performance	\$million	\$million	%
Sales revenue	300.5	298.4	1%
Production costs and royalties	(115.8)	(109.7)	6%
Field EBITDAX <sup>(2) &amp; (3)</sup>	184.7	188.7	(2%)
Exploration and evaluation expense	(9.7)	(36.5)	(73%)
Amortisation	(105.0)	(80.5)	32%
Net financing expense	(9.4)	(4.3)	119%
Impairment	-	(138.2)	-
Other income / (expense)	(9.2)	7.7	>100%
<b>Statutory Net Profit before Tax</b>	<b>51.4</b>	<b>(63.1)</b>	<b>&gt;100%</b>
Tax expense	(31.4)	(3.4)	>100%
<b>Statutory Net Profit after Tax (NPAT)</b>	<b>20.0</b>	<b>(66.5)</b>	<b>&gt;100%</b>

To assist users reconcile underlying performance, the following table provides a reconciliation of NPAT and the impact of non-recurring items.

Reconciliation of Underlying NPAT	
<b>Statutory NPAT</b>	<b>20.0</b>
Less non-recurring items (after tax):	
Settlement of receivable previously written off	(0.9)
Payment received in connection with 2012 AAL acquisition	(0.6)
VAT receivable	(1.3)
Proceeds from asset sale	(0.1)
<b>Underlying NPAT <sup>(2)</sup></b>	<b>17.1</b>

1. mmboe refers to million barrels of oil equivalent

2. Sales revenue less production costs and royalties.

3. AWE's Financial Report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS). The underlying (non-IFRS) profit is unaudited but is derived from the audited accounts by removing the impact of non-recurring items from the reported (IFRS) audited profit. AWE believes the non-IFRS profit reflects a more meaningful measure of the consolidated entity's underlying performance.

Note: Numbers may not add due to rounding

## Reserves and Resources

The reserve and resource information contained in this report is based on information compiled by Neil Tupper (General Manager, Exploration and Geoscience) and Ian Palmer (General Manager Development). Mr Tupper is a Geologist with a Masters Degree in Sedimentology and has over 30 years' experience in petroleum exploration. Mr Palmer holds a Bachelor Degree in Engineering and has 32 years' experience in the practice of petroleum engineering. Both have consented in writing to the inclusion of this information in the format and context in which it appears.

## Summary of Abbreviations

AAL	Ande Ande Lumut oil project, Indonesia
AMI	Area of Mutual Interest
BOE	Barrels of Oil Equivalent
DST	Drill Stem Test (well production test)
EBITDAX	Earnings Before Interest, Tax, Depreciation and Exploration expenses
EPS	Earnings Per Share (ordinary, diluted)
FID	Final Investment Decision
FPSO	Floating Production, Storage and Offloading vessel
MLE	Mid-Life Enhancement
mmscf/d	million standard cubic feet per day
NPAT	Net Profit After Tax
POD	Plan of Development
PSC	Production Sharing Contract
P50	50% probability that the quantities actually recovered will equal or exceed the best estimate

Except where otherwise noted, all references to "\$" are to Australian dollars

## BOE Conversion Factors

6,000 GJ of sales gas = 1 BOE  
1 tonne of LPG = 11.6 BOE  
1 barrel of oil or condensate = 1 BOE

## About AWE Limited

AWE Limited is an upstream oil and gas company with production, development and exploration assets in Australia, New Zealand, USA and Indonesia. Established in 1997, the Company employs over 120 people and has its head office in Sydney and regional offices in Perth, New Plymouth and Jakarta. AWE acquired 100% of the Ande Ande Lumut oil field offshore Indonesia in 2012, with estimated Gross 2P reserves of 101 million barrels of recoverable oil. AWE has also expanded its conventional oil and gas business to include unconventional resources. AWE has a 10% working interest in the Sugarloaf acreage in the Eagle Ford Shale development in the USA, and is progressing a number of tight sands and shale opportunities in the north Perth Basin and Indonesia. With its strong financial and technical base, AWE will continue to pursue conventional and unconventional growth opportunities, primarily in Australasia and Asia.

**ENDS**