The Chairman's Message

AWE IMPLEMENTED A NUMBER OF KEY STRATEGIC INITIATIVES DURING THE YEAR.

Despite the continuing economic and financial uncertainties in global markets, the upstream energy industry in Australia remained strong, underpinned by oil and domestic gas prices well above historic averages. Against this backdrop, AWE became more focussed as an energy company and started to deliver improved performance during 2011-12. Two initiatives implemented during the year have positioned AWE for a period of growth as an energy company, while delivering good operational and financial results from our core business.

- The sale of an 11.25% interest in the BassGas project for $80 million; and
- The acquisition of 100% interests in two Production Sharing Contracts in Indonesia, which included the undeveloped AAL oil field with 76 million barrels of estimated recoverable oil (43 million barrels net Contingent Resources).

The oil and gas industry in Australia experienced considerable change during the past year. The introduction of carbon pricing and the extension of PRRT to the onshore industry by the Australian federal government, commencing 30 June 2012, will influence future investment decision making for our industry. AWE does not expect these changes to have a material impact on our business in the near term. The continued growth of the LNG industry through conventional gas development in Western Australia and coal seam gas development in Queensland is changing the domestic gas markets across the country. Initial exploration for unconventional shale gas in central and Western Australia has highlighted the potential for this resource as a future source of energy. With a strong operating presence, significant existing infrastructure, and a large acreage position in Western Australia, AWE is well positioned to take advantage of opportunities these changes may create.

In 2011-12, we continued our focus on governance, business sustainability, and technical and commercial excellence. The Board and Board Committees are working effectively; management of safety, environment and community relations has strengthened; and improvements in technical and commercial performance are evident in the initial results from our unconventional gas exploration program in the North Perth Basin and from the Company's Indonesian acquisition.

I am particularly pleased with the way the Directors, Management and staff have responded to the challenges confronting the Company and the changes we have introduced over the last two years. The AWE team has worked together to overcome these challenges and to move the Company forward, strengthening the business and creating a number of new opportunities for growth. I am confident that with continued focus on our strategy, we will achieve our goal of providing superior returns to AWE shareholders from a sustainable business.

DIRECTORS

Bruce Phillips (RIGHT)
CHAIRMAN

Bruce Clement (LEFT)
MANAGING DIRECTOR