Managing Director's Report

MANAGEMENT AND THE BOARD HAVE ESTABLISHED A CLEAR DIRECTION AND STRATEGY.

AWE has undertaken a number of strategic initiatives during 2011-12 that have delivered a clear direction for the Company and positioned us well for a period of sustainable growth. The acquisition of two PSC's in Indonesia, including the undeveloped 76 million barrel AAL oil field, the commencement of the shale gas and tight gas exploration program in the North Perth Basin and the increased development drilling in the Sugarloaf shale gas and liquids project in the USA all represent significant and immediate growth opportunities. Underlying these growth initiatives, AWE's core production assets continue to deliver strong production performance and cash flow.

Our production assets delivered 4.7 million BOE in 2011-12, despite the extended shut-in of BassGas. Significantly, our field operating costs were reduced by $30 million (23%) and administration costs reduced by $6 million (37%) on the prior year reflecting the focus on improving the performance of the core business. The Company's emphasis on business sustainability is being maintained, with environmental management and stakeholder engagement and communication continuing as important elements. We have already taken further positive action to improve our safety performance, an area where the Company reported disappointing results in 2011-12.

The Company's financial position is sound, with operating cash flow of $124 million for the 2011-12 year and a net cash position of $27 million at year end. During the year we completed the refinancing of our corporate loan facility with a new $300 million multi-currency loan facility, that together with the cash flow from our portfolio of production assets, provides the financial capacity to deliver planned development projects and to pursue further opportunities for growth as an energy company.

Importantly, total 2P Reserves and 2C Contingent Resources increased by 31% to 189 million BOE at 30 June 2012. The Company's Contingent Resources of 133 million BOE provides a valuable portfolio of opportunities for near term and medium term growth; from Sugarloaf development drilling in 2012-13, through the AAL development with a target for first oil production in 2015-16, to the future development of the Trefoil gas and condensate field as part of the BassGas project.

The Company's production guidance for 2012-13 is in line with the result for 2011-12, primarily due to ongoing delays with the BassGas MLE. We expect to improve production performance from 2013-14 onwards, with enhanced production from BassGas and further development drilling at Sugarloaf expected to increase production. Management and the Board have established a clear direction and strategy and we will focus on taking advantage of the opportunities in front of us. As a team, we look forward to delivering these opportunities and providing positive returns for shareholders.

OPERATIONS

Michael Broad
SENIOR RESERVOIR ENGINEER

Michael joined the AWE Group in 2007 after working in Australia with RPS. Michael is based in Perth and retains responsibility for the Onshore WA subsurface assets.