

Australian Worldwide Exploration

AUD \$2.08

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HIGH**B**

An outstanding petroleum growth story

The company represents our preferred petroleum exposure at the upper end of the mid-cap oil sector, as it has consistently demonstrated an ability to generate capital gains for shareholders. It possesses a first-class management team that includes Bruce Philips, who we regard as Australia's premier oil industry chief executive.

"The company boasts a suite of emerging production projects in areas of low political risk, three of which are set for commissioning over the next few months. "

The company has a highly successful track record of adding value to projects and developing them to production status, or selling out at a substantial gain on its entry price. It used the latter strategy with regard to the Kipper, Basker & Manta oil and gas fields in offshore Victoria in 1999, when it sold its minority stake in these fields for a total of \$18 million. The proceeds of this sale allowed AWE to leverage into other deals with more upside, where it had a greater equity stake and project operatorship.

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The BassGas Project is probably the most important of these and involves the development of petroleum resources in the offshore Bass Basin, which is located in Bass Strait, between Victoria and Tasmania. Despite being geologically similar to the neighbouring Gippsland Basin, which has been a prolific oil producer, the Bass Basin is relatively unexplored.

AWE has a 30% stake in the project, which comprises the Yolla, Trefoil and White Ibis fields, along with other exploration targets. Initial development is based solely on the Yolla field, but tie-in of the Trefoil and White Ibis fields is planned. Yolla contains gross proven and probable reserves of over 330 petajoules (PJ) of sales gas, following a recent 19% upgrade, including 30 million barrels of oil-in-place.

The project is estimated to generate gross revenues of in excess of A\$1.5 billion over the current 15 year life of the project, with AWE's share being worth more than \$450 million. The company is targeting EBITDA of \$30 million annually based on initial production of 20 PJ a year. We regard this as a conservative estimate, as AWE has used US\$25 a barrel oil price in its calculations, whilst the tie-in of other fields should significantly boost field life and production revenues. The company's earnings are protected as it has sales contracts in place with various groups that comprise Origin Energy for the dry gas, Elgas for the LPG and Shell Australia for the condensate.

AWEw3.jpg

After almost 12 months of frustrating delays that have essentially been beyond the company's control, the

project is expected to commence commissioning in December 2005.



The Casino Project is the company's second development project and is situated in the Victorian portion of the offshore Otway Basin. Casino is another example of how AWE management has added tremendous value to a rather poorly regarded asset.

The company acquired a 25% stake in the field in 2003 on the basis that its analysis suggested the potential for significantly more gas than had previously indicated by prior work. AWE immediately set about proving up the existence of additional gas within the Casino gas field, with its first well, Casino-3, flowing gas at a spectacular rate of 45 million cubic feet a day. A total of five wells have been drilled into the field since its discovery, with the field now known to host an extensive hydrocarbon resource.

In addition, the Henry-1 exploration well, located 8.5km northwest of the Casino gas field, also successfully located gas in the Waare Sandstone reservoir. The Henry-1 well has been declared a new field discovery. First gas is anticipated from the Casino gas project in the first quarter of 2006, with the company targeting initial production of 35 PJ of gas a year.

The Cliff Head Project contains the Cliff Head oilfield, which lies in shallow water just 10 km from the Western Australian coast. The company has a 27.5% stake in the field, which is scheduled for first oil production in the first quarter of 2006.

Project construction is around 75% complete.

The field hosts approximately 140 million barrels of recoverable oil, with initial production expected at around 10,000 barrels of oil per day. The company is targeting EBITDA of \$24 million, using a conservative US\$25 a barrel oil price assumption. There are a numerous exploration targets within and outside the field that could boost overall oil reserves, which will be followed up by drilling.

The Tui Project is the fourth in the company's emerging production portfolio, having just received formal development approval from the joint venture partners. AWE has a 25% stake in the project, which is located in the offshore Taranaki Basin, on the western side of New Zealand's North Island.



The project, which is New Zealand's first stand-alone oil development, will comprise the joint development of the nearby Tui, Amokura and Pateke oilfields, with production tied back to Floating Production Storage and Offloading vessel (FPSO). The company's US\$40.8 million share of developments costs will be funded from its existing cash reserves.

Recoverable oil reserves for the fields are estimated at 27 million barrels, with gross initial production of 50,000 barrels a day. First oil production is planned for the second quarter of 2007. The company's EBITDA target is \$40 million annually, again based on a conservative oil price of US\$25 a barrel in year one. Upside is significant, with numerous targets scheduled for evaluation drilling.

The company is embarking upon an enormous growth phase, which distinguishes it from a large number of its sector peers, which are faced with issues of declining reserves and questions over growth. We attended the company's Annual General Meeting in Sydney recently and saw first hand the enormous impact that the commissioning of these four new projects will have on the company's cashflow position.

According to company estimates, net operating cashflows are anticipated to increase from \$7 million in 2005 to \$70 million in 2006 and then to \$100 million by 2007. These estimates are based on a conservative oil price of US\$25 a barrel. Using current oil prices of around US\$60 a barrel, the company estimates that cashflows will jump to \$125 million in 2006 and \$240 million in 2007. We anticipate earnings per share of 10c in 2006, rising to 27 cents in 2007.

We anticipate that the company will continue to provide significant capital growth, with ongoing exploration activity being a key driver, in addition to earnings and production growth.

We anticipate the drilling of up to ten exploration wells over the next 12 months, along with numerous appraisal wells. A large number of the exploration wells will be drilled in New Zealand, with wells including: Cutter - a 70-80 million barrel oil target off the east coast of the South Island in the Canterbury Basin (25% stake); up to five wells in the offshore Taranaki Basin, including the +100 million barrel Hector prospect (44.317% stake) and the +100 million barrel West Cape prospect (40% stake); and the 60-100 million barrel Magnolia Prospect within AC/P32 in the Timor Sea (10% stake).

AWE represents an extremely well managed growth story, with projects located in areas of little or no political risk, and a strong balance sheet with net cash of \$75 million. We anticipate a continuation of the company's track record of solid capital growth. **We recommend AWE as a buy to all Members around \$2.08.**

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Snapshot Australian Worldwide Exploration

AWE's production assets include the Tui oil field offshore New Zealand, BassGas and the Casino gas developments offshore Victoria, and the Cliff Head oil project offshore Perth, WA. The company also holds exploration potential in these regions. The company recently expanded its interests with the successful takeover of ARC Energy. The company retains a very strong balance sheet position and has an aggressive 15-well drilling program planned over the next year.

Market Capitalisation:\$780m

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