

# Notes to the Financial Statements

## 1. Statement of significant accounting policies

Australian Worldwide Exploration Limited (the "Company") is a company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2008 comprises the Company and its controlled entities (together referred to as the "consolidated entity").

The consolidated financial report was authorised for issue by the directors on 22 August 2008.

### (a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") (including Australian Interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The consolidated financial report of the consolidated entity also complies with IFRSs and interpretations adopted by the International Accounting Standards Board.

### (b) Basis of preparation

The financial report is presented in Australian Dollars, which is the Company's functional currency and the functional currency of the majority of controlled entities within the consolidated entity.

At the date of authorisation of this financial report a number of Accounting Standards and Interpretations had been issued but were not yet effective. The consolidated entity anticipates that the adoption of these Standards and Interpretations in future reporting periods is not expected to have a material effect, however, they may have disclosure impact.

The financial report is prepared on the historical cost basis except that derivative financial instruments are stated at their fair value.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

The most significant estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relate to estimates of recoverable quantities of economically recoverable reserves, the provision for restoration and the method of accounting for Petroleum Resource Rent Tax and other government royalties. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in this consolidated financial report.

### (c) Basis of consolidation

#### (i) *Controlled entities*

Controlled entities are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of controlled entities are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### (ii) *Jointly controlled operations and assets*

The interests of the Company and of the consolidated entity in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in the financial statements the proportionate share of the assets they control, the liabilities and expenses they incur, and their share of the income that they earn from the sale of goods or services by the joint venture.

#### (iii) *Transactions eliminated on consolidation*

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

#### **(d) Foreign currency**

##### *(i) Foreign currency transactions*

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

##### *(ii) Financial statements of foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Australian dollars at rates approximating to the foreign exchange rates ruling at the dates of the transactions. The revenues, expenses, assets and liabilities of foreign operations in hyperinflationary economies are translated to Australian dollars at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

#### **(e) Derivative financial instruments**

The consolidated entity uses derivative financial instruments to hedge its exposure to foreign exchange, commodity price and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the consolidated entity does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy f).

The fair value of interest rate swaps is the estimated amount that the consolidated entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of commodity price contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

#### **(f) Hedging**

##### *Cash flow hedges*

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (i.e. when interest income or expense is recognised). For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

# Notes to the Financial Statements

continued

## 1. Statement of significant accounting policies continued

### (g) Impairment

The carrying amounts of the Company's and the consolidated entity's assets, other than inventories (refer note 1(j)) and deferred tax assets (refer note 1(s)(i)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

#### *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### *Reversals of impairment*

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### (h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### (i) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses.

### (j) Inventory

Oil inventory is recorded at the lower of cost and net realisable value. Cost is determined on an average basis and includes production costs and amortisation of producing oil and gas assets.

### (k) Property, plant and equipment

#### *(i) Oil and gas assets*

The cost of oil and gas producing assets and capitalised expenditure on oil and gas assets under development are accounted for separately and are stated at cost less accumulated depreciation and impairment losses. Costs include expenditure that is directly attributable to the acquisition or construction of the item as well as past exploration and evaluation costs. In addition, costs include, (i) the initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and (ii) changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

When an oil and gas asset commences production, costs carried forward will be amortised on a units of production basis over the life of the economically recoverable reserves. Changes in factors such as estimates of economically recoverable reserves that affect amortisation calculations do not give rise to prior financial period adjustments and are dealt with on a prospective basis.

#### *(ii) Other plant and equipment*

The cost of other plant and equipment is stated at cost less accumulated depreciation and impairment losses. Costs include, (i) the initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items, and (ii) changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

Other plant and equipment is depreciated using the straight line method over its estimated useful life. The depreciation rates used for other plant and equipment are in the range 7.5% to 27% (2007: 7.5% to 27%).

#### *(iii) Leased assets*

Leases of plant and equipment, under which the consolidated entity assumes all the risks and benefits of ownership, are classified as finance leases. Finance leases are capitalised and depreciated over their estimated useful lives.

Operating leases are not capitalised.

**(l) Exploration and evaluation**

Exploration and evaluation costs are accumulated in respect of each separate area of interest and are accounted for using the successful efforts method of accounting. An area of interest is usually represented by an individual oil or gas field.

The cost of acquisition of joint venture interests, successful drilling costs and costs incurred in relation to feasibility studies and the technical evaluation of a potential development are carried forward where right to tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or where the assessment to determine the existence of economically recoverable reserves for a potential development in an area of interest are not yet complete.

All other exploration and evaluation costs are expensed as incurred.

**(m) Capitalised borrowing costs**

Borrowing costs relating to oil and gas assets under development up to the date of commencement of operations, are capitalised as a cost of the development. Where funds are borrowed specifically for qualifying projects the actual borrowing costs incurred are capitalised. Where the projects are funded through general borrowings the borrowing costs are capitalised based on the weighted average borrowing rate.

**(n) Intangible assets**

The costs of computer software and loan establishment fees are stated at cost less accumulated depreciation and impairment losses.

**(o) Trade and other payables**

Trade and other payables are stated at cost.

**(p) Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

**(q) Employee benefits****(i) Wages, salaries and annual leave**

The provisions for employee entitlements to wages, salaries and annual leave represents the amount which the consolidated entity has a present obligation to pay resulting from employees' services provided up to the reporting date. The provisions have been calculated at undiscounted amounts based on wage and salary rates that the consolidated entity expects to pay and include related on-costs.

**(ii) Long-term service benefits**

Long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date. The provision is calculated using estimated future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government securities at balance date which most closely match the terms of maturity of the related liabilities.

**(iii) Share-based payment transactions**

The Company has granted options to certain employees under an employee share plan. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and expensed over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a modified binomial option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting

**(iv) Superannuation plans**

Obligations for contributions to accumulation type superannuation plans are recognised as an expense in the income statement as incurred.

# Notes to the Financial Statements

continued

## 1. Statement of significant accounting policies continued

### (r) Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### *Site restoration*

Provisions made for environmental rehabilitation are recognised where there is a present obligation as a result of exploration, development or production activities having been undertaken, and it is probable that an outflow of economic benefits will be required to settle the obligation. The estimated future obligations include the costs of removing facilities, abandoning wells and restoring the affected areas. The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes are reflected in the present value of the restoration provision at the end of the reporting period. The amount of the provision for future restoration costs relating to exploration and development activities is capitalised as a cost of those activities. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money, and where appropriate the risks specific to the liability. The unwinding of discounting on the provision is recognised as a finance cost.

### (s) Revenue recognition

#### (i) Sales revenue

Revenue from the sale of oil and gas is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue received during the commissioning phase of oil and gas assets is recorded, together with the related costs of production, against the capitalised carrying value of the asset.

#### (ii) Interest and royalty revenue

Interest and royalties are recognised on an accruals basis.

### (t) Taxation

#### (i) Income tax

Income tax on the income statement comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in controlled entities to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

#### (ii) Petroleum Resource Rent Tax ("PRRT") and other government royalties

Resource rent taxes and government royalties are treated as taxation arrangements when they are imposed under Government authority and when the calculation of the amount payable falls within the definition of "taxable profit" for the purposes of AASB 112. Current and deferred tax is then provided on the same basis as described in (i) above. Royalty arrangements that do not meet the criteria for treatment as a tax are recognised on an accruals basis.



**(iii) Tax consolidation**

The Company and its wholly-owned Australian resident entities have formed a tax consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is Australian Worldwide Exploration Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using a modified stand alone tax allocation methodology.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the controlled entities are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangements.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head company only.

**(iv) Nature of tax funding and tax sharing arrangements**

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) is at call.

**(u) Goods and services tax**

Revenue, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office ("ATO") is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

**(v) Segment reporting**

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

	Consolidated		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>2. Revenue</b>				
Sales revenue – oil and gas	821,230	142,690	–	–
Other revenue				
Overriding royalties	–	1,266	–	–
Equipment rentals	121	88	–	–
Other	122	160	–	–
	243	1,514	–	–
	821,473	144,204	–	–

# Notes to the Financial Statements

continued

	Consolidated		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>3. Cost of sales</b>				
Production costs	<b>82,481</b>	29,096	-	-
Amortisation	<b>133,556</b>	45,290	-	-
Movement in inventory	<b>(3,402)</b>	-	-	-
	<b>212,635</b>	74,386	-	-
<b>4. Other income</b>				
Foreign exchange gain	-	151	-	-
Net gain on sale of joint venture interests	-	4,937	-	-
Hedge ineffectiveness gain	-	938	-	-
Dividend income – related parties	-	-	<b>31,075</b>	-
Impairment reversal of loss on investment in controlled entities	-	-	<b>12,194</b>	21,190
Impairment reversal of receivables due from controlled entities	-	-	<b>12,481</b>	485
	-	6,026	<b>55,750</b>	21,675
<b>5. Other expenses</b>				
Hedge ineffectiveness loss	<b>2,243</b>	-	-	-
Share option plan	<b>2,029</b>	1,529	<b>2,029</b>	1,529
Foreign exchange loss	<b>12,796</b>	-	<b>107</b>	139
	<b>17,068</b>	1,529	<b>2,136</b>	1,668
<b>6. Net financing income/(expenses)</b>				
Interest income:				
Other parties	<b>8,220</b>	6,274	<b>513</b>	378
Financial income	<b>8,220</b>	6,274	<b>513</b>	378
Interest expense				
Interest expense	<b>(4,048)</b>	(8,272)	-	-
Other borrowing costs	<b>(1,418)</b>	(4,493)	-	-
Unwinding of discount – restoration provisions	<b>(2,338)</b>	(932)	-	-
	<b>(7,804)</b>	(13,697)	-	-
Less: Borrowing costs capitalised	-	2,448	-	-
Financial expenses	<b>(7,804)</b>	(11,249)	-	-
Net financing income/(expenses)	<b>416</b>	(4,975)	<b>513</b>	378



	Consolidated		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>7. Taxation (expense)/benefit</b>				
<b>Recognised in income statement</b>				
Current tax (expense)/ benefit:				
Current year	<b>(210,057)</b>	3,884	<b>(8,551)</b>	–
Contribution from controlled entities under a tax funding agreement	–	–	<b>23,233</b>	9,481
Adjustments for prior years	<b>501</b>	–	<b>(1,480)</b>	–
	<b>(209,556)</b>	3,884	<b>13,202</b>	9,481
Deferred tax expense:				
Origination and reversal of temporary differences	<b>21,862</b>	(16,801)	<b>(44)</b>	273
Net effect of tax losses recognised	<b>(25,981)</b>	14,847	<b>(4,797)</b>	(3,960)
Adjustments for prior years	–	(790)	–	(790)
	<b>(4,119)</b>	(2,744)	<b>(4,841)</b>	(4,477)
Deferred PRRT and royalty related tax expense	<b>(25,941)</b>	(1,291)	–	–
Total tax (expense)/benefit	<b>(239,616)</b>	(151)	<b>8,361</b>	5,004
Numerical reconciliation between tax (expense)/benefit and pre-tax net result:				
Profit before income tax	<b>503,971</b>	35,533	<b>52,347</b>	18,757
Prima facie taxation expense at 30% (2007: 30%)	<b>(151,191)</b>	(10,660)	<b>(15,704)</b>	(5,627)
(Increase)/decrease in income tax expense due to:				
Non-deductible expenses	<b>(6,741)</b>	(3,553)	<b>(609)</b>	(459)
Recognition of previously unrecognised tax losses	<b>9,141</b>	14,847	<b>9,141</b>	5,521
Effect of tax rates of foreign jurisdictions	<b>(12,400)</b>	676	–	–
Foreign exchange and other translation adjustments	<b>(492)</b>	1,787	–	–
Royalty related taxation (net of income tax benefit)	<b>(51,703)</b>	–	–	–
Deferred PRRT and royalty related tax expense	<b>(25,941)</b>	(1,291)	–	–
Tax exempt income	–	–	<b>9,323</b>	–
Net impairment reversal – controlled entities	–	–	<b>7,402</b>	6,503
Other	<b>(790)</b>	(1,167)	<b>288</b>	(144)
Adjustments for prior years	<b>501</b>	(790)	<b>(1,480)</b>	(790)
	<b>(239,616)</b>	(151)	<b>8,361</b>	5,004

# Notes to the Financial Statements

continued

	Consolidated	
	2008 \$'000	2007 \$'000
<b>8. Earnings per share</b>		
<b>Profit reconciliation</b>		
Basic and diluted earnings	<b>264,355</b>	35,382

	Consolidated	
	2008 Number	2007 Number
<b>Weighted average number of ordinary shares</b>		
Issued ordinary shares – opening balance	<b>448,232,675</b>	445,807,675
Effect of shares issued	<b>1,527,432</b>	860,411
Weighted average number of ordinary shares	<b>449,760,107</b>	446,668,086
<b>Weighted average number of ordinary shares (diluted)</b>		
Weighted average number of ordinary shares at 30 June	<b>449,760,107</b>	446,668,086
Effect of employee share options on issue	<b>15,529,895</b>	14,258,424
Weighted average number of ordinary shares (diluted)	<b>465,290,002</b>	460,926,510

	Consolidated		The Company	
	2008 \$	2007 \$	2008 \$	2007 \$

## 9. Auditors' remuneration

### Audit services

Auditors of the Company				
KPMG Australia				
– Audit and review of financial reports	<b>168,895</b>	174,952	<b>156,030</b>	157,281
Overseas KPMG firms				
– Audit and review of financial reports	<b>6,477</b>	4,641	–	–
	<b>175,372</b>	179,593	<b>156,030</b>	157,281
Other auditors				
– Audit and review of financial reports	<b>2,547</b>	3,583	–	–
	<b>177,919</b>	183,176	<b>156,030</b>	157,281

### Other services

Auditors of the Company				
KPMG Australia				
– Taxation compliance services	<b>248,011</b>	249,692	<b>248,011</b>	249,692
– Taxation services (Scheme of Arrangement with ARC Energy Limited)	<b>313,575</b>	–	<b>313,575</b>	–
Overseas KPMG firms				
– Taxation services	<b>115,881</b>	82,933	–	–
– Other assurance services	<b>10,526</b>	15,287	–	–
	<b>687,993</b>	347,912	<b>561,586</b>	249,692



## 10. Segment reporting

### Business segments

The consolidated entity operates in one business segment, namely exploration, development and production of oil and gas.

### Geographical segments

	Australia		New Zealand		Other*		Consolidated	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
External revenue	<b>169,684</b>	143,688	<b>651,379</b>	155	<b>410</b>	361	<b>821,473</b>	144,204
Segment result/(loss)	<b>35,809</b>	50,392	<b>494,697</b>	(13,094)	<b>(19,877)</b>	(1,721)	<b>510,629</b>	35,577
Unallocated							<b>(6,658)</b>	(44)
Income tax expense							<b>(239,616)</b>	(151)
Net profit after tax							<b>264,355</b>	35,382
Depreciation and Amortisation	<b>(52,091)</b>	(45,433)	<b>(81,677)</b>	–	–	–	<b>(133,768)</b>	(45,433)
Segment assets	<b>357,480</b>	426,317	<b>259,301</b>	222,782	<b>12,244</b>	–	<b>629,025</b>	649,099
Unallocated							<b>339,190</b>	65,650
							<b>968,215</b>	714,749
Segment liabilities	<b>60,353</b>	154,389	<b>109,351</b>	25,338	<b>8,806</b>	273	<b>178,510</b>	180,000

\* The other segment includes Indonesian and Argentinean operations.

	Consolidated		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000

## 11. Cash and cash equivalents

Bank balances	<b>6,332</b>	26,533	<b>189</b>	934
Call deposits	<b>319,015</b>	20,715	<b>17,908</b>	4,460
Cash held by joint ventures	<b>13,843</b>	18,402	–	–
	<b>339,190</b>	65,650	<b>18,097</b>	5,394

## 12. Trade and other receivables

### Current

Trade receivables	<b>93,776</b>	16,008	–	–
Interest receivable	<b>435</b>	77	<b>39</b>	23
Amounts receivable from controlled entities	–	–	<b>68,479</b>	15,163
Joint venture receivables	<b>13,534</b>	3,947	–	–
Prepayments	<b>389</b>	1,971	–	955
Other	<b>4,143</b>	424	<b>2,517</b>	–
	<b>112,277</b>	22,427	<b>71,035</b>	16,141

## 13. Inventories

### Current

Finished goods	<b>3,302</b>	–	–	–
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# Notes to the Financial Statements

continued

	Consolidated		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>14. Investments</b>				
<b>Non-current</b>				
Investment in controlled entities (net)	–	–	<b>487,028</b>	474,834

## 15. Exploration and evaluation assets

Costs carried forward in respect of areas in the:

Exploration and/or evaluation phase (at cost)	<b>22,363</b>	22,315	<b>3,146</b>	–
Reconciliation of movements:				
Carrying amount at the beginning of the financial year	<b>22,315</b>	9,897	–	–
Transfer to oil and gas assets	<b>(5,435)</b>	–	–	–
Additions	<b>85,957</b>	35,341	<b>3,146</b>	–
Written off	<b>(80,474)</b>	(22,923)	–	–
Carrying amount at the end of the financial year	<b>22,363</b>	22,315	<b>3,146</b>	–

The recoverability of the carrying amounts of exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest.

## 16. Oil and gas assets

Assets in development (at cost)	–	217,161	–	–
Oil and gas assets (at cost)	<b>671,223</b>	419,436	–	–
Less: Accumulated amortisation	<b>(181,564)</b>	(50,128)	–	–
	<b>489,659</b>	369,308	–	–
	<b>489,659</b>	586,469	–	–

Reconciliation of movements:

Assets in development:

Carrying amount at the beginning of the financial year	<b>217,161</b>	124,711	–	–
Transfer to oil and gas assets in production	<b>(217,161)</b>	–	–	–
Additions	–	89,294	–	–
Foreign exchange translation difference	–	(3,350)	–	–
Increase in restoration and abandonment provision	–	6,506	–	–
Carrying amount at the end of the financial year	–	217,161	–	–

Oil and gas assets in production:

Carrying amount at the beginning of the financial year	<b>369,308</b>	408,255	–	–
Transfer from exploration assets	<b>5,435</b>	–	–	–
Transfer from assets in development	<b>217,161</b>	–	–	–
Disposal	–	(489)	–	–
Additions	<b>25,161</b>	12,487	–	–
Increase in restoration and abandonment provision	<b>13,351</b>	299	–	–
Foreign exchange translation difference	<b>(6,536)</b>	–	–	–
Written off	<b>(665)</b>	(5,954)	–	–
Amortisation	<b>(133,556)</b>	(45,290)	–	–
Carrying amount at the end of the financial year	<b>489,659</b>	369,308	–	–



	Consolidated		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>17. Other plant and equipment</b>				
Other plant and equipment (at cost)	1,042	897	-	-
Less: Accumulated depreciation	(581)	(463)	-	-
	<b>461</b>	434	-	-
Reconciliation of the carrying amount of other plant and equipment is set out below:				
Carrying amount at the beginning of the financial year	434	195	-	-
Additions	145	329	-	-
Depreciation	(118)	(90)	-	-
Carrying amount at the end of the financial year	<b>461</b>	434	-	-
<b>18. Intangible assets</b>				
Intangible assets (at cost)	2,136	486	-	-
Less: Amortisation	(1,173)	(388)	-	-
	<b>963</b>	98	-	-
Reconciliation of movements:				
Computer software:				
Carrying amount at the beginning of the financial year	98	62	-	-
Additions	287	89	-	-
Amortisation	(94)	(53)	-	-
Carrying amount at the end of the financial year	<b>291</b>	98	-	-
Reconciliation of movements:				
Loan establishment fees:				
Carrying amount at the beginning of the financial year	-	-	-	-
Transfer from interest-bearing liabilities (net of amortisation)	1,124	-	-	-
Amortisation	(452)	-	-	-
Carrying amount at the end of the financial year	<b>672</b>	-	-	-
<b>19. Trade and other payables</b>				
<b>Current</b>				
Trade payables	-	235	-	232
Joint venture creditors	35,881	30,395	-	-
Other payables and accrued expenses	6,537	3,949	2,651	362
	<b>42,418</b>	34,579	<b>2,651</b>	594

# Notes to the Financial Statements

continued

	Consolidated		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>20. Interest-bearing liabilities</b>				
<b>Non-current</b>				
Bank loans – unsecured	–	111,209	–	–
	–	111,209	–	–
Less: Loan establishment fees	–	(1,124)	–	–
	–	110,085	–	–
The consolidated entity has access to the following lines of credit:				
Total facilities available:				
Bank loans	<b>135,000</b>	135,000	–	–
	<b>135,000</b>	135,000	–	–
Facilities utilised at balance date:				
Bank loans	–	111,209	–	–
	–	111,209	–	–
Facilities not utilised at balance date:				
Bank loans	<b>135,000</b>	23,791	–	–
	<b>135,000</b>	23,791	–	–

## Bank Loan – unsecured

A controlled entity of the Company has available to it an A\$120 million equivalent unsecured corporate loan facility. In addition, a US\$42.5 million letter of credit (relating to the Tui Area oil project) and a working capital facility of up to A\$15 million have been provided. The Company and certain of its wholly owned controlled entities have provided a guarantee under the facilities. The facility repayment date is 20 December 2009.

When drawn, the Australian Dollar portion of the facility bears interest at the bank bill swap rate plus a margin while the United States Dollar portion of the facility bears interest at LIBOR plus a margin.

	Consolidated		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>21. Employee benefits</b>				
<b>Current</b>				
Liability for annual leave	<b>666</b>	591	–	–
<b>Non-current</b>				
Liability for long service leave	<b>349</b>	276	–	–

### (a) Superannuation plans

The consolidated entity makes contributions to complying accumulation type superannuation plans nominated by individual employees. The consolidated entity contributes at least the amount required by law. The amount recognised as an expense was \$1,083,000 for the financial year ended 30 June 2008 (2007: \$894,000).



**(b) Employee benefits expensed**

	<b>Consolidated</b>		<b>The Company</b>	
	<b>2008 \$'000</b>	<b>2007 \$'000</b>	<b>2008 \$'000</b>	<b>2007 \$'000</b>
Salaries and wages	<b>8,837</b>	4,429	<b>446</b>	393
Share-based payments	<b>2,029</b>	1,529	<b>2,029</b>	1,529
Other associated personnel costs	<b>1,911</b>	1,414	–	–
	<b>12,777</b>	7,372	<b>2,475</b>	1,922

Salaries and wages and other associated personnel costs are allocated to various income statement categories based on the nature of the expenditure.

**(c) Share-based payments**

Under the Company's Employee Share Option Plan, options to subscribe for ordinary shares in the Company are issued to employees at the discretion of the directors and the exercise price and exercise period are determined on the basis of rewarding employees if the Company's share price achieves significant long-term growth. Options are unlisted and are granted with exercise prices not less than the average market price of the Company's shares for the five days prior to grant.

The Plan was approved by shareholders at the time of the float of the Company. The sum of the number of shares issued on the exercise of options in the previous five years and the number of unexercised options cannot exceed 5% of the total number of shares on issue at any time.

The terms and conditions of share options granted after 1 January 2005 are set out below. Options issued prior to 1 January 2005 vested prior to that date.

All options are settled on exercise by physical delivery of shares. The contractual life of all options is five years from grant date.

<b>Grant date</b>	<b>Number of options</b>	<b>Vesting conditions</b>
26 September 2005	700,000	(a)
24 November 2005	300,000	(a)
24 November 2005	300,000	(b)
24 November 2005	300,000	(c)
20 March 2006	300,000	(a)
20 March 2006	2,100,000	(d)
20 March 2006	2,960,000	(e)
11 April 2006	100,000	(a)
16 June 2006	275,000	(a)
21 July 2006	80,000	(f)
21 July 2006	1,145,000	(g)
30 August 2006	50,000	(f)
10 November 2006	65,000	(f)
15 January 2007	50,000	(g)
15 January 2007	100,000	(h)
12 March 2007	555,000	(f)
13 July 2007	330,000	(g)
13 July 2007	260,000	(h)
13 July 2007	1,725,000	(i)
9 October 2007	15,000	(g)

# Notes to the Financial Statements

continued

## 21. Employee benefits continued

Grant date	Number of options	Vesting conditions
9 October 2007	15,000	(h)
9 October 2007	15,000	(i)
26 November 2007	550,000	(g)
26 November 2007	550,000	(h)
26 November 2007	400,000	(i)
7 April 2008	22,500	(g)
7 April 2008	47,500	(h)
7 April 2008	55,000	(i)
16 May 2008	137,500	(h)
16 May 2008	137,500	(i)
12 June 2008	100,000	(j)
12 June 2008	100,000	(h)
12 June 2008	100,000	(i)

- (a) Vested immediately at an exercise price not less than the weighted average sale price of ordinary shares during the five trading days prior to grant date.
- (b) Vested after one year at an exercise price not less than 5% in excess of the weighted average sale price of ordinary shares during the five trading days prior to grant date.
- (c) Vested after two years at an exercise price not less than 10% in excess of the weighted average sale price of ordinary shares during the five trading days prior to grant date.
- (d) Vested after one year at an exercise price not less than 5% in excess of the weighted average sale price of ordinary shares during the five trading days prior to grant date and conditional upon satisfaction of individual key performance indicators as determined by the Remuneration Committee.
- (e) Vested after two years at an exercise price not less than 10% in excess of the weighted average sale price of ordinary shares during the five trading days prior to grant date and conditional upon satisfaction of individual key performance indicators as determined by the Remuneration Committee.
- (f) Vested on 31 July 2007 at an exercise price not less than the weighted average sale price of ordinary shares during the five trading days prior to grant date and conditional upon satisfaction of individual key performance indicators as determined by the Remuneration Committee.
- (g) Vesting 31 July 2008 at an exercise price not less than the weighted average sale price of ordinary shares during the five trading days prior to grant date and conditional upon satisfaction of individual key performance indicators as determined by the Remuneration Committee.
- (h) Vesting 31 July 2009 at an exercise price not less than the weighted average sale price of ordinary shares during the five trading days prior to grant date and conditional upon satisfaction of individual key performance indicators as determined by the Remuneration Committee.
- (i) Vesting 31 July 2010 at an exercise price not less than the weighted average sale price of ordinary shares during the five trading days prior to grant date and conditional upon satisfaction of individual key performance indicators as determined by the Remuneration Committee.
- (j) Vesting 31 December 2008 at an exercise price not less than the weighted average sale price of ordinary shares during the five trading days prior to grant date and conditional upon satisfaction of individual key performance indicators as determined by the Remuneration Committee.



A summary of options to acquire ordinary shares in the Company is as follows:

**Consolidated and the Company**

Grant date	Expiry date	Exercise price	Opening balance	Granted	Exercised	Closing balance	Market value of shares at exercise date
<b>2008</b>							
23 December 2002	22 December 2007	\$0.92	500,000	–	(500,000)	–	\$2.98
6 May 2003	2 May 2008	\$0.81	125,000	–	(125,000)	–	\$3.31
22 July 2004	21 July 2009	\$1.60	300,000	–	(200,000)	100,000	\$3.42
18 November 2004	22 November 2009	\$1.91	1,000,000	–	(1,000,000)	–	\$2.98
24 December 2004	21 December 2009	\$1.85	1,650,000	–	(700,000)	950,000	\$3.71
26 September 2005	25 September 2010	\$2.10	860,000	–	(160,000)	700,000	\$4.03
24 November 2005	24 November 2010	\$2.10	300,000	–	–	300,000	–
24 November 2005	24 November 2010	\$2.21	300,000	–	–	300,000	–
24 November 2005	24 November 2010	\$2.31	300,000	–	–	300,000	–
20 March 2006	19 March 2011	\$2.46	400,000	–	(100,000)	300,000	\$4.07
20 March 2006	19 March 2011	\$2.59	2,110,000	–	(10,000)	2,100,000	\$4.17
20 March 2006	19 March 2011	\$2.71	2,960,000	–	–	2,960,000	–
11 April 2006	11 April 2011	\$2.66	100,000	–	–	100,000	–
16 June 2006	15 June 2011	\$3.00	275,000	–	–	275,000	–
21 July 2006	19 July 2011	\$3.27	1,225,000	–	–	1,225,000	–
30 August 2006	19 July 2011	\$3.27	50,000	–	–	50,000	–
10 November 2006	9 November 2011	\$3.10	80,000	–	(15,000)	65,000	\$4.08
15 January 2007	14 January 2012	\$2.86	150,000	–	–	150,000	–
12 March 2007	11 March 2012	\$2.68	610,000	–	(55,000)	555,000	\$3.94
13 July 2007	14 July 2012	\$3.56	–	2,315,000	–	2,315,000	–
9 October 2007	8 October 2012	\$3.56	–	45,000	–	45,000	–
26 November 2007	10 April 2012	\$2.77	–	500,000	–	500,000	–
26 November 2007	30 August 2012	\$3.18	–	1,000,000	–	1,000,000	–
7 April 2008	6 April 2013	\$3.65	–	125,000	–	125,000	–
16 May 2008	12 May 2013	\$4.10	–	275,000	–	275,000	–
12 June 2008	11 June 2013	\$4.08	–	300,000	–	300,000	–
			13,295,000	4,560,000	(2,865,000)	14,990,000	

# Notes to the Financial Statements

continued

## 21. Employee benefits continued

Grant date	Expiry date	Exercise price	Opening balance	Granted	Exercised	Closing balance	Market value of shares at exercise date
<b>2007</b>							
21 June 2002	20 June 2007	\$0.76	1,900,000	–	(1,900,000)	–	\$3.22
23 December 2002	22 December 2007	\$0.92	500,000	–	–	500,000	–
6 May 2003	2 May 2008	\$0.81	250,000	–	(125,000)	125,000	\$3.40
22 July 2004	21 July 2009	\$1.60	550,000	–	(250,000)	300,000	\$3.40
18 November 2004	22 November 2009	\$1.91	1,000,000	–	–	1,000,000	–
24 December 2004	21 December 2009	\$1.85	1,650,000	–	–	1,650,000	–
26 September 2005	25 September 2010	\$2.10	1,010,000	–	(150,000)	860,000	\$3.28
24 November 2005	24 November 2010	\$2.10	300,000	–	–	300,000	–
24 November 2005	24 November 2010	\$2.21	300,000	–	–	300,000	–
24 November 2005	24 November 2010	\$2.31	300,000	–	–	300,000	–
20 March 2006	19 March 2011	\$2.46	400,000	–	–	400,000	–
20 March 2006	19 March 2011	\$2.59	2,110,000	–	–	2,110,000	–
20 March 2006	19 March 2011	\$2.71	2,960,000	–	–	2,960,000	–
11 April 2006	11 April 2011	\$2.66	100,000	–	–	100,000	–
16 June 2006	15 June 2011	\$3.00	275,000	–	–	275,000	–
21 July 2006	19 July 2011	\$3.27	–	1,225,000	–	1,225,000	–
30 August 2006	19 July 2011	\$3.27	–	50,000	–	50,000	–
10 November 2006	9 November 2011	\$3.10	–	80,000	–	80,000	–
15 January 2007	14 January 2012	\$2.86	–	150,000	–	150,000	–
12 March 2007	11 March 2012	\$2.68	–	610,000	–	610,000	–
			13,605,000	2,115,000	(2,425,000)	13,295,000	

The options outstanding at 30 June 2008 have an exercise price in the range of \$1.60 to \$4.10, and a weighted average remaining contractual life of 3.1 years (2007: 3.2 years). During the financial year, 2,865,000 share options were exercised (2007: 2,425,000). The weighted average share price at the dates of exercise was \$3.33 (2007: \$3.25).

The fair value of services rendered in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a modified binomial option-pricing model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial option-pricing model.



The inputs into the model are shown in the following table:

Grant date	Fair value at measurement date	Weighted average share price	Exercise price	Expected volatility <sup>(i)</sup>	Option life	Expected dividends	Risk-free rate
<b>2008</b>							
13 July 2007	\$0.57 to \$0.71	\$3.56	\$3.56	25.0%	5 years	0% to 3%	6.88%
9 October 2007	\$0.54 to \$0.67	\$3.56	\$3.56	25.0%	5 years	0% to 3%	6.45%
26 November 2007	\$0.51 to \$0.54	\$2.77	\$2.77	25.0%	5 years	0% to 3%	6.13%
26 November 2007	\$0.62 to \$0.68	\$3.18	\$3.18	25.0%	5 years	0% to 3%	7.29%
7 April 2008	\$0.65 to \$0.71	\$3.65	\$3.65	25.0%	5 years	0% to 3%	6.20%
16 May 2008	\$0.75 to \$0.82	\$4.10	\$4.10	25.0%	5 years	0% to 3%	6.21%
12 June 2008	\$0.75 to \$0.82	\$4.08	\$4.08	25.0%	5 years	0% to 3%	6.72%
<b>2007</b>							
21 July 2006	\$0.64	\$3.27	\$3.27	25.0%	5 years	0% to 3%	6.18%
21 July 2006	\$0.53 to \$0.60	\$3.27	\$3.27	25.0%	5 years	0% to 3%	6.18%
30 August 2006	\$0.57	\$3.27	\$3.27	25.0%	5 years	0% to 3%	6.32%
10 November 2006	\$0.47 to \$0.51	\$3.10	\$3.10	25.0%	5 years	0% to 3%	6.18%
15 January 2007	\$0.46	\$2.86	\$2.86	25.0%	5 years	0% to 3%	6.08%
12 March 2007	\$0.45 to \$0.51	\$2.68	\$2.68	25.0%	5 years	0% to 3%	6.34%

(i) Expressed as the weighted average used in the modelling.

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Certain share options granted during the year are subject to service conditions and non-market performance conditions. Non-market performance conditions are not taken into account in the grant date fair value measurement of the services received.

	Consolidated		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Restoration and abandonment	<b>31,740</b>	16,051	–	–
Reconciliation of movements:				
Carrying amount at the beginning of the financial year	<b>16,051</b>	8,901	–	–
Provisions made during the year	<b>13,351</b>	6,805	–	–
Provisions reversed during the year	–	(587)	–	–
Unwind of discount	<b>2,338</b>	932	–	–
Carrying amount at the end of the financial year	<b>31,740</b>	16,051	–	–

Provisions made for environmental rehabilitation are recognised where there is a present obligation as a result of exploration, development or production activities having been undertaken, and it is probable that an outflow of economic benefits will be required to settle the obligation. The estimated future obligations include the costs of removing facilities, abandoning wells and restoring the affected areas. Because of the long-term nature of the liability, the biggest uncertainty in estimating the provision is the costs that will be incurred. In particular, the consolidated entity has assumed that restoration will use technology and materials that are available currently. The basis for accounting is set out in note 1(r).

# Notes to the Financial Statements

continued

	Consolidated		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>23. Taxation payable</b>				
Income tax – Australia	8,551	–	8,551	–
Income tax – New Zealand	4,378	4,663	–	–
Accounting profits royalty – New Zealand	71,086	–	–	–
	<b>84,015</b>	4,663	<b>8,551</b>	–

In accordance with the tax consolidation legislation, the Company as the head entity of the Australian tax-consolidated group has assumed the current tax liability (asset) initially recognised by the members in the Australian tax-consolidated group.

As at 30 June 2008, the Company and consolidated entity had no franking credits.

	Consolidated		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>24. Deferred tax assets and liabilities</b>				
<b>Recognised deferred tax assets and liabilities</b>				
Deferred tax assets and liabilities are attributable to the following:				
Exploration and evaluation assets	(2,482)	(6,726)	–	–
Oil and gas assets	(19,487)	(33,000)	–	–
Inventories	(531)	–	–	–
Employee benefits	169	249	–	–
Provisions	9,475	4,878	–	–
Interest-bearing liabilities	–	(732)	–	–
Cash flow hedge liabilities	–	2,141	–	–
Other	2,255	727	558	603
PRRT and royalty related taxation	(22,144)	3,797	–	–
Tax value of loss carry-forwards recognised	13,423	39,404	13,423	18,220
Net tax (liabilities)/assets	<b>(19,322)</b>	10,738	<b>13,981</b>	18,823
Deferred tax assets	–	17,356	13,981	18,823
Deferred tax liabilities	(19,322)	(6,618)	–	–
Carrying amount at the end of the financial year	<b>(19,322)</b>	10,738	<b>13,981</b>	18,823
<b>Unrecognised deferred tax assets</b>				
Deferred tax assets have not been recognised in respect of the following items:				
Tax losses	16,409	26,744	15,367	22,909



	Consolidated		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>25. Cash flow hedge liabilities</b>				
<b>Current</b>				
Oil price swaps (at fair value)	–	6,971	–	–
Interest rate swaps (at fair value)	–	166	–	–
	–	7,137	–	–

Refer to note 32 details of oil price and interest rate swaps.

## 26. Capital and reserves

### (a) Share capital

451,097,675 (2007: 448,232,675) ordinary shares, fully paid	<b>533,386</b>	528,526	<b>533,386</b>	528,526
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	Consolidated	
	2008 Number of shares	2007 Number of shares
Movements in ordinary shares:		
Balance at the beginning of the financial year	<b>448,232,675</b>	445,807,675
Shares issued for cash from the exercise of options	<b>2,865,000</b>	2,425,000
Balance at the end of the financial year	<b>451,097,675</b>	448,232,675

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

### (b) Equity compensation reserve

The equity compensation reserve represents the fair value of options expensed by the Company to 30 June 2008.

### (c) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where the functional currency is different to the presentation currency of the reporting entity.

### (d) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedging transactions that have not yet occurred.

# Notes to the Financial Statements

continued

## 27. Interests in joint ventures

(a) At the end of the financial year the consolidated entity held the following interests in oil and gas production, exploration and appraisal joint ventures:

Joint venture	Country	Beneficial interest		Beneficial interest	
		2008 Consolidated %	2007 Consolidated %	2008 The Company %	2007 The Company %
TP/15	Australia	25.00	25.00	-	-
WA 31 L	Australia	27.50	27.50	-	-
WA 286 P	Australia	27.50	27.50	-	-
T/L1	Australia	30.00	30.00	-	-
T/RL1	Australia	30.00	30.00	-	-
T/18P	Australia	30.00	30.00	-	-
VIC/L 24	Australia	25.00	25.00	-	-
VIC/P 44	Australia	25.00	25.00	-	-
PMP 38158	New Zealand	42.50	42.50	-	-
PEP 38259	New Zealand	25.00	25.00	-	-
PEP 38401	New Zealand	50.00	50.00	-	-
PEP 38481	New Zealand	40.00	40.00	-	-
PEP 38482	New Zealand	50.00	40.00	-	-
PEP 38483	New Zealand	44.32	44.32	-	-
PEP 38499	New Zealand	42.50	42.50	-	-
PEP 381202	New Zealand	100.00	100.00	-	-
Hector South Sub-block	New Zealand	42.50	42.50	-	-
Bulu Production Sharing Contract (PSC)	Indonesia	42.50	42.50	-	-
Las Bases Exploitation Concession	Argentina	15.00	15.00	-	-

(b) Included in the assets and liabilities of the Company and the consolidated entity are the following items which represent the Company's and the consolidated entity's interest in the assets and liabilities employed in the joint ventures.

	Consolidated		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Current assets</b>				
Cash and cash equivalents	13,843	18,402	-	-
Trade and other receivables	13,534	3,947	-	-
Inventory	3,302	-	-	-
	<b>30,679</b>	22,349	-	-
<b>Non-current assets</b>				
Exploration and evaluation assets	22,363	22,315	-	-
Oil and gas assets	489,659	586,469	-	-
	<b>512,022</b>	608,784	-	-
<b>Total assets</b>	<b>542,701</b>	631,133	-	-
<b>Current liabilities</b>				
Trade and other payables	35,881	30,954	-	-
<b>Total liabilities</b>	<b>35,881</b>	30,954	-	-

Refer to notes 28 and 29 for details of commitments and contingent liabilities.



	Consolidated		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>28. Capital and other commitments</b>				
<b>(a) Capital expenditure commitments</b>				
Contracted but not provided for or payable:				
Not later than one year	77,823	19,493	–	–
<b>(b) Exploration and evaluation expenditure commitments</b>				
Total exploration and evaluation expenditure contracted for but not provided for in the financial statements, payable:				
Not later than one year	93,887	66,699	–	–
Later than one year but not later than five years	107,090	41,800	–	–
	<b>200,977</b>	108,499	–	–

In order to meet contractual obligations and to maintain the various licences, in which the consolidated entity and its respective joint venture partners are involved, the consolidated entity has ongoing commitments as part of its normal operations. The above exploration, evaluation and capital expenditure commitments represent commitments made to the appropriate government authorities, to the respective joint venture partners and to third party contractors. However, these commitments are subject to continual review within the joint ventures in which the consolidated entity is a participant and the extent of future commitments is subject to continual renegotiation.

**(c) Time charter commitments**

Floating Production and Storage Offtake vessel (“FPSO”) time charter contracted for but not provided for in the financial statements, payable:

Not later than one year	27,048	36,184	–	–
Later than one year but not later than five years	65,171	59,878	–	–
Later than five years	29,192	–	–	–
	<b>121,411</b>	96,062	–	–

Refer to note 29 for details of contingent liabilities in relation to the FPSO.

**(d) Non-cancellable operating lease rental commitments**

Future operating lease rentals, not provided for in the financial statements, payable:

Not later than one year	1,018	1,035	–	–
Later than one year but not later than five years	1,879	2,851	–	–
Later than five years	–	–	–	–
	<b>2,897</b>	3,886	–	–

Office premises – the office premises leases expire no later than 4 December 2010. During the financial year \$672,000 was recognised as an expense in the income statement (2007: \$540,000).

BassGas operations – the consolidated entity has entered into a lease contract relating to the provision of generators and compressors for one of its producing oil and gas assets.

**(e) Remuneration commitments**

Commitment for the payment of salaries and other compensation to key management personnel under long-term contracts in existence at the reporting date but not provided for in the financial statements, payable:

Not later than one year	750	–	–	–
Later than one year but not later than five years	875	–	–	–
	<b>1,625</b>	–	–	–

# Notes to the Financial Statements

continued

## 29. Contingencies

- (a) During the year, the BassGas Project Joint Venture (T/L1, Bass Basin, offshore southern Australia) agreed to settle the arbitration with the BassGas construction contractor. As a result of the settlement the proceedings between the parties have been discontinued.
- (b) During the financial year, the consolidated entity reported as the Operator of the Tui Area oil project (PMP 38158, offshore Taranaki Basin, New Zealand) an accidental oil discharge which resulted in a small amount of weathered oil reaching the Taranaki coastline. The incident resulted in a wholly owned controlled entity of the Company being charged by Maritime New Zealand with "Unlawful Discharge Relating to an Oil Spill".
- (c) The Operator of the Tui Area oil project (PMP 38158, offshore Taranaki Basin, New Zealand) has entered into a charter contract for the provision of an FPSO for the Tui Field development. The Charter Contractor built and operates the FPSO as part of the charter arrangement. The contract is for a fixed initial term to 31 December 2015 with options exercisable by the joint venture for seven one-year extensions. The consolidated entity has provided a letter of credit for the benefit of the Charter Contractor amounting to US\$42.5 million. Subsequent to the end of the year and in accordance with the terms of the contract the letter of credit will be reduced to \$US33.0 million.
- (d) The consolidated entity has entered into agreements whereby it will be required to pay a Net Cash Interest to the previous owners of a wholly-owned controlled entity of the Company, AWE Taranaki Limited (previously New Zealand Overseas Petroleum Limited), if returns from the Tui Area oil project in PMP 38158 exceed certain benchmark levels. In addition, the consolidated entity will also pay an overriding royalty interest ("ORRI") on any revenue resulting from the development of any future discoveries made within the Hector South Sub-Block.
- (e) The Company entered into a Merger Implementation Agreement (MIA) with ARC Energy Limited (ARC) during the financial year to effect a merger of the two companies by a scheme of arrangement. The MIA sets out the obligations of ARC and the Company in connection with the implementation of the transaction. In the event that the merger was terminated by the Company an amount of \$4.5 million would be payable by the Company to ARC in certain circumstances. In the event that the merger was terminated by ARC an amount of \$4.5 million would be payable by ARC to the Company in certain circumstances.
- (f) The Company has guaranteed to the Argentine Secretariat of Energy its technical and financial support with respect to obligations of its controlled entity, AWE Argentina Pty Limited to a maximum amount of 3 million Argentine Pesos (A\$1,038,422) (2007: 3 million Argentine Pesos (A\$1,138,088)).
- (g) Under the terms of various joint venture operating and product sales agreements the Company has provided performance guarantees to wholly-owned controlled entities.
- (h) The Company has entered into Indemnity Deeds to indemnify executives of the Company against all liabilities incurred in the course of or arising out of their employment with the Company and its controlled entities, except where the liability results wholly or in part from serious and wilful misconduct by the executive.
- (i) The consolidated entity provides for all known environmental liabilities. There can be no assurance that material new provisions will not be required as a result of new information or regulatory requirements with respect to the consolidated entity's assets.
- (j) The Native Title Act ("NTA") may impact on the consolidated entity's ability to gain access to new prospective exploration areas or obtain production titles. Some of the consolidated entity's onshore petroleum tenements now include land that is the subject of a Native Title claim under the NTA. Under the NTA all claims for Native Title are subject to the rights derived from the grant to the consolidated entity of its existing petroleum tenements for the term of that grant and any routine renewals. The consolidated entity is not liable to pay any compensation to Native Title parties by exercising its rights existing to petroleum tenements.
- (k) The Company has service agreements with four managers that provide for contingency payments under certain circumstances amounting to one year's remuneration for less than 10 years of service and two years' remuneration for greater than 10 years of service in addition to accrued statutory entitlements including long service leave, annual leave and superannuation benefits. These payments represented market practice at the time the terms were agreed. Each of the four managers has no entitlement to termination payment in the event of removal for misconduct.



### 30. Controlled entities

Name	Note	Country of incorporation	2008 %	2007 %
<b>Parent entity</b>				
Australian Worldwide Exploration Limited				
<b>Controlled entities</b>				
AWE Administration Pty Limited	(a)	Australia	<b>100</b>	100
AWE Finance Pty Limited	(a)	Australia	<b>100</b>	100
AWE Overseas Pty Limited		Australia	<b>100</b>	100
AWE Offshore Pty Limited		Australia	<b>100</b>	100
AWE Argentina Pty Limited	(a),(b)	Australia	<b>100</b>	100
AWE New Zealand Pty Limited	(b)	Australia	<b>100</b>	100
AWE Australia Pty Limited		Australia	<b>100</b>	100
AWE Satria (NZ) Ltd	(b)	New Zealand	<b>100</b>	100
AWE Singapore Pte. Ltd	(b)	Singapore	<b>100</b>	100
AWE Holdings NZ Limited	(b)	New Zealand	<b>100</b>	100
AWE Taranaki Limited	(b),(c)	New Zealand	<b>100</b>	100
Omega Oil Pty Ltd	(a)	Australia	<b>100</b>	100
Greenslopes Limited	(b)	Papua New Guinea	<b>100</b>	100
Wells Fargo Resources Pty Ltd	(a)	Australia	<b>100</b>	100
AWE Petroleum Pty Ltd		Australia	<b>100</b>	100
Peedamullah Petroleum Pty Ltd		Australia	<b>100</b>	100
AWE Timor Sea Pty Ltd	(a)	Australia	<b>100</b>	100
AWE Resources (Western Australia) Pty Ltd		Australia	<b>100</b>	100
AWE Oil (Western Australia) Pty Ltd		Australia	<b>100</b>	100
Perthshire Petroleum Pty Ltd	(a)	Australia	<b>100</b>	100
Tepstew Pty Ltd	(a)	Australia	<b>100</b>	100
Western Petroleum Management Pty Ltd	(a)	Australia	<b>100</b>	100
AWE (NSW) Pty Ltd	(a)	Australia	<b>100</b>	100
AWE (Australia) Energy Pty Ltd	(a)	Australia	<b>100</b>	100
AWE Energy (Australasia) Pty Ltd	(a)	Australia	<b>100</b>	100

(a) These controlled entities are small proprietary companies as defined by the Corporations Act 2001 and are not required to prepare and lodge financial reports and directors' reports.

(b) These controlled entities are required to lodge audited individual entity financial statements with the appropriate overseas authority.

(c) AWE Taranaki Limited changed its name from New Zealand Overseas Petroleum Limited on 1 July 2008.

# Notes to the Financial Statements

continued

## 31. Reconciliation of cash flows from operating activities

	Consolidated		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Cash flows from operating activities				
Profit for the period	<b>264,355</b>	35,382	<b>60,708</b>	23,761
Adjustments for:				
Amortisation of oil and gas assets	<b>133,556</b>	45,290	-	-
Amortisation of intangible assets	<b>118</b>	53	-	-
Depreciation	<b>94</b>	90	-	-
Non-cash hedge liability movement	<b>(7,137)</b>	(14,208)	-	-
Net gain on sale of joint venture interests	-	(4,937)	-	-
Net borrowing costs capitalised	-	(1,305)	-	-
Loan establishment fees written off/amortised	<b>452</b>	2,306	-	-
Exploration, evaluation, development and other capitalised costs written off	<b>81,139</b>	28,877	-	-
Unwinding of discount – restoration provisions	<b>2,338</b>	932	-	-
Share-based payments	<b>2,029</b>	1,483	<b>2,029</b>	1,483
Net foreign currency losses/(gains)	<b>12,796</b>	(151)	<b>107</b>	139
Net impairment reversal of receivables due from controlled entities	-	-	<b>(12,481)</b>	(485)
Net impairment reversal of investments in controlled entities	-	-	<b>(12,194)</b>	(21,190)
Non-cash taxation expense	<b>111,314</b>	125	<b>13,392</b>	4,477
Operating profit before changes in working capital and provisions	<b>601,054</b>	93,937	<b>51,561</b>	8,185
Change in assets and liabilities during the financial year:				
Increase in trade and other receivables	<b>(86,064)</b>	(4,462)	<b>(10)</b>	(817)
Increase in inventories	<b>(3,302)</b>	-	-	-
Increase in provisions and employee benefits	<b>156</b>	232	-	-
(Decrease)/increase in accounts payable	<b>(2,365)</b>	(1,746)	<b>380</b>	(22)
Net cash from operating activities	<b>509,479</b>	87,961	<b>51,931</b>	7,346



## 32. Financial risk management

The consolidated entity has exposure to market, credit and liquidity risks from its use of financial instruments in the normal course of its business. This note presents information about the consolidated entity's exposure to each of the above risks.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework of the consolidated entity. The Board has established an Audit Committee and an Operations Risk Committee, which are responsible for developing and monitoring risk management policies.

The Operations Risk Committee's primary role is to advise and assist the Board of Directors in assessing risk factors associated with the execution of projects in which the consolidated entity has equity or participatory interests. The Audit Committee assesses the internal processes for determining and managing key financial risk areas. In addition, the Audit Committee ensures that the consolidated entity has an effective financial risk management system and that macro risks to the Company are reported to the Board. The consolidated entity's financial risk management policies and systems are reviewed annually by the Audit Committee to reflect changes in market conditions and the consolidated entity's activities.

The consolidated entity, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The consolidated entity's management of financial risk aims to ensure that net cash flows are available to fund its business plans. Identification and analysis of relevant financial risks to the achievement of the organisation's objectives forms the basis for determining how risks should be managed. The forecast financial position of the consolidated entity is continually monitored and derivative financial instruments can be used to hedge exposure to fluctuations in interest rates, exchange rates and commodity prices.

Hedging activities are conducted in accordance with the hedging policy endorsed by the Board. The following guidelines have been set by the Board in reviewing proposals to hedge:

- No speculative hedging is to be entered into;
- Only specific commitments and exposures are to be hedged;
- No hedging programme is to be entered into without the prior approval of the Board;
- Hedging transactions must take into account any bank loan covenants that the company has in place; and
- Any hedging programme is to give due consideration to the ability of the company to absorb reasonable downside risk.

### (a) Market risk

#### (i) Commodity price risk

The consolidated entity has revenue from the sale of hydrocarbons – gas, crude oil, condensate and LPG. Australian gas sales are not subject to commodity price risk as the product is sold in Australian Dollars under long-term contracts with CPI escalators in place. However, crude oil, condensate and LPG are priced against world benchmark commodity prices and the consolidated entity is therefore subject to significant commodity price risk for these products.

The consolidated entity may enter into certain derivative instruments to manage its commodity price risk. As at the end of the financial year the consolidated entity has no commodity price hedging or derivatives in place.

The following table summarises the sensitivity of the fair value of financial instruments held at balance date, following a 10% movement in the US dollar oil price, with all other variables held constant.

	Consolidated		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Impact on post-tax profit and equity:				
US dollar oil price +10%	-	(1,043)	-	-
US dollar oil price -10%	-	1,043	-	-

# Notes to the Financial Statements

continued

## 32. Financial risk management continued

### (ii) Interest rate risk

A controlled entity of the Company has available an unsecured corporate loan facility of up to A\$135 million equivalent. This facility was undrawn as at the end of the financial year (refer note 20). When drawn, the Australian Dollar portion of the facility bears interest at the bank bill swap rate plus a margin while the United States Dollar portion of the facility bears interest at LIBOR plus a margin. Borrowings under the facility are floating rate borrowings and if the facility is drawn the consolidated entity would be subject to interest rate risk from movements in the Australian dollar bank bill swap rate and United States dollar LIBOR.

Similarly, the consolidated entity is subject to interest rate risk from movements in the Australian and United States cash rates on cash held.

The consolidated entity may enter into certain derivative instruments to manage its interest rate risk. As at the end of the financial year the consolidated entity has no interest rate hedging or derivatives in place.

The following table summarises the sensitivity of the fair value of financial instruments held at balance date, following a 1% movement in interest rates, with all other variables held constant.

	Consolidated		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Impact on post-tax profit and equity:				
Interest rate +1%	195	197	10	3
Interest rate – 1%	(195)	(197)	10	(3)
At the reporting date the interest rate profile of the Company's and the consolidated entity's interest bearing financial instruments was:				
Fixed	-	-	-	-
Variable	-	111,209	-	-

### (iii) Foreign exchange risk

The consolidated entity operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States and New Zealand dollars.

The consolidated entity is subject to the following significant foreign exchange risks:

- the sale of crude oil, condensate and LPG which are priced against world benchmark United States Dollar commodity prices;
- domestic and international operating, development and exploration expenditures which can be incurred in a number of different currencies, especially United States and New Zealand Dollars; and
- assets and liabilities that are denominated in a currency that is not the entity's functional currency.

The following measures are taken to reduce the consolidated entity's foreign currency exposure:

- surplus funds are held in a mixture of both United States, New Zealand and Australian Dollars;
- where possible specific commitments and exposures are hedged naturally by using United States Dollar revenues to fund United States Dollar denominated expenditures;
- to meet other foreign currency obligations the consolidated entity purchases foreign currency as the obligations accrue; and
- debt facilities have been arranged such that, if required, borrowings can be denominated in both United States and Australian Dollars.

The consolidated entity may enter into certain derivative instruments to manage its foreign exchange risk. As at the end of the financial year the consolidated entity has no foreign exchange hedging or derivatives in place.



The following significant exchange rates applied during the year:

	Average Rate		Reporting Date Spot Rate	
	2008	2007	2008	2007
AUD/USD	<b>0.8960</b>	0.7852	<b>0.9621</b>	0.8468
AUD/NZD	<b>1.1669</b>	1.1470	<b>1.2618</b>	1.1016

  

	Consolidated		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000

The following table summarises the sensitivity of the fair value of financial instruments held at balance date, following a 10% movement in exchange rates, with all other variables held constant.

Impact on post-tax profit and equity:

AUD/USD +10%	<b>(8,216)</b>	467	–	(57)
AUD/USD – 10%	<b>10,070</b>	(575)	–	68

Impact on post-tax profit and equity:

AUD/NZD +10%	<b>(144)</b>	–	–	–
AUD/NZD – 10%	<b>175</b>	–	–	–

The financial instruments denominated in United States dollars and New Zealand dollars are as follows:

United States dollars:

Financial assets

Cash	<b>52,548</b>	20,723	–	881
Trade and other receivables	<b>91,636</b>	9,578	–	–

Financial liabilities

Trade and other payables	<b>(14,692)</b>	–	–	–
Interest-bearing liabilities	–	(30,599)	–	–
Cash flow hedge liabilities	–	(7,072)	–	–

New Zealand dollars:

Financial assets

Cash	<b>77,725</b>	–	–	–
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Financial liabilities

Taxation payable	<b>(75,464)</b>	(4,663)	–	–
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# Notes to the Financial Statements

continued

## 32. Financial risk management continued

### (b) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The credit risk on financial assets of the consolidated entity which have been recognised on the balance sheet is the carrying amount, net of any provision for doubtful debts.

#### Exposure to credit risk

Credit risk arises from the financial performance of:

- Customers receiving supplies of hydrocarbons from the consolidated entity. Trade receivable balances are monitored on an ongoing basis and further, the nature of upstream oil and gas operations is that hydrocarbons are generally sold to large creditworthy companies, with the result being that the consolidated entity's exposure to bad debts is not significant.
- The financial institutions holding the cash and short-term deposits of the consolidated entity. In accordance with Board policy, funds are invested with up to a maximum of eight financial institutions with short-term security ratings of A1 or better and subject to working capital considerations, not more than \$50 million is to be invested with any one financial institution.
- The joint venture participants with which the consolidated entity is involved. If a participant to a joint venture defaults and fails to contribute its share of joint venture obligations, the remaining joint venture participants are liable to meet the obligations of the defaulting participant. In this event the interest in the tenement of the defaulting participant may be redistributed to the remaining participants.

Receivables and cash and cash equivalents represent the Company's and the consolidated entity's maximum exposure to credit risk:

	Consolidated		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Cash	339,190	65,650	18,097	5,394
Trade and other receivables	112,277	22,427	71,035	16,141

The consolidated entity does not hold any credit derivatives to offset its credit exposure.

The ageing of trade receivables at the reporting date was as follows:

	Consolidated		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Less than 1 month	93,776	16,008	–	–

There are no trade receivables past due at the reporting date (2007: Nil).

### (c) Liquidity risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due.

Responsibility for liquidity risk management rests with the Board of Directors who have built an appropriate framework for the management of the consolidated entity's short, medium and long term funding and liquidity management requirements.

The consolidated entity manages liquidity risk by continually monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities. Short and long term cash flow projections are prepared periodically and submitted to the Board at each board meeting of the Company.



Contractual cash flows

	Note	Total \$'000	Less than 1 year \$'000	1-2 years \$'000	2-5 years \$'000	More than 5 years \$'000
<b>2008</b>						
<i>Consolidated</i>						
Trade and other payables	19	42,418	42,418	–	–	–
		42,418	42,418	–	–	–
<i>Company</i>						
Trade and other payables	19	2,651	2,651	–	–	–
<b>2007</b>						
<i>Consolidated</i>						
Trade and other payables	19	34,579	34,579	–	–	–
Interest-bearing liabilities	20	111,209	–	–	111,209	–
Cash flow hedge liabilities	25	7,137	7,137	–	–	–
		152,928	41,716	–	111,209	–
<i>Company</i>						
Trade and other payables	19	594	594	–	–	–

**(d) Net fair values of financial assets and liabilities**

The carrying values of financial assets and liabilities of the consolidated entity and the Company are recognised on the balance sheet at fair value.

The fair values are determined as follows:

- the fair value of financial assets and liabilities with standard terms and conditions and traded on an active liquid market is determined with reference to the quoted price; and
- the fair value of other financial assets and liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analyses.

**(e) Capital management**

The consolidated entity maintains an ongoing review of its capital management program to ensure appropriate allocation of its capital resources.

The first order of priority for capital management initiatives is to ensure repayment of its financial obligations. In this area during the year the company's corporate debt was repaid in full, and it is the consolidated entity's intention to also repay all the outstanding debt of ARC Energy after completion of the proposed merger (refer note 34 for subsequent event note in relation to the proposed merger).

The second order of priority for capital management is to fund new growth initiatives to ensure that AWE shareholders are provided with exposure to high rate of return projects on an ongoing basis. In the current market conditions access to immediate funding can be a distinct corporate advantage.

The overriding objective is to provide strong total shareholder returns. Over the past three years AWE shareholders have enjoyed a total shareholder return of 27% per year, all delivered through share price growth. In the longer term this could be augmented with cash management initiatives including dividends. 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 and paid in a tax effective manner.

# Notes to the Financial Statements

continued

## 33. Related party disclosures

### Key management personnel disclosures

#### (a) Key management personnel compensation

The key management personnel compensation included in note 21 are as follows:

	Consolidated		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Salaries and wages	3,585	2,144	446	394
Share-based payments	1,001	569	1,001	569
Other associated personnel costs	168	106	–	–
	4,754	2,819	1,447	963

#### (b) Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation and some equity instruments disclosures as permitted by Corporations Regulation 2M.3.03 is provided in the remuneration reports section of the directors' report.

Apart from the details disclosed in this note, no director has entered into a material contract with the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

#### (c) Options over equity instruments

The movement during the financial year in the number of options in the Company held, directly, indirectly or beneficially, by each key management person, including their related parties is as follows:

	Opening balance	Granted as remuneration	Exercised	Net change other	Closing balance
<b>2008</b>					
<b>Directors</b>					
B. J. W. Wood	–	1,500,000	–	–	1,500,000
B. J. Phillips <sup>(i)</sup>	1,900,000	–	–	(1,900,000)	–
<b>Executives</b>					
L. J. Brooks	1,500,000	150,000	–	–	1,650,000
R. D. Frith	2,000,000	150,000	(1,000,000)	–	1,150,000
N. F. Kelly	1,280,000	150,000	(100,000)	–	1,330,000
I. D. Palmer <sup>(ii)</sup>	800,000	100,000	(100,000)	–	800,000
D. Washer <sup>(ii)</sup>	325,000	150,000	–	–	475,000
<b>2007</b>					
<b>Directors</b>					
B. J. Phillips	2,900,000	–	(1,000,000)	–	1,900,000
<b>Executives</b>					
L. J. Brooks	1,850,000	150,000	(500,000)	–	1,500,000
R. D. Frith	1,850,000	150,000	–	–	2,000,000
N. F. Kelly	1,450,000	130,000	(300,000)	–	1,280,000

(i) Mr B. Phillips retired as a director on 31 August 2007 and remained as an employee until 31 December 2007. Options held by Mr Phillips at his termination as an employee can be exercised until 24 November 2010.

(ii) Mr I. D. Palmer and Mr D. Washer have been included as Key Management Personnel effective 1 July 2007.

#### (d) Movements in shares

The movement during the financial year in the number of ordinary shares in the Company held, directly, indirectly or beneficially, by each key management person, including their related parties is as follows:

	Opening balance	Granted as remuneration	Received on exercise of options	Net change other	Closing balance
<b>2008</b>					
<b>Directors</b>					
B. G. McKay	321,213	–	–	(55,603)	265,610
B. J. W. Wood	50,050	–	–	88,000	138,050
B. J. Phillips <sup>(i)</sup>	3,743,913	–	–	(3,743,913)	–
C. C. Green	43,293	–	–	–	43,293
E. S. Smith	12,019,239	–	–	(161,401)	11,857,838
D. I. McEvoy	30,000	–	–	–	30,000
A. J. Hogendijk <sup>(ii)</sup>	–	–	–	–	–
<b>Executives</b>					
L. J. Brooks	976,910	–	–	(115,000)	861,910
R. D. Frith	–	–	1,000,000	(500,000)	500,000
N. F. Kelly	25,476	–	100,000	(100,000)	25,476
I. D. Palmer <sup>(iii)</sup>	–	–	100,000	–	100,000
D. Washer <sup>(iii)</sup>	–	–	–	20,000	20,000
<b>2007</b>					
<b>Directors</b>					
B. G. McKay	321,213	–	–	–	321,213
B. J. Phillips	3,743,913	–	1,000,000	(1,000,000)	3,743,913
B. J. W. Wood	–	–	–	50,050	50,050
C. C. Green	43,293	–	–	–	43,293
E. S. Smith	12,019,239	–	–	–	12,019,239
R. Dumbrell	43,293	–	–	(43,293)	–
R. M. Griffin	33,805	–	–	(33,805)	–
D. I. McEvoy	–	–	–	30,000	30,000
J. C. M. A. M Deuss	48,660,000	–	–	(48,660,000)	–
T. W. Ulrich	–	–	–	–	–
<b>Executives</b>					
L. J. Brooks	621,147	–	500,000	(144,237)	976,910
R. D. Frith	–	–	–	–	–
N. F. Kelly	25,476	–	300,000	(300,000)	25,476

No shares were granted to key management personnel during the financial year as remuneration.

(i) Mr B. Phillips retired as a director on 31 August 2007 and remained as an employee until 31 December 2007. Options held by Mr Phillips at his termination as an employee can be exercised until 24 November 2010.

(ii) Mr A. J. Hogendijk was appointed as a director 4 October 2007.

(iii) Mr I. D. Palmer and Mr D. Washer have been included as Key Management Personnel effective 1 July 2007.

The disclosures above may not be consistent with the disclosure in the Directors' Report as the basis of calculation differs due to the differing requirements of the Corporations Act 2001 and the Accounting Standards.

# Notes to the Financial Statements

continued

## 33. Related party disclosures *continued*

### (e) Key management personnel transactions with the Company or its controlled entities

No loans have been made to key management personnel. The Company has entered into Indemnity Deeds to indemnify executives of the Company against certain liabilities incurred in the course of performing their duties.

#### *Non-key management personnel disclosures*

The consolidated entity has a related party relationship with its controlled entities (note 30), joint ventures (note 27) and with its key management personnel. The Company and its controlled entities engage in a variety of related party transactions in the ordinary course of business. These transactions are generally conducted on normal terms and conditions.

Details of related party transactions and amounts with controlled entities are set out in:

Note 6 – Interest income from controlled entities.

Note 12 – Amounts receivable from controlled entities.

Note 19 – Amounts owing to controlled entities.

## 34. Events Subsequent to Balance Date

### Merger with ARC Energy Limited

ARC Energy Limited (ARC) and Australian Worldwide Exploration Limited announced in April 2008 that their respective Boards had unanimously agreed to merge the two companies. The proposed transaction between ARC and AWE comprises:

- the Demerger – the transfer of ARC's interests in the Canning Basin tenements and the exploration for oil and gas in respect of those tenements (together with related assets and liabilities) to a new company, Buru Energy, and the subsequent demerger of 85% of Buru Energy to ARC Shareholders; and
- the Merger – the acquisition of ARC (following the Demerger) by AWE.

The transaction is proposed to be effected by way of a scheme of arrangement, which requires the approval of the Court and of ARC Shareholders. ARC shareholders approved on 5 August 2008 the proposed merger of ARC and AWE and the demerger of Buru Energy. On 8 August 2008 an order was made by the Federal Court approving the scheme of arrangement to implement the merger of ARC and AWE and the demerger of Buru Energy. The implementation of the merger and demerger and the transfer of consideration to ARC shareholders are expected to occur 25 August 2008.

### Vic/P 44, Otway Basin, Australia (AWE share 25.0%)

A two well exploration program started in the permit in June 2008. The Pecten East-1 well was drilled to a total measured depth of 1,993 metres subsequent to year end. Gas shows were reported in the two main reservoir targets, but were proven to be residual after the assessment of wireline logs and pressure tests.

The Netherby-1 well has been successfully drilled since the end of the year. Good quality gas bearing Waarre A Sandstones were intersected and the extent of the new field is interpreted to be in line with pre drill expectations. The production well Netherby-1 ST1, will now be completed as a future producer.

Other than as disclosed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in subsequent financial years.