

DIRECTORS' REPORT

The directors present their report together with the financial report of Australian Worldwide Exploration Limited (the "Company") and of the consolidated entity ("AWE"), being the Company and its controlled entities, for the year ended 30 June 2009 and the auditor's report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year are:

Bruce G. McKay BSc (Hons) Geol, FIEAust, FAICD

Independent Non-executive Chairman

Bruce McKay is a geologist with almost 40 years experience in professional, management and executive roles in the upstream oil and gas industry.

Bruce is an Honorary Life Member of APPEA, a member of PESA and the American Association of Petroleum Geologists, a Fellow of the Institution of Engineers Australia and a Fellow of the Australian Institute of Company Directors. He is the non-executive Chairman of Epic Energy Holdings Pty Ltd and is also an executive coach with the Stephenson Mansell Group. He was formerly a director of Sydney Gas Company Ltd.

Bruce was appointed Chairman of the Board of AWE on 19 March 1997. He is Chairman of the Remuneration Committee and a member of the Operations Risk Committee.

Bruce J. W. Wood BE (Hons) Mining

Managing Director

Bruce Wood is a petroleum engineer with over 30 years of technical, commercial and management experience in the upstream oil and gas industry. In addition to extensive experience in Australia, he has also lived and worked in Holland, France, the United States of America and Central America.

Prior to joining AWE, Bruce was the General Manager and a director of Delhi Petroleum Pty Ltd.

Bruce was appointed executive director of AWE on 11 April 2007.

Colin C. Green FCA

Independent Non-executive Director

Colin Green is a chartered accountant with 47 years experience in the corporate finance and business sector. Formerly a partner of KMG Hungerford, Hancock and Offner, Colin also previously held the position of Executive Director Corporate at TNT Australia.

Colin was appointed a non-executive director of AWE at its incorporation on 17 March 1997. He is Chairman of the Audit Committee and a member of the Remuneration Committee.

David I. McEvoy BSc (Physics), Grad Dip (Geophysics)

Independent Non-executive Director

David McEvoy has a petroleum geoscience background with almost 40 years experience in international exploration and development. He has held several senior executive positions in affiliates of ExxonMobil, most recently Vice President, Business Development in ExxonMobil Exploration Company from 1997 to 2002.

David is currently a non-executive director of Woodside Petroleum Ltd, Po Valley Energy Ltd and Innamincka Petroleum Ltd.

David was appointed a non-executive director of AWE on 22 June 2006. He is a member of the Audit Committee and Chairman of the Operations Risk Committee.

Andy J. Hogendijk AAUQ, FCPA, FAICD

Independent Non-executive Director

Andy Hogendijk has had an extensive senior financial management career with Suncorp Metway, Commonwealth Bank and the John Fairfax Group and roles with Shell Company of Australia and Australian Paper Manufacturers.

Andy is a fellow of CPA Australia and is a non-executive director of Magellan Flagship Fund Limited. He was formerly Chairman of Gloucester Coal Limited and a non-executive director of Aditya Birla Minerals Limited. He was appointed as a non-executive director of AWE on 4 October 2007 and is a member of the Audit Committee.

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Directors of the Company who resigned during the financial year are listed below:

Edward S. Smith

Independent Non-executive Director

Edward Smith is a businessman with investments in exploration, mining and petroleum companies. He is a non-executive Chairman of Impress Ventures Ltd, an oil exploration company. He was formerly a director of Jupiter Energy Limited and Carpathian Resources Limited and non-executive Chairman of Jupiter Biofuels Limited.

Edward was formerly Chairman of Omega Oil NL and was appointed a non-executive director of AWE on 14 January 2000. Edward resigned as a director on 16 June 2009.

Company Secretary

Neville Kelly BCom (Merit), CPA

Chief Financial Officer and Company Secretary

Neville Kelly is an accountant with 27 years commercial experience including over 20 years in the upstream sector of the Australian oil and gas industry, including 12 years experience with Bridge Oil Limited. Neville is also the Chief Financial Officer of AWE and joined the Company on its public listing in 1997. He is responsible for all aspects of AWE's financial, accounting and secretarial operations.

Neville was appointed to the position of Company Secretary in October 1999.

Directors' Meetings

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of the Company during the financial year were:

Director	Directors' Meetings		Audit Committee Meetings		Remuneration Committee Meetings		Operations Risk Committee Meetings	
	A	B	A	B	A	B	A	B
B. G. McKay	6	6	-	-	3	3	3	3
B. J. W. Wood	6	6	-	-	-	-	-	-
C. C. Green	6	6	5	5	3	3	-	-
E. S. Smith	5	6	-	-	2	3	2	3
D. I. McEvoy	6	6	5	5	-	-	3	3
A. Hogendijk	6	6	5	5	-	-	-	-

A - Number of meetings attended.

B - The number of meetings held during the time that the director held office during the financial year.

Remuneration Report

The Remuneration Report is set out on pages 39 to 50 and forms part of the Directors' Report for the financial year ended 30 June 2009.

Corporate Governance Statement

Details of the Company's corporate governance practices are included in the Corporate Governance Statement that is set out on pages 51 to 58 and forms part of the Directors' Report for the financial year ended 30 June 2009.

Principal Activities

The principal activities of the consolidated entity during the course of the financial year included:

- exploration for oil and gas;
- appraisal and development of oil and gas properties; and
- production and sale of oil, gas and condensate.

Operating and Financial Review

Overview of the consolidated entity

Year to June	2009	2008	% Change
Gas production (PJ)	18.4	15.6	+18%
LPG production (tonnes)	19,802	13,197	+50%
Condensate production (bbls)	298,000	239,000	+25%
Oil production (bbls)	5,149,000	6,876,000	-25%
Total production ('000 BOE)	8,746	9,875	-11%
Sales revenue (\$'000)	589,577	821,230	-28%
Net field contribution (\$'000)*	476,013	738,749	-36%
Pre-tax profit (\$'000)	213,065	503,971	-58%
Net profit after tax (\$'000)	88,578	264,355	-66%

* Sales revenue less production costs.

Shareholder Returns

	2009	2008	2007	2006	2005	2004	2003
Profit/(loss) (\$'millions)	88.58	264.36	35.38	(1.4)	(11.48)	5.96	10.06
Year end share price (\$)	2.57	4.16	3.64	3.42	2.02	1.52	0.82
Change in share price (\$)	(1.59)	0.52	0.22	1.40	0.50	0.70	0.05
Total shareholder return	(35%)	14%	6%	69%	33%	85%	6%
Relative to ASX 200 Energy Index	(11%)	(21%)	(12%)	38%	(31%)	45%	10%
Relative to ASX 200 Index	(15%)	31%	(17%)	50%	12%	69%	12%

Summary of financial performance

AWE's sales revenues fell during the year from the record year in 2008-09. The reduction came from both the lower oil and gas production during the year, as expected, in addition to the sharp reduction in US\$ oil prices.

Net field contribution also fell sharply, as lower revenues impacted on returns from the oil and gas operations, while operating costs were higher due to the merger of new businesses, in particular the onshore Perth Basin operations.

A pre-tax profit of \$213 million was reported for the year, after the expensing of \$66 million of exploration and evaluation expenses and \$62 million in asset impairment.

After tax AWE reported a net profit of \$89 million, a 66% decline on the previous record year. This represents earnings per share of 17 cents.

Taxation

Taxation expense for the year amounted to \$124 million, which represents an effective tax rate of 58.4%. The high effective tax rate has been primarily caused by the application of tax effect accounting to the consolidated entity's Petroleum Resource Rent Tax ("PRRT") and Accounting Profits Tax ("APR") projects. As a producer of oil and gas in Australian and New Zealand offshore waters, the consolidated entity is subject to, in addition to income tax, additional government imposts in the form of PRRT in Australia and APR in New Zealand.

The non-deductibility of exploration costs incurred outside of Australia or New Zealand, foreign exchange translation differences and not recognising the deferred tax asset on the impairment recognised on the consolidated entity's listed investments have all contributed to the high effective tax rate.

The taxation expense for the consolidated entity can be summarised as follows:

	Consolidated 2009 \$'000	2008 \$'000
Income tax expense – Australia	(12,556)	8,551
Income tax expense – New Zealand	73,582	131,262
Royalty related taxation – current**	68,880	73,862
Deferred PRRT and royalty related tax expense	(5,419)	25,941
	124,487	239,616

** PRRT and Accounting Profits royalty are deductible for income tax purposes.

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Summary of Financial Position

AWE's balance sheet remains very strong, with in excess of \$356 million of cash as at June 2009, a small increase on the prior year. A \$52 million special dividend was also paid during the year.

Development and exploration expenditure reached a total of \$135 million during the year, excluding the expenditures associated with the Arc Energy merger. Exploration spending is expected to rise sharply in the 2009-10 year, mainly in southern Australia and New Zealand, in addition to ongoing activity in Indonesia and Yemen. Further development expenditure on the Henry gas project and the FEED work at BassGas will also contribute to a substantial lift in exploration and development expenditures in the 2009-10 year.

AWE retains access to the unsecured corporate loan facility of A\$135 million until December 2009. This facility remains undrawn at the end of June, 2009.

Merger with Arc Energy Limited ("Arc")

The Arc merger was implemented on August 25, 2008, resulting in the expansion of AWE's interests in some key oil and gas projects and several prominent exploration plays.

Progress on Cornerstone Assets

In New Zealand, the Tui Area oil project (PMP 38158, offshore Taranaki Basin, New Zealand, AWE share 42.5%) completed its second year of safe production operations and again exceeded the expectations of the project participants. Gross oil production of 9.1 million barrels or an average of approximately 25,000 bopd was slightly ahead of market guidance. The next phase of activity at Tui will be seen late in 2009, where a 2-well appraisal/near field exploration program is scheduled.

The BassGas project (T/L1, Bass Basin, offshore southern Australia, AWE share 42.5%, following implementation of the merger with Arc Energy, AWE's share of the BassGas project increased from 30.0% to 42.5%) continued its routine production operations during the year, achieving gross gas sales of 17.6 PJ and strong condensate and LPG yields. Production levels were impacted slightly by both scheduled and unscheduled maintenance during the year, but at year end the operations were producing consistently at rates of up to 70 TJ per day. Early planning and design work has started on the next phase of development for BassGas, including the drilling of additional wells at Yolla and the potential installation of compression on the Yolla platform.

The Casino gas project (VIC/L 24, Otway Basin, offshore southern Australia, AWE share 25%) continued its normal strong production performance during the year, producing in excess of 33 PJ of gas, in line with the long term contracted rates. The Henry gas project, being the development adjacent to Casino, suffered from some delays during the year, but following the execution of contracts for the offshore pipeline installation, the development is expected to be completed in the coming year.

The Cliff Head oil project (WA 31 L, Perth Basin, offshore Western Australia, AWE share 57.5%, following implementation of the merger with Arc Energy, AWE's share of the Cliff Head oil project increased from 27.5% to 57.5%) produced 1.9 million barrels of oil during the year, at an average rate of approximately 5,250 bopd. The flow rates were lower than previous, as a result of natural field decline and some problems with the downhole pumps. Plans for the workover operations to replace some pumps have been initiated to assist in arresting the decline rates.

AWE acquired the onshore Perth Basin operations through the merger with Arc Energy Limited. The production operations comprise a series of small oil and gas fields to the south of Dongara, with total net oil and gas production of 0.3 million barrels of oil and 2.9 PJ of gas being achieved from these operation for AWE during the year. A 4-well drilling program has been undertaken to provide additional production and to test some of the undrilled prospects in the region.

Drilling Activity

AWE completed a successful drilling campaign in the offshore Otway Basin in the early part of the year, with a successful gas discovery (Netherby-1) being drilled. The exploration phase was followed by two successful development wells, both of which were successfully suspended for future gas production through the Henry gas development.

Later in the year, AWE participated in the initial stages of a 4-well program in the onshore Perth Basin. This drilling, a mix of exploration and development wells, which had some success, has continued into the 2010 financial year.

In Vietnam, AWE participated in the Tuong Vi-1 exploration well in the Nam Con Son Basin as part of the exploration-led strategy in Asia. The well was unsuccessful and AWE intends to withdraw from this permit.

2008-2009

Well Name	Location	AWE share	Comments
Pecten East-1	Otway	25.0%	Plugged and abandoned with gas shows
Netherby-1	Otway	25.0%	Commercial gas discovery
Netherby-1 ST1	Otway	25.0%	Successful gas development well
Henry-2	Otway	25.0%	Successful gas development well
Hovea-13	Perth	50.0%	Successful oil development well
Apium North-1	Perth	50.0%	Plugged and abandoned
Tuong Vi-1	Nam Con Son	22.3%	Plugged and abandoned

The 2010 program is focused on the long awaited activity in the Bass and Taranaki Basins. This activity has been delayed due to the late arrival of the Kan Tan IV offshore drilling rig. In addition, AWE is planning drilling in Indonesia, following the success in 2008 and is also drilling for the first time in Yemen in the December quarter.

Based on our current drilling schedule, the company expects to participate in the following wells during the 2009-10 financial year:

2009-2010

Well Name	Location	AWE share	Timing/Comments
Jingemia-12	Perth	44.1%	Successful oil development well
Redback South-1	Perth	33.3%	August 2009
Trefoil-2	Bass	47.5%	September 2009
Rockhopper-1	Bass	47.5%	October 2009
Hoki-1	Taranaki	50.0%	December quarter 2009
Tui NE-1	Taranaki	42.5%	December quarter 2009
Spatha-1	Shabwa (Yemen)	19.25%	December quarter 2009
Unnamed well	East Java	42.5%	December quarter 2009
Further Tui well	Taranaki	42.5%	March quarter 2010
Tuatara-1	Taranaki	100%	March quarter 2010

Note: Timing of the exploration program is subject to change, but the table above reflects the expected timing as of the date of this report.

Future Performance and Strategy

AWE has not been immune from the difficult financial conditions which have prevailed over the past 12 months. Sharply lower oil prices have severely impacted revenues and overall returns, but the strong balance sheet and appetite for growth means that AWE is better positioned to prosper into the future than a number of our peer group in the oil and gas sector.

AWE has embarked on a very exciting exploration program, which will continue for the next nine months. This program will see continuous drilling activity in four countries: Australia, New Zealand, Indonesia and Yemen.

AWE management have continued to evaluate new opportunities. This activity will crystallise value for shareholders if the right opportunity is unearthed and delivered.

The Company looks forward to the next year. AWE is financially strong and debt free, with an ongoing appetite for growth in shareholder value.

Significant Changes in the State of Affairs

Other than as set out below, in the opinion of the directors there were no significant changes in the state of affairs of the consolidated entity during the financial year under review.

The implementation of the Arc Energy merger was completed on August 25, 2008. The merger has united complimentary companies providing benefits to shareholders. The merger has increased AWE's interests in the BassGas and Cliff Head projects, where AWE is a major participant and has expanded the exploration and development options for the company.

Completion of the merger with Arc resulted in the issue of 69.7 million new AWE shares as partial consideration for the transaction with the remaining consideration represented by cash of \$161.6 million (excluding transaction costs of \$13.7 million).

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Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

	Cents per Share	Total amount \$'000	Franking	Date of payment
Declared and paid during the 2009 financial year:				
Special dividend	10.0	52,082	Franked	30 January 2009

Franked dividends declared as paid during the year were franked at the rate of 30 per cent.

Events Subsequent to Balance Date

Subsequent to the end of the financial year, AWE acquired a further 5% interest in exploration permit T18/P in the offshore Bass Basin from CalEnergy Gas Australia Limited increasing its equity in the block from 42.5% to 47.5%. The purchase, at a net cost of approximately \$9 million (including drilling costs), will be funded from existing cash reserves. The transaction remains subject to the completion of joint venture and governmental approvals.

Likely Developments

In the opinion of the directors, the provision of further information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations would be likely to result in unreasonable prejudice to the consolidated entity and, accordingly, has not been included in this report.

Directors' Interests

The relevant interest of each director in the share capital of the Company, as notified by the directors to the Australian Securities Exchange ("ASX") in accordance with section 205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Fully paid ordinary shares	Employee share options	Exercise price	Expiry date
B. G. McKay	223,805	–	–	–
B. J. W. Wood	138,050	500,000 1,000,000	\$2.77 \$3.18	10 April 2012 30 August 2012
C. C. Green	43,293	–	–	–
D. I. McEvoy	–	–	–	–
A. Hogendijk	–	–	–	–

No directors' interests are subject to margin loans.
Details of employee share options are set out under "Options".

Options

Under the Company's Share Option Plan, options to subscribe for ordinary shares in the Company are issued 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.

During or since the end of the financial year, the Company granted options for no consideration over unissued ordinary shares to the following officers:

	Grant date	Number	Exercise price	Exercise period ⁽¹⁾	
				Start date	Expiry date
R. D. Frith	14 August 2008	100,000	\$3.28	31 July 2011	14 August 2013
L. J. Brooks	14 August 2008	100,000	\$3.28	31 July 2011	14 August 2013
N. F. Kelly	14 August 2008	100,000	\$3.28	31 July 2011	14 August 2013
I. D. Palmer	14 August 2008	100,000	\$3.28	31 July 2011	14 August 2013
D. Washer	14 August 2008	100,000	\$3.28	31 July 2011	14 August 2013
B. W. Wray	14 August 2008	100,000	\$3.28	31 July 2011	14 August 2013

(1) The exercise of these options is subject to the satisfaction of performance conditions (refer to the Remuneration Report on pages 39 to 50).

At the date of this report the details of options on issue under the Company's Share Option Plan are as follows:

Number	Exercise price	Expiry date
950,000	\$1.85	21 December 2009
700,000	\$2.10	25 September 2010
300,000	\$2.10	24 November 2010
300,000	\$2.21	24 November 2010
300,000	\$2.31	24 November 2010
300,000	\$2.46	19 March 2011
2,100,000	\$2.59	19 March 2011
2,960,000	\$2.71	19 March 2011
100,000	\$2.66	11 April 2011
275,000	\$3.00	15 June 2011
1,275,000	\$3.27	19 July 2011
65,000	\$3.10	9 November 2011
150,000	\$2.86	14 January 2012
555,000	\$2.68	11 March 2012
2,315,000	\$3.56	14 July 2012
45,000	\$3.56	8 October 2012
500,000	\$2.77	10 April 2012
1,000,000	\$3.18	30 August 2012
125,000	\$3.65	6 April 2013
275,000	\$4.10	12 May 2013
300,000	\$4.08	11 June 2013
1,566,000	\$3.28	14 August 2013
75,000	\$2.60	15 January 2014
437,500	\$2.75	15 June 2014
16,968,500		

During or since the end of the financial year, the Company issued ordinary shares as a result of the exercise of options as follows (there were no amounts unpaid on the shares issued):

Number	Exercise price
100,000	\$1.60

Indemnification and Insurance of Officers

Under the Company's Constitution, and to the extent permitted by law, every person who is, or has been, a director or secretary is indemnified against:

- a. a liability incurred by that person, in his or her capacity as a director or secretary, to another person (other than the Company or a related body corporate of the Company) provided that the liability does not arise out of conduct involving a lack of good faith; or
- b. a liability for costs and expenses incurred by that person:
 - i. in defending any proceedings in which judgement is given in that person's favour, or in which that person is acquitted or
 - ii. in connection with an application in relation to any proceedings in which the Court grants relief to that person under the Corporations Act.

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During the financial year, the Company paid premiums based on normal commercial terms and conditions to insure all directors, officers and employees of the Company against the costs and expenses in defending claims brought against the individual while performing services for the consolidated entity. The premium paid has not been disclosed as it is subject to the confidentiality provisions of the insurance policy.

The Company has entered into Indemnity Deeds to indemnify directors and certain 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.

Non-audit Services

During the year, KPMG, the Company's auditor, has performed certain other services in addition to its statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the Audit Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below. In addition, amounts paid to other auditors for the statutory audit have been disclosed:

	Consolidated	
	2009	2008
	\$	\$
Statutory audit:		
Auditors of the Company		
KPMG Australia – audit and review of financial reports	356,287	168,895
Overseas KPMG firms – audit and review of financial reports	8,730	6,477
	365,017	175,372
Other auditors – audit and review of financial reports	2,263	2,547
	367,280	177,919
Services other than statutory audit:		
KPMG Australia		
– Taxation compliance services	493,056	248,011
– Taxation services (Arc Energy Limited Scheme of Arrangement)	64,281	313,575
Overseas KPMG firms		
– Taxation compliance services	310,069	115,881
– Other assurance services	36,733	10,526
	904,139	687,993