NOTES TO THE FINANCIAL STATEMENTS
30 June 2009

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 2009 comprises the Company and its controlled entities (together referred to as the "consolidated entity").

a. Basis of preparation

i. 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 and the financial report of the Company also complies with IFRSs and interpretations adopted by the International Accounting Standards Board. The accounting policies set out in Note 1 have been applied consistently to all periods presented in this consolidated financial report.

The consolidated financial report was authorised for issue by the directors on 25 August 2009.

ii. Functional and presentation currency

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.

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.

iii. Basis of measurement

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

iv. New standards and interpretations not yet adopted

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, may have disclosure impact.

The consolidated entity has elected to early adopt the revised AASB 3 Business Combinations effective for transactions occurring after 1 July 2008. In accordance with this standard Arc merger costs of $13.7 million have been expensed in the period.

v. Uses of estimates and judgements

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.

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 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:

Exploration and evaluation assets

The consolidated entity's accounting policy for exploration and evaluation expenditure is set out at Note 1(m). The application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under this policy, management concludes that the capitalised expenditure is unlikely to be recovered by future exploitation or sale, then the relevant capitalised amount will be written off to the income statements. Changes in assumptions may result in a material adjustment to the carrying amount of exploration and evaluation assets.

1. Statement of significant accounting policies continued

Restoration obligations

The consolidated entity estimates the future removal costs of production facilities and wells at the time of installation of the assets. In most instances, removal of assets occurs many years into the future. This requires judgemental assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, future removal technologies in determining the removal cost, and asset specific discount rates to determine the present value of these cash flows. The consolidated entity's accounting policy for restoration obligations are set out at Note 1(s).

Reserve estimates

Estimates of recoverable quantities of proven and probable reserves reported include assumptions regarding commodity prices, exchange rates, discount rates, production and transportation costs for future cash flows. It also requires interpretation of complex and difficult geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact asset carrying values, the provision for restoration and the recognition of deferred tax assets, due to changes in expected future cash flows. Reserves are integral to the amount of depreciation and amortisation charged to the income statement.

Impairment of oil and gas assets

The consolidated entity assesses whether oil and gas assets are impaired when preparing its annual and interim financial reports. Estimates of the recoverable amount of oil and gas assets are made based on the present value of future cash flows.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity investments at the date of which they are granted. The fair value is determined using the binomial option-pricing model.

Cost of carbon emissions

The Australian Federal Government has proposed introducing a Carbon Pollution Reduction Scheme (CPRS) by 2010 and the New Zealand Government has proposed introducing the Climate Change (Stationary Energy and Industrial Processes) Regulations (SEIP). The introduction of the CPRS and the SEIP has the potential to significantly impact the assumptions used to determine the future cash flows generated from the continuing use of the consolidated entity's assets for the purpose of value in use calculations in impairment testing. The consolidated entity has not yet incorporated the impact of CPRS or SEIP into their assumptions at 30 June 2009 as insufficient market information existed. The carrying amount of the assets that could be affected by the CPRS and SEIP at 30 June 2009 is $761.8 million (refer to Note 16).

b. 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.

c. 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 are translated to Australian dollars at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

d. 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 (refer Note 1(e)).

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.

e. 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.

f. Impairment

The carrying amounts of the Company's and the consolidated entity's assets, other than inventories (refer Note 1(i)) and deferred tax assets (refer Note 1(v)), 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 post-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.

1. Statement of significant accounting policies continued

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.

g. 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.

h. Trade and other receivables

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

i. 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.

Other inventories are recorded at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

j. Available for sale financial assets

Investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised directly in a separate component of equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value. Significant and prolonged impairment losses are recognised in profit and loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

k. Associates (Equity accounted investment)

Associates are those entities in which the consolidated entity has significant influence, but not control, over the financial and operating policies. The consolidated financial statements includes the consolidated entity's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the consolidated entity's share of losses exceeds its interest in an associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the consolidated entity has incurred legal or constructive obligations or made payments on behalf of an associate.

l. 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% (2008: 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.

m. 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.

n. 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.

o. Intangible assets

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

p. Trade and other payables

Trade and other payables are stated at cost.

q. 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.

r. 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
30 June 2009 continued

1. Statement of significant accounting policies continued

s. 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.

t. 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.

u. Leased assets

Leases in terms of which the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised on the consolidated entity’s balance sheet.

v. 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 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.

w. 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.

x. 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.

NOTES TO THE FINANCIAL STATEMENTS
30 June 2009 continued

2. Revenue

	Consolidated		The Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Sales revenue – oil and gas	589,577	821,230	–	–
Other revenue				
Other	685	243	–	–
	685	243	–	–
	590,262	821,473	–	–

3. Cost of sales

	Consolidated 2009 $'000	Consolidated 2008 $'000	The Company 2009 $'000	The Company 2008 $'000
Production costs	113,564	82,481	–	–
Amortisation	128,578	133,556	–	–
Movement in oil inventory	(1,379)	(3,402)	–	–
	240,763	212,635	–	–

4. Other income

	Consolidated 2009 $'000	Consolidated 2008 $'000	The Company 2009 $'000	The Company 2008 $'000
Gain on close out of Arc Energy Limited hedge book	8,722	–	–	–
Foreign exchange gain	13,455	–	8	–
Reversal of gas trading provision	3,650	–	–	–
Dividend income – controlled entities	–	–	138,025	31,075
Impairment reversal of loss on investment in controlled entities	–	–	–	12,194
Impairment reversal of receivables due from controlled entities	–	–	–	12,481
	25,827	–	138,033	55,750

5. Other expenses

	Consolidated 2009 $'000	Consolidated 2008 $'000	The Company 2009 $'000	The Company 2008 $'000
Merger costs expensed	13,716	–	–	–
Hedge ineffectiveness loss	–	2,243	–	–
Share option plan	1,464	2,029	1,464	2,029
Foreign exchange loss	–	12,796	–	107
Other	907	665	–	–
	16,087	17,733	1,464	2,136

6. Net financing income

	Consolidated 2009 $'000	Consolidated 2008 $'000	The Company 2009 $'000	The Company 2008 $'000
Interest income	11,705	8,220	948	513
Financial income	11,705	8,220	948	513
Interest expense	–	(4,048)	–	–
Other borrowing costs	(1,865)	(1,418)	–	–
Unwinding of discount – restoration provisions	(5,991)	(2,338)	–	–
	(7,856)	(7,804)	–	–
Net financing income	3,849	416	948	513

7. Taxation (expense)/benefit

	Consolidated		The Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Recognised in income statement				
Current tax (expense)/benefit:				
Current year	(143,113)	(210,057)	–	(8,551)
Net effect of tax funding agreement	–	–	(7,063)	23,233
Adjustments for prior years	4,909	501	1,032	(1,480)
	(138,204)	(209,556)	(6,031)	13,202
Deferred tax expense:				
Origination and reversal of temporary differences	(10,746)	21,862	(208)	(44)
Net effect of tax losses recognised	19,044	(25,981)	19,044	(4,797)
	8,298	(4,119)	18,836	(4,841)
Deferred PRRT and royalty related tax expense	5,419	(25,941)	–	–
Total tax (expense)/benefit	(124,487)	(239,616)	12,805	8,361
Numerical reconciliation between tax (expense)/benefit and pre-tax net result:				
Profit before income tax	213,065	503,971	134,520	52,347
Prima facie taxation expense at 30% (2008: 30%)	(63,919)	(151,191)	(40,356)	(15,704)
(Increase)/decrease in income tax expense due to:				
Non-deductible expenses	(9,059)	(6,741)	(440)	(609)
Overseas tax losses not recognised as a deferred tax asset	(10,881)	–	–	–
Impairment loss not recognised as a deferred tax asset	(4,998)	–	–	–
Recognition of previously unrecognised tax losses	11,747	9,141	11,747	9,141
Effect of tax rates of foreign jurisdictions	–	(12,400)	–	–
Foreign exchange and other translation adjustments	(9,383)	(492)	–	–
PRRT (net of income tax benefit)	(7,466)	–	–	–
Royalty related taxation (net of income tax benefit)	(39,987)	(51,703)	–	–
Deferred PRRT and royalty related tax expense	5,419	(25,941)	–	–
Tax exempt income	–	–	41,407	9,323
Net impairment reversal – controlled entities	–	–	–	7,402
Other	(869)	(790)	(585)	288
Adjustments for prior years	4,909	501	1,032	(1,480)
Total tax (expense)/benefit	(124,487)	(239,616)	12,805	8,361

NOTES TO THE FINANCIAL STATEMENTS
30 June 2009 continued

8. Earnings per share

	Consolidated 2009 $'000	Consolidated 2008 $'000
Profit reconciliation		
Basic and diluted earnings	88,578	264,355

	Consolidated 2009 Number	Consolidated 2008 Number
Weighted average number of ordinary shares		
Issued ordinary shares – opening balance	451,097,675	448,232,675
Effect of shares issued	59,041,091	1,527,432
Weighted average number of ordinary shares	510,138,766	449,760,107
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares at 30 June	510,138,766	449,760,107
Effect of employee share options on issue	2,935,753	15,529,895
Weighted average number of ordinary shares (diluted)	513,074,519	465,290,002

9. Auditors' remuneration

	Consolidated 2009 $	Consolidated 2008 $	The Company 2009 $	The Company 2008 $
Audit services				
Auditors of the Company				
KPMG Australia				
– Audit and review of financial reports	356,287	168,895	336,454	156,030
Overseas KPMG firms				
– Audit and review of financial reports	8,730	6,477	–	–
	365,017	175,372	336,454	156,030
Other auditors				
– Audit and review of financial reports	2,263	2,547	–	–
	367,280	177,919	336,454	156,030
Other services				
Auditors of the Company				
KPMG Australia				
– Taxation compliance services	493,056	248,011	438,918	248,011
– Taxation services (Scheme of Arrangement with Arc Energy Limited)	64,281	313,575	41,891	313,575
Overseas KPMG firms				
– Taxation compliance services	310,069	115,881	–	–
– Other assurance services	36,733	10,526	–	–
	904,139	687,993	480,809	561,586

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	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000
External revenue	207,463	169,684	382,542	651,379	257	410	590,262	821,473
Segment result/ (loss)	(19,158)	35,809	280,825	494,697	(33,434)	(19,877)	228,233	510,629
Unallocated							(15,168)	(6,658)
Income tax expense							(124,487)	(239,616)
Net profit after tax							88,578	264,355
Depreciation and amortisation	(84,483)	(52,091)	(44,095)	(81,677)	–	–	(128,578)	(133,768)
Segment assets	789,876	357,480	157,333	259,301	46,578	12,244	993,787	629,025
Unallocated cash							356,066	339,190
							1,349,853	968,215
Segment liabilities	149,095	60,353	85,829	109,351	17,100	8,806	252,024	178,510

The geographic segment allocations are prepared based on the location of the underlying assets.

* The other segment includes Indonesia, Vietnam, Yemen and Argentine operations.

11. Cash and cash equivalents

	Consolidated		The Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Bank balances	4,989	6,332	99	189
Call deposits	335,935	319,015	3,174	17,908
Cash held by joint ventures	15,142	13,843	–	–
	356,066	339,190	3,273	18,097

Included in the cash and cash equivalents is A$11.0 million (US$8.9 million) representing cash security for a letter of credit in relation to AWE's exploration permits in Yemen.

12. Trade and other receivables

Current				
Trade receivables	38,920	93,776	–	–
Interest receivable	170	435	9	39
Amounts receivable from controlled entities	–	–	389,427	68,479
Joint venture receivables	10,539	13,534	–	–
Prepayments	870	389	1	–
Other	2,486	4,143	–	2,517
	52,985	112,277	389,437	71,035

13. Inventories

	Consolidated		The Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Current				
Finished goods	4,358	3,302	–	–
Other inventory	3,922	–	–	–
	8,280	3,302	–	–

14. Investments

Non-current				
Available for sale financial assets	4,356	–	–	–
Equity accounted investment (refer Note 34)	3,111	–	–	–
Investment in controlled entities (net)	–	–	487,028	487,028
Carrying amount at the end of the financial year	7,467	–	487,028	487,028

All of the consolidated entity's investments are listed on the Australian Securities Exchange. A ten per cent increase in the share price of the investments at 30 June 2009 would have increased equity by $746,700 after tax; an equal change in the opposite direction would have decreased equity by $746,700 after tax.

15. Exploration and evaluation assets

Costs carried forward in respect of areas in the:				
Exploration and/or evaluation phase (at cost)	160,368	22,363	2,143	3,146
Reconciliation of movements:				
Carrying amount at the beginning of the financial year	22,363	22,315	3,146	–
Transfer to oil and gas assets	–	(5,435)	–	–
Acquired via Arc merger (refer Note 35)	131,875	–	–	–
Additions (net of amount recovered from joint ventures)	70,685	85,957	(1,003)	3,146
Foreign exchange translation difference	1,766	–	–	–
Exploration costs incurred and expensed during the year	(54,321)	(80,474)	–	–
Exploration costs acquired and expensed during the year	(12,000)	–	–	–
Carrying amount at the end of the financial year	160,368	22,363	2,143	3,146

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

	Consolidated		The Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Oil and gas assets (at cost)	1,120,173	671,223	–	–
Less: Amortisation and impairment	(358,336)	(181,564)	–	–
	761,837	489,659	–	–
Reconciliation of movements:				
Oil and gas assets in production:				
Carrying amount at the beginning of the financial year	489,659	369,308	–	–
Transfer from exploration assets	–	5,435	–	–
Transfer from assets in development	–	217,161	–	–
Acquired via Arc merger (refer Note 35)	363,599	–	–	–
Additions	64,449	25,161	–	–
Increase in restoration and abandonment provision	6,849	13,351	–	–
Foreign exchange translation difference	10,031	(6,536)	–	–
Written off	–	(665)	–	–
Amortisation	(128,578)	(133,556)	–	–
Impairment charge	(44,172)	–	–	–
Carrying amount at the end of the financial year	761,837	489,659	–	–

Impairment

Impairment tests are performed where there is an indication of impairment. The consolidated entity performs annually an internal review of asset values using cash flow projections, these asset values are then used for impairment testing. Each oil and gas producing asset is considered a separate cash generating unit. The asset values are used to determine a recoverable amount for each asset based on its value in use. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement with a corresponding reduction in the carrying value of the asset.

The asset valuations are based on a proved and probable (2P) reserve production profile and various estimates and assumptions. The key assumptions used in the cash flow projections include the following:

a. Oil and gas prices – forward market prices prevailing at 30 June
b. Exchange rates – current spot USD/AUD exchange rate prevailing at 30 June
c. Discount rates – the post-tax discount rate applied to cash flow projections is 10%

The impairment at 30 June 2009 is the result of the carrying value of onshore Perth basin oil fields (acquired as part of the merger with Arc Energy Limited – refer Note 35) being greater than the estimated discounted cash flow using a post-tax discount rate of 10% (this equates to a pre-tax discount rate of approximately 14.9%). The impairment loss amounts to $30,919,000 on a post-tax basis ($44,172,000 pre-tax, $13,253,000 tax effect). The impairment is primarily due to the lower prevailing oil price existing at 30 June 2009.

No impairment loss has arisen in relation to the other producing oil and gas assets held by the consolidated entity.

Asset valuations based on cash flow projections use a range of estimates and assumptions that are subject to change. Accordingly, impairment losses are sensitive to reasonable possible changes in the key assumptions. The additional impairment loss that would arise from a reasonable possible change in key assumptions (all other assumptions remaining the same) is shown below:

a. A 10% decrease in prevailing oil and gas prices would result in an additional impairment loss of $13,620,000 after tax.
b. A 10% increase in exchange rates would result in an additional impairment loss of $11,086,000 after tax.
c. A 1% increase in the post-tax discount rate applied to the cash flow projections would result in an additional impairment loss of $448,000 after tax.

NOTES TO THE FINANCIAL STATEMENTS
30 June 2009 continued

17. Other plant and equipment

	Consolidated		The Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Other plant and equipment (at cost)	4,336	1,042	–	–
Less: Accumulated depreciation	(2,330)	(581)	–	–
	2,006	461	–	–
Reconciliation of the carrying amount of other plant and equipment is set out below:				
Carrying amount at the beginning of the financial year	461	434	–	–
Acquired via Arc merger (refer Note 35)	1,289	–	–	–
Additions	707	145	–	–
Depreciation	(451)	(118)	–	–
Carrying amount at the end of the financial year	2,006	461	–	–

18. Intangible assets

Intangible assets (at cost)	2,726	2,136	–	–
Less: Amortisation	(1,882)	(1,173)	–	–
	844	963	–	–
Reconciliation of movements:				
Computer software:				
Carrying amount at the beginning of the financial year	291	98	–	–
Additions	590	287	–	–
Amortisation	(255)	(94)	–	–
Carrying amount at the end of the financial year	626	291	–	–
Loan establishment fees:				
Carrying amount at the beginning of the financial year	672	–	–	–
Transfer from interest-bearing liabilities (net of amortisation)	–	1,124	–	–
Amortisation	(454)	(452)	–	–
Carrying amount at the end of the financial year	218	672	–	–

19. Trade and other payables

Current				
Trade payables	637	–	118	–
Joint venture creditors	49,827	35,881	–	–
Other payables and accrued expenses	9,635	6,537	587	2,651
	60,099	42,418	705	2,651

20. Interest-bearing liabilities

	Consolidated		The Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
The consolidated entity has access to the following lines of credit:				
Total facilities available:				
Bank loans	135,000	135,000	–	–
Facilities utilised at balance date:				
Bank loans	–	–	–	–
Facilities not utilised at balance date:				
Bank loans	135,000	135,000	–	–

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$24.3 million (2008: US$42.5 million) letter of credit facility (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 expiry 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.

Following the completion of the merger with Arc (refer Note 35), AWE immediately repaid the Arc bank loan (approximately US$61.0 million). The bank loan was denominated in United States dollars. Interest charged on the facility was LIBOR plus a margin. Subsequent to the merger AWE closed out the Arc oil hedge book with a cash outlay of approximately $31.9 million. The repurchase of the oil hedge book resulted in a post-implementation $8.7 million pre-tax profit for AWE.

The Arc facility security arrangements were dissolved upon both the ARC Energy loan facility and oil hedge book being repaid and closed out. Subsequently, Arc Energy Limited and its wholly owned subsidiaries became guarantors to AWE's existing unsecured corporate loan facility.

21. Employee benefits

	Consolidated		The Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Current				
Liability for annual leave	1,352	666	–	–
Non-current				
Liability for long service leave	429	349	–	–

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 $1,933,000 for the financial year ended 30 June 2009 (2008: $1,083,000).

21. Employee benefits continued

b. Employee benefits expensed

	Consolidated		The Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Salaries and wages	20,863	8,837	420	446
Share-based payments	1,464	2,029	1,464	2,029
Other associated personnel costs	3,769	1,911	–	–
	26,096	12,777	1,884	2,475

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.

Grant date	Number of options	Vesting conditions
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)
9 October 2007	15,000	(h)

Grant date	Number of options	Vesting conditions
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)
15 August 2008	1,566,000	(k)
16 January 2009	37,500	(h)
16 January 2009	37,500	(i)
16 June 2009	437,500	(k)

(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 performance conditions 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 performance conditions 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 performance conditions as determined by the Remuneration Committee.
(g) Vested on 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 performance conditions 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 performance conditions 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 performance conditions as determined by the Remuneration Committee.
(j) 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 performance conditions as determined by the Remuneration Committee.
(k) Vesting 31 July 2011 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 performance conditions as determined by the Remuneration Committee.

21. Employee benefits continued

A summary of outstanding 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
2009							
22 July 2004	21 July 2009	$1.60	100,000	–	(50,000)	50,000	$2.43
24 December 2004	21 December 2009	$1.85	950,000	–	–	950,000	–
26 September 2005	25 September 2010	$2.10	700,000	–	–	700,000	–
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	300,000	–	–	300,000	–
20 March 2006	19 March 2011	$2.59	2,100,000	–	–	2,100,000	–
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	65,000	–	–	65,000	–
15 January 2007	14 January 2012	$2.86	150,000	–	–	150,000	–
12 March 2007	11 March 2012	$2.68	555,000	–	–	555,000	–
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	–
15 August 2008	14 August 2013	$3.28	–	1,566,000	–	1,566,000	–
16 January 2009	15 January 2014	$2.60	–	75,000	–	75,000	–
16 June 2009	15 June 2014	$2.75	–	437,500	–	437,500	–
			14,990,000	2,078,500	(50,000)	17,018,500	

Grant date	Expiry date	Exercise price	Opening balance	Granted	Exercised	Closing balance	Market value of shares at exercise date
2008							
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	

The options outstanding at 30 June 2009 have an exercise price in the range of $1.60 to $4.10, and a weighted average remaining contractual life of 2.5 years (2008: 3.1 years). During the financial year, 50,000 share options were exercised (2008: 2,865,000). The weighted average share price at the dates of exercise was $2.43 (2008: $3.33).

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.

NOTES TO THE FINANCIAL STATEMENTS
30 June 2009 continued

21. Employee benefits continued

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(i)	Option life	Expected dividends	Risk-free rate
2009							
15 August 2008	$0.56 to $0.59	$3.28	$3.28	25.0%	5 years	0% to 3%	5.76%
16 January 2009	$0.33 to $0.35	$2.60	$2.60	25.0%	5 years	0% to 3%	3.50%
16 June 2009	$0.41 to $0.43	$2.75	$2.75	25.0%	5 years	0% to 3%	5.01%
2008							
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%

(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.

22. Provisions

	Consolidated		The Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Gas trading	581	–	–	–
Restoration and abandonment	55,503	31,740	–	–
	56,084	31,740	–	–
Reconciliation of movements:				
Gas trading:				
Carrying amount at the beginning of the financial year	–	–	–	–
Acquired via Arc merger (refer Note 35)	4,231	–	–	–
Provisions reversed during the year	(3,650)	–	–	–
Carrying amount at the end of the financial year	581	–	–	–
Restoration and abandonment:				
Carrying amount at the beginning of the financial year	31,740	16,051	–	–
Acquired via Arc merger (refer Note 35)	10,923	–	–	–
Provisions made during the year	5,224	13,847	–	–
Foreign exchange translation difference	1,625	(496)	–	–
Unwind of discount	5,991	2,338	–	–
Carrying amount at the end of the financial year	55,503	31,740	–	–

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(s).

23. Taxation payable/(receivable)

	Consolidated		The Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Income tax – Australia[i]	3,319	8,551	(1,757)	8,551
Income tax – New Zealand	25,721	4,378	–	–
Petroleum Resource Rent Tax – Australia	1,852	–	–	–
Accounting Profits Royalty – New Zealand	44,197	71,086	–	–
	75,089	84,015	(1,757)	8,551

(i) The Australian income tax provision of $3,319,000 represents the net balance of the tax provision acquired as part of the Arc merger and tax instalments paid by the Company on behalf of the AWE tax consolidated group.

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.

24. Deferred tax assets and liabilities

	Consolidated		The Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Recognised deferred tax assets and liabilities				
Deferred tax assets and liabilities are attributable to the following:				
Exploration and evaluation assets	(40,868)	(2,482)	–	–
Oil and gas assets	(16,044)	(19,487)	–	–
Inventories	(484)	(531)	–	–
Employee benefits	303	169	–	–
Provisions	16,825	9,475	–	–
Other	4,581	2,255	351	558
PRRT and royalty related taxation	(55,751)	(22,144)	–	–
Tax value of loss carry-forwards recognised	32,467	13,423	32,467	13,423
Net tax (liabilities)/assets	(58,971)	(19,322)	32,818	13,981
Deferred tax assets	–	–	32,818	13,981
Deferred tax liabilities	(58,971)	(19,322)	–	–
Carrying amount at the end of the financial year	(58,971)	(19,322)	32,818	13,981
Unrecognised deferred tax assets				
Deferred tax assets have not been recognised in respect of the following items:				
Tax losses	3,620	16,409	3,620	15,367

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30 June 2009 continued

25. Cash flow hedge liabilities

Following the completion of the merger with Arc (refer Note 35), AWE closed out the Arc oil hedge book with a cash outlay of approximately $31.9 million. The repurchase of the oil hedge book resulted in a post-implementation $8.7 million pre-tax profit for AWE.

26. Capital and reserves

a. Share capital

	Consolidated		The Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
520,871,941 (2008: 451,097,675) ordinary shares, fully paid	770,345	533,386	770,345	533,386

	Consolidated	
	2009 Number of shares	2008 Number of shares
Movements in ordinary shares:		
Balance at the beginning of the financial year	451,097,675	448,232,675
Ordinary shares issued – acquisition of Arc Energy Limited	69,724,266	–
Shares issued for cash from the exercise of options	50,000	2,865,000
Balance at the end of the financial year	520,871,941	451,097,675

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 2009.

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. Dividends

Dividends recognised in the current financial year are:

	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%.

e. Dividend franking account

	The Company	
	2009 $'000	2008 $'000
30% franking credits available at 30 June 2009	8,216	–
Franking credits that will arise from the payment of the current tax liabilities	3,319	–
30% franking credits available to shareholders for subsequent financial years	11,535	–

The ability to utilise franking credits is dependant upon there being sufficient available profits to declare dividends.

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:

		Beneficial interest			
Joint venture	Country	Consolidated 2009 %	Consolidated 2008 %	The Company 2009 %	The Company 2008 %
T/L1 BassGas	Australia	42.50	30.00	–	–
T/RL1	Australia	42.50	30.00	–	–
T/18P	Australia	42.50	30.00	–	–
T/44P	Australia	40.00	–	–	–
VIC/L 24 Casino	Australia	25.00	25.00	–	–
VIC/L 30 Henry	Australia	25.00	–	–	–
VIC/P 44	Australia	25.00	25.00	–	–
WA 31 L Cliff Head	Australia	57.50	27.50	–	–
WA 286 P	Australia	57.50	27.50	–	–
WA 368 P	Australia	50.00	–	–	–
TP/15	Australia	–	25.00	–	–
L1/L2 Dongara	Australia	100.00	–	–	–
L1/L2 Hovea and Eremia	Australia	50.00	–	–	–
L4/L5/PL 6 Woodada	Australia	100.00	–	–	–
L7 Mt Horner	Australia	100.00	–	–	–
L11 Beharra Springs	Australia	33.00	–	–	–
L14 Jingemia	Australia	44.14	–	–	–
EP 320	Australia	33.00	–	–	–
EP 413	Australia	44.14	–	–	–
EP 437	Australia	50.00	–	–	–
PMP 38158 Tui	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	53.75	40.00	–	–
PEP 38482	New Zealand	50.00	40.00	–	–
PEP 38483	New Zealand	44.32	44.32	–	–
Hector South Sub-block	New Zealand	42.50	42.50	–	–
PEP 38499	New Zealand	–	42.50	–	–
PEP 381202	New Zealand	100.00	100.00	–	–
PEP 38451	New Zealand	10.00	–	–	–
PEP 38524	New Zealand	100.00	–	–	–
PEP 51321	New Zealand	44.32	–	–	–
Bulu PSC	Indonesia	42.50	42.50	–	–
East Muriah PSC	Indonesia	50.00	–	–	–
Terumbu PSC	Indonesia	100.00	–	–	–
Vietnam Block 06/94	Vietnam	23.33	–	–	–
Las Bases Exploitation Concession	Argentina	15.00	15.00	–	–
Yemen Block no. 7	Yemen	19.25	–	–	–
Yemen Block no. 35	Yemen	15.00	–	–	–
Yemen Block no. 74	Yemen	19.25	–	–	–

27. Interests in joint ventures continued

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	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Current assets				
Cash and cash equivalents	15,142	13,843	–	–
Trade and other receivables	10,539	13,534	–	–
Inventory	8,280	3,302	–	–
	33,961	30,679	–	–
Non-current assets				
Exploration and evaluation assets	160,368	22,363	–	–
Oil and gas assets	761,837	489,659	–	–
	922,205	512,022	–	–
Total assets	956,166	542,701	–	–
Current liabilities				
Trade and other payables	49,827	35,881	–	–
Total liabilities	49,827	35,881	–	–

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

28. Capital and other commitments

a. Capital expenditure commitments

	Consolidated		The Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Contracted but not provided for or payable:				
Not later than one year	54,850	77,823	–	–

b. Exploration and evaluation expenditure commitments

Total exploration and evaluation expenditure contracted for but not provided for in the financial statements, payable:				
Not later than one year	162,900	93,887	–	–
Later than one year but not later than five years	44,170	107,090	–	–
	207,070	200,977	–	–

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.

The consolidated entity has entered into a drilling rig contract with third parties operating joint ventures where the consolidated entity is not a joint venture participant whereby it shares joint and several liability in the event that the third party joint venture operator defaults and fails to contribute its share of its joint venture obligations.

c. Time charter commitments

	Consolidated		The Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
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	22,740	27,048	–	–
Later than one year but not later than five years	70,789	65,171	–	–
Later than five years	25,985	29,192	–	–
	119,514	121,411	–	–

The Operator of the Tui Area oil project (PMP 38158, offshore Taranaki Basin, New Zealand) has entered into a USD denominated 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 commitment would increase by $127,463,000 if the full seven-year option is exercised.

d. Non-cancellable operating lease rental commitments

	Consolidated		The Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Future operating lease rentals, not provided for in the financial statements, payable:				
Not later than one year	2,403	1,018	–	–
Later than one year but not later than five years	2,834	1,879	–	–
	5,237	2,897	–	–

Office premises – the consolidated entity leases a number of premises all of which expire no later than October 2013. During the financial year $1,267,000 was recognised as an expense in the income statement (2008: $672,000).

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

	Consolidated		The Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
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	750	–	–
Later than one year but not later than five years	125	875	–	–
	875	1,625	–	–

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30 June 2009 continued

29. Contingencies

a. 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$24.3 million (2008: $US42.5 million).

b. 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.

c. 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$978,409) (2008: 3 million Argentine Pesos (A$1,038,422)).

d. A wholly owned controlled entity of the Company has provided letters of credit of US$7.1 million (A$8.7 million) in favour of the Yemen Government authorities representing the consolidated entity’s minimum work obligations for Blocks 7 and 74. A wholly owned controlled entity of the Company has entered into a contractual arrangement with Adelphi Energy Ltd whereby a security line of credit totalling US$2.8 million (A$3.5 million) has been provided to Adelphi to secure Adelphi’s minimum exploration commitments in Block 7 and 74.

e. The Company has guaranteed to the Indonesian government fulfilment of its obligation to perform minimum work commitments with respect to the Terumbu PSC in Indonesia to a maximum amount of US$1.5 million (A$1.8 million).

f. Under the terms of various joint venture operating and product sales agreements the Company has provided performance guarantees to wholly-owned controlled entities.

g. 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.

h. 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.

i. 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.

j. The Company has service agreements with three managers (including two key management personnel) 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. Reconciliation of cash flows from operating activities

	Consolidated		The Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Cash flows from operating activities				
Profit for the period	88,578	264,355	147,325	60,708
Adjustments for:				
Amortisation of oil and gas assets	128,578	133,556	–	–
Amortisation of intangible assets	255	94	–	–
Depreciation	451	118	–	–
Non-cash hedge liability movement	(8,722)	(7,137)	–	–
Merger costs expensed	13,716	–	–	–
Impairment of oil and gas assets	44,172	–	–	–
Impairment of investment in equity accounted investment	9,913	–	–	–
Impairment of available for sale investments	8,196	–	–	–
Share of loss of associates	2,401	–	–	–
Loan establishment fees written off/amortised	454	452	–	–
Exploration, evaluation, development and other capitalised costs written off	66,321	81,139	–	–
Unwinding of discount – restoration provisions	5,991	2,338	–	–
Share-based payments	1,464	2,029	1,464	2,029
Net foreign currency losses/(gains)	(1,336)	12,796	(8)	107
Net impairment reversal of receivables due from controlled entities	–	–	–	(12,481)
Net impairment reversal of investments in controlled entities	–	–	–	(12,194)
Non-cash taxation expense	(39,529)	111,314	(29,145)	13,392
Operating profit before changes in working capital and provisions	320,903	601,054	119,636	51,561
Change in assets and liabilities during the financial year:				
Increase/(decrease) in trade and other receivables	56,297	(86,064)	29	(10)
Increase in inventories	(1,056)	(3,302)	–	–
(Decrease)/increase in provisions and employee benefits	(2,884)	156	–	–
Increase/(decrease) in accounts payable	18,817	(2,365)	561	380
Net cash from operating activities	392,077	509,479	120,226	51,931

31. Controlled entities

Name	Note	Country of incorporation	2009 %	2008 %
Parent entity				
Australian Worldwide Exploration Limited				
Controlled entities				
AWE Administration Pty Limited	(a)	Australia	100	100
AWE Finance Pty Limited	(a)	Australia	100	100
AWE Overseas Pty Limited	(a)	Australia	100	100
AWE Offshore Pty Limited	(a)	Australia	100	100
AWE Argentina Pty Limited	(a),(b)	Australia	100	100
AWE New Zealand Pty Limited	(a),(b)	Australia	100	100
AWE UK Pty Limited	(a)	Australia	100	–
AWE Australia Pty Limited	(a)	Australia	100	100
Omega Oil Pty Ltd	(a)	Australia	100	100
Wells Fargo Resources Pty Ltd		Australia	100	100
AWE Petroleum Pty Ltd	(a)	Australia	100	100
Peedamullah Petroleum Pty Ltd	(a)	Australia	100	100
AWE Pty Ltd	(a),(c)	Australia	100	100
AWE Resources (Western Australia) Pty Ltd	(a)	Australia	100	100
AWE Oil (Western Australia) Pty Ltd	(a)	Australia	100	100
Perthshire Petroleum Pty Ltd	(a)	Australia	100	100
Tepstew Pty Ltd	(a)	Australia	100	100
Western Petroleum Management Pty Ltd	(a)	Australia	100	100
AWE (NSW) Pty Ltd	(a)	Australia	100	100
AWE (Australia) Energy Pty Ltd	(a)	Australia	100	100
AWE Energy (Australasia) Pty Ltd	(a)	Australia	100	100
Arc Energy Limited	(a)	Australia	100	–
Arc (Beharra Springs) Pty Ltd	(a)	Australia	100	–
Arc Energy Holdings Ltd	(a)	Australia	100	–
Arc Energy Trading Pty Ltd	(a)	Australia	100	–
Arc Investment Company Pty Ltd	(a)	Australia	100	–
Arc (Wandoo) Pty Ltd	(a)	Australia	100	–
Arc (BassGas) Pty Ltd	(a)	Australia	100	–
Arc (Offshore PB) Ltd	(a)	Australia	100	–
AWE Holdings NZ Limited	(b)	New Zealand	100	100
AWE Taranaki Limited	(b),(d)	New Zealand	100	100
AWE (Satria) NZ Ltd	(b)	New Zealand	100	100
AWE (East Muriah) NZ Ltd	(b)	New Zealand	100	–
AWE (Terumbu) NZ Ltd	(b)	New Zealand	100	–
AWE Singapore Pte. Ltd	(b)	Singapore	100	100
AWE Holdings Singapore Pte. Ltd	(b)	Singapore	100	–
AWE Vietnam Pte. Ltd	(b)	Singapore	100	–
Greenslopes Limited	(b)	Papua New Guinea	100	100

(a) These controlled entities are a party to a Deed of Cross Guarantee between those group entities and the Company pursuant to ASIC Class Order 98/1418 and are not required to prepare and lodge financial reports and directors' reports (refer Note 36). The Company and those group entities are the "Closed Group".

(b) These controlled entities are required to lodge audited individual entity financial statements with the appropriate overseas authority. AWE New Zealand Pty Limited and AWE Argentina Pty Limited are Australian companies with branches in New Zealand and Argentina respectively.

(c) AWE Pty Ltd changed its name from AWE Timor Sea Pty Ltd on 29 May 2009.

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

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 program 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 program 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 to a 10% movement in commodity prices with all other variables held constant.

	Consolidated		The Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Impact on post-tax profit and equity:				
Commodity price +10%	2,246	5,925	–	–
Commodity price -10%	(2,246)	(5,925)	–	–

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.

32. Financial risk management continued

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	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Impact on post-tax profit and equity:				
Interest rate +1%	204	195	2	10
Interest rate -1%	(204)	(195)	(2)	(10)

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
- consolidation of entities with a functional currency different to the entity's functional currency of Australian dollars.

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	
	2009	2008	**2009**	2008
AUD/USD	0.7471	0.8960	0.8114	0.9621
AUD/NZD	1.2288	1.1669	1.2428	1.2618

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.

	Average Rate		Reporting Date Spot Rate	
	2009	2008	**2009**	2008
Impact on post-tax profit and equity:				
AUD/USD +10%	(10,688)	(8,216)	–	–
AUD/USD – 10%	13,068	10,070	–	–
Impact on post-tax profit and equity:				
AUD/NZD +10%	(539)	(144)	–	–
AUD/NZD – 10%	658	175	–	–

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

	Consolidated		The Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
United States dollars:				
Financial assets				
Cash	104,237	52,548	–	–
Trade and other receivables	35,750	91,636	–	–
Financial liabilities				
Trade and other payables	(22,347)	(14,692)	–	–
New Zealand dollars:				
Financial assets				
Cash	75,485	77,725	–	–
Financial liabilities				
Taxation payable	(69,918)	(75,464)	–	–

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	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Cash	356,066	339,190	3,273	18,097
Trade and other receivables	52,985	112,277	389,437	71,035

The consolidated entity does not hold any credit derivatives to offset its credit exposure. There is no particular concentration of credit risk.

32. Financial risk management continued

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

	Consolidated		The Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Less than 1 month	38,920	93,776	–	–

There are no trade receivables past due at the reporting date (2008: 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
2009						
Consolidated						
Trade and other payables	19	60,099	60,099	–	–	–
Company						
Trade and other payables	19	705	705	–	–	–
2008						
Consolidated						
Trade and other payables	19	42,418	42,418	–	–	–
Company						
Trade and other payables	19	2,651	2,651	–	–	–

d. Net fair values of financial assets and liabilities

The carrying values of financial assets and liabilities of the consolidated entity and the Company approximate their 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 payment of its financial obligations.

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. Whilst over the year AWE's return was negative, over the last ten years an average shareholder return of 21% has been achieved. In addition, AWE declared and paid a special dividend of ten cents per share fully franked during this financial year.

The future 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.

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	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Salaries and wages	4,803	3,585	620	446
Share-based payments	754	1,001	754	1,001
Other associated personnel costs	107	168	–	–
	5,664	4,754	1,374	1,447

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 or executive 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' or executives' 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
2009					
Directors					
B. J. W. Wood	1,500,000	–	–	–	1,500,000
Executives					
L. J. Brooks	1,650,000	100,000	–	–	1,750,000
R. D. Frith	1,150,000	100,000	–	–	1,250,000
N. F. Kelly	1,330,000	100,000	–	–	1,430,000
I. D. Palmer	800,000	100,000	–	–	900,000
D. Washer	475,000	100,000	–	–	575,000
B. W. Wray(i)	–	100,000	–	300,000	400,000
G. J. Jeffery(i)	–	–	–	–	–
2008					
Directors					
B. J. W. Wood	–	1,500,000	–	–	1,500,000
B. J. Phillips	1,900,000	–	–	(1,900,000)	–
Executives					
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	800,000	100,000	(100,000)	–	800,000
D. Washer	325,000	150,000	–	–	475,000

(i) Mr B. W. Wray has been included as a Key Management Person effective 1 July 2008. Mr G. J. Jeffery has been included as a Key Management Person effective 25 August 2008.

33. Related party disclosures continued

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
2009					
Directors					
B. G. McKay	265,610	–	–	–	265,610
B. J. W. Wood	138,050	–	–	–	138,050
C. C. Green	43,293	–	–	–	43,293
E. S. Smith[(i)]	11,857,838	–	–	(11,857,838)	–
D. I. McEvoy	30,000	–	–	(30,000)	–
A. J. Hogendijk	–	–	–	–	–
Executives					
L. J. Brooks	861,910	–	–	(60,000)	801,910
R. D. Frith	500,000	–	–	–	500,000
N. F. Kelly	25,476	–	–	–	25,476
I. D. Palmer	100,000	–	–	(100,000)	–
D. Washer	20,000	–	–	–	20,000
B. W. Wray[(ii)]	–	–	–	–	–
G. J. Jeffery[(ii)]	–	–	–	75,000	75,000
2008					
Directors					
B. G. McKay	321,213	–	–	(55,603)	265,610
B. J. W. Wood	50,050	–	–	88,000	138,050
B. J. Phillips	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	–	–	–	–	–
Executives					
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	–	–	100,000	–	100,000
D. Washer	–	–	–	20,000	20,000

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

(i) Mr E. S. Smith resigned as a director on 16 June 2009.
(ii) Mr B. W. Wray has been included as a Key Management Person effective 1 July 2008. Mr G. J. Jeffery has been included as a Key Management Person effective 25 August 2008.

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.

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 31), 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. Equity accounted investment

The consolidated entity's share of the loss of its equity accounted investee, Adelphi Energy Limited ("Adelphi") for the period was $2,401,000 (2008: Nil). The investment was acquired via the Arc merger (refer to Note 35).

	Revenues (100%) $'000	Expenses (100%) $'000	Loss (100%) $'000	Share of Loss (32.5%) $'000
Adelphi	264	(7,771)	(7,507)	(2,401)

	Current assets (100%) $'000	Non-current assets (100%) $'000	Total assets (100%) $'000	Current liabilities (100%) $'000	Total liabilities (100%) $'000	Net assets (100%) $'000	Share of net assets (100%) $'000
Adelphi	2,100	9,305	11,405	(2,037)	(2,037)	9,368	3,045

35. Business combination – acquisition

Arc Energy Limited and Australian Worldwide Exploration Limited announced during the preceding financial year that their respective Boards had unanimously agreed to merge the two companies. The transaction was effected by way of a scheme of arrangement and involved 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 occurred 25 August 2008.

The fair values of identifiable assets and liabilities of Arc as at the date of acquisition were:

	Acquiree carrying amount $'000	Provisional fair value $'000
Cash and cash equivalents*	63,222	63,222
Trade and other receivables	17,459	17,459
Inventory	1,672	1,672
Available for sale financial assets	12,553	12,553
Equity accounted investments	5,917	15,425
Exploration and evaluation assets	39,663	131,875
Oil and gas assets	232,457	363,599
Other property, plant and equipment	1,289	1,289
Interest-bearing liabilities	(70,869)	(70,869)
Cash flow hedge liability	(40,630)	(40,630)
Trade and other payables	(18,611)	(18,611)
Employee benefits	(440)	(440)
Taxation payable	(9,817)	(9,817)
Provisions	(15,153)	(15,153)
Deferred tax assets/(liabilities)	12,077	(52,906)
Net assets	230,789	398,668
Cash consideration		161,605
Ordinary shares issued		237,063
Consideration		398,668

* Included in the cash and cash equivalents is A$10.3 million (US$8.9 million) representing cash security for a letter of credit in relation to Arc's exploration permits in Yemen.

From the date of acquisition and included in the AWE result of the group is a loss of $60.0 million (after tax) incurred by Arc primarily due to the impairment attributable to investments (refer Note 14) and oil and gas assets (refer Note 16).

It is not practicable to determine the revenues and profit of the group had the combination taken place at 1 July 2008 due to differences in accounting policy and the complexity of the transaction (the demerger of Buru Energy in particular).

36. Deed of cross guarantee

During the financial year the Company and certain of the Company's wholly-owned subsidiaries entered into a Deed of Cross Guarantee. Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, certain of the Company's wholly-owned subsidiaries (refer Note 31) are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and directors' report.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

A consolidated balance sheet and consolidated income statement, comprising the Company and controlled entities which are a party to the Deed of Cross Guarantee, at 30 June 2009 is set out as follows:

	Consolidated 2009 $'000
Balance sheet	
Current assets	
Cash and cash equivalents	291,635
Trade and other receivables	39,615
Inventory	5,777
Total current assets	337,027
Non-current assets	
Investments	127,288
Exploration and evaluation assets	109,763
Oil and gas assets	717,898
Other property, plant and equipment	2,006
Intangible assets	844
Total non-current assets	957,799
Total assets	1,294,826
Current liabilities	
Trade and other payables	51,003
Employee benefits	1,352
Taxation payable	31,316
Total current liabilities	83,671
Non-current liabilities	
Employee benefits	429
Provisions	44,986
Deferred tax liabilities	55,662
Total non-current liabilities	101,077
Total liabilities	184,748
Net assets	1,110,078
Equity	
Issued capital	770,345
Reserves	7,999
Retained earnings	331,734
Total equity	1,110,078
Summarised income statement	
Profit before tax	159,836
Income tax expense	(54,960)
Profit after tax	104,876

37. Additional company information

Australian Worldwide Exploration Limited is a public company listed in Australia on the ASX and incorporated in Australia and operating in Australia and overseas.

The registered office and principal place of business is:
Level 9, 60 Miller Street
North Sydney NSW 2060 Australia

38. 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.