

ASX Announcement
24 November 2017



AWE Limited Annual General Meeting – Chairman’s Address

Please find attached the Chairman’s Address which will be presented at the Annual General Meeting of AWE Limited which commences at 10.00am on 24 November 2017, in compliance with listing rule 3.13.3.

Regards

Neville Kelly
Company Secretary



AWE 2017 Annual General Meeting

Chairman's Address

Good morning ladies and gentlemen,

Introduction

The last few years have been difficult ones to report to you as AWE's Chairman. Three years ago we had invested heavily in growth projects that promised a very bright future for shareholders in an \$80+ per barrel oil price environment. In doing so, AWE reached the highest debt level in its history.

Unfortunately, this maximum debt level also coincided with the worst oil price collapse in my 40+ years in the oil & gas industry. Inevitably AWE had to sell one of its best assets, in the Sugarloaf area of the USA to repay the debt. We embarked on a severe cost-cutting program which included minimising exploration and appraisal expenditure and the retrenchment of many good people. The latter caused me personally more heartache than any other time in my career.

2016-17 results

Fast forward to 2016-17 and the major surgery of the last few years is now largely complete. The building blocks are also in place for the Company to regain its former status as an important contributor to the Australian energy scene, and the oil price outlook is also improving. However, with respect to the 2016-17 year, our financial results were again sombre. They included a Statutory NLAT of \$217.5million and an Underlying NLAT of \$29.8 million. The largest impact on the result was an impairment of \$134.5 million, before tax, associated with the AAL oil project in Indonesia which resulted from the prolonged low oil price environment and uncertainty around whether the Operator will sell its interest in the asset. However, I would like shareholders to understand that the AAL oil field is a good asset that will be developed in the future. The reluctance of the operator to develop the field to date is largely due to their significant capital expenditure carry of AWE's costs should they proceed to sanction development in the current oil price environment. The Indonesian government's recent notice that it will be exercising its rights for an appointee to take a 10% interest in the PSC, with a commitment to repay associated past costs out of production, is an independent positive indicator that there is value in the project.

Despite the tough external environment, AWE has continued to invest judiciously in the Perth basin in Western Australia. Three years ago I reported on the discovery of the Waitsia gas field to shareholders at the AGM, and suggested they follow the appraisal drilling with keen interest. I am now even more confident that AWE has a great asset at Waitsia. In my opinion it will be capable of generating significant profits for AWE shareholders, not to mention producing natural gas for West Australians for over 30 years.

Following the drilling of the Waitsia 3 & 4 appraisal wells during the year, an independent expert (RISC) has certified conventional 2P reserves of 811PJ of gas (ie without any need for fracking). This is an increase of 78% since just June 30 of this year.

Recent FEED studies have confirmed that after the Waitsia stage 2 construction, AWE will have the capacity to produce approximately 40PJ (AWE share 20PJ) per annum from the field via the Xyris and Waitsia stage 2 facilities. We are currently marketing such gas volumes for the initial 10 years of the field's life, with the strong expectation of increased production well beyond that time horizon.

The joint venture has executed a non-binding Gas Sales Term Sheet with AGL for up to 5.5PJ/annum, and we are confident this will be just the beginning.

Further, RISC has recently estimated a value range for AWE's share of Waitsia 2P Reserves, which is approximately 405 PJ, between A\$222 million and A\$377 million with a midpoint of A\$300 million or \$0.37-\$0.62 cents per share (midpoint of \$0.50)¹. The valuation range broadly reflects a range of gas price outcomes. RISC has evaluated taxation at a standalone asset level and has not considered any consolidated group tax effects. At 30 June 2017, AWE carries significant corporate income tax losses and PRRT credits which would further increase the value of Waitsia to AWE shareholders.

CEO David Biggs will have more to say about Waitsia and the 2016-17 results in his presentation.

Capital raising

Shareholders will be aware of the recently completed 15% Placement to professional investors and the announcement of the associated Share Purchase Plan (the latter to ensure small to medium sized shareholders are not disadvantaged over their professional counterparts). This was AWE's the first capital raising since 2006. As announced at the time, the reasons for the capital initiative were to:

1. Strengthen AWE's balance sheet;
2. Assist in Waitsia Stage 2 funding & gas marketing; and
3. Pursue other existing portfolio development and growth opportunities.

Each of our existing large shareholders were offered participation before new shareholders, and we were delighted at the strong 2.1 times oversubscriptions for shares.

Whilst directors are precluded from participating in any Placement under the Corporations Act, they may participate in a SPP as it is offered to all shareholders. I am pleased to advise that all directors will apply for their maximum entitlement under the SPP and I would encourage all shareholders to do the same.

Reflections on 20 years with AWE

As foreshadowed at last year's AGM, this will be my last day as a director of AWE, so I hope you will indulge me a few moments to reflect on the 20-year history of the Company. When AWE was floated in 1997, our key objectives were to provide superior long-term shareholder returns; to provide an investment alternative where a considerable number of Australian listed companies had been taken over by foreign interests; and to provide competition in Australian energy markets to ensure the reliable and affordable supply of energy. We succeeded in meeting those objectives in the first decade, but not the second. In particular, the second decade fell well short of delivering acceptable shareholder returns.

With respect to providing investment alternatives in the upstream oil & gas sector, the success of AWE in the first decade arguably made it easier for other new Australian IPOs. The likes of QGC, Arrow, Senex etc successfully listed during this decade and provided meaningful investment alternatives at that time.

However, it is the role that AWE has played in providing increased competition in Australian gas markets that pleases me most about AWE's short history. In the first decade AWE's championing of the Kipper, Yolla and Casino gas fields offshore Victoria provided competition to Esso/BHPB's near monopoly on gas supply to Victoria. It is arguable that the current high gas prices experienced by customers today would have occurred much earlier if not for AWE's participation in the market.

At the end of the second decade, AWE is again championing gas competition, this time in Western Australia. Gas customers in the west are benefiting as AWE enters the market against LNG export pricing. If AWE is successful, it will defer expensive energy for homes & industry,

¹ Based on 605.2 million total shares on issue, post equity raise.

we will provide more employment in regional areas and pay royalties that flow directly to the WA government for investment in the likes of schools & hospitals.

Hopefully AWE will be equally proud in 20 years' time that its efforts continue to deliver affordable, reliable and clean energy for Australians.

I would also like to take this opportunity to reflect on changing societal attitudes towards the fossil fuel industry during AWE's 20 years. There is no doubt there is now a very vocal and effective movement against the fossil fuel industry.

However, in talking to rational environmentalists, it is clear we all have the common goal of improving the standard of living for future generations, worldwide. The main discussion should be about how we achieve this in the context of energy demand and the stresses we are putting on the planet's resources as a result.

The oil and gas, power generation, motor vehicle, mining, manufacturing, urban development & agricultural industries are all playing a role in the stress we are putting the planet under, but they would not be expanding if it weren't for population growth. Accordingly, I would encourage more debate around this root cause.

Global communities need to keep the fossil fuel industry in perspective. It is a major provider of energy to keep planes, trains and automobiles moving; it provides most of the energy for our global communications; it is a major provider of conditioning the human environment for habitation via heating, cooling and lighting; it provides many of the plastic products we use in everyday life; and in Australia our schools, hospitals and homes currently cannot function without the support of the fossil fuel industry. Shutting down the industry quickly would also lead to a major poverty trap for the developing world.

Many energy companies will no doubt still be needed to meet these societal demands. However, environmentally responsible companies like AWE will be increasingly in demand to provide important cleaner energy alternatives like natural gas as we transition to a lower carbon future.

Over the last 20 years there have been many other areas it has been my pleasure to be associated with at AWE, including community enrichment, employee development, and championing of diversity in the workplace. Alas, time doesn't allow me to expand on these areas today, but I know AWE will continue to be an innovator in these areas.

Personal thanks

Finally ladies and gentlemen, I want to personally thank all of the people it has been my pleasure to be involved with over the last 20 years; employees, shareholders, business partners, government officials and regulators, from all over the world.

I offer my sincere thanks to you all, and in the years to come will reflect on our many enjoyable times together.

Thank you.