



## ASX Announcement

10 November, 2003

# AWE's Casino-3 flows gas at economic rates

Australian Worldwide Exploration Limited, on behalf of its wholly-owned subsidiary Peedamullah Petroleum Pty Ltd ("AWE") is pleased to advise that the Casino-3 appraisal well in the Otway Basin, offshore Victoria (figure 1) has successfully production-tested gas in the main Waarre Sandstone reservoir objective.

**The test flowed gas at a rate of 45 million standard cubic feet per day through a one inch choke at a well head tubing pressure of 1,840 pounds per square inch.**

The production test measured gas flow from only a nine metre portion of the 20 metres of net gas pay identified on wireline logs in the primary reservoir zone encountered in the Casino 3 well. The flow rate was limited by the rig's facilities and the reservoir is capable of flowing at much higher rates.

The gas reserves for the field are currently being assessed but initial indications are that proven and probable (2P) recoverable gas reserves will be within the range of between 200 to 270 billion cubic feet.

The successful production test follows on from the earlier announcement that Casino-3 had proved a 290 metre gas column in the field and that a single gas pool connects Casino-3 with the previously drilled Casino-2 well.

The well is being plugged and abandoned as planned following the completion of testing operations and the rig will be demobilised.

AWE and its joint venture partners have already successfully concluded a long-term gas contract with TXU Australia to supply gas from the Casino field. The contract is conditional on the confirmation of economic reserves for the Casino field and the normal regulatory approvals associated with gas development projects.

**Commenting on the announcement, AWE's Managing Director, Mr Bruce Phillips said:**

*"It is now clear that we have reached the important milestone of establishing that gas will flow from the Casino field at attractive commercial rates.*

*"Work has already commenced on a re-determination of the field's reserves given the better than expected results at Casino-3. In addition, because of the confidence we have in the results, the joint venture has also commenced the early stages of Front End Engineering Design (FEED) for the development and started the regulatory approvals process, to be in a position to produce first gas in January, 2006.*

*"From AWE's perspective, we will work with the VIC/P 44 joint venturers to achieve the aggressive timetable we have set ourselves for first commercial gas production.*

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## **BACKGROUND INFORMATION**

### **The Casino Gas Field**

The Casino gas field is located in VIC/P 44 in the Otway Basin, approximately 29 kilometres southwest of Port Campbell and 250 kilometres southwest of Melbourne (see figure 1).

The field was discovered in August 2002, when Casino-1 intersected a 50 metre gross gas bearing sand in the Waarre Sandstone, which is the major reservoir unit in the basin. The well was drilled just down from the crest of a large tilted fault block structure, which was mapped on an extensive 540 square kilometre 3D seismic survey recorded over the Casino – Pecten High area in late 2001. The structure was high-graded by detailed seismic attribute processing, which indicated prominent anomalies interpreted to be caused by the presence of gas.

Casino-2 was drilled immediately after the discovery well and was sited 4.2 kilometres east of Casino-1, again in a structurally high position. The well intersected a good quality 30 metre gas bearing sand, which was not present in Casino-1, it having been eroded from the western part of the structure, and established a gas water contact in the deeper "Casino-1 sand". Reservoir pressure data collected in this well was unable to define a gas-water contact in the new younger gas sand.

Casino-3 was drilled approximately 244 metres down-dip of Casino-2 and was aimed at defining the gas water contact in the younger sand. In the event of the reservoir being gas bearing, a proved and probable reserve greater than 200 bcf of gas was prognosed. The well intersected gas bearing Waarre Sandstone as prognosed and proved a gas column in excess of 290 metres. Wireline logging operations showed the Waarre Sandstone to have 20 metres of net gas pay with very good reservoir characteristics (ie porosities averaging 20%). Additional gas pay was also identified in the overlying Flaxmans Formation.

### **The AWE-Strike Transaction**

Under a Sale and Purchase Agreement ("SPA") with Strike Oil NL ("Strike"), AWE acquired Strike's 50% interest in VIC/P 44 (containing the Casino gas field) for the following consideration:

1. A cash payment of A\$1 million (now fulfilled);
2. The funding of Strike's share of expenditure for the drilling of the Casino-3 appraisal well and some added geological and engineering work (currently being fulfilled); and

3. An optional payment of A\$22.5 million, payable up to 90 days after the rig release from the Casino-3 well. If AWE elects not to make the final payment, AWE will earn a 20% interest only in the VIC/P 44 permit.

Following execution of the SPA, AWE subsequently executed a "Deed of Assumption" and a "Title Transfer" with Strike and Santos Limited to effect (subject to normal regulatory approvals) AWE taking a 50% interest in VIC/P 44, offshore Victoria.

## **The AWE-Mitsui Transaction**

Under a Sale and Purchase Agreement ("SPA") with Mittwell Energy Resources Pty Ltd, a wholly owned subsidiary of Mitsui & Co., Ltd, ("Mitsui") AWE sold a 25% interest in VIC/P 44 (containing the Casino gas field) on terms similar to AWE's purchase from Strike Oil NL, which was finalised in August 2003. Under the SPA, Mitsui:

1. Has made a cash payment of A\$500,000 (plus interest adjustments) to AWE;
2. Must fund a 25% share of the expenditure for the drilling of the Casino-3 appraisal well, 500 kilometres of seismic and some added geological, geophysical and engineering work in the permit (currently being fulfilled);
3. May make an optional cash payment of A\$11.25 million, payable up to 90 days from the rig release from the Casino-3 well. If Mitsui elects not to make the optional payment, Mitsui will earn a 10% participating interest only in VIC/P 44 (rather than the 25% interest being assigned up front); and
4. Provide assistance to AWE in arranging the project financing of the development of any field in VIC/P 44.

The transaction is subject to normal regulatory approvals.

The transaction has the benefits of:

- Further strengthening AWE's relationship with Mitsui, where AWE's technical skills and Mitsui's financial capabilities are set to bring substantial rewards to shareholders of both companies. AWE now participates with Mitsui in 5 Australian joint ventures (covering 4 basins), including our development operations in the Bass Basin (Yolla gas and condensate field), the Perth Basin (Cliff Head oil field), our exploration programme in the Carnarvon Basin, and now the Otway Basin (Casino gas field);
- Introducing another strong partner into the VIC/P 44 joint venture along with AWE's existing partner, Santos; and

- Providing AWE with the benefit of Mitsui's knowledge of the banking market and their access to capital, which in turn partially removes the funding risk for AWE for any development project in VIC/P 44, as well as saving considerable management time in arranging project financing.

## The TXU Gas Agreement

On September 12 AWE announced it had signed a long term gas contract with TXU Australia for the sale of natural gas from the VIC/P 44 area (VIC/P 44 contains the Casino gas field and several undrilled exploration prospects, all delineated by an extensive, state-of-the-art, 3D seismic data grid).

Under this conditional agreement with the VIC/P 44 joint venturers (AWE, Santos and Mitsui), TXU has agreed to purchase up to a total of 293 petajoules (PJ) of gas with an option to purchase, or an obligation to process, an additional 200 PJ, resulting in a contract quantity of up to 493 PJ of gas. Gas supply will commence in 2006 and extend through to 2017.

This innovative contract caters for the monetisation of future discoveries in VIC/P 44 and is conditional on the results of the Casino-3 appraisal well.

The gas sales contract with a company of the calibre of TXU diversifies AWE's gas-customer base and complements the Company's existing gas supply agreements in the Otway and Bass basins.

The signing of the TXU contract was a major step towards the commercial development of the Casino gas field and its surrounding exploration prospects. If final logging and testing confirms that the Casino-3 well has been successful in adding to the known gas reserves in the field, the contract allows the Casino development project to move quickly to a declaration of commercial viability.

Along with AWE's previously announced agreement where Mitsui has undertaken to assist AWE to assist in arranging project financing for development, the TXU contract substantially reduces the commercial risks on the Casino project.

## Benefits to southeast Australia

The Casino project could potentially bring a range of benefits to southeast Australia, including:

- New security and diversity of gas supply;
- Creation of jobs during the construction phase;
- Competition from Casino gas in markets will reduce the dominance of the current supply from Esso/BHP gas fields in the Gippsland Basin;

- Help create a significant new gas hub in the Port Campbell area;
- Project is viable now, without major new green-field industry support;
- Project is predominantly Australian-owned and managed;
- The surrounding VIC/P 44 permit area has substantial upside potential and will stimulate exploration activities to boost longer term reserves and higher production levels; and
- Reduced greenhouse gas emissions through the use of natural gas for potential power generation as opposed to other fuel alternatives.

## The Next Steps

If subsequent well logs and testing at Casino-3 prove the success case scenario, the next steps in the Casino project development, would include:

- Reserves re-determination post-Casino-3 (by end of 2003);
- Declaration of commercial viability and selection of development concept (Q2, 2004);
- Front End Engineering Design (FEED) work (preliminary work already commenced);
- Government and other regulatory approvals process (preliminary work already commenced);
- Formal gas sales agreement and project financing;
- Project sanction (Final Investment Decision) by Q4, 2004;
- Project construction during 2004-2005; and
- Targeting first gas on Jan 1, 2006.

## VIC/P 44 Interest holders are:

AWE Group	25%
Mitsui Group	25%
Santos Group (operator)	50%

