ARC ENERGY

JOINT ASX / MEDIA ANNOUNCEMENT

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ARC Energy recommends merger with Australian Worldwide Exploration

The Boards of ARC Energy Limited ("**ARC**") (ASX:ARQ) and Australian Worldwide Exploration ("**AWE**") (ASX:AWE) are pleased to announce that they have unanimously agreed[1] to merge and create Australia's leading mid-tier oil and gas company with:

- a market capitalisation expected to be in excess of $2 billion;[2]
- a high quality portfolio of Australasian offshore and onshore production assets with 2P reserves in excess of 78 million barrels of oil equivalent ("**mmboe**")[3];
- significant upside from near term appraisal and exploration in the Bass, Otway and Taranaki Basins; and
- the creation, via a demerger, of an exciting new ASX listed exploration vehicle, Buru Energy Limited ("**Buru**"), which will hold ARC's Canning Basin assets.

The Merger

The Merger will be effected by a scheme of arrangement to be voted on by ARC shareholders and subject to Court approval. If approved, ARC shareholders will receive a combination of cash, AWE shares and Buru shares with an implied value of $1.59 for each ARC share they own, made up of:

- 0.30 AWE shares (valued at $1.09 based on AWE's 5 day volume weighted average share price of $3.65);
- $0.19 in cash;[4] and
- 0.425 Buru shares which will be listed on the ASX and are valued by ARC at $0.31 per ARC share or $0.73 per Buru share.

In addition, ARC shareholders will receive 1 Buru option for every 3 Buru shares retained by them one month following listing of the Buru shares. The Buru options will have an exercise price of $0.94 and be separately listed on the ASX.[5]

The total implied value of $1.59 per ARC share represents a premium of:

- 27.8% to the last traded price of $1.25 of ARC shares on 11 April 2008 prior to the media reports of a possible merger;
- 38.4% to the ARC 1 month VWAP of $1.15; and

[1] In ARC's case, in the absence of a superior offer and subject to the Independent Expert finding that the Merger is in the best interests of shareholders.
[2] Based on the closing price of ARC and AWE shares as at 23 April 2008, the last trading day immediately prior to the date of this announcement.
[3] As at 30 June 2007, adjusted for Tui upgrade at 22 November 2007.
[4] Cash payment expected to be received on capital account.
[5] Buru options will be allotted to holders of Buru shares one month following listing of the Buru shares.

- 39.4% to the ARC 3 month VWAP of $1.14.

ARC shareholders will also have the option to increase the cash component of the consideration by a minimum of $0.31 per share under a "Maximum Cash" Alternative. ARC shareholders who elect to the "Maximum Cash" Alternative will have the number of AWE shares they receive reduced by the value of the additional cash. The "Maximum Cash" Alternative is capped at a maximum of $100m. The exact amount of cash received by each ARC shareholder electing the "Maximum Cash" Alternative will depend on the proportion of shareholders electing to take-up the "Maximum Cash" Alternative.

ARC's Managing Director Eric Streitberg said:

> *"The merger of the two companies makes compelling strategic sense, bringing together two highly complementary asset portfolios and cultures to create a clear leader in the Australian mid-tier oil and gas sector. ARC shareholders will continue to share in the upside from ARC's existing portfolio of high quality production and appraisal assets, whilst retaining their exposure to the tremendous upside to the Canning Basin exploration program through Buru."*

AWE's Managing Director Bruce Wood said:

> *"The consolidation of the two company's portfolios will provide shareholders with greater exposure to the high quality production assets in the Cliff Head field in the offshore Perth Basin and in the BassGas project in the offshore Bass Basin. The consolidated portfolio also provides a greater diversity of producing assets, with AWE shareholders gaining exposure to ARC's high margin onshore Perth Basin oil and gas production and ARC shareholders gaining exposure to AWE's Tui oilfield and Casino gasfield. All shareholders will also be able to share in the very significant upside we see from a more material position in the BassGas project area which has the potential to add significant value in the short term and provide long term cash flow from gas, LPG and condensate sales."*

The Merged Company

The merged company will have a high quality and diversified upstream portfolio with pro-forma FY08 production of ~12mmboe and 2P reserves of ~78mmboe (as at 30 June 2007). The enlarged company will also own substantial exploration acreage across the most prospective offshore basins in Australia and New Zealand.

The merged group will have the financial strength and flexibility to pursue exploration, selective acquisitions and to fund its future capital development requirements. AWE is also undertaking a review of a wide range of capital management opportunities to increase overall returns to shareholders.

ARC's Perth office will be maintained as the enlarged company's 'hub in the West' with ARC staff adding to the depth of AWE's skills base.

As part of the Merger, Eric Streitberg, ARC's Managing Director will be invited to join the board of AWE as a non-executive director.

Buru Energy

As part of the Merger, ARC's extensive portfolio of Canning Basin exploration assets will be demerged into a separate ASX listed vehicle, Buru Energy Limited. The creation of Buru will continue ARC shareholders exposure to the high potential Canning Basin exploration portfolio in a new exploration company with tremendous leverage to successful exploration outcomes.

Buru will be well funded and is expected to have total cash of $75m on listing and will retain ARC's delivery obligations under the Alcoa gas sales contract. AWE will (through ARC) retain a 15% stake in Buru giving the company both financial strength and a supportive cornerstone shareholder.

Eric Streitberg will be the Chairman of Buru and Adrian Cook, currently ARC's CFO, will become Managing Director. Neil Thompson, currently ARC's Canning Basin Exploration Manager, will become Buru's Exploration Manager. Commenting on Buru, Mr Streitberg said:

> "*We are very excited to be able to offer our shareholders direct exposure to the Canning Basin program. Buru offers tremendous leverage to what we consider to be the highest potential exploration area in Australia in a well funded and supported vehicle. Buru is the local indigenous name for the red sands of the Kimberley and is evocative of the connection the company has with the land and the people of the area in which it operates. Buru will take an innovative approach to exploration in the area and in its relationships with the community to ensure that the exploration of one of Australia's great frontier basins is successful and brings benefits to both its shareholders and the community.*"

Merger Timing and Conditions

It is expected that the transaction will be completed by mid-August 2008, based on the indicative timetable below:

Key Milestone	Date
Sign Merger Implementation Agreement / Announcement	24 April
Scheme booklet(s) lodged with ASIC	Mid June
First Court Hearing to approve scheme documentation and convene Scheme Meeting	Late June
Scheme documentation (including Independent Expert's Report) sent to ARC shareholders	End June
Scheme Meeting	Late July/Early August
Second Court Hearing	Early August
Implementation date	Mid August

The Merger will only occur if the the demerger of Buru occurs and both require the approval of ARC shareholders and the Court. ARC has also applied to the Australian Taxation Office for a number of tax rulings. A summary of the terms of the merger implementation agreement are attached. Further details will be set out in the Merger documentation which is expected to be sent to ARC shareholders before the end of June.

ARC and AWE have agreed a mutual break fee of $4.5 million, payable in certain circumstances if the Merger does not proceed, together with other customary deal protection, in the event that the Merger does not proceed.

AWE is being advised by Goldman Sachs JBWere and Clayton Utz.
ARC is being advised by ABN AMRO as lead financial and strategic adviser and Mallesons Stephen Jaques.
Macquarie Capital Advisers is ARC's retained defence adviser

A presentation setting out further details of the Merger and Buru will be available on both AWE and ARC's website.

FOR FURTHER INFORMATION PLEASE CONTACT:

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Summary of Merger Implementation Agreement

ARC Energy Limited ("**ARC**"), Australian Worldwide Exploration Limited ("**AWE**") and Buru Energy Limited ("**Buru Energy**") have entered into a Merger Implementation Agreement ("**MIA**") dated 24 April 2008 which sets out the obligations of ARC, AWE and Buru Energy in connection with the implementation of the transaction.

A summary of the structure of the transaction, and an outline of the key terms and conditions of the MIA, are set out below.

1 Transaction structure

1.1 Overview

ARC will propose a scheme of arrangement under which:

(a) the demerger of 85% of Buru Energy; and

(b) the acquisition of ARC by AWE,

will be effected (the "**Scheme**").

1.2 Demerger of Buru Energy

Buru Energy has been incorporated for the purpose of holding ARC's Canning Basin assets and is currently a wholly-owned subsidiary of ARC. The demerger of 85% of Buru Energy will be implemented by ARC undertaking a capital reduction. ARC will retain 15% of the issued Buru Energy shares. Buru Energy will also issue certain options over Buru Energy shares to each of the Scheme Shareholders (with their entitlement being calculated by reference to the number of Buru Energy shares retained by them at the date one month from the date of listing of Buru Energy) and to ARC.

1.3 Acquisition of ARC

ARC Shareholders participating in the Scheme ("**Scheme Shareholders**") will transfer their shares in ARC ("**Scheme Shares**") to AWE in exchange for 0.3 new AWE ordinary shares and cash of $0.19 per Scheme Share transferred. However, Scheme Shareholders will be able to elect to receive an additional amount of cash in lieu of all or part of their entitlement to AWE shares. The total additional amount of cash to be paid by AWE is limited to $100 million (to the "**Cash Pool Cap**"). If shareholders in aggregate elect to receive additional cash which in total exceeds the Cash Pool Cap, the amount of cash to be paid to each electing shareholder will be pro-rated in proportion to their holdings of ARC shares.

2 Conditions Precedent

Implementation of the Scheme is subject to the following conditions precedent:

(a) ASX approving the listing of the new AWE shares to be issued under the Scheme;

(b) ASX approving the listing of the Buru Energy shares and Buru Energy options to be transferred and issued to ARC shareholders under the Scheme;

(c) the Scheme being approved by ARC shareholders;

(d) no court order or other legal restraint preventing the consummation of the Scheme being in effect;

(e) receipt of the approval of ASIC, ASX and all other necessary government agency approvals;

(f) confirmation from the ATO that a class ruling will be given by the ATO that ARC shareholders will be entitled to scrip for scrip rollover relief and that section 45B of the Income Tax Assessment Act 1936 will not apply to the Scheme;

(g) the independent expert to be appointed by ARC to opine on the Scheme concluding that the Scheme is in the best interests of ARC shareholders;

(h) no “ARC Material Adverse Change” (as defined in the MIA) occurring;

(i) no “ARC Prescribed Occurrence” (as defined in the MIA) occurring;

(j) no “Bidder Material Adverse Change” (as defined in the MIA) occurring;

(k) no “Bidder Prescribed Occurrence” (as defined in the MIA) occurring; and

(l) the representations and warranties of ARC, Buru Energy and AWE (as set out in the MIA) being true and correct.

Each party has agreed to use their best endeavours to procure that each of the conditions precedent are satisfied as soon as possible and by the times set out in relation to the respective conditions precedent.

3 Reconstitution of ARC Board

ARC has agreed that, as soon as practicable after the date of implementation of the Scheme, ARC will use its best endeavours to:

(a) procure any director of ARC or its subsidiaries as designated by AWE to resign their office; and

(b) cause the appointment to the ARC board of such persons as nominated by AWE.

4 Recommendation of ARC Board

ARC has agreed to use all reasonable endeavours to procure that the board of ARC unanimously recommends the Scheme and does not change its recommendation unless:

(a) the opinion of the independent expert is other than that the Scheme is in the best interests of ARC shareholders; or

(b) an alternative proposal in relation to control of ARC is announced or made which the ARC board determines (in good faith and in order to satisfy what it considers to be its fiduciary and statutory duties, having taken financial and legal advice) to be on superior terms to the Scheme.

ARC has also agreed to use all reasonable endeavours to procure that each ARC director announces their intention to vote in favour of the Scheme for any voting shares held by that director, subject to the above qualifications.

5 Implementation

The parties have agreed that each of ARC, AWE and Buru Energy will take all necessary steps to propose and implement the Scheme as soon as reasonably practicable.

ARC has agreed to commission an independent expert's report in respect of the Scheme.

Further, ARC has agreed to carry on its businesses in the ordinary course consistent with ARC business practices and in material compliance with applicable law.

AWE has agreed to include in the Scheme booklet statements that AWE will honour any retention plans, policies and contractual arrangements in place regarding employees (including under ARC's Short Term Incentive Scheme and Senior Executive Bonus Scheme) as at the date of the MIA in the event that employees are made redundant, are not transferred to another entity in the AWE group or are otherwise terminated within 12 months after completion of the Scheme.

6 Termination

The MIA provides for the following termination rights prior to the Second Court Date:

(a) by either ARC or AWE if the Scheme is not approved by the court, or if the court or a government agency issues an order which permanently restrains or prohibits the Scheme;

(b) by ARC if AWE is in material breach of the MIA including any representation, warranty or undertaking (but subject to a cure period);

(c) by AWE if ARC or Buru Energy is in material breach of the MIA including any representation, warranty or undertaking (but subject to a cure period);

(d) by either ARC or AWE if ARC shareholders do not approve the Scheme or the capital reduction which forms part of the demerger;

(e) by either ARC or AWE if the conditions precedent inserted for their benefit are not satisfied by a long-stop date;

(f) by AWE if any of the ARC directors fail to recommend, or adversely change or withdraw their recommendation of the Scheme;

(g) by ARC if an alternative proposal for control of ARC on superior terms is made (subject to a right of counterproposal by AWE) and a majority of the ARC board recommends that superior proposal;

(h) by AWE if a competing proposal is made for ARC and a majority of the ARC board recommends that competing proposal; and

(i) by ARC if a proposal is made for control of AWE and a majority of AWE's board recommends that proposal.

In addition, in circumstances where the ATO confirms (on or before the date falling two weeks prior to the date of the ARC shareholder meeting to approve the Scheme) that demerger relief will not be available in respect of the Scheme, or if as at that date the ATO has not confirmed whether or not demerger relief will be available, either party may (following a period of consultation with a view to determining whether the transaction may proceed by way of an alternative structure) terminate the MIA prior to the date of the ARC shareholder meeting to approve the Scheme (provided that the ATO has not subsequently confirmed that demerger relief will be available). AWE may only exercise such termination rights where the non-availability of demerger relief would give rise to a material tax liability to ARC, or where the Scheme would result in a material franking debit arising.

7 Exclusivity

ARC and AWE have mutually agreed that:

(a) neither party (nor persons associated with them) will solicit, invite, facilitate or encourage competing proposals ("**no shop**"); and

(b) neither party (nor persons associated with them) will negotiate or enter into discussions with any person in relation to a competing proposal ("**no talk**").

However, the "no talk" obligation does not apply to unsolicited competing proposals which the relevant board (i.e. ARC or AWE) determines are bona fide competing proposals and where the relevant board determines in good faith and acting reasonably, that a failure to respond to the competing proposal would be a breach of their fiduciary duties.

Each of ARC and AWE must notify the other if an approach is made which may lead to a competing proposal, or a request for information is made which may be in connection with a competing proposal, or they provide information for the purposes of a competing proposal.

If ARC receives a superior third party proposal for control of ARC, or if as a result of receiving such a proposal two or more of the ARC directors propose to change or withdraw their recommendation for the Scheme or ARC intends to terminate the MIA, ARC must give AWE notice of the superior third party proposal (including the terms of the proposal and the identity of the third party making the proposal). AWE then has a period of five business days to propose an amendment to the Scheme such that the Scheme would provide a superior outcome for ARC shareholders than the third party proposal. If the ARC board reasonably determines that the counterproposal would provide a superior outcome than the third party proposal, AWE and ARC must endeavour to agree any changes to the transaction documents which are necessary or desirable to reflect the counterproposal.

8 Payment of liquidated sum

ARC and AWE have agreed to pay an amount of $4.5 million (the "**Liquidated Amount**") to the other in certain circumstances.

AWE has agreed to pay ARC the Liquidated Amount if ARC terminates the MIA:

(a) as a result of the breach or non-fulfilment of the conditions precedent relating to "Bidder Material Adverse Change", "Bidder Prescribed Occurrence" or the accuracy of AWE's representations and warranties;

(b) as a result of AWE's material breach of the MIA; or

(c) where a competing proposal is made for control of AWE and a majority of AWE's board recommends that competing proposal.

ARC has agreed to pay AWE the Liquidated Amount if:

(a) AWE terminates the MIA:

  (i) as a result of the breach or non-fulfilment of the conditions precedent relating to "ARC Material Adverse Change", "ARC Prescribed Occurrence" or the accuracy of ARC's or Buru Energy's representations and warranties;

  (ii) as a result of ARC's or Buru Energy's material breach of the MIA;

  (iii) as a result of any of the ARC directors failing to recommend, or adversely changing or withdrawing their recommendation of, the Scheme, other than where the independent expert has opined other than that the Scheme is in the best interests of ARC shareholders; or

(iv) where any two or more of the ARC directors recommend a third party proposal; or

(b) ARC terminates the MIA where a competing proposal is made for ARC and any two or more of the ARC directors recommend that competing proposal.

ARC and AWE have also mutually agreed that if the Liquidated Amount is paid to it, that payment constitutes its sole and exclusive remedy for any liability of the other party arising under or in connection with the MIA.

9 Representations and warranties

Each of ARC, Buru Energy and AWE has given representations and warranties which are normal for an agreement of this kind, including representations and warranties as to information contained in the Scheme booklet and compliance with disclosure obligations. The MIA contains indemnities in respect of loss arising by reason of any breach of representation or warranty.