

Norwest Energy

Quarterly update

Gearing up for 2015 transformation

Oil & gas

Norwest Energy continues its activities to deliver value on its primary prospect, the Arrowsmith unconventional gas project, 300km north of Perth, WA. 3D seismic planned for late 2014 and drilling of a horizontal well in 2015 have the potential to transform the company over the next 18 months. Norwest needs to secure funding to ensure full participation; however, increased activity in the area will help this.

Year end	Revenue (A\$m)	EBITDA (A\$m)	PBT* (A\$m)	Debt (A\$m)	Net debt/(cash) (A\$m)	Capex (A\$m)
06/12	1.0	(2.7)	(2.6)	0.0	(2.4)	(3.4)
06/13	0.9	(6.6)	(8.0)	0.0	(2.6)	(4.2)
06/14e	0.4	(1.6)	(1.5)	0.0	(3.4)	(2.5)
06/15e	0.4	(1.8)	(2.0)	(12.0)	10.5	(11.9)

Note: *PBT is normalised, excluding intangible amortisation, exceptional items and share-based payments.

Arrowsmith: Work progressing

Norwest's primary focus is the progression of planning for 3D seismic around the Arrowsmith-2 location, a prospective unconventional gas play in the Northern Perth Basin, Western Australia. The approximate 110km² shoot is planned for late Q4 of CY14 and will help identify a location and target formation, from either the Irwin River Coal Measures (IRCM) or Carynginia Formations, for drilling of a horizontal well, expected in CY15.

Of particular note is that AWE, one of the JV partners in the Arrowsmith Project, has just completed drilling the Senecio-3 well near the Arrowsmith licence targeting the same formations as the Arrowsmith well. Wireline logs and pressure tests have identified significant gas shows in the formations common to the Arrowsmith Project, namely the Carynginia Formation, IRCM and the High Cliff Sandstone. This discovery provides additional first-hand knowledge but also demonstrates the increased activity in the Perth Basin, which could lead to improved access to services and economies of scale in future drilling and development.

Other developments

In other areas of its portfolio Norwest continues to de-risk and plan for work commitments. It is actively engaged in seeking a farm-in partner for its offshore TP/15 project, on which it continues to investigate a number of options to further de-risk the permit. It is expecting the conversion of STP-EPA-0064 during the remainder of 2014 into an exploration permit and the submission to the UK DECC for the 14th Landward Licencing Round for the relinquished UK onshore licences is due at the end of October 2014. The application for blocks within P1928 for the 28th Seaward Licencing Round was lodged in Q2 of CY14.

Valuation: 2015 key year

We retain our A\$0.03/share NAV and continue to highlight that 2015 will be the critical year for shareholder value transformation with the drilling of the Arrowsmith-3 horizontal well. Cash remains critical to the development of the portfolio and while the company is engaging in farm-outs and exploring other options to help fund activities, the funding of the Arrowsmith-3 well in 2015 remains the key item.

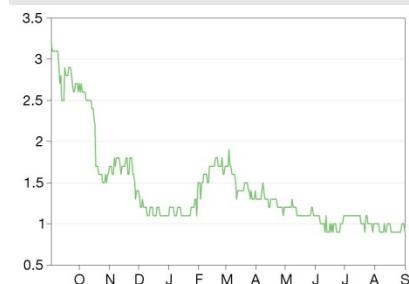
Norwest Energy is a research client of Edison Investment Research Limited

2 September 2014

Price **A\$0.01**
Market cap **A\$11m**

Net cash (A\$m) as at end-June 2014	3.4
Shares in issue	1,103.1m
Free float	87.6%
Code	NWE
Primary exchange	ASX
Secondary exchange	Frankfurt (NSX)

Share price performance



%	1m	3m	12m
Abs	(10.0)	(18.2)	(71.9)
Rel (local)	(11.3)	(20.1)	(74.1)
52-week high/low	A\$0.03	A\$0.01	

Business description

Norwest Energy is an explorer with interests in six permits (five onshore, one offshore) in the northern Perth Basin. It had interests in early-stage interests in permits on and around the Isle of Wight in the English Channel that have been relinquished leading into expiry, which will be reapplied for in the current and upcoming bid rounds.

Next events

Arrowsmith 3D seismic	Q414
-----------------------	------

Analysts

Tim Heeley	+64 (0)4 8948 555
Ian McLelland	+44 (0)20 3077 5756

oilandgas@edisongroup.com

[Edison profile page](#)

Company update: Preparation for Arrowsmith-3

Norwest's primary focus is the progression of the Arrowsmith-3 horizontal well, but it has made progress on other parts of its portfolio during the quarter.

EP413: Seismic next step

Norwest is the operator of the licence and holds a 27.945% working interest with AWE (44.252%) and Bharat Resources (27.803%) in the joint venture. The asset is located 300km north of Perth.

In Q1 CY14 the company reported on the results of extended testing of the Arrowsmith-2 well and identified the Irwin River Coal Measures and Carynginia Formation as the dominant zones for gas production. The formations are very thick layers (330 metres and 250 metres respectively) and have been shown as prolific across the region, lending themselves to a significant regional play if the pilot work continues to produce positive results.

The next steps are to identify a location for the horizontal well, Arrowsmith-3, which is expected to be drilled during 2015. While timing is dependent on equipment and approvals, the location and ultimate target formation will be finalised by results from the 3D seismic acquisition.

This is planned for late Q4 of CY14 and Norwest is progressing the various State and Commonwealth regulatory approvals ahead of this, including environmental impact assessments and surveys to ensure minimal environmental impact. The survey will be around the Arrowsmith-2 well and cover an area of approximately 12,700 hectares (110km²).

Activity in the region is growing and while this helps with improved economies of scale and access to appropriate equipment, of greater importance at this stage is the newsflow generated from third-party activity. Activity is increasing on conventional and unconventional plays, but of greatest interest to NWE's work is the results from AWE's Senecio-3 well on Permits L1/L2 in the northern Perth Basin where wireline logs and pressure tests have identified significant gas shows in the formations common to the Arrowsmith Project, namely the Carynginia Formation, Irwin River Coal Measures and the High Cliff Sandstone. Also of interest will be the results of AWE's Drover-1 well targeting the same formations as the Arrowsmith Project, which reached target depth at the end of July and recorded significant gas shows in the Kockatea Shale and Carynginia Formation. AWE also took core samples from this well.

In addition to the new drilling there continue to be a number of new entrants to the Perth Basin, which has long been overlooked for better-known basins further north. For instance, UIL Energy has built a portfolio of 600,000 acres in the basin recently, and is in the early stages of undertaking an IPO process to raise funds to drill up to six wells in the next 12 months. Of significant note in the UIL story is that the management team are formed from personnel involved in the start-up of Bow Energy, Arrow and Dart, and thus bring a wealth of experience to the basin. Dutch companies Dyas and Mazarine Energy have also recently been active in the basin and the recently announced asset restructure by Empire Oil and Gas will put further focus on the Perth Basin in the future as the company secures increased control over its asset base before seeking exploration partners.

Other Perth basin activity and further afield: Farming out

Norwest continues to reduce risk while maintaining a meaningful working interest for shareholders.

During the quarter the company continued discussions with a number of parties on the TP/15 offshore acreage where the company aims to target conventional oil targets in the Permian sands. Located offshore in the northern Perth Basin, close to the Cliff Head, Jingemia and Eremia producing oil fields, the permit covers approximately 645.8km². In parallel with the farm-out

process, Norwest continues to investigate a number of options to further de-risk the permit. This work forms part of the ongoing work commitments on the lease.

In addition, work continues to progress the STP-EPA-0064 leases to an exploration permit following successful completion of Native Title negotiations. Award of the permit is expected during Q3 of CY14. Possible prospective targets within the permit include both a shallow and deep shale gas system and conventional traps.

Other key news in the quarter surrounded the southern UK permits (P1928, PEDL 238/239), which were relinquished in the early part of CY14. The relinquishment of P1928 was driven by the imminent need to drill a well on the permit and, by relinquishing, Norwest and Wessex Exploration (Norwest's partner in the UK) gained the ability to reapply for the licence in the 28th Seaward Licencing Round in Q2 of CY14, which if successful gives further time to assess the prospectivity. Similarly the early relinquishment of PEDL 238/239, which were due to expire in July 2014, has allowed these blocks to be relicensed in the current UK 14th Landward Licencing Round and if successfully reacquired would allow for a detailed and focused application of the already acquired seismic and other propriety information.

Corporate: Management and finances

Cash at end of the quarter (30 June 2014) stood at A\$3,380,000, with an expected outlay for Q314 of A\$903,000.

Cash remains an issue for Norwest as it has upcoming major commitments in 2015, most importantly the Arrowsmith-3 horizontal well. The company is actively following a number of options including further farm-out, equity/debt and strategic investment to fill the funding need. While there is no immediate time pressure, this funding gap should be management's main priority.

In this regard it is a positive that John Annand has now been appointed as chief financial officer and company secretary, and gives additional depth to the management team of Norwest. This appointment has led to a streamlining of corporate costs, which should be welcomed by shareholders, and accordingly cash burn figures have reduced for G&A within our model to reflect this ongoing focus on overhead reduction to A\$2m a year.

Exhibit 1: Financial summary

	A\$m	2012	2013	2014e	2015e
Year end June		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		1.0	0.9	0.4	0.4
Cost of Sales		(3.2)	(6.1)	(2.0)	(2.1)
Gross Profit		(2.3)	(5.2)	(1.6)	(1.7)
EBITDA		(2.7)	(6.6)	(1.6)	(1.8)
Operating Profit (before amort. and except.)		(2.7)	(6.6)	(1.6)	(1.8)
Intangible Amortisation		0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0
Operating Profit		(2.7)	(6.6)	(1.6)	(1.8)
Other		0.0	0.0	0.0	0.0
Net Interest		0.0	(1.4)	0.0	(0.2)
Profit Before Tax (norm)		(2.6)	(8.0)	(1.5)	(2.0)
Profit Before Tax (FRS 3)		(2.6)	(8.0)	(1.5)	(1.5)
Tax		0.0	0.0	0.0	0.0
Profit After Tax (norm)		(2.6)	(8.0)	(1.5)	(2.0)
Profit After Tax (FRS 3)		(2.6)	(8.0)	(1.5)	(2.0)
Average Number of Shares Outstanding (m)		813.6	968.5	1,103.1	1,103.1
EPS - normalised (c)		(0.3)	(0.8)	(0.1)	(0.2)
EPS - normalised fully diluted (c)		(0.3)	(0.8)	(0.1)	(0.1)
EPS - (IFRS) (c)		(0.3)	(0.8)	(0.1)	(0.2)
Dividend per share (c)		0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	N/A
EBITDA Margin (%)		N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A
BALANCE SHEET					
Fixed Assets		3.0	3.0	5.6	17.4
Intangible Assets		2.9	2.9	2.9	2.9
Tangible Assets		0.1	0.1	2.6	14.5
Investments		0.0	0.0	0.0	0.0
Current Assets		3.1	2.8	3.5	1.7
Stocks		0.0	0.0	0.0	0.0
Debtors		0.7	0.2	0.2	0.2
Cash		2.4	2.6	3.4	1.5
Other		0.0	0.0	0.0	0.0
Current Liabilities		(0.6)	(0.5)	(0.5)	(0.5)
Creditors		(0.6)	(0.5)	(0.5)	(0.5)
Short term borrowings		0.0	0.0	0.0	0.0
Long Term Liabilities		(0.4)	(0.4)	0.0	(12.0)
Long term borrowings		0.0	0.0	0.0	(12.0)
Other long term liabilities		(0.4)	(0.4)	0.0	0.0
Net Assets		5.2	4.9	8.6	6.6
CASH FLOW					
Operating Cash Flow		0.0	(0.6)	(0.1)	(1.8)
Net Interest		0.1	0.1	0.0	(0.2)
Tax		0.0	0.0	0.0	0.0
Capex		(3.4)	(4.2)	(2.5)	(11.9)
Acquisitions/disposals		0.1	0.0	0.0	0.0
Financing		3.9	4.8	3.4	0.0
Dividends		0.0	0.0	0.0	0.0
Net Cash Flow		0.6	0.1	0.8	(13.9)
Opening net debt/(cash)		(1.7)	(2.4)	(2.6)	(3.4)
HP finance leases initiated		0	0	0	0
Other		0	0	0	0
Closing net debt/(cash)		(2.4)	(2.6)	(3.4)	10.5

Source: Norwest Energy accounts, Edison Investment Research

Edison, the investment intelligence firm, is the future of investor interaction with corporates. Our team of over 100 analysts and investment professionals work with leading companies, fund managers and investment banks worldwide to support their capital markets activity. We provide services to more than 400 retained corporate and investor clients from our offices in London, New York, Frankfurt, Sydney and Wellington. Edison is authorised and regulated by the Financial Conduct Authority (www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2014 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Norwest Energy and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2014. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.