



norwesterly

FIRST EDITION JUNE 2010

Fellow Norwest Shareholder.

Despite the turmoil of the European financial crisis and the proposed Resources Super Profits Tax, Norwest remains focused on developing shareholder value. As you know, our focus has been on two geographic regions - the northern Perth Basin in Western Australia and the Wessex Basin in Southern England. That focus has not faltered throughout this period, nor will it going forward.

Over the past 12 months Norwest has made a concerted effort to develop its communication process with you through ASX announcements as and when appropriate. As you will see by this newsletter we intend to add a further means of communication. **norwesterly** will be a more direct and conversational communication with shareholders, and will bring news items to shareholders attention as well as pertinent information other than compliance ASX disclosures.

Each edition of **norwesterly** will also have a special focus. In this first edition the topic is **unconventional gas, specifically SHALE GAS**, and what it potentially means to Norwest.

We hope you find **norwesterly** informative and we welcome any feedback. We will endeavour to where possible answer your questions.

Yours sincerely
Peter Munachen
Chief Executive Officer / Director
Norwest Energy NL
15th June 2010



FARM-OUT PROGRESS

Whilst the focus of this first edition of norwesterly is shale gas and what it means to Norwest, shareholders need to be aware that farm-out discussions, primarily for TP15/Redhill, continue and are progressing satisfactorily. As you will read in this newsletter, your directors have high expectations for the shale gas potential of EP413 and very importantly its underlying value. Any farm-out of our interest in EP413 will need to reflect the potential value to maximise shareholder value. As we get the benefit of AWE's efforts our evaluation costs in the foreseeable future will be manageable.

As far as Redhill negotiations are concerned we are satisfied with the progress of farm-out discussions. Whilst these discussions continue, we are advancing the planning process to gain the necessary approvals to meet Q4 drilling.

Ideally, one party would farm-in to both projects as a package, however that is not necessarily a condition of a deal.

UNCONVENTIONAL GAS - Shale Gas and the Northern Perth Basin

Norwest has interests in more than 1 million acres in permits in the northern Perth Basin that contain thick and potentially gas-rich shales. The most prospective of these permits, EP413, has a gross acreage of 125,600 acres (net 69,800 acres to Norwest). Norwest believes EP413 is in the heart of the basin's shale gas play and has great potential for Norwest. This is a material interest in what is potentially a large onshore unconventional gas field on the doorstep of WA's south-west domestic and industrial energy market. This market is currently served by gas from the North West Shelf via the Dampier to Bunbury gas pipeline that runs through the northern Perth Basin.

To set the background for what could potentially be a quantum leap for Norwest, it is important to discuss the US shale gas scene, such as the major plays – the Marcellus, Barnett and Eagle Ford shales. These plays are good indicators of what could happen in the northern Perth Basin.

These projects are very profitable and carry significant values, either on a discounted cash flow basis or as acreage plays. For example, ASX-listed Adelphi has had a NPV of A\$99.5m placed on its 10% interest in 23,000 acres in the Eagle Ford Sugarloaf project, and a recent Marcellus transaction with proven gas reserves was worth US\$14,167/acre. These are good indicators of what could happen in the northern Perth Basin.

Norwest considers that the potential exists to replicate these US success stories in the Perth Basin. We may be quite a few years behind the US players but current activities by both Norwest and AWE on northern Perth Basin acreage; and also what is planned for the next 12 months, should rapidly bridge the gap. Norwest's directors recognise the potential value of the northern Perth Basin shale gas play and in particular its 55.606% equity in EP413. Accordingly, we are continually addressing the various options available to finance its evaluation and ultimately develop the project to maximise shareholder value.

Before advancing too far with the shale gas story it is important to establish a basic understanding of what shale gas is.

What is shale gas?

Shale is an organically rich sedimentary rock with ultra-low permeability that until recently was overlooked as a commercially viable source of natural gas.

Shale is far less permeable than tight sand. The challenge of extracting gas from shale is often compared to releasing gas from a rock as impermeable as concrete. Unlike conventional gas reservoirs, which rely on geologic traps to hold the gas in place, shale is both the source and reservoir of the gas.

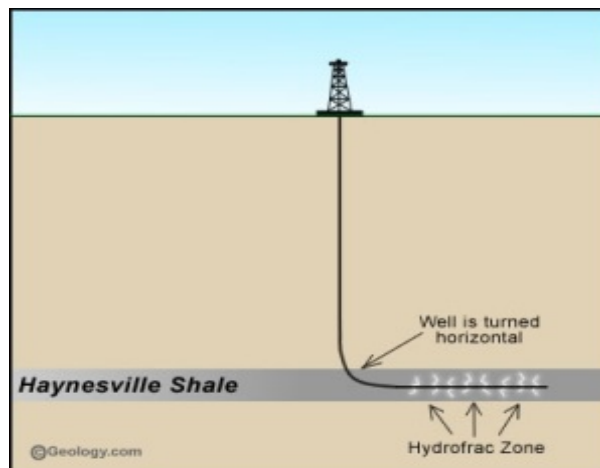
Sometimes the weight of overlying rock and movements in the earth's crust form natural fractures in the shale. When these natural fractures occur, economic volumes of gas can be recovered without fracturing the shale.

Usually, however, the shale must be fracture stimulated to create economic gas flow rates. To fracture shale, fluid is injected at high rates along with a "proppant" (such as light sand) to keep these fractures open and allow for the flow of gas (when the fluid is extracted).

Furthermore, releasing gas from shale in commercial quantities requires the rock to be opened up by horizontal drilling. Generally, horizontal sections vary in length from less than 1km to over 4km, and along these horizontal sections the number of fractal stages commonly varies from between 4 to 30. Due to the requirement for more sophisticated drilling and

completion techniques, shale gas exploration can be much more expensive than exploring for conventional gas.

"Advances in horizontal drilling completion technologies have driven a fundamental shift towards shale and unconventional resources in the past four years" (Chesapeake Energy May 2010 Investor Presentation)



The US shale gas success story

Having the combination of the right shales, techniques and technology has contributed to the strong development of shale gas in the US. That country's known shale gas reserves have grown significantly from 21.7 trillion cubic feet (tcf) in 2007 to 32.8tcf in 2008. That is the most recent US national shale gas reserve figure published, but on March 31 this year, one of the largest US producer of unconventional gas, Chesapeake Energy, published proved reserves of 15.8 tcf and is now targeting 20-22 tcf by 2012. (tcf=Trillion cubic feet equivalent. These volumes also include condensates that are recovered in the shale gas recovery process. As a comparison the Gorgon field in Western Australia has published estimated resources of 20 tcf).

Chesapeake is active in a number of US shale gas plays, including the Marcellus, Haynesville, Barnett, Fayetteville and Bossier shales. In Q1 2010, Chesapeake natural gas production from these fields was 2.328 bcfe/day with a target to produce 3.5 to 3.75bcfe/d by the end of 2012.

These numbers are very impressive!

Of significant interest to Norwest is the US Eagle Ford shales and in particular the Sugarloaf project, in which ASX-listed Adelphi Energy has a 10% interest.

This Sugarloaf project is nowhere as advanced as the prolific producers such as those in the Barnett or Marcellus. And nor is Norwest anywhere near as advanced in the Perth Basin as Adelphi is in the Eagle Ford Sugarloaf project. But it is relevant that

AWE has launched a takeover for Adelphi as this has revealed some very detailed information about the Sugarloaf project that is very useful in assessing a potential shale gas project.

It would be inappropriate to make any direct comparisons with the Sugarloaf play as the Eagle Ford and the north Perth Basin are in two distinctly different environments and at very different stages of development. The US shale plays have their own vastly different cost structures as the equipment and services are readily available and located near to project activities. But Sugarloaf does give Norwest very relevant data for assessing the potential of its Perth Basin acreage.

Of relevance is: the acreage of the Sugarloaf project, the age and maturity of the shales (the Perth Basin shales are similar), the thickness of the shales, and very significantly the volumes of gas that one well can produce from an 80 acre area. (initial production at a rate of 4.6MMcfe/d for estimated total production of 5Bcfe over a well life of 20 years.) The actual Sugarloaf project footprint is 23,000 acres. The shales are reported as approximately 79 metres thick and at depths of 3,600 metres. There have been five successful wells drilled on the Sugarloaf project area and there is considerable production history from nearby fields operated by other producers. All of this is sufficient data upon which a field development model has been extrapolated and a valuation ascribed. The Sugarloaf project has been ascribed a best estimates net present value (15%) of US\$816.1m, which values Adelphi's 10% interest at A\$99.5m (US\$1= A\$.82). (source Adelphi Target Statement dated 31 May 2010 - Price Waterhouse Coopers Independent Experts Report dated 28 May 2010).

The question is, can the US shale gas plays be replicated here in the Northern Perth Basin? Maybe they can! It is still early days in the Perth Basin and the US operators definitely have the march on shale gas having been working in this field for quite some time. However, as AWE gathers momentum with its Woodada/Perth Basin shale gas play and Norwest follows suit, the US models and experiences will be drawn on to significantly diminish the learning curve. AWE is already making rapid progress and has set itself some very optimistic targets, with first gas sales and an initial reserve booking expected for 2011. AWE's success at Woodada has the potential to be repeated by Norwest at EP413, which borders the Woodada block.

North Perth Basin and the AWE Woodada story.....

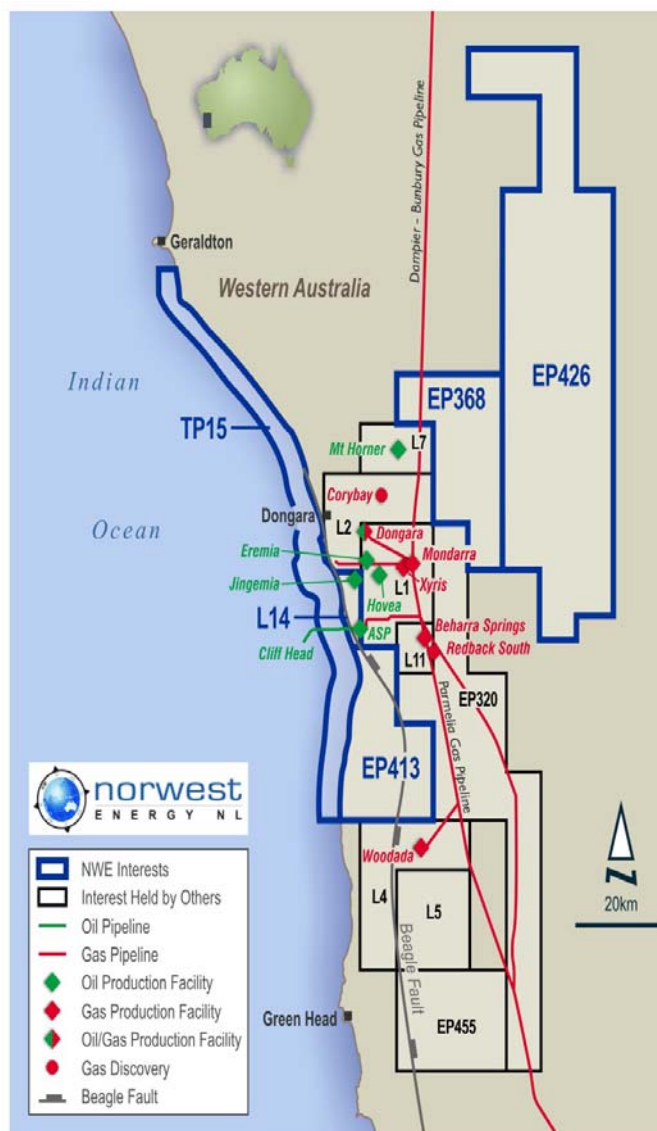
AWE announces shale gas plans for northern Perth Basin

In January 2010, AWE announced that it would undertake operations to re-enter the existing

Woodada Deep-1 well in its 100% held L5 production permit in the northern Perth Basin. The aim was to recover core samples of the shales for detailed analysis to assist in determining the gas production potential of the shales in the Woodada area. AWE had previously analysed drill cuttings from a number of Perth Basin wells and the data had been sufficiently positive to encourage the commitment to a full coring program. In its announcement, AWE stated "it is excited by the potential of these opportunities which is underpinned by existing infrastructure connected to a large gas market with globally competitive gas pricing".

Norwest has monitored AWE's progress with great interest

As AWE unveiled more information relating to the shale gas play Norwest has monitored the program's progress with great interest. The Woodada permit is immediately south of EP413 where Norwest has increased its equity from 1.278% to 55.606%. Of significance, AWE also holds 44.14% in EP413 which Norwest considers to be a great benefit to both companies.



Since its January announcement, AWE has re-entered the Woodada Deep well and recovered core from three intervals in the “Carynginia”. Based on preliminary laboratory results, the middle 60 metre interval is being considered by AWE for fracture stimulation.

This ties into their plan to re-enter Woodada Deep in Q4/2010 to fracture stimulate, conduct additional coring and produce a contingent resource estimate. They also plan on follow-up coring in EP455 to the south of Woodada and with Norwest in EP413. AWE as the 44.252% joint venture partner in EP413 is working closely with operator Norwest on this program.

AWE’s plans for 2011 are to drill and fracture horizontal wells, achieve first gas sales and book initial reserves.

AWE is targeting;

- **Kockatea Shale**
- **Carynginia Shale**
- **Irwin River Coal Measures**

These individual shale sequences vary in thickness from 180m up to 500m+. They are not only restricted to AWE’s Woodada permit but exist throughout the Perth Basin, including Norwest’s EP413.

The big question at present is whether the shale sequences “stack up”?

According to AWE, the characteristics of the Perth Basin shales are;

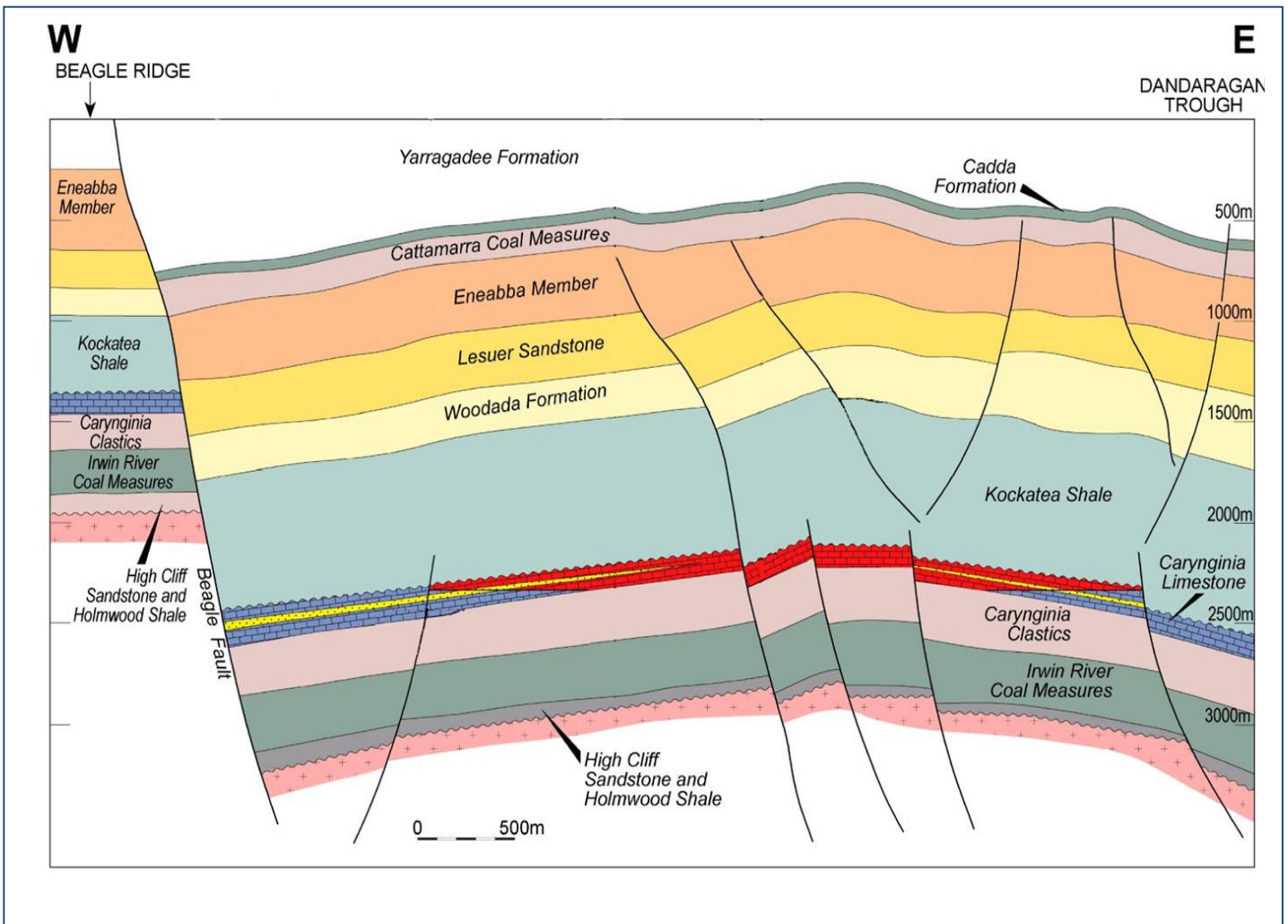
- The three shale sequences are at depths between 2,000 and 3,800m metres – positive
- Thickness 180m to 500m+ - positive
- TOC (total organic content)- positive
- Maturity-Vitrinite Reflectance – positive

These all compare favourably with the US style gas producing shales, including the Eagle Ford shales discussed earlier.

What was not known until recently was;

- Porosity
- Permeability
- Gas content

The fact that AWE is considering fracture stimulation of a 60m interval of the Carynginia is positive and suggests that porosity and permeability of that interval meet the required criteria. Fracture stimulation will confirm the critical gas production and flow rates. It is also significant that gas flowed from the tight sands in the Irwin River Coal Measures elsewhere in the basin at AWE’s Corybas-1 well when that was fracture stimulated in 2009. Corybas-1 is in the historic Dongara field in the northern part of the Basin and is owned and operated by AWE.



What else is AWE doing in the basin? AWE reports that core has been recovered from the Cockatea Shale at the Redback South 2 well. Information acquired from these additional gas fields adds to the story as it has the potential to provide the characteristics of the three shale sequences from separate locations within the northern Perth Basin.

Whilst Norwest's EP413 does not contain a gas field, it does have the same shale sequences as the fields from which core has been recovered. If the shales stack up in the other parts of the Basin, they will stack up throughout a significant part of EP413, particularly on the down-thrown side of the Beagle fault where these producing gas fields exist.

Sounds great for AWE! But what's in it for Norwest?

AWE is doing the hard yards and Norwest location gives us the benefit of AWE's work. Some may refer to this as "nearology", but in fact it is not. Norwest's shales are part of the one basin and the acreage is right in the midst of it. It's more a case of the old real estate slogan: "Location, location, location"!

So what does Norwest need to do to capitalise on this for its shareholders?

With our 55.606% equity and as operator of EP413 we are planning to drill a "slim hole" well in EP413 by the end of 2010 to recover core from the shale sequences for analysis. This well will be drilled on the up-thrown side of the Beagle fault. Whilst the same shale sequences are present in this part of the permit there is much less information available as there have been fewer wells drilled and the characteristics of the shales need to be determined to see if these shales also stack up!

Positive results from the recent AWE coring, and the balance of its 2010 program augur well for Norwest, particularly if the core analysis from the EP413 well also comes up positive. It will then establish that the characteristics of the shales throughout the basin, including EP413 meet the criteria of shales that stack up!

Again, AWE will be leading the way as it moves into 2011 with its plans to drill and fracture stimulate horizontal wells and aims to achieve first gas sales and book initial reserves.

This would be rapid progress. If these targets are met, the shale gas potential of the Perth Basin will have made a quantum leap and will be quickly moving towards development comparable with the US shale gas plays - and Norwest will be following closely on the tail of AWE.

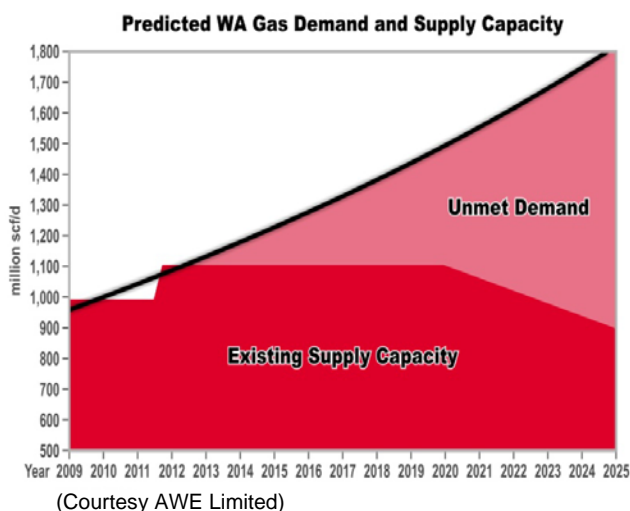
We will of course, want to accelerate our own program in 2011 to advance activities to capitalise on the specialist equipment that will be brought to the

Perth Basin to drill and fracture stimulate horizontal wells.

Such equipment does exist in Australia, but the shale gas industry is in its formative stage in Western Australia and at present there is limited shale gas drilling activity, so the benefits from economies of scale will not be achieved at the outset. However, once the basin's shale gas potential is acknowledged and activity increases it is expected that costs of equipment and services will reduce.

What are the potential economics of the shale gas play in the Basin?

It's still in its infancy but what is becoming apparent is that the potential size of the Perth Basin, given its acreage footprint and shale thickness, is potentially large enough to support a shale gas industry. Proximity to infrastructure and markets, especially the West Australian predicted future unmet demand, underpinned by a price of A\$7mcf, provides encouragement to pursue the objectives. The current limiting factor is the cost of and availability of equipment and services. But as previously stated this is expected to change with increase in activity.



The anticipated prize for Norwest is quite substantial if the shales stack up and commercial viability can be established. It is way too soon to even speculate and attempt to construct a development plan and financial model for the Perth Basin, including EP413. However, the Eagle Ford Sugarloaf project is a good example as how financially rewarding these projects are in the US. If in time the US successes can be replicated in the Perth then Norwest will certainly be well placed to capitalise.

Another limb to the North Perth Basin shale gas play is that as yet it has not publicly caught the attention of Australian or international majors. In Eastern Australia's CSG plays, large sums of money have been committed by majors to get strong positions. And of course in the US, there are reports of deals worth billions of dollars being transacted by international companies to acquire acreage with proven reserves. For example, earlier this year India's Reliance Industries entered into a deal worth US\$1.7bn to buy into 40% of 300, 000 acres in the US Marcellus from Atlas Energy Inc. This equates to US\$14,167 an acre.

Given all of these factors, Norwest's directors certainly recognise the potential value of the northern Perth Basin shale gas play. It would also be fair to say that you, the Norwest shareholder will also share this view. Even so it is early days and we still have to tick all of the boxes to establish the commercial viability and then it will require substantial capital to develop the project to its full potential. In the meantime, your Directors will consider all options available to fund the project through this evaluation period, with the objective to retain maximum project equity adding to shareholder value.



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A Few More Facts & Terms

Sources of Natural Gas

Shale gas is both created and stored within the shale bed. Natural gas (methane) is generated from the organic matter that is deposited with and present in the shale matrix.

In order for a shale to have economic quantities of gas it must be a capable source rock. The potential of a shale formation to contain economic quantities of gas can be evaluated by identifying specific source rock characteristics such as total organic carbon (TOC), thermal maturity, and kerogen analysis. Together, these factors can be used to predict the likelihood of the prospective shale to produce economically viable volumes of natural gas. A number of wells may need to be analysed in order to sufficiently characterise the potential of a shale formation, particularly if the geologic basin is large and there are variations in the target shale zone.

Contributors to US shale gas viability

Three factors have come together in recent years to make US shale gas production economically viable:

- 1) advances in horizontal drilling,
- 2) advances in hydraulic fracturing, and, perhaps most importantly,
- 3) rapid increases in natural gas prices.

Key Gas Resource Terms

Proved Reserves: That portion of recoverable resources that is demonstrated by actual production or conclusive formation tests to be technically, economically, and legally producible under existing economic and operating conditions.

Technically Recoverable Resources: The total amount of resource, discovered and undiscovered, that is thought to be recoverable with available technology, regardless of economics.

Original Gas-In-Place: The entire volume of gas contained in the reservoir, regardless of the ability to produce it.