

# **Norwest Energy NL**

## **Financial Report**

**Half-Year Ended 31 December 2006**

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# Norwest Energy NL

Half-Year Ended 31 December 2005

Directors' Report  
31 December 2006

The directors present their report together with the consolidated financial report for the financial half-year ended 31 December 2006 and the review report thereon.

## 1. General information

### *a Directors*

The names of the directors in office at any time during, or since the end of, the half-year are:

<b>Name</b>	<b>Period of directorship</b>
Mr Henry David Kennedy (Chairman)	Appointed 14 April 1997
Mr Jonathan Arnold Salomon (Chief Executive Officer)	Appointed 18 October 2004
Mr Peter Lawson Munachen (Finance Director)	Appointed 26 November 2003
Mr Andrejs (Andrew) Karlis Svalbe (Non-Executive Director)	Appointed 17 February 2004
Mr William Frederick Bloking (Non-Executive Director)	Appointed 6 March 2007

### *b Principal Activities*

The principal activities of the Group during the financial half-year were:

- exploration for hydrocarbon resources.

There have been no significant changes in the nature of the Group's principal activities during the financial half-year.

## 2. Review of Operations

### *a Operating Results*

The consolidated loss of the Group after providing for income tax amounted to \$1,918,972 (31 December 2005: \$1,545,519)

## 3. Other items

### *a Significant Changes in State of Affairs*

No significant changes in the Group's state of affairs occurred during the financial half-year.

### *b After balance day events*

No matters or circumstances have arisen since the end of the financial half-year which significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

### *c Future developments*

Likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Group.

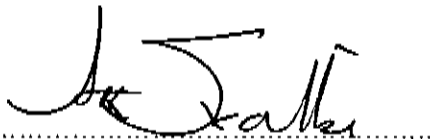
# Norwest Energy NL

Half-Year Ended 31 December 2005

***d Lead Auditor's Independence Declaration under section 307C of the Corporations Act 2001***

The lead auditor's independence declaration for the half-year ended 31 December 2006 is set out on page 5 and forms part of the Directors Report.

Signed in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read 'AK Svalbe', written over a horizontal dotted line.

AK Svalbe  
Director

Perth  
15 March, 2007



***Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001***

To: the directors of Norwest Energy NL

I declare that, to the best of my knowledge and belief, in relation to the review for the financial half-year ended 31 December 2006 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

B P Steedman  
*Partner*

Perth  
15 March 2007

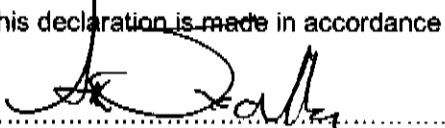
# Norwest Energy NL

## Directors' Declaration

In the opinion of the directors of Norwest Energy NL (the company):

1. the financial statements and notes, as set out on pages 7 to 15, are in accordance with the Corporations Act 2001 including:
  - (a) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
  - (b) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2006 and of the performance, as represented by the result of its operations and cash flows for the year ended on that date;
2. in the directors opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



AK Svalbe  
Director

Perth  
15 March, 2007

# Norwest Energy NL

## Consolidated Interim Income Statement For the Half-Year Ended 31 December 2006

	December 31 2006 \$	December 31 2005 \$
<b>Revenue</b>		
Sales of oil & gas	459,362	385,036
<b>Revenue</b>	<u>459,362</u>	<u>385,036</u>
Other income	119,745	-
Net profit on sale of asset	1,147,670	-
Depreciation expense	(16,654)	(14,424)
Exploration expenditure written off	(2,638,602)	(1,180,110)
Depletion expense	(37,356)	(92,833)
Options issued to directors and employees	(244,499)	(158,850)
Administrative expenses	(840,635)	(628,390)
<b>Results from operating activities</b>	<u>(2,050,969)</u>	<u>(1,689,571)</u>
Financing income	131,997	144,052
<b>Total financing income</b>	<u>131,997</u>	<u>144,052</u>
<b>Loss before income tax</b>	<u>(1,918,972)</u>	<u>(1,545,519)</u>
Tax expense	-	-
<b>Loss for the period</b>	<u>(1,918,972)</u>	<u>(1,545,519)</u>
Basic and diluted loss per share (cents per share)	(1.01)	(0.87)

The income statement is to be read in conjunction with the notes to the interim financial statements set out on pages 11 to

15:16

# Norwest Energy NL

## Consolidated Interim Statement of Recognised Income & Expense For the Half-Year Ended 31 December 2006

	31 Dec 2006	31 Dec 2005
<b>Loss for the period</b>	(1,918,972)	(1,545,519)
<b>Total recognised income and expense for the period</b>	<u>(1,918,972)</u>	<u>(1,545,519)</u>
<b>Attributable to:</b>		
Equity holders of the parent	(1,918,972)	(1,545,519)
Minority interest	-	-
<b>Total recognised income and expense for the period</b>	<u>(1,918,972)</u>	<u>(1,545,519)</u>

Other movements in equity arising from transactions with owners as owners are set out in note 3.

The statement of recognised income and expense is to be read in conjunction with the notes to the interim financial statements set out on pages 11 to 15.

# Norwest Energy NL

## Consolidated Interim Balance Sheet As at 31 December 2006

	Note	December 31 2006 \$	June 30 2006 \$
<b>ASSETS</b>			
<i>Current assets</i>			
Cash and cash equivalents		7,865,769	7,559,001
Trade and other receivables		199,371	194,415
<b>Total current assets</b>		<b>8,065,140</b>	<b>7,753,416</b>
<i>Non-current assets</i>			
Property, plant and equipment		76,738	86,929
Exploration and development		3,367,453	5,544,577
Other		10,000	-
<b>Total non-current assets</b>		<b>3,454,191</b>	<b>5,631,506</b>
<b>TOTAL ASSETS</b>		<b>11,519,331</b>	<b>13,384,922</b>
<b>LIABILITIES</b>			
<i>Current liabilities</i>			
Trade and other payables		137,721	338,881
Provisions		13,626	3,584
<b>Total current liabilities</b>		<b>151,347</b>	<b>342,465</b>
<i>Non-current liabilities</i>			
Provisions		10,224	10,224
<b>Total non-current liabilities</b>		<b>10,224</b>	<b>10,224</b>
<b>TOTAL LIABILITIES</b>		<b>161,571</b>	<b>352,689</b>
<b>NET ASSETS</b>		<b>11,357,760</b>	<b>13,032,233</b>
<b>EQUITY</b>			
Issued capital	3	28,852,152	28,852,152
Reserves	3	816,490	571,991
Accumulated losses	3	(18,310,882)	(16,391,910)
<b>TOTAL EQUITY</b>		<b>11,357,760</b>	<b>13,032,233</b>

The balance sheet is to be read in conjunction with the notes to the interim financial statements set out on pages 11 to 15.

# Norwest Energy NL

## Consolidated Interim Statement of Cash Flows For the Half-Year Ended 31 December 2006

	December 31 2006	December 31 2005
	\$	\$
<b>Cash flows from operating activities:</b>		
Cash receipts from customers	533,325	292,006
Cash payments to suppliers and employees	(863,525)	(445,958)
Interest received	131,997	144,052
<b>Net cash from operating activities</b>	<b>(198,203)</b>	<b>(9,900)</b>
<b>Cash flows from investing activities:</b>		
Acquisition of property, plant & equipment	(6,462)	(38,882)
Exploration expenditure	(1,347,201)	(1,473,605)
Development expenditure	(103,234)	
Proceeds from sale of project	1,961,807	
<b>Net cash from investing activities</b>	<b>504,910</b>	<b>(1,512,487)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from the issue of share capital	-	4,909,692
<b>Net cash from financing activities</b>	<b>-</b>	<b>4,909,692</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>306,707</b>	<b>3,387,305</b>
Cash and cash equivalents at 1 July	7,559,001	5,508,081
Effect of exchange rates on cash holdings in foreign currencies	61	16,478
<b>Cash and cash equivalents at 31 December</b>	<b>7,865,769</b>	<b>8,911,864</b>

The statement of cash flows is to be read in conjunction with the notes to the interim financial statements set out on pages 11 to 15.

# Norwest Energy NL

## Condensed notes to the Consolidated Interim Financial Statements For the Half-Year Ended 31 December 2006

### 1 Significant Accounting Policies

Norwest Energy NL (the "Company") is a company domiciled in Australia. The condensed consolidated interim financial report of the Company for the six months ended 31 December 2006, comprise the Company and its subsidiaries (together referred to as the "consolidated entity").

The consolidated interim financial report was authorised for issue by the directors on 12 March 2006.

#### (a) Statement of Compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: *Interim Financial Reporting*, IAS 34: *Interim Financial Reporting* and the Corporations Act 2001.

The consolidated interim financial report does not include all of the information required for a full annual financial report.

This interim financial report is to be read in conjunction with the most recent annual financial report. This report must also be read in conjunction with any public announcements made by Norwest Energy NL during the half year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

#### (b) Significant Accounting policies

Except as described below, the accounting policies applied by the consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 30 June 2006.

In the prior financial year the consolidated entity adopted AASB 132: *Financial Instruments: Disclosure and Presentation* and AASB 139: *Financial Instruments Recognition and Measurement* in accordance with transitional rules of AASB 1. The adoption of AASB 132 and 139 has not resulted in any material adjustments.

#### (c) Estimates

The preparation of the interim financial report requires management to make key judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those applied in the consolidated financial report as at and for the year ended 30 June 2006.

# Norwest Energy NL

## Notes to the Condensed Consolidated Interim Financial Statements For the Half-Year Ended 31 December 2006

### 2 Segment reporting

Segment information is presented in the consolidated interim financial statements in respect of the consolidated entity's geographical segments, which are the primary basis of segment reporting. The geographical segment reporting format reflects the consolidated entity's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

#### (i) Geographical segments

The segments are managed on a worldwide basis, but operate in two principal geographical areas, Australia and USA. The Company also has interests in the UK which will become a focus in the future.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

#### For the six months ended 31 December 2006

	USA		Australia		Consolidated	
	2006	2005	2006	2005	2006	2005
Segment revenue	1,961,807	19,658	579,107	365,378	2,540,914	385,036
Segment result	(110,877)	(989,511)	(906,337)	365,378	(1,017,214)	(624,133)
Unallocated expenses					(1,033,755)	(1,065,437)
Operating loss						(1,689,570)
Net financing revenue					131,997	144,052
Income tax expense						-
Loss for the period					(1,918,972)	(1,545,519)

# Norwest Energy NL

## Notes to the Condensed Consolidated Interim Financial Statements For the Half-Year Ended 31 December 2006

### 3 Capital and reserves

#### Reconciliation of movement in capital and reserves Attributable to equity holders of the parent

Consolidated	Share capital \$	Retained earnings \$	Reserves \$	Total equity \$
Balance at 31 December 2005	23,942,459	(14,631,499)	134,051	9,445,011
Total recognised income and expense	-	(1,545,519)	-	(1,545,519)
Equity-settled transactions net of tax	-	-	158,850	158,850
Shares issued	5,181,200	-	-	5,181,200
Less transaction costs	(271,507)	-	-	(271,507)
Balance at 31 December 2005	<u>28,852,152</u>	<u>(16,177,018)</u>	<u>292,901</u>	<u>12,968,035</u>
Balance at 1 July 2006	28,852,152	(16,391,910)	571,991	13,032,233
Total recognised income and expense	-	(1,918,972)	-	(1,918,972)
Equity-settled transactions net of tax	-	-	244,499	244,499
Shares issued	-	-	-	-
Balance at 31 December 2006	<u>28,852,152</u>	<u>(18,310,882)</u>	<u>816,490</u>	<u>11,357,760</u>

#### Share capital

The consolidated entity recorded the following amounts within shareholder's equity as a result of the issuance of ordinary shares.

	Share Capital	
	31 Dec 2006 \$	31 Dec 2005 \$
Issuance of ordinary shares (net of transaction costs)	-	4,909,693

	Ordinary shares	
	31 Dec 2006 No.	31 Dec 2005 No.
Opening shares on issue	199,854,538	167,471,872
Issued for cash	-	32,382,666
Closing shares on issue – fully paid	<u>199,854,538</u>	<u>199,854,538</u>

# Norwest Energy NL

## Notes to the Condensed Consolidated Interim Financial Statements For the Half-Year Ended 31 December 2006

### 3 Capital and reserves (continued)

#### Share Options

##### *Employee Incentive Scheme*

During the half year, 7,100,000 options were issued over ordinary shares to directors, employees and consultants, exercisable at \$0.15 and with an issue term of 5 years. 100,000 options were also issued over ordinary shares to an employee, exercisable at \$0.13 and with an issue term of 3 years. At the date of this report unissued ordinary shares of the Company under option are:

	31 December 2006 No.	31 December 2005 No.
Balance at beginning of the half-year	16,937,500	9,350,000
Granted during the half-year	7,200,000	7,587,500
Exercised during the half-year	-	-
Lapsed during the half-year	-	-
<b>Balance at end of the half-year</b>	<b>24,137,500</b>	<b>16,937,500</b>

### 4 Employee benefits

#### *(i) Share-based payments*

The consolidated entity has a share option programme that entitles key management personnel and senior employees to purchase shares in the entity. The terms and conditions of the share option programme and grants made during the year ended 30 June 2006 are disclosed in the most recent annual financial report. During the half-year ended 31 December 2006, further grants on similar terms have been made to these employee groups.

All option exercises are settled by physical delivery of shares. The terms and conditions of the grants made during the six months ended 31 December 2006 are as follows:

Grant date / employees entitled	Number of Instruments	Vesting conditions	Contractual life of options
Option grant to employee on 9 August 2006	100,000	50% exercisable 6 months after the date of grant 50% exercisable 12 months after the date of grant	3 years
Option grant to directors and employees on 14 December 2006	7,100,000	50% exercisable 6 months after the date of grant 50% exercisable 12 months after the date of grant	5 years

The fair values of services received in return for share options granted to directors and employees is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black Scholes formula. The contractual life of the option is used as an input into this formula. Expectations of early exercise are incorporated into the Black Scholes formula.

# Norwest Energy NL

## Notes to the Condensed Consolidated Interim Financial Statements For the Half-Year Ended 31 December 2006

### 4 Employee benefits (continued)

#### (ii) Fair value of share options and assumptions

##### For the six months ended 31 December 2006

	2006	2005
Fair value at measurement date	\$0.094	\$0.062
Share price	\$0.118	\$ 0.16
Exercise price	\$0.15	\$ 0.20
Expected volatility (expressed as weighted average volatility used in the modelling under the Black Scholes formula)	113%	68%
Option life (expressed as weighted average life used in the modelling under the Black Scholes formula)	5 years	3 years
Expected dividends	-	-
Risk-free interest rate (based on national government bonds)	5.91%	5.25%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

Share options are granted to directors and key personnel upon receiving shareholders approval. There are no market conditions associated with the share option grants.

For the half year ended 31 December 2006, the consolidated entity recognised a share based payment expense of \$244,499, which reflects the expense relating to new options issued together with the vesting of previously issued options.

### 5 Related Party Transactions

Arrangements with related parties continue to be in place. For details on these arrangements please refer to the 30 June 2006 annual financial report.

### 6 Commitments

No unusually large exploration expenditures are foreseen for the first half of 2007. Of the forecast expenditures, most notably, project EP 413 has a forecast expenditure of approximately \$42,000 for drilling activities. ACP 32 has forecast expenditure of approximately \$144,000 for seismic data purchase, Generative Exploration Expenditure and Indirect Charges. With regards to the UK blocks, a figure of approximately \$200,000 is forecast for data purchase, processing, license fees and project development.

### 7 Subsequent Events

No matters or circumstances have arisen since the end of the financial half-year which significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

### 8 Exploration and Writeoffs

During the period the *Carter County* gas project was written off as exploration and development has ceased there and is not expected to continue. Also in the US, the *50/50 (West Virginia)* gas project was sold for a sum of \$1,961,807. The book value of project was \$814,137, the profit from the sale of this project was \$1,147,670.

In Western Australia EP 437 oil projects was written off as no additional development or production is expected to occur or be derived. TP 15 was written down following an unsuccessful exploration well. Throughout the period exploration and development continued to take place in India, and in the UK on the 47/ and 48/ block series. In Western Australia L14, EP 413 and EP 368 continued to be developed. Expenditure on AC/P32 was capitalised in the period.



## **Independent auditor's review report to the members of Norwest Energy NL**

### **Report on the Financial Report**

We have reviewed the accompanying half-year financial report of Norwest Energy NL, which comprises the consolidated interim balance sheet as at 31 December 2006, income statement, statement of recognised income and expense and cash flow statement for the half-year ended on that date, a statement of accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Norwest Energy NL, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Norwest Energy NL is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and



(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

*Kpmc*

KPMG

*B + S*

B P Steedman  
*Partner*

Perth  
15 March 2007