

Norwest Energy NL

ABN 65 078 301 505

Annual Financial Report

for the year ended 30 June 2008

Corporate Information

ABN 65 078 301 505

Directors

Mr William Frederick Bloking (Chairman)
Mr Jonathan Arnold Salomon (Director, CEO)
(resigned 19 December 2007)
Mr Andrejs (Andrew) Karlis Svalbe (Non-Executive Director)
(resigned 20 December 2007)
Mr Peter Lawson Munachen (Executive Director)
Mr Henry David Kennedy (Non-Executive Director)

Company Secretary

Mr Ernest Anthony Myers

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Share Register

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Auditors

KPMG

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Australian Stock Exchange Code

NWE

Frankfurt Stock Exchange

NUX

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Directors' Report

Your directors submit their report for the year ended 30 June 2008.

1. DIRECTORS

The names and details of the company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Mr William Frederick Bloking (Chairman), BSc (Mech Eng), FAICD

Mr Bloking, 57, appointed on 6 March 2007, recently resigned as President of Australia/Asia Gas, BHP Billiton Petroleum. Mr Bloking brings a wealth of knowledge to Norwest Energy having held senior positions in Australia, Asia, North and South America for 20 of the last 33 years working within the energy sector for companies such as ExxonMobil and BHP Billiton Group. As CEO of BHP Billiton Petroleum (North West Shelf) Pty Ltd Mr Bloking was accountable for developing and implementing strategic and commercial plans for assets exceeding three billion dollars. Mr Bloking has held and continues to hold directorships and positions of importance in public and non public companies as well significant placings within academia. Mr Bloking is the Chairman of Cullen wines (since 2006), Director of John Holland Group (since 2007), Director of Cool Energy (since 2007), Kal Energy Inc (since May 2008), Nido Petroleum Ltd (since February 2008) and the Lions Eye Institute Ltd. (since 2003).

Mr Jonathan Arnold Salomon (Chief Executive Officer), BAppSc (Geology)

(Resigned 19 December 2007)

Mr Salomon, 51, has over 21 years experience in both large and small exploration and production companies. After an initial period in the coal and minerals sector, he moved to the oil and gas sector with LASMO in Brisbane and then Ampolex in Sydney, where he was tasked with the development of Australian and International oil and gas projects. Following the Mobil takeover of Ampolex in the late 1990's, he worked in the USA and headed up a team developing new projects in South Asia. This provided him with an extensive knowledge of the Asian region, as well as establishing many regional contacts. More recently he has worked at a senior management and director level with a number of smaller companies, including Nido Petroleum and Novus Petroleum, being responsible for technical and commercial issues of existing projects and new ventures in both developing and developed countries.

Mr Andrejs (Andrew) Karlis Svalbe (Non-Executive Director), BSc (Hons) Econ. Geol. Member PESA, AAPG, ASEG, FESWA

(Resigned 20 December 2007)

Mr Svalbe, 65, has in excess of 26 years experience in the oil industry working in Australia and overseas. During this period he has been involved with a diverse range of exploration, development and production projects in the private sector, particularly with Exxon and Pancontinental Petroleum. Recently he has been Chief Geoscientist - Petroleum for the Geological Survey of Western Australia. Mr Svalbe was the Chief Executive Officer and Director of Pancontinental Oil & Gas NL (since 1998 to 6 July 2007) and continues with Pancontinental as a non-executive director.

Mr Peter Lawson Munachen (Executive Director), FCA, FAICD

Mr Munachen, 62, became a director of Norwest Energy NL on 26 November, 2003. He is a Chartered Accountant and former partner in an international accounting practice and has considerable experience in the resources industry, being a director of Dragon Mining NL (since March 2005, an alternate from December 2003 to March 2005), Pancontinental Oil & Gas NL (since February 1991), Newland Resources Limited (since August 2001), Sub-Sahara Resources NL (since April 2004) and Currie Rose Resources Inc (since March 2005).

Mr Henry David Kennedy (Non-Executive Director), MA (Geology), Member CIMMP, SEG, PESA, AIG

Mr Kennedy, 72, became a director of Norwest Energy NL on 14 April, 1997. He has had a long association with Australian and New Zealand resource companies and as a technical director has been instrumental in the formation and /or development of a number of successful listed companies, including Pan Pacific Petroleum NL, New Zealand Oil and Gas Limited, Mineral Resources (NZ) Ltd and Otter Exploration NL. During his term as Executive Director of Otter, Pan Pacific and NZOG, these companies were involved in discovery of the Tubridgi gas field and South Pepper, North Herald and Chervil oil fields in Western Australia and the Kupe South and Rua oil/gas condensate fields in New Zealand. As Chairman and Chief Executive of Kiwi International Resources NL and Associated Gold Fields NL, Mr Kennedy was involved in the discovery and development of the Obotan gold project in Ghana prior to the Company being merged with Resolute Samantha Ltd in May/June 1996. Formerly a director of Dragon Mining NL from July 1996 to February 2005), Sub-Sahara Resources NL (from July 1996 to 28 February 2007), and Alkane Exploration NL (from July 2000 to August 2006). He is also a director of Pancontinental Oil & Gas NL (since August 1999).

2. COMPANY SECRETARY

Mr Ernest Anthony Myers, CPA

Mr Myers was appointed to the position of company secretary in March 2004. Mr Myers previously held the role of compliance manager and company secretary with another listed company for six years. Prior, he held similar roles with a number of publicly listed companies.

Directors' Report

The relevant interest of each director in the shares and options of the Company as at balance date of this report is as follows:

Directors interests	Ordinary Shares	Options over Ordinary Shares
Mr William Frederick Bloking	-	3,000,000
Mr Peter Lawson Munachen (Executive Director)	116,250	2,750,000
Mr Henry David Kennedy (Non-Executive Director)	24,616,810	3,000,000

	2008	2007
3. EARNINGS PER SHARE	Cents	Cents
Basic earnings per share	(0.74)	(1.62)
Diluted earnings per share	(0.74)	(1.62)

4. CORPORATE INFORMATION

Corporate structure

Norwest Energy NL is a no liability company that is incorporated and domiciled in Australia.

Nature of operations and principal activities

The principal activity of the consolidated entity during the course of the financial year was exploration for hydrocarbon resources.

There have been no significant changes in the nature of those activities during the year.

Shareholder returns

Company performance is also reflected in the movement in the company's earnings per share (EPS) over time. The table below shows Norwest Energy's basic EPS history for the past seven years (including the current period).

	EPS (cents)	Net profit attributable to equity holders of parent	Return on capital employed
2002	(9.77)	(9,239,378)	(361.08)%
2003	(2.02)	(2,797,197)	(64.10)%
2004	3.01	4,977,692	46.64%
2005	(0.21)	(357,567)	(6.98)%
2006	(0.93)	(1,760,411)	(15.62)%
2007	(1.62)	(3,234,610)	(32.65)%
2008	(0.74)	(1,492,739)	(14.78)%

Employees

The consolidated entity had three employees as at 30 June 2008 (2007: five employees).

Directors' Report

5. OPERATING AND FINANCIAL REVIEW

Group Overview

Norwest Energy NL was formed and listed on the Australian Stock Exchange in 1997.

Operations Summary

Review of Operations

(a) Production

Norwest continues to hold its 1.278% producing working interest in the Jingemia Oilfield in the Perth Basin. Actual flows were close to predicted. Royalty cash flow began to flow from Norwest's 1.25% Gross Over-riding Royalty interest in the Puffin Oilfield in the Timor Sea during the year. Flow rates for this field were lower than predicted with the operator working to address flow issues.

(b) Exploration

In Australia, active exploration continued in all blocks held except for R-3, a low priority retention lease in the Carnarvon Basin which was sold by year end.

In the UK, exploration work continued in all held licenses areas. The London office continues to operate, co-ordinating acquisitions and growth-activities.

During the year several promising UK licence areas were acquired and existing areas continued to be developed.

The final US project was sold, and activities in the US have ceased.

A small Indian office continues to coordinate activities in the region, and has focussed on international joint ventures with large diversified Indian companies.

Performance Indicators

Management and the Board monitor the group's overall performance, from its implementation of the strategic plan through to the performance of the company against operating plans and financial budgets.

Dynamics of the Business

The Board have adopted an aggressive international new ventures program to acquire new assets in high value areas. In addition, the Company will continue with its Australian acreage utilising the skills and experience of the existing operators.

Operating Results for the Year

Gross Profit of the consolidated entity was higher for the year ended 30 June 2008 than the prior year. The positive effects of cash flows from Norwest's Royalty interest was a major contributing factor. Jingemia sales were solid as expected, operating costs for Jingemia were lower and amortisation expense was lower as field life continued to diminish. Exploration expenditure written off was substantially lower than last year based on economic resource tests. The Consolidated Group's existing project base is solid with key projects. Exploration expenditure was higher due to the aggressive acquisition programme in the UK.

Directors' Report

Investments for Future Performance

The group will continue to build its exploration portfolio from an international contact base.

Review of Financial Condition

Capital Structure

The group has a sound capital structure and issued a further 2,900,000 million ordinary shares during the year through the exercise of options. Options were also issued to a director pursuant to shareholder approval at the 2007 Annual General Meeting.

Treasury policy

The Board has not considered it necessary to establish a separate treasury function because of the size and scope of the group's activities.

Liquidity and Funding

The group has cash resources of \$1.6 million at 30 June 2008. The group has sufficient funds to finance its operations.

Risk Management

The group takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the group's objectives and activities are aligned with the risks and opportunities identified by the Board.

The group believes that it is crucial for all Board members to be a part of this process, and as such the Board has not established a separate risk management committee. Instead sub-committees are convened as appropriate in response to issues and risks identified by the Board as a whole, and the sub-committee further examines the issue and reports back to the Board.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of a strategic plan, which encompasses the group's strategy statement, designed to meet stakeholders' needs and manage business risk.
- Implementation of Board approved operating plans and cash flow budgets and Board monitoring of progress against these budgets.
- Reports on specific business risks, including such matters as environmental issues and concerns and occupational health and safety.
- The group has advised each director, manager and employee that they must comply with a set of ethical standards maintaining appropriate core company values and objectives. Such standard ensure shareholder value is delivered and maintained. Standards cover legal compliance, conflict resolution, employment best practices, privileged information and fair dealing.
- The board provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters which have a material effect on the underlying security price. ASX announcements, the web page of the company and other media resources are used to convey such information. The board encourages full participation by shareholders at the AGM and shareholders are requested to vote on board and executive remuneration aggregates as well as the Employee Incentive Scheme

Statement of Compliance

The above report is based on the guidelines in The Group of 100 Incorporated publication *Guide to the Review of Operations and Financial Condition*.

6. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

No significant changes in the state of affairs of the company occurred during the financial year.

7. SIGNIFICANT EVENTS AFTER THE BALANCE DATE

The Company finalised a finance facility with Investec Bank post balance date. The facility can be drawn-down to a maximum of \$3m. In addition Investec were issued with 7.89 million options to subscribe for ordinary shares at an exercise price of \$0.19 per share payable with a life of 3 years.

The Company also issued 13 million shares at an issue price of \$0.13 each in July 2008 raising \$1,690,000 before costs.

Apart from the above, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

Directors' Report

8. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The economic entity expects to maintain the present status and level of operations and hence there are no likely developments in the entity's operations.

9. ENVIRONMENTAL REGULATION AND PERFORMANCE

Norwest Energy has as one of its central tenets, a policy of fully complying with and surpassing the requirements for environmental management in whatever country/jurisdiction that it works in. To this end Norwest is aware of and where appropriate is developing the following:

- Corporate environment policies that will be communicated to and adhered to by all employees.
- Environmental management systems and programs relevant to each level of organisation based at least to the level of standards applying in each jurisdiction.
- Annual budgets for environmental systems implementation
- Plans for continuous monitoring and improvement.
- Workforce training on environmental issues including assignment of management representatives and facilitators to monitor environmental systems.
- A set of quantitative objectives and targets aimed at continuous improvements which exceed legal compliance.
- Continuous reviews of performance at different levels in the organization / projects hierarchy.
- A convention for conducting impact-assessment surveys and periodic audits.

Past History

Norwest has typically met all environmental requirements through third parties and its partner companies. This means that Norwest is conversant with environmental requirements.

With recent company expansion and growth, Norwest is developing a corporate environmental policy based on:

- Government regulation and requirements
- Experience from past projects
- Assistance from expert consulting groups.

10. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Since the end of the previous financial year the Company has paid insurance premiums in respect of directors' and officers' liability and legal expenses insurance contracts. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors and officers and legal expenses insurance contracts as such disclosure is prohibited under the terms of the contract. The premiums were paid in respect of the following officers of the Company and its controlled entities:

Mr WF Bloking, Mr PL Munachen, Mr HD Kennedy, Mr AK Svalbe, Mr JA Salomon and Mr E A Myers.

11. REMUNERATION REPORT - (audited)

This report outlines the remuneration arrangements in place for directors of Norwest Energy (the Company).

Remuneration philosophy

A description of the remuneration structures in place is as follows:

The non-executive directors received a fixed fee for their services. They do not receive performance based remuneration. To the extent that non-executive directors perform services from time to time that exceed the commitment expected of them, they are eligible to receive additional fees as determined by the chairman. The previous Chief Executive Officer, Jonathon Salomon, received a fixed fee for his services as determined in accordance with external remuneration surveys. He did not receive any bonus or other performance-based remuneration. The chairman, Mr Bloking, received 3,000,000 options issued pursuant to shareholder approval at the 2007 Annual General Meeting. The Chief Financial Officer, Mr Munachen receives a fixed fee for his executive services (with no bonus or other performance-based remuneration), and a separate fixed fee for his services as a director.

Directors' Report

Remuneration committee

The full Board carries out the role of the remuneration committee. The full Board met twice formally as the remuneration committee during the Reporting Period, and discussed remuneration-related matters at other times during the year.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director remuneration is separate and distinct.

Non-executive director remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 29 November 2007 when shareholders approved an aggregate remuneration of \$400,000 per year. The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process. Each director, apart from the Chief Executive Officer, receives a fee for being a director of the company. No additional fee is paid for each board committee on which a director sits. Non-executive directors have long been encouraged by the board to hold shares in the company. It is considered good governance for directors to have a stake in the company on whose board he or she sits. The non-executive directors of the company can participate in the Employee Share Incentive Plan. The remuneration of non-executive directors for the period ending 30 June 2008 is detailed further on in this report.

Executive director remuneration

Objectives

The company aims to:

- reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as to reward executives for company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link reward with the strategic goals and performance of the company; and
- ensure total remuneration is competitive by market standards.

Structure

It is the Board's policy that employment contracts are only entered into with the Chief Executive Officer and with key executives.

Directors' Report

Employment contracts

The Vice President – Business Development, Mr J Michaels, is employed under an independent consultancy services contract. Under the terms of the contract:

- (a) Mr Michaels may resign from his position and thus terminate this contract by giving two months written notice;
- (b) Norwest Holdings UK P.L. may terminate the contract by providing two months written notice; and
- (c) Norwest Holdings UK P.L. may terminate the contract at any time without notice if serious misconduct has occurred.

Table 1: Director remuneration for the year ended 30 June 2008

	Short term Salary & Fees	Post Employment Superannuation	Share-based Payments Options	Termination Benefits	Total	Value of options as a Proportion of Remuneration
Mr William Frederick Bloking (Chairman)						
2008	75,000	6,750	435,154	-	516,904	84%
2007	21,875	1,969	-	-	23,844	-
Mr Jonathan Arnold Salomon ¹ (Chief Executive Officer)						
2008	175,000	-	85,881	75,000	335,881	26%
2007	300,000	-	161,769	-	461,769	35%
Mr Peter Lawson Munachen (Non-Executive Director)						
2008	118,000	-	42,941	-	160,941	27%
2007	90,500	-	80,884	-	171,384	47%
Mr Andrejs (Andrew) Karlis Svalbe ² (Non-Executive Director)						
2008	25,000	3,375	32,205	-	60,580	53%
2007	41,250	-	60,663	-	101,913	60%
Mr Henry David Kennedy (Non-Executive Director)						
2008	49,998	-	32,205	-	82,203	39%
2007	42,500	-	60,633	-	103,133	59%
	442,998	10,125	628,386	75,000	1,156,509	

¹ Resigned on 19 December 2007

² Resigned on 20 December 2007

Table 2: Company Officer remuneration for the year ended 30 June 2008

	Short term Salary & Fees	Post Employment Superannuation	Share-based Payments Options	Termination Benefits	Total	Value of options as a Proportion of Remuneration
Mr John Michaels						
2008	269,799	9,554	132,363	-	411,716	32%
2007	45,110	-	86,246	-	131,356	66%
Mr Kenrick Van Noord						
2008	119,724	11,973	9,217	-	140,914	7%
2007	133,028	10,244	21,288	-	164,560	13%
Mr Ernest Anthony Myers						
2008	-	-	21,470	-	21,470	100%
2007	-	-	47,936	-	47,936	100%
	389,523	21,527	163,050	-	574,100	

Note: The Company does not employ the company secretary but engages Resource Services International (Aust) Pty Limited to provide accounting, administration & secretarial services. Mr Myers is company secretary of Norwest Energy NL but is employed by Resource Services International (Aust) Pty Limited, which also provides similar services to other non-related corporations.

Fair values of options:

From 1 July 2003, options granted as part of director remuneration have been valued using the Black-Scholes option pricing model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the option. The following factors and assumptions were used in determining the fair values of options at grant date.

	2008
Spot price	\$0.20
Exercise price (tranche 1)	\$0.225
Exercise price (tranche 2)	\$0.275
Exercise price (tranche 3)	\$0.325
Expected volatility	97.60%
Risk-free interest rate	6.27%
Expected life of option	5 years
Dividend yield	-

All options issued during the period were valued using the Black Scholes option pricing model with the above inputs.

Table 3: Options and rights over equity instruments granted as compensation

	Granted as compensation 2008	Grant date	Fair value per option at grant date (\$)	Exercise price per option (\$)	Expiry date	Number of options vested during 2008
Directors						
WF Bloking	1,000,000	29 Nov 2007	0.15	0.23	29 Nov 2012	1,000,000
WF Bloking	1,000,000	29 Nov 2007	0.145	0.28	29 Nov 2012	1,000,000
WF Bloking	1,000,000	29 Nov 2007	0.140	0.33	29 Nov 2012	1,000,000
	Granted as compensation 2007	Grant date	Fair value per option at grant date (\$)	Exercise price per option (\$)	Expiry date	Number of options vested during 2007
Directors						
WF Bloking	-	-	-	-	-	-
HD Kennedy	750,000	27 Nov 2006	0.094	0.15	27 Nov 2011	375,000
JA Salomon	2,000,000	27 Nov 2006	0.094	0.15	27 Nov 2011	1,000,000
PL Munachen	1,000,000	27 Nov 2006	0.094	0.15	27 Nov 2011	500,000
AK Svalbe	750,000	27 Nov 2006	0.094	0.15	27 Nov 2011	375,000
Executives						
EA Myers	500,000	27 Nov 2006	0.094	0.15	27 Nov 2011	250,000
K Van Noord	100,000	9 August 2006	0.071	0.13	8 Aug 2009	50,000
K Van Noord	250,000	14 Dec 2006	0.094	0.15	27 Nov 2011	125,000
JGC Michaels	1,000,000	30 April 2007	0.147	0.20	30 April 2012	-
JGC Michaels	500,000	30 April 2007	0.143	0.25	30 April 2012	-

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Table 4: Exercise of options granted as compensation

During the reporting period, the following shares were issued on the exercise of options previously granted as compensation.

	Number of shares	Amount paid\
		\$
2008		
Directors		
HD Kennedy	300,000	60,000
JA Salomon	500,000	50,000
PL Munachen	750,000	150,000
AK Svalbe	1,050,000	112,500
Executives		
EA Myers	100,000	15,000
	Number of shares	Amount paid
		\$
2007		
Directors		
Executives		
EA Myers	1,250,000	225,000

There are no amounts unpaid on the shares issued as a result of the exercise of options in the 2008 financial year.

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Table 5: Analysis of options and rights over equity instruments granted as compensation - (audited)

	Options Granted	Grant date	% Vested in year	% Forfeited in year	Financial year in which grant vests	Value yet to vest
Directors						
WF Bloking	3,000,000	29 Nov 07	100	-	30 Jun 08	-

Table 6: Analysis of movement in options (audited)

The movement during the reporting period, by value, of option over ordinary shares in the company held by each key management person and each of the named company executives and relevant group executive is detailed below.

	Granted in year (\$) (A)	Exercised in year (\$) (B)	Lapsed in year (\$) (C)	Total option value in year (\$)
Directors				
WF Bloking	435,154	-	-	435,154
HD Kennedy	-	28,500	-	28,500
JA Salomon	-	25,000	(9,955)	15,045
PL Munachen	-	26,250	-	26,250
AK Svalbe	-	11,250	-	11,250
Executives				
EA Myers	-	11,500	-	11,500

No options in the company have been granted as remuneration to Directors or executives since balance date.

A. The value of options granted in the year is the fair value of the options calculated at grant date using the Black-Scholes option pricing model.

B. The value of options exercised during the year is calculated as the market price of the shares of the Company on the Australia Securities Exchange at the close of trading on the date the options were exercised after deducting the price paid to exercise the option.

C. The value of options that lapsed during the year represents the benefit forgone and is calculated at the date of option issue using the Black-Scholes option pricing model with no adjustments for whether the performance criteria had been achieved.

12. Share Options

At the date of this report unissued shares under options are:

Expiry date	Exercise price	Number of options
25 November 2009	\$0.15	1,750,000
9 March 2010	\$0.13	500,000
9 March 2010	\$0.18	500,000
9 June 2010	\$0.20	250,000
9 June 2010	\$0.25	250,000
27 November 08	\$0.20	6,200,000
17 April 2011	\$0.12	250,000
8 August 2009	\$0.13	100,000
27 November 2011	\$0.15	6,925,000
30 April 2012	\$0.20	1,000,000
30 April 2012	\$0.25	500,000
29 November 2012	\$0.23	1,000,000
29 November 2012	\$0.28	1,000,000
29 November 2012	\$0.33	1,000,000
19 August 2011	\$0.19	7,894,737
		29,119,737

Total does not include options exercised, expired or forfeited.

13. DIRECTORS' MEETINGS

The numbers of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each of the directors of the Company during the financial year are:

	Directors Meetings	Number attended	Number of meetings held whilst director held office during year
Number of meetings held:	5		
Number of meetings attended:			
Mr William Frederick Bloking (Chairman)		5	5
Mr Jonathan Arnold Salomon (Chief Executive Officer) (Resigned 20 December 2007)		4	4
Mr Peter Lawson Munachen (Non-Executive Director)		5	5
Mr Andrejs (Andrew) Karlis Svalbe (Non-Executive Director) (Resigned 19 December 2007)		4	4
Mr Henry David Kennedy (Non-Executive Director)		5	5

The Directors are of the opinion that it is often more efficient to deal with matters by circular resolutions than by Board Meetings, and 11 Matters were dealt with in such a manner during the year.

Committee membership

As at the date of this report, the company did not have any formal committees.

To: the directors of Norwest Energy NL

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2008 there have been:

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

KPMG

B P Steedman
Partner
Perth 24 September 2008

15. Non-audit services

The entity's auditor, KPMG, did not provide any non-audit services during the year.

Signed in accordance with a resolution of the directors.

Mr Peter Lawson Munachen
Director

Perth 24 September 2008

Corporate Governance Statement (continued)

In accordance with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations ("ASX Principles and Recommendations")¹, Norwest Energy NL ("Company") has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this statement. Commensurate with the spirit of the ASX Principles and Recommendations, the Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for corporate governance practices, taking into account factors such as the size of the Company and the Board, resources available and activities of the Company. Where, after due consideration, the Company's corporate governance practices depart from the ASX Principles and Recommendations, the Board has offered full disclosure of the nature of and reason for the adoption of its own practice.

The Company has undertaken a review of its governance documentation as a consequence of the revision to the ASX Principles and Recommendations. The Company will be reporting against the revised ASX Principles and Recommendations in its next annual report.

Further information about the Company's corporate governance practices is set out on the Company's website at www.norwestenergy.com.au. In accordance with the ASX Principles and Recommendations, information published on the Company's website includes charters (for the Board and its committees), the Company's code of conduct and other policies and procedures relating to the Board and its responsibilities.

EXPLANATIONS FOR DEPARTURES FROM BEST PRACTICE RECOMMENDATIONS

During the Company's 2007 / 2008 financial year ("Reporting Period") the Company has followed each of the ASX Principles and Recommendations, other than in relation to the matters specified below.

Principle 2

Recommendation 2.1: A majority of the Board should be independent directors

Notification of Departure

Currently only one of the three directors is considered to be independent.

Explanation for Departure

Given the size and scope of the Company's operations the Board considers that it is appropriately structured to discharge its duties in a manner that is in the best interests of the Company. Further, mechanisms are in place so that if a director considers it necessary, they may obtain independent professional advice. The Board considers independence, amongst other things, when recommending new directors to the Board.

Principle 2

Recommendation 2.4: The Board should establish a Nomination Committee

Notification of Departure:

The full Board fulfils the function of a nomination committee.

Explanation for Departure:

The full Board considers those matters that would usually be the responsibility of a nomination committee. Given the size and composition of the Board, it is not practicable that a separate committee to be formed. To assist it to carry out its function in relation to nomination matters, the Board has adopted a Nomination Committee Charter.

¹ A copy of the ASX Principles and Recommendations is set out on the Company's website under the Section entitled "Corporate Governance".

Corporate Governance Statement (continued)

Principle 4

Recommendation 4.2: The Board should establish an Audit Committee

Recommendation 4.3: Structure of the Audit Committee

Notification of Departure:

The full Board fulfils the function of an audit committee and therefore no separate audit committee has been formed in accordance with the compositional recommendation.

Explanation for Departure:

Given the size and composition of the Board, it is not practicable that a separate audit committee be formed. However, the Company has adopted an Audit Committee Charter to assist it to fulfil its role as the audit committee. The Charter provides that independent directors may meet with the external auditor.

Principle 9

Recommendation 9.2: The Board should establish a Remuneration Committee

Notification of Departure:

The full Board fulfils the function of a remuneration committee.

Explanation for Departure:

Given the size and composition of the Board, it is not practicable that a separate committee to be formed. To assist it to carry out its function in relation to remuneration matters, the Board has adopted a Remuneration Committee Charter.

NOMINATION COMMITTEE

The full Board, in its capacity as the Nomination Committee, held one meeting during the Reporting Period. All directors appointed at the time of the meeting attended the meeting.

AUDIT COMMITTEE

The full Board, in its capacity as the Audit Committee, held two meetings during the Reporting Period. All directors appointed at the time of the meeting attended the meeting.

Details of each of the director's qualifications are set out in the Director's Report. All of the directors have substantial industry experience and consider themselves to be financially literate. Mr Munachen is a chartered accountant and former partner in an international accounting practice and therefore meets the tests of financial expertise.

REMUNERATION COMMITTEE

Details of remuneration, including the Company's policy on remuneration, are contained in the "Remuneration Report" which forms part of the Directors' Report.

The full Board, in its capacity as the Remuneration Committee, held two meetings during the Reporting Period. All directors appointed at the time of the meeting attended the meeting.

OTHER

Skills, Experience, Expertise and term of office of each Director

Corporate Governance Statement (continued)

A profile of each director containing the skills, experience, expertise and term of office of each director is set out in the Directors' Report.

Identification of Independent Directors

In considering the independence of directors, the Board refers to the criteria for independence as set out in Box 2.1 of the ASX Principles and Recommendations ("Independence Criteria"). To the extent that it is necessary for the Board to consider issues of materiality, the Board refers to the thresholds for qualitative and quantitative materiality as adopted by the Board and contained in the Board Charter, which is disclosed in full on the Company's website.

Applying the Independence Criteria, the Company's independent director is William Bloking.

Statement concerning availability of Independent Professional Advice

If a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of his/her office as a director, then, provided the director first obtains approval for incurring such expense from the chairperson, the Company will pay the reasonable expenses associated with obtaining such advice.

Confirmation whether performance Evaluation of the Board and its members have taken place and how conducted

During the Reporting Period an evaluation of the Board and its members was not carried out. Given the changes to the Board composition during the Reporting Period, the Board did not consider a performance evaluation to be a beneficial procedure at the time. The Board's suitability to carry out the Company's objectives is however, discussed on an as-required basis during regular meetings of the Board.

Existence and Terms of any Schemes for Retirement Benefits for Non-Executive Directors

There are no termination or retirement benefits for non-executive directors.

Name	Term in office
Mr William Frederick Bloking (Chairman)	1 years
Mr Henry David Kennedy (Non-Executive Director)	11 years
Mr Jonathan Arnold Salomon (Chief Executive Officer)	4 years
Mr Peter Lawson Munachen (Executive Director)	5 years
Mr Andrejs (Andrew) Karlis Svalbe (Non-Executive)	4 years

For additional details regarding Board appointments, please refer to the Norwest website.

Income Statements

YEAR ENDED 30 JUNE 2008	Notes	CONSOLIDATED		COMPANY	
		2008	2007	2008	2007
		\$	\$	\$	\$
Revenue	5	2,500,173	898,180	-	-
Depletion expense		(234,600)	(483,080)	-	-
Operating costs		(154,219)	(204,718)	-	-
Gross Profit		2,111,354	210,382	-	-
Other Income	6	127,094	1,769,624	108	136,569
Exploration expenditure written off		(1,186,522)	(2,971,909)	(255,046)	(38,248)
Depreciation and amortisation expenses	16	(43,664)	(34,640)	(42,338)	(34,484)
Directors' remuneration		(1,219,009)	(862,043)	(1,156,509)	(862,043)
Personnel expenses	7	(391,065)	(237,761)	(391,065)	(237,761)
(Provision for)/ writeback of loans to controlled entities		-	-	1,113,305	1,997,627
Administrative expenses		(815,738)	(1,185,498)	(719,430)	(1,163,522)
Other expenses		(161,778)	(174,738)	(106,395)	(136,920)
LOSS BEFORE FINANCING INCOME AND INCOME TAX		(1,579,328)	(3,486,583)	(1,557,370)	(338,782)
Financing income	9	86,589	276,548	128,614	271,333
LOSS BEFORE INCOME TAX EXPENSE		(1,492,739)	(3,210,035)	(1,428,756)	(67,499)
Income tax expense	10	-	(24,575)	-	-
NET LOSS		(1,492,739)	(3,234,610)	(1,428,756)	(67,499)
Basic earnings per share (cents per share)	11	(0.74)	(1.62)		
Diluted earnings per share (cents per share)	11	(0.74)	(1.62)		

The Income Statements are to be read in conjunction with the Notes to the Financial Statements.

Statements of Recognised Income and Expense

YEAR ENDED 30 JUNE 2008

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
	\$	\$	\$	\$
Net income recognised directly in equity	-	-	-	-
Loss for the period	<u>(1,492,739)</u>	<u>(3,234,610)</u>	<u>(1,428,756)</u>	<u>(67,499)</u>
Total recognised income and expense for the period	<u>(1,492,739)</u>	<u>(3,234,610)</u>	<u>(1,428,756)</u>	<u>(67,499)</u>

The Statements of Recognised Income and Expense are to be read in conjunction with the Notes to the Financial Statements.

Balance Sheets

AT 30 JUNE 2008	Notes	CONSOLIDATED		COMPANY	
		2008	2007	2008	2007
		\$	\$	\$	\$
CURRENT ASSETS					
Cash and cash equivalents	12	1,607,148	8,004,937	929,191	7,408,198
Trade and other receivables	13	439,072	131,926	19,655	81,362
TOTAL CURRENT ASSETS		2,046,220	8,136,863	948,846	7,489,560
NON-CURRENT ASSETS					
Trade and other receivables	13	20,198	30,276	9,985,636	3,471,104
Investments	14	38,333	-	4,986	4,984
Property, plant and equipment	16	55,818	96,398	52,401	91,656
Deferred exploration, evaluation and development costs	17	10,848,706	2,870,237	-	4,344
TOTAL NON-CURRENT ASSETS		10,963,055	2,996,911	10,043,023	3,572,088
TOTAL ASSETS		13,009,275	11,133,774	10,991,869	11,061,648
CURRENT LIABILITIES					
Trade and other payables	18	2,277,451	227,546	232,639	195,984
Employee benefits	19	13,008	13,243	13,008	13,241
Provisions for tax payable		-	24,575	-	-
TOTAL CURRENT LIABILITIES		2,290,459	265,364	245,647	209,225
NON-CURRENT LIABILITIES					
Provisions	22	30,814	10,224	-	-
TOTAL NON-CURRENT LIABILITIES		30,814	10,224	-	-
TOTAL LIABILITIES		2,321,273	275,588	245,647	209,225
NET ASSETS		10,688,002	10,858,186	10,746,222	10,852,423
EQUITY					
Parent entity interest					
Contributed equity	23	29,743,407	29,272,192	29,743,407	29,272,192
Reserves	23	1,774,332	1,083,361	1,774,332	1,083,361
Accumulated losses		(20,829,737)	(19,497,367)	(20,771,517)	(19,503,130)
Total parent entity interest in equity		10,688,002	10,858,186	10,746,222	10,852,423
TOTAL EQUITY		10,688,002	10,858,186	10,746,222	10,852,423

The Balance sheets are to be read in conjunction with the Notes to the Financial Statements.

Statements of Cash Flows

YEAR ENDED 30 JUNE 2008	Notes	CONSOLIDATED		COMPANY	
		2008	2007	2008	2007
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
		2,196,686	893,710	-	1,151
Receipts from customers					
Payments to suppliers and employees		(1,666,916)	(1,227,674)	(1,465,529)	(1,152,232)
Interest received		182,829	276,547	166,815	271,333
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	27	712,599	(57,417)	(1,298,714)	(879,748)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(3,085)	(44,108)	(3,085)	(39,209)
Expenditure on oil & gas interests		(7,557,886)	(2,413,661)	(206,494)	(669,489)
Proceeds from sale of US projects		72,322	2,405,599	-	-
Redemption of deposits and cost		-	135,418	-	135,418
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		(7,488,649)	83,248	(209,579)	(573,280)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issues of ordinary shares		477,498	420,039	477,499	420,038
Payment of share issue costs		(6,284)	-	(6,284)	-
Loans from/(to) controlled entities		-	-	(5,403,728)	906,946
NET CASH FLOWS FROM FINANCING ACTIVITIES		471,214	420,039	(4,932,513)	1,326,984
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(6,304,836)	445,870	(6,440,806)	(126,044)
Cash and cash equivalents at 1 July		8,004,937	7,559,001	7,408,198	7,534,027
Effects of exchange rate changes on cash held		(92,953)	66	(38,201)	215
CASH AND CASH EQUIVALENTS AT 30 JUNE	12	1,607,148	8,004,937	929,191	7,408,198

The Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements.

Notes to the Financial Statements

1. Reporting entity

Norwest Energy NL (the 'Company') is a company domiciled in Australia. The Company's registered address is ground floor, 288 Stirling Street Perth WA 6000.

The consolidated financial report of the Company for the financial year ended 30 June 2008 comprise the Company and its subsidiaries (together referred to as the 'Consolidated entity').

The financial report was authorised for issue by the directors on 24 September 2008.

2. Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs'), including Australian interpretations adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The consolidated financial report of the Consolidated entity and Company also complies with IFRSs and interpretations adopted by the International Accounting Standards Board.

The financial report is presented in Australian dollars which is the Company's functional currency. The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing this financial report.

- Revised AASB 3 *Business Combinations* changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard becomes mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.
- AASB 8 *Operating Segments* introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Group's 30 June 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see note 6). Under the management approach, the Group will present segment information in respect of Standard Papers, Recycled Papers, Forestry, Timber Products, and Research and Development.
- Revised AASB 101 *Presentation of Financial Statements* introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's disclosures.
- Revised AASB 123 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Group's 30 June 2010 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised AASB 123 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. The Group has not yet determined the potential effect of the revised standard on future earnings.
- Revised AASB 127 *Consolidated and Separate Financial Statements* changes the accounting for investments in subsidiaries. Key changes include: the re measurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.
- AASB 2008-1 *Amendments to Australian Accounting Standard - Share-based Payment: Vesting Conditions and Cancellations* changes the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the amending standard on the Group's financial report.

Notes to the Financial Statements

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for share based payments at fair value.

(c) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies have been included in the notes and accounting policies (3) section for the following:

- Accounting for Exploration and evaluation assets 3(o)(i)
- Depletion of development assets 3(o)(ii)
- Share based transactions 3(p)(ii)

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report.

The accounting policies have been applied consistently by all entities in the Consolidated entity. Certain comparative amounts have been reclassified to conform with the current years presentation.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

(ii) Joint ventures

Joint ventures are those entities over whose activities the Consolidated entity has joint control, established by contractual agreement and requiring majority consent for strategic financial and operating decisions.

Jointly controlled operations and assets

The interest of the Company and of the Consolidated entity in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

(iii) Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised as the contributed assets are consumed or sold by the associates and jointly controlled entities or, if not consumed or sold by the associate or jointly controlled entity, when the consolidated entity's interest in such entities is disposed of.

(b) Foreign currencies

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

Notes to the Financial Statements

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents and other trade payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Consolidated Entity becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Consolidated entity's contractual rights to cash flows from the financial assets expire or if the Consolidated entity transfers the financial assets to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Consolidated Entity commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Consolidated Entity's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise of cash balances at bank and petty cash on hand.

Accounting for finance income and expense is discussed in note 3(k). Other non-derivative financial instruments are measured at amortised cost using effective interest method, less any impairment costs.

(ii) Derivative Financial instruments

The Consolidated entity has not used derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks.

(d) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy e). Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives in the current and comparative periods are as follows:

- plant and equipment 4 years
- fixtures and fittings 8 years
- major components 4 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(e) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. All impairment losses are recognised in the income statement. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

(ii) Non-financial assets

The carrying amounts of the Consolidated entity's non-financial assets, other than deferred tax assets and exploration and evaluation expenditure are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and

Notes to the Financial Statements

groups. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate which reflects current market assessments of the time value of money and risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(f) Share capital

Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity.

(g) Employee benefits

(i) Long-term service benefits

The Consolidated entity's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the Consolidated entity's obligations.

(ii) Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Consolidated entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. The Consolidated entity does not provide any non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services.

(iii) Share-based payment transactions

The share option programme allows Consolidated entity employees and key consultants to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees or consultants become unconditionally entitled to the options. The fair value of the options granted is measured based on the Black-Scholes formula, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting. In addition, a probability factor of vesting is taken into account when calculating their theoretical fair value using the Black-Scholes option pricing model.

(iv) Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the income statement when they are due.

(h) Provisions

A provision is recognised in the balance sheet when the Consolidated entity has a present legal or constructive obligation that can be estimated reliably as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(i) Site restoration

In accordance with the Consolidated entity's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land and related expense is recognised when the land is contaminated.

The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes are reflected in the present value of the restoration provision at the end of the reporting period.

The amount of the provision for future restoration costs is capitalised and is depreciated in accordance with the policy set out in note 3(d).

Notes to the Financial Statements

(i) Revenue

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Revenue from the sale of oil, gas and condensate is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, recovery of consideration is probable, the associated costs and possible return of goods can be estimated reliably.

(ii) Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Consolidated entity will comply with the conditions associated with the grant. Grants that compensate the Consolidated entity for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which expenses are recognised. Grants that compensate the Consolidated entity for the cost of an asset are recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

(iii) Royalty income

Royalty income is accounted for on an accrual basis based on the pattern in which the Consolidated entity's right to future economic benefit from its interests is accumulated and received.

(j) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(k) Finance income

Finance income comprises of interest income on funds invested, changes in the fair value of financial assets at fair value through profit and loss and foreign currency gains. Interest income is recognised as it accrues using the effective interest method.

(l) Segment reporting

A segment is a distinguishable component of the Consolidated entity that is engaged in providing products or services within a particular economic environment (geographical segment), or in providing related products or services (business segments). Each segment is subject to risks and rewards that are different from those of other segments. The Consolidated entity's primary format for segment reporting is based on geographical segments.

(m) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(n) Earnings per share

The Consolidated entity presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by

Notes to the Financial Statements

dividing the profit and loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of dilutive potential ordinary shares, which comprise convertible notes and share options granted.

(o) Accounting estimates and judgements

(i) Exploration and evaluation assets

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Consolidated entity has obtained the legal rights to explore an area are recognised in the income statement.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

- (i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- (ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest continue.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount [see impairment accounting policy (e)]. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of oil and gas resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from Exploration and evaluation phase assets to production phase assets within deferred exploration evaluation and development costs.

(ii) Depletion of development assets

The Consolidated entity depletes development assets based on continual assessments of future economic benefit and estimated reserves remaining taking into account quantity/units of commodity extracted in that reporting period. Rates of depletion of production phase assets are not fixed and vary as estimated reserves figures are recalculated and more accurate information becomes available. Rates of depletion reflect the rate at which future economic benefit has been extinguished from the asset over that reporting period.

(p) Determination of fair values

A number of the Consolidated entity's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Trade and other receivables

The fair value of trade and other receivables, is estimated as the present value of future cash flows, discounted at the market rate of interest at reporting date.

(ii) Share based payment transactions

The fair value of employee stock options is measured using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

4. Segment reporting

The Consolidated entity operated in the USA, Australia & UK segments. Segment information is presented in respect of the Consolidated entity's geographical segment.

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

Segment results, assets and liabilities 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.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Notes to the Financial Statements

4. Segment reporting (continued)

(i) Geographical segments

The Consolidated entity operated in Australia, United Kingdom and the USA. Details of the consolidated entity's segment information appears below.

(ii) Business segments

The entity is involved in exploration activities and has one identifiable primary business segment.

Geographic segments

	USA		Australia		UK		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue from external customers:								
Sales	-	3,684	2,500,173	894,496	-	-	2,500,173	898,180
Other	3,245	17,317	13,698	160,845	-	-	16,943	178,162
Total revenue from external customers	3,245	21,001	2,513,871	1,055,341	-	-	2,517,116	1,076,342
Net gain sale on project	72,323	1,591,311	41,074	151	-	-	113,397	1,591,462
Segment result	75,569	458,663	(459,989)	(3,766,664)	(1,109,933)	(178,582)	(1,579,328)	(3,486,583)
Profit before financing income and tax expense							(1,579,328)	(3,486,583)
Net financing income							86,589	276,548
Income tax expense		(24,575)					-	(24,575)
Loss for the period							(1,492,739)	(3,234,610)
Segment assets	2,706	2,704	4,403,869	10,079,821	8,602,699	923,880	13,009,274	11,133,774
Total assets							13,009,274	11,133,774
Segment liabilities	-	24,575	371,993	251,013	1,949,279	-	2,321,272	275,588
Unallocated liabilities								
Total liabilities							2,321,272	275,588
Cash flows from operating activities	-	20,526	925,504	861	(212,905)	(78,804)	712,599	(57,417)
Cash flows from investing activities	72,323	2,405,448	(984,468)	(1,840,974)	(6,576,504)	(481,226)	(7,488,649)	83,248
Cash flows from financing activities	-	(2,229,287)	471,214	2,041,913	-	607,413	471,214	420,039

(iii) Composition of geographical segments

The Consolidated entity operated primarily within Australia, the United Kingdom and in the United States in the financial year ended 30 June 2008. During 2008, operations in the United States were essentially concluded except for an asset sale. Australia is the main corporate base of the Consolidated entity. Planning and development occurs in Australia for the major part. The consolidated entity holds interest and royalty in two productive tenements and continues to explore and develop existing exploration-licence tenures singularly or with joint venture partners where applicable. An office continues to operate in the UK to manage key UK assets and identify strategically sound opportunities.

Notes to the Financial Statements

5. Revenue

	Consolidated		Company	
	2008	2007	2007	2007
	\$	\$	\$	\$
Oil sales	655,841	894,496	-	-
Gas sales	-	3,684	-	-
Royalty	1,844,332	-	-	-
	2,500,173	898,180	-	-

6. Other income

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Government grants	13,590	18,453	-	-
Net gain on sale of US projects	72,323	1,591,462	-	-
Net gain on sale of Australian projects	41,073	-	-	-
Other	108	159,709	108	136,569
	127,094	1,769,624	108	136,569

The net gain on sale of projects relates to the sale of the Rich Mountain licence in the US and R3 retention permit in Australia during the year.

7. Personnel expenses

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Wages and salaries	150,773	178,763	150,773	178,763
Superannuation contributions	17,576	13,736	17,576	13,736
Increase in liability for annual leave	(3,012)	4,921	(3,012)	4,921
Increase in liability for long service leave	2,776	4,737	2,776	4,737
Share based payments	222,952	35,604	222,952	35,604
	391,065	237,761	391,065	237,761

Notes to the Financial Statements

8. Auditors' remuneration

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Audit services				
Auditors of the Company				
<i>KPMG Australia:</i>				
Audit and review of financial reports	53,036	58,057	53,036	58,057
	<u>53,036</u>	<u>58,057</u>	<u>53,036</u>	<u>58,057</u>

9. Net financing income

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Interest income	182,828	276,548	166,815	271,333
Foreign exchange loss	(96,239)	-	(38,201)	-
Financial income	<u>86,589</u>	<u>276,548</u>	<u>128,614</u>	<u>271,333</u>

Notes to the Financial Statements

10. Income tax expense

a) The major components of income tax expense are:

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Income statement				
<i>Current income tax</i>				
Current income tax	(91,145)	(554,950)	(471,514)	(322,945)
Current year tax loss not recognised	91,145	530,375	471,514	322,945
<i>Deferred income tax</i>				
Relating to origination and reversal of temporary differences	224,359	(814,035)	10,488	(7,457)
Unused tax losses not previously recognised	(224,359)	814,035	(10,488)	7,457
Income tax (expense) income reported in the income statement	-	(24,575)	-	-

The aggregate amount of income tax attributable to the financial period differs from the amount calculated on the operating loss. The differences are recorded as follows:

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Accounting Loss	(1,492,739)	(3,234,610)	(1,428,756)	(67,499)
Prima facie tax payable at 30%	(447,822)	(970,383)	(428,626)	(20,250)
Add effect:				
Non – deductible permanent items	581,036	347,608	301,592	304,050
Differences in US tax rates – sale of US projects	-	(697,060)	-	-
Write-back inter company loan	-	-	(333,992)	(599,288)
Current income tax	91,145	530,375	471,514	322,945
Deferred tax not recognised	-	814,035	-	-
Utilisation of tax losses	(224,359)	-	(10,488)	(7,457)
Income tax expense	-	24,575	-	-

Notes to the Financial Statements

b) Deferred income tax:

Deferred income tax at 30 June relates to the following:

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<i>Deferred tax liabilities</i>				
Exploration expenses	653,103	861,071	-	-
	<u>653,103</u>	<u>861,071</u>	<u>-</u>	<u>-</u>
<i>Deferred tax assets</i>				
Accrued expenses	(9,900)	9,360	(9,900)	9,360
Provisions	(3,902)	3,973	(3,902)	3,973
Non-recognition of deferred taxes	-	-	13,802	(13,333)
	<u>639,301</u>	<u>847,738</u>	<u>-</u>	<u>-</u>

c) Tax losses

At 30 June 2008, the Consolidated entity has \$3,232,979 (2007 : \$3,262,299) of tax losses that are available indefinitely for offset against future taxable profits of the company. No deferred tax assets has been recognised on the Balance Sheet in respect of the amount of these losses.

Unrecognised deferred tax balances

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<i>Deferred tax assets</i>				
Tax losses – revenue	3,226,929	3,256,249	2,052,498	1,557,040
Tax losses – capital	6,050	6,050	6,050	6,050
	<u>3,232,979</u>	<u>3,262,299</u>	<u>2,058,548</u>	<u>1,563,090</u>

The potential deferred tax asset will only be obtained if:

- assessable income is derived of a nature and of amount sufficient to enable the benefit from the deductions to be realised or the benefit can be utilised by the Company and/or the Consolidated entity providing that;
- the conditions for deductibility imposed by the law are complied with; and
- no changes in tax legislation adversely affect the realisation of the benefit from the deductions.

d) Tax consolidation legislation

The Company had not elected to consolidate for tax purposes at balance date.

Notes to the Financial Statements

11. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 June 2008 was based on the loss attributable to ordinary shareholders of \$1,492,739 2007: \$3,234,610 and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2008 of 202,860,538 2007: 200,065,771, calculated as follows:

Loss attributable to ordinary shareholders

	Note	Consolidated	
		2008	2007
Loss for the period		(1,492,739)	(3,234,610)
Loss attributable to ordinary shareholders		<u>(1,492,739)</u>	<u>(3,234,610)</u>

Weighted average number of ordinary shares

Issued ordinary shares at 1 July	24	202,217,038	199,854,538
Effect of share options exercised (weighted average)		643,500	211,233
Weighted average number of ordinary shares at 30 June		<u>202,860,538</u>	<u>200,065,771</u>

Diluted earnings per share

There is no dilutive effect therefore diluted earnings per share is equal to basic earnings per share.

Earnings per share

Basic earnings per share

Basic earnings per share (cents per share)		<u>2008</u>	<u>2007</u>
		(0.74)	(1.62)

Diluted earnings per share

Diluted earnings per share (cents per share)		<u>2008</u>	<u>2007</u>
		(0.74)	(1.62)

Notes to the Financial Statements

12. Cash and cash equivalents

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Bank balances	1,604,896	7,999,772	926,939	7,407,916
Cash on hand	2,252	5,165	2,252	282
Cash and cash equivalents in the statement of cash flows	1,607,148	8,004,937	929,191	7,408,198

13. Trade and other receivables

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Current				
Trade and other receivables	61,704	84,712	19,655	81,362
Debtors sale of project	26,667	-	-	-
Debtors oil sales/royalty	350,701	47,214	-	-
	439,072	131,926	19,655	81,362
Non-current				
Loans to subsidiaries	-	-	18,040,755	12,637,030
Provision for diminution in value of loans	-	-	(8,068,494)	(9,181,800)
Security bond	20,198	30,276	13,375	15,874
	20,198	30,276	9,985,636	3,471,104

14. Investments

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Non-current investments				
Investments in subsidiaries - at cost	-	-	4,986	4,984
Held at fair value through profit and loss investments	38,333	-	-	-
	38,333	-	4,986	4,984

Notes to the Financial Statements

15. Joint venture commitments

Refer to Note 26 for schedule of exploration expenditure commitments.

Joint venture details

Permit	Country	Interest held at balance date
EP 368	Australia	10.00%
L14	Australia	1.278%
TP/15	Australia	10.00%
AC/P32	Australia	15%
48/1b & 2c	United Kingdom	22.50%
12/16	United Kingdom	25.00%
PEDL 238	United Kingdom	50.00%
PEDL 239	United Kingdom	75.00%
11/29	United Kingdom	5.00%

Share of assets and liabilities utilised in the joint ventures

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
CURRENT ASSETS				
Trade and other receivables	381,668	91,422	-	44,208
TOTAL CURRENT ASSETS	381,668	91,422	-	44,208
NON-CURRENT ASSETS				
Deferred exploration, evaluation and development costs	10,848,706	2,870,237	-	4,344
TOTAL NON-CURRENT ASSETS	10,848,706	2,870,237	-	4,344
TOTAL ASSETS	11,230,374	2,961,659	-	48,552
CURRENT LIABILITIES				
Trade and other payables	2,277,451	227,546	-	-
TOTAL NON-CURRENT LIABILITIES	2,277,451	227,546	-	-
NON-CURRENT LIABILITIES				
Provisions	30,814	10,224	-	-
TOTAL NON-CURRENT LIABILITIES	30,814	10,224	-	-
TOTAL LIABILITIES	2,308,265	237,770	-	-
NET ASSETS	8,922,109	2,723,889	-	48,552

Notes to the Financial Statements

The Company's share of revenue and expenses in joint ventures:	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Revenue	655,841	898,180	-	-
Operating costs	(154,219)	(204,718)	-	-
Depletion expense	(216,245)	(483,080)	-	-
Net profit from L14 joint venture	285,377	210,382	-	-

16. Property, plant and equipment

	Consolidated Plant and equipment	Company Plant and equipment
Cost		
Balance at 1 July 2006	146,079	146,079
Additions	44,108	39,210
Balance at 30 June 2007	190,187	185,289
Balance at 1 July 2007	190,187	185,289
Additions	3,084	3,083
Balance at 30 June 2008	193,271	188,372
Accumulated depreciation and impairment losses		
Balance at 1 July 2006	59,149	59,149
Depreciation expense	34,640	34,484
Balance at 30 June 2007	93,789	93,633
Balance at 1 July 2007	93,789	93,633
Depreciation expense	43,664	42,338
Balance at 30 June 2008	137,453	135,971
Carrying amounts		
At 1 July 2006	86,929	86,929
At 30 June 2007	96,398	91,656
At 30 June 2008	55,818	52,402

Notes to the Financial Statements

17. Deferred exploration, evaluation and development costs

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Exploration, evaluation and development costs carried forward in respect of mining areas of interest				
<i>Exploration and evaluation phase:</i>				
Exploration and evaluation expenditure at 1 July 2007	2,366,580	4,735,758	4,344	-
Transfer to production phase	(106,321)	-	-	-
Capitalised expenditure during the year	9,355,642	1,343,038	250,702	4,344
Exploration expenditure written off	(1,186,522)	(2,898,079)	(255,046)	-
Projects sold	(18,017)	(814,137)	-	-
Balance at 30 June 2008	10,411,362	2,366,580	-	4,344
<i>Production phase:</i>				
Development costs at 1 July 2007	503,657	808,819	-	-
Addition of 'production' interests	106,321	-	-	-
Expenditure during the year	61,966	177,918	-	-
Depletion expense	(234,600)	(483,080)	-	-
Balance at 30 June 2008	437,344	503,657	-	-
Total	10,848,706	2,870,237	-	4,344

Exploration and evaluation assets

The recoverability of the carrying amounts of exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest. This is assessed at balance date on an annual basis.

18. Trade and other payables

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Other trade payables and accrued expenses	2,231,052	195,983	232,639	194,122
Goods and services tax	46,399	31,563	-	1,862
	2,277,451	227,546	232,639	195,984

19. Employee benefits

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Current				
Liability for long service leave	8,992	6,216	8,992	6,216
Liability for annual leave	4,016	7,027	4,016	7,025
	13,008	13,243	13,008	13,241

20. Provision for tax payable

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Current				
Provision for US tax liability	-	24,575	-	-
	-	24,575	-	-

Notes to the Financial Statements

21. Share based payment

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Grant date	Entitlement	Number of options	Exercising Conditions	Exercise Price \$	Life of Options
26 Nov 04	Directors	1,750,000	50% within six months & the balance within a further six months	0.15	5 years
10 Mar 05	Consultants	500,000	50% within six months & the balance within a further six months	0.13	5 years
10 Mar 05	Consultants	500,000	50% within six months & the balance within a further six months	0.18	5 years
10 Jun 05	Consultant	250,000	50% within six months & the balance within a further six months	0.20	5 years
10 June 05	Consultant	250,000	50% within six months & the balance within a further six months	0.25	5 years
28 Nov 05	Directors	4,500,000	50% within six months & the balance within a further six months	0.20	3 years
28 Nov 05	Key management & consultants	1,700,000	Vest immediately 50% exercisable after 6 months and 50% exercisable after 12 months	0.20	3 years
18 Apr 06	Consultant	250,000	Vest immediately 50% exercisable after 6 months and 50% exercisable after 12 months	0.11875	5 years
9 Aug 06	Key management	100,000	Vest immediately 50% exercisable after 6 months and 50% exercisable after 12 months	0.13	3 years
14 Dec 06	Key management & employees	6,925,000	Vest immediately 50% exercisable after 6 months and 50% exercisable after 12 months	0.15	5 years
30 Apr 07	Key management	1,000,000	Vest immediately 50% exercisable after 6 months and 50% exercisable after 12 months	0.20	5 years
30 Apr 07	Key management	500,000	Vest immediately 50% exercisable after 6 months and 50% exercisable after 12 months	0.25	5 years
29 Nov 07	Directors	1,000,000	Vest immediately 50% exercisable after 6 months and 50% exercisable after 12 months	0.23	5 years
29 Nov 07	Directors	1,000,000	Vest immediately 50% exercisable after 6 months and 50% exercisable after 12 months	0.28	5 years
29 Nov 07	Directors	1,000,000	Vest immediately 50% exercisable after 6 months and 50% exercisable after 12 months	0.33	5 years
Total share options granted		21,225,000			

Notes to the Financial Statements

21. Share based payment (continued)

The number and weighted average exercise prices of share options is as follows:

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2008	2008	2007	2007
Outstanding at the beginning of the period	0.172	23,525,000	0.18	17,187,500
Expired/Forfeited during the period	0.190	(2,400,000)	-	-
Exercised during the period	0.165	(2,900,000)	0.179	(2,362,500)
Granted during the period	0.280	<u>3,000,000</u>	0.160	<u>8,700,000</u>
Outstanding at the end of the period	0.186	<u>21,225,000</u>	0.172	<u>23,525,000</u>
Exercisable at the end of the period		<u>19,725,000</u>		<u>19,175,000</u>

The options outstanding at 30 June 2008 have an exercise price in the range of \$0.13 to \$0.33 and a weighted average contractual life of 4.35 years.

The weighted average share price at the date of exercise of the Company's options in the 2008 financial year was \$0.222.

The fair value of services received in return for share options granted are 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 option-pricing model. The contractual life of the option is used as an input into this model.

	Directors & mgmt personnel 2008	Directors & mgmt personnel 2007
Fair value of share options and assumptions		
Fair value at grant date (weighted average)	0.145	0.102
Share price (grant date)	0.20	0.115
Exercise price (weighted average)	0.28	0.16
Expected volatility (expressed as weighted average volatility used in the modelling under Black-scholes option-pricing model)	97.60%	113.00%
Option life (expressed as weighted average life used in the modelling under the Black-scholes option-pricing model)	5.0 years	4.9 years
Expected dividends	Nil	Nil
Risk-free interest rate (based on national government bonds)	6.27%	5.92%

The expected volatility is based on the historic volatility.

Share options are granted under an incentive scheme approved by shareholders for grants to directors and key management personnel and consultants.

Notes to the Financial Statements

21. Share based payment (continued)

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Share options granted in 2006- equity settled	-	244,499	-	244,499
Share options granted in 2007- equity settled	430,378	396,025	430,378	396,025
Share options granted in 2008- equity settled	420,962	-	420,962	-
Total expense recognised as director and employee costs	851,340	640,524	851,340	640,524

22. Provisions

Non-current

Site restoration

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Balance at 1 July	10,224	10,224	-	-
Increase during the period	20,590	-	-	-
Balance at 30 June	30,814	10,224	-	-

Notes to the Financial Statements

23. Capital and reserves

(i) Consolidated

Reconciliation of movement in capital and reserves attributable to equity holders of the Company Consolidated

	Share based			Total
	Share capital	payment reserve	Retained earnings	
	\$	\$	\$	\$
Balance at 1 July 2006	28,852,152	571,991	(16,391,910)	13,032,233
Total recognised income and expense			(3,234,610)	(3,234,610)
Equity-settled transactions, net of transfers		640,523		640,523
Shares issued (net of transaction costs)	420,040			420,040
Share options exercised		(129,153)	129,153	-
Balance at 30 June 2007	29,272,192	1,083,361	(19,497,367)	10,858,186
Balance at 1 July 2007	29,272,192	1,083,361	(19,497,367)	10,858,186
Total recognised income and expense			(1,492,739)	(1,492,739)
Equity-settled transactions, net of transfers		851,340		851,340
Shares issued (net of transaction costs)	471,215			471,215
Share options exercised/expired		(160,369)	160,369	-
Balance at 30 June 2008	29,743,407	1,774,332	(20,829,737)	10,688,002

(ii) Company

Reconciliation of movement in capital and reserves attributable to equity holders of the Company Consolidated

	Share based			Total
	Share capital	payment reserve	Retained earnings	
	\$	\$	\$	\$
Balance at 1 July 2006	28,852,152	571,991	(19,564,834)	9,859,309
Total recognised income and expense			(67,449)	(67,449)
Equity-settled transactions, net of transfers		640,523		640,523
Shares issued (net of transaction costs)	420,040			420,040
Share options exercised		(129,153)	129,153	-
Balance at 30 June 2007	29,272,192	1,083,361	(19,503,130)	10,852,423
Balance at 1 July 2007	29,272,192	1,083,361	(19,503,130)	10,852,423
Total recognised income and expense			(1,428,756)	(1,428,756)
Equity-settled transactions, net of transfers		851,340		851,340
Shares issued (net of transaction costs)	471,215			471,215
Share options exercised/expired		(160,369)	160,369	-
Balance at 30 June 2008	29,743,407	1,774,332	(20,771,517)	10,746,222

Share Based payment reserve

The share based payment reserve represents the fair value of share options issued to employees, directors and key consultants. The fair value is measured at grant date and spread over the period during which the employees, directors and key consultants become unconditionally entitled to the options.

Notes to the Financial Statements

23. **Capital and reserves (continued)**

Share capital

	Company Ordinary shares	
	2008	2007
On issue at 1 July	202,217,038	199,854,538
Issued for cash	-	-
Exercise of options	2,900,000	2,362,500
On issue at 30 June – fully paid	205,117,038	202,217,038

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Notes to the Financial Statements

24. Financial risk management

Overview:

The Company and Consolidated entity have exposure to the following risks from their use of financial instruments:

- (a) credit risk
- (b) liquidity risk
- (a) market risk

This note presents information about the Company's and Consolidated entity's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Group through regular reviews of the risks.

(a) Credit risk:

Credit risk is the risk of financial loss to the consolidated entity's if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Consolidated entity's receivables from customers and investment securities. For the Company it arises from receivables due from subsidiaries, re-charges to joint venture partners, oil sales, and royalty income on sale of oil.

(i) Investments:

The Consolidated entity limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have an acceptable credit rating.

(ii) Trade and other receivables:

The Consolidated entity operates predominantly in the oil and gas exploration sector, it does have trade receivables and is exposed to credit risk in relation to trade receivables.

The Company's and Consolidated entity's exposure to credit risk is influenced directly and indirectly by the individual characteristics of each customer. Approximately 70% of the Group's revenue is with Australian Energy Developments Ltd (AED) through royalty payments on oil sales whilst 30% is with Origin Energy Ltd (ORG) the Consolidated entity's share of oil sales.

Trade receivables from oil sales and royalty income are monitored to ensure any outstanding amounts are promptly received with appropriate supporting evidence. The perceived level of risk is low as AED has a market capitalisation of approximately \$350m and has recently restructured with assistance of a Chinese oil and gas development company, Sinopec Corporation, ORG, an ASX 200 company has a history of prompt payment. Both AED and ORG are ASX listed, credit worthy organisations.

The Company and Consolidated entity have established an allowance for impairment that represents their estimate of incurred losses in respect of other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures. The management does not expect any counterparty to fail to meet its obligations.

Presently, the Company and Consolidated entity derive their income from Australian operating assets. Accordingly, geographically there is no concentration of credit risk.

Notes to the Financial Statements

24. Financial risk management (continued)

Exposure to credit risk:

The carrying amount of the Company's and Consolidate entity's financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Consolidated	Carrying amount	
	2008	2007
Trade and other receivables	459,270	162,202
Cash and cash equivalents	1,607,148	8,004,937
Total exposure	2,066,418	8,167,139

Company	Carrying amount	
	2008	2007
Trade and other receivables	10,005,291	3,552,466
Cash and cash equivalents	929,191	7,408,198
Total exposure	10,934,482	10,960,664

Impairment losses:

None of the Company's or Group's receivables are past due at balance date (2007: nil).

The movement in the allowance for impairment in respect of inter-group loans on a non-consolidated basis during the year was as follows:

Company	Carrying amount	
	2008	2007
Balance at 1 July	18,040,755	12,637,030
Impairment loss/(write-back) recognised	(8,068,494)	(9,181,800)
Balance at 30 June	9,972,261	3,455,230

An impairment write back of \$1,113,305, (2007: 1,997,627) in respect of inter-group loans was recognised during the current year from an analysis of the subsidiaries respective financial positions.

The loans were not payable at 30 June 2008. A provision for impairment reversed on the subsidiaries financial position was made. The balance of this provision may vary due to the financial position of a subsidiary in a given year.

Notes to the Financial Statements

24. Financial risk management (continued)

(b) Liquidity risk:

Liquidity risk is the risk that the Consolidated entity will not be able to meet its financial obligations as they fall due. The Consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated entity's reputation.

The Consolidated entity manages liquidity risk by maintaining adequate cash reserves through continuously monitoring forecast and actual cash flows.

The working capital deficiency does not present a going concern or liquidity issue as a financing facility is available for draw-down as required

In July 2008 the Group secured a debt-financing facility of up to \$3 million (before costs). The debt facility has a one year maturity with interest based on a fixed and floating component. Security over the Consolidated entity's assets are held by the financier.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

Forecast contractual obligations:

	Carrying amount	Contractual cash flows	6 mths or less
Consolidated 30 June 2008:			
Trade and other payables	(2,277,451)	(2,277,451)	(2,277,451)
Consolidated 30 June 2007:			
Trade and other payables	(227,546)	(227,546)	(227,546)
Company 30 June 2008:			
Trade and other payables	(232,639)	(232,639)	(232,639)
Company 30 June 2007:			
Trade and other payables	(195,984)	(195,984)	(195,984)

Notes to the Financial Statements

24. Financial risk management (continued)

(c) Market Risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Consolidated entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk:

The Consolidated entity is exposed to currency risk on investments, revenue receipts from oil & gas sales and royalty income and foreign currency denominated purchases in a currency other than the respective functional currencies of Group entities, primarily the Australian dollar (AUD). Other currencies which these transactions are denominated in are (USD), (GBP) and (Euro).

The Consolidated entity has not entered into any derivative financial instruments to hedge such transactions and anticipated future receipts or payments that are denominated in a foreign currency.

The Consolidated entity's investments in its subsidiaries are not hedged as those currency positions are considered to be long term in nature.

Notes to the Financial Statements

24. Financial risk management (continued)

Exposure to currency risk:

The Consolidated entity's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

	30 June 2008				30 June 2007			
	AUD	USD	GBP	Total AUD	AUD	USD	GBP	Total AUD
Cash and equivalents	972,526	610,506	18,150	1,607,148	7,954,567	2,536	20,090	8,004,937
Trade and other receivables	70,821	337,198	18,198	459,270	105,357	40,075	4,080	162,202
Trade and other payables	(324,793)	-	(939,158)	(2,277,451)	(227,546)	-	-	(227,546)
Gross balance sheet exposure	718,554	947,704	(902,810)	(211,033)	7,832,378	42,611	24,170	7,939,593

The Company's exposure to foreign currency risk was as follows, based on notional amounts:

	30 June 2008				30 June 2007			
	AUD	USD	GBP	Total AUD	AUD	USD	GBP	Total AUD
Cash and equivalents	929,191	-	-	929,191	7,408,198	-	-	7,408,198
Trade and other receivables	10,005,291	-	-	10,005,291	3,542,839	-	4,080	3,552,466
Trade and other payables	(232,639)	-	-	(232,639)	(195,984)	-	-	(195,984)
Gross balance sheet exposure	10,701,843	-	-	10,701,843	10,755,053	-	4,080	10,764,680

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2008	2007	2008	2007
USD	0.896	0.786	0.962	0.849
GBP	0.448	0.407	0.482	0.424

Notes to the Financial Statements

24. Financial risk management (continued)

Sensitivity analysis:

A 10 percent strengthening of the Australian dollar against the following currencies at 30 June would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

<i>Effect in AUD</i>	Consolidated		Company	
	Equity	Profit or loss	Equity	Profit or loss
	\$	\$	\$	\$
30 June 2008				
USD	(97,870)	(97,870)	-	-
GBP	127,123	127,123	(63,320)	(63,320)
30 June 2007				
USD	2,425	2,425	5,000	50000
GBP	(2,636)	(2,636)	-	-

A 10 percent weakening of the Australian dollar against the above currencies at 30 June would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Notes to the Financial Statements

24. Financial risk management (continued)

Interest rate risk:

At balance date the Consolidated entity had minimal exposure to interest rate risk, through its cash and equivalents held within financial institution.

	Consolidated Carrying Amount		Company Carrying Amount	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
	\$	\$	\$	\$
Variable rate instruments				
Cash and cash equivalents	1,607,148	8,004,937	929,191	7,408,198

Fair value sensitivity analysis for fixed rate instruments:

The Company and the Consolidated entity do not account for any fixed rate financial assets at fair value through profit or loss. Therefore, a change in interest rates at reporting date would not affect profit or loss or equity.

Fair values:

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

Consolidated	30 June 2008		30 June 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Trade and other receivables	459,270	459,270	162,202	162,202
Cash and cash equivalents	1,607,148	1,607,148	8,004,937	8,004,937
Trade and other payables	(2,277,451)	(2,277,451)	(227,546)	(227,546)
	(211,033)	(211,033)	7,939,593	7,939,593

Company	30 June 2008		30 June 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Trade and other receivables	10,005,291	10,005,291	3,552,466	3,552,466
Cash and cash equivalents	929,191	929,191	7,408,198	7,408,198
Trade and other payables	(232,639)	(232,639)	(195,984)	(195,984)
	10,701,843	10,701,843	10,764,680	10,764,680

The basis for determining fair values is disclosed in Note 3.

Notes to the Financial Statements

24. Financial risk management (continued)

Capital management:

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Consolidated entity defines as net operating income divided by total shareholders' equity, excluding non-redeemable preference shares and minority interests.

	2008	2007
Equity attributable to shareholders of the Company		
Equity	10,688,002	10,858,186
Total assets	13,009,274	11,133,774
Equity ratio in %	82.2%	97.5%
Average equity	10,773,094	11,755,415
Net Loss	(1,492,739)	(3,234,610)
Return on Equity in %	(12.2)%	(27.5)%

There were no changes in the Consolidated entity's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Notes to the Financial Statements

25. Commitments

Exploration expenditure commitments

In order to maintain current rights of tenure to exploration permits, the Consolidated entity is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various governments. These obligations are subject to renegotiation when application is made and at other times. These obligations are not provided for in the financial report and are payable:

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Within one year	825,000	5,078,839	104,000	39,809
One year or later and no later than five years	183,000	482,589	155,000	342,589
Later than five years	-	-	-	-
	1,008,000	5,561,428	259,000	382,398

26. Consolidated entities

	Country of incorporation	Ownership interest	
		2008	2007
Parent entity			
Norwest Energy NL	Australia		
Subsidiaries			
Westranch Holdings Pty Ltd	Australia	100%	100%
NWE (ZOCA 96-16) Pty Ltd	Australia	100%	100%
Norwest Holdings (UK) Pty Ltd	UK	100%	100%
Norwest Southern Cross (UK) Pty Ltd	UK	100%	100%
Zakros Holdings Ltd	Cyprus	100%	100%
Sonauto Holdings Ltd	Cyprus	100%	100%
NWE Appalachians LLC	USA	100%	100%

In the financial statements of the Company, investments in controlled entities are measured at cost. (Refer to Note 14.)

There are reasonable grounds to believe that the Company and the Consolidated entity identified in Note 26 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those Consolidated entities pursuant to ASIC Class Order 98/1418.

Notes to the Financial Statements

27. Reconciliation of cash flows from operating activities

	Note	Consolidated		The Company	
		2008	2007	2008	2007
		\$	\$	\$	\$
Cash flows from operating activities					
Loss for the period		(1,492,739)	(3,234,610)	(1,428,756)	(67,449)
Adjustments for:					
Depreciation	16	43,664	34,640	42,338	34,484
Depletion expense	17	234,600	483,080	-	-
Foreign exchange losses		92,953	(67)	38,201	(214)
Exploration expenditure written off	17	1,186,522	2,898,079	4,709	-
Other non cash including book value project sold		(38,333)	(823,949)	208,632	378,953
Equity-settled share-based payment expenses	21	851,340	640,523	851,340	640,523
(Writeback)/Provision for diminution in value of loans to controlled entities		-	-	(1,113,305)	(1,997,627)
Operating profit before changes in working capital and provisions		878,007	(2,304)	(1,396,841)	(876,432)
(Increase)/decrease in trade and other receivables		(297,068)	32,212	61,707	(16,892)
Decrease in provisions		(3,985)	14,351	-	-
Increase in trade and other payables		135,881	(111,335)	36,654	3,918
Increase in employee benefits		(236)	9,659	(234)	9,658
Net cash from operating activities		712,599	(57,417)	(1,298,714)	(879,748)

Notes to the Financial Statements

28. Related parties

The following were key management personnel of the Consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Non-executive directors

William Frederick Blocking (Chairperson)

(appointed 6 March 2007)

Henry David Kennedy (Non-Executive Director)

(appointed 14 April 1997)

Andrejs Karlis Svalbe (Non-Executive Director)

(appointed 17 February 2004) (resigned 20 December 2007)

Executive directors

Jonathan Arnold Salomon (Chief Executive Officer)

(appointed 18 October 2004) (resigned 19 December 2007)

Peter Lawson Munachen (Finance Director))

(appointed 26 November 2003)

Executives

Ernest Anthony Myers (Company Secretary Norwest Energy N.L.)

(appointed 29 March, 2004)

Kenrick Van Noord (Asset Manager Norwest Energy N.L.)

(appointed 25 July, 2005) (resigned 17 July, 2008)

John Michaels (Vice President – Business Development Norwest UK Holdings P.L.)

(appointed 28 May 2007)

Notes to the Financial Statements

28. Related parties (continued)

Key management personnel compensation

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Short term salary & fees	625,222	674,263	625,222	674,263
Post employment superannuation	20,900	12,213	20,900	12,213
Share-based payments	791,436	519,449	791,436	519,449
Termination payments	75,000	-	75,000	-
	1,512,558	1,205,925	1,512,558	1,205,925

Other key management personnel transactions with the Company or its controlled entities

Two of the key management personnel hold positions in another entity that result in them having control or significant influence over the financial or operating policies of that entity.

The terms and conditions of the transactions with the directors and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

Key management personnel	Transaction	Consolidated		Company	
		2008	2007	2008	2007
		\$	\$	\$	\$
PL Munachen and EA Myers	Accounting and administration - Resource Services International (Aust) Pty Limited	248,700	206,514	248,700	206,514

The Company used the services of Resource Services International (Aust) Pty Limited, of which Messrs Munchen and Myers are directors, in relation to the provision of accounting, administration, secretarial and office services. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms. The amount payable at 30 June 2008 : \$21,200 (2007: \$19,100).

Notes to the Financial Statements

28. Related parties (continued)

Options and rights over equity instruments granted as compensation

(i) 2008 financial year

The movement during the reporting period in the number of options over ordinary shares in Norwest Energy NL held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2007	Granted as compensation	Exercised	Other changes*	Held at 30 June 2008	Vested during the year	Vested and exercisable at 30 June 2008
Directors							
HD Kennedy	2,300,000	-	(300,000)	-	2,000,000	375,000	2,000,000
JA Salomon	5,500,000	-	(500,000)	(500,000)	4,500,000	1,000,000	4,500,000
PL Munachen	3,500,000	-	(750,000)	-	2,750,000	500,000	2,750,000
AK Svalbe	2,550,000	-	(1,050,000)	-	1,500,000	375,000	1,500,000
WF Bloking	-	3,000,000	-	-	3,000,000	3,000,000	1,500,000
Executives							
EA Myers	500,000	-	(100,000)	-	400,000	250,000	400,000
K Van Noord	600,000	-	-	-	600,000	175,000	600,000
JGC Michaels	1,500,000	-	-	-	1,500,000	1,500,000	1,500,000
	<u>16,450,000</u>	<u>3,000,000</u>	<u>(2,700,000)</u>	<u>(500,000)</u>	<u>16,250,000</u>	<u>7,175,000</u>	<u>14,750,000</u>

Other changes represent options that expired or were forfeited during the year.

(ii) 2007 financial year

	Held at 1 July 2006	Granted as compensation	Exercised	Other changes*	Held at 30 June 2007	Vested during the year	Vested and exercisable at 30 June 2007
Directors							
HD Kennedy	1,550,000	750,000	-	-	2,300,000	750,000	1,925,000
JA Salomon	3,500,000	2,000,000	-	-	5,500,000	2,000,000	4,500,000
PL Munachen	2,500,000	1,000,000	-	-	3,500,000	1,000,000	3,000,000
AK Svalbe	1,800,000	750,000	-	-	2,550,000	750,000	2,175,000
WF Bloking	-	-	-	-	-	-	-
Executives							
EA Myers	1,250,000	500,000	(1,250,000)	-	500,000	625,000	250,000
K Van Noord	250,000	350,000	-	-	600,000	300,000	425,000
JGC Michaels	-	1,500,000	-	-	1,500,000	-	-
	<u>10,850,000</u>	<u>6,850,000</u>	<u>(1,250,000)</u>	<u>-</u>	<u>16,450,000</u>	<u>5,425,000</u>	<u>12,275,000</u>

No options were held by key management personnel related parties.

Notes to the Financial Statements

28. Related parties (continued)

Movements in shares

(i) 2008 financial year

The movement during the reporting period in the number of ordinary shares in the Company held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2007	Purchases	Received on exercise of options	Sales	Held at 30 June 2008
Directors					
HD Kennedy	24,616,810	-	300,000	300,000	24,616,810
JA Salomon	-	-	500,000	-	500,000
PL Munachen	116,250	-	750,000	750,000	116,250
AK Svalbe	-	-	1,050,000	1,050,000	-
WF Bloking	-	-	-	-	-
Executives					
K Van Noord	8,000	-	-	-	8,000
EA Myers	-	-	100,000	100,000	-
J Michaels	-	-	-	-	-
	24,741,060	-	2,700,000	2,200,000	25,241,060

(ii) 2007 financial year

The movement during the reporting period in the number of ordinary shares in the Company held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2006	Purchases	Received on exercise of options	Sales	Held at 30 June 2007
Directors					
HD Kennedy	24,616,810	-	-	-	24,616,810
JA Salomon	-	-	-	-	-
PL Munachen	116,250	-	-	-	116,250
AK Svalbe	-	-	-	-	-
WF Bloking	-	-	-	-	-
Executives					
K Van Noord	8,000	-	-	-	8,000
EA Myers	-	-	1,250,000	1,250,000	-
J Michaels	-	-	-	-	-
	24,741,060	-	1,250,000	1,250,000	24,741,060

Notes to the Financial Statements

28. Related parties (continued)

Subsidiaries

Loans are made by the Company to wholly owned subsidiaries for capital purchases, project development and general administrative expenditure. Loans outstanding between the company and its subsidiaries have no fixed date for repayment and are non-interest bearing. During the financial year ended 30 June 2008, such loans to subsidiaries totalled \$5,403,725 and 2007: \$(906,946). On a net basis in the 2008 year the Company loaned greater amounts than it received to its subsidiaries due mainly to expenditure on development of UK projects.

As a subsidiary realises proceeds on the sale or development of a project these are transferred to the Company acting to reduce the inter-company loan balance.

29. Subsequent events

The Company finalised a finance facility with Investec Bank post balance date. The facility can be drawn-down to a maximum of \$3m. In addition Investec were issued with 7.89 million options to subscribe for ordinary shares at an exercise price of \$0.19 per share payable with a life of 3 years.

The Company also issued 13 million shares at an issue price of \$0.13 each in July 2008 raising \$1,690,000 before costs.

Dr Roger Neil O'Brien was appointed as Chief Executive Officer of the Company effective from 1 July, 2008.

Director's Declaration

Directors' declaration

- 1 In the opinion of the directors of Norwest Energy NL ('the Company'):
 - (a) the financial statements, notes and the remuneration disclosures that are contained in sections [11] of the Remuneration report in the Directors' report, set out on pages [8 to 14], are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and the Consolidate entity's financial position as at 30 June 2008 and of their performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
 - (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a);
 - (c) the remuneration disclosures that are contained in sections [11] Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*, the Corporations Act 2001 and the Corporations Regulation 2001; and
 - (d) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2008.

Dated in Perth on this 24th day of September 2008.

Peter Lawson Munachen
Director



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

Report on the financial report

We have audited the accompanying financial report of Norwest Energy NL (the Company), which comprises the balance sheets as at 30 June 2008, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the Consolidated Entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the 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. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Auditor's opinion

In our opinion:

- (a) the financial report of Norwest Energy NL is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's and the Consolidated Entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Report on the remuneration report

We have audited the Remuneration Report included in pages 8 to 13 of the directors' report for the year ended 30 June 2008. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Norwest Energy NL for the year ended 30 June 2008, complies with Section 300A of the *Corporations Act 2001*.

KPMG

B P Steedman
Partner

Perth
24 September 2008