

Indices and Prices	
All Ordinaries	5,493.70
Energy Index	7,989.20
Brent AU\$/bbl	60.36
AUS\$/US\$	0.7667
Live Gold/AU\$	1,731.23
As at close 27 September 2016	

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Norwest Energy - NWE

WARMS UP ITS DRILLING OPTIONS

NWE - Capital Structure	
Shares	2,466.0 m.
Options	20.0 Atav. 0.006
	2,486.0
Price	\$0.003
Market Cap	\$ 7.4
Cash (est)	\$ 0.8

Recommendation: *Norwest will almost certainly leverage off the successful farm-out of its interest at TP-15 to raise additional funds. Subscribers should be aware that proposed exploration at the Xanadu prospect comes with a high risk warning, but a 20 fold upside in the less likely case of success.*

The best entry point for high risk speculators might come after Norwest has completed its farm-out process and during the period when it will raise additional equity ahead of drilling.

Norwest Energy has sprung into life as it makes plans to drill the Xanadu oil prospect in shallow waters, offshore in the Perth Basin in TP-15.

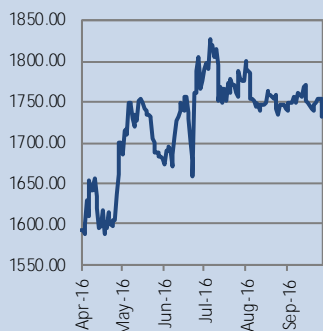
Xanadu has been on the exploration radar for over a decade. Exploration potential of the prospect has benefited recently from work done by AWE and others onshore, which has improved knowledge of petroleum source and migration channels in the basin.

StockAnalysis thinks that Xanadu is a high risk target that lacks adequate seismic data coverage, largely because the target sits in shallow water, where rocky outcrops make the gathering of a seismic survey extremely challenging. The target has been outlined by an airborne gravity survey plus interpretation of available seismic data.

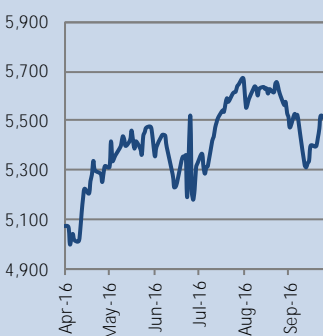
Norwest assumes resource potential at the Xanadu prospect, based on a recovery factor of 50%, which StockAnalysis believes is far too high. For the purposes of this analysis the target for oil in all three prospective reservoir horizons has been reduced from 160 mmbbls to a more reasonable 58 mmbbls, while any oil discovered is valued at A\$15/bbl insitu.

With a firm objective of drilling Xanadu in 2017, Norwest has so far farmed out 45% of the working interest to retain 55% equity in the permit, with a 40% paying interest. StockAnalysis understands that the Xanadu data room is buzzing with activity and thus assumes that a further 30% of the working interest will be farmed out, leaving it with a 25% free-carry over what is budgeted to be a \$6 million drilling programme to a depth of around 1,200 metres, with the well deviated from onshore to offshore.

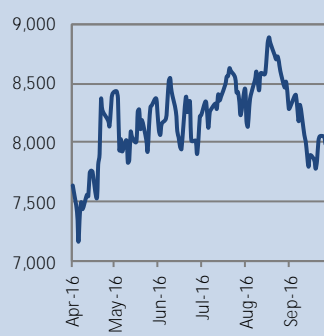
Gold Live AU\$



All Ordinaries



S&P ASX 200 Energy Index



Brent Crude Oil \$AU/barrel



AU\$/US\$



Norwest is joined by Transerv Energy with a 20% paying and 15% working interest and Triangle Energy with a 40% paying and 30% working interest. Transerv has a strategic, basin-wide relationship with Norwest while Triangle owns half of the Cliff Head oilfield to the northwest of Xanadu. Triangle obviously sees synergies with Cliff Head and its underutilised Arrowsmith oil processing plant in the case of discovery, which could be useful for rapid and low cost development of any discovery at Xanadu.

Xanadu will be a very significant well. A discovery here, combined with recent success in the deeper Kingia Formation at AWE's prolific Waitsia gas discovery, would bring a lot of interest back to petroleum exploration in the Perth Basin.

If the farm-out is not completed by the end of the year then the farminees will have no obligations on the block.

The Xanadu-1 well is set to target Permian-aged Dongara Sandstone from a depth of 800 metres with secondary targets in the fluvio-deltaic Irwin River Coal Measures (IRCM) and the regressive marine sands of the High Cliff Sandstone. The structure is thought to be one of the biggest untested oil targets in the basin, showing similarities with the Cliff Head and Hovea oilfields.

Next year could be an active period for the Perth Basin. AWE is planning two appraisal and production wells on its Waitsia field while Empire Oil and Gas plans to drill the Lockyer Deep-1 well with Norwest, targeting the Kingia/High Cliff formations directly adjacent to AWE's Waitsia discovery. As a long-shot, the Arrowsmith-3H unconventional well with AWE, could also be drilled over the next 18 months.

StockAnalysis cuts estimated recoverable Reserves at Xanadu to 40% of the target used by the company, to assume a total target of 58 mmbbls from three separate Formations. Further, it assumes that Norwest retains a free-carried 25% interest at the time of drilling, post its farm-down process and that it issues about 667 million new shares to raise equity ahead of drilling and a modest insitu value of A\$15/bbl is ascribed to any oil found at Xanadu.

On this basis, Triangle Energy offers the best leverage to discovery at Xanadu, with a 35 fold valuation upside, while a diluted Norwest Energy offers a 22 fold increase in value, if not price.

Target	Prospective Res.		POS %	NPV \$m
	mmbbl	Bcl		
Xanadu Dongara	5	0	20%	\$ 72
Xanadu IRCM	35	0	17%	\$ 528
Xanadu Highcliff	18	0	25%	\$ 270
In-ground Value Assumptions				
Oil \$A/bbl	\$ 15 /bbl			
gas \$/GJ	\$ 0.75 /GJ			
Discovery Value per share				
Equity	55%	15%	30%	
Post farmdown	25%	15%	30%	
Xanadu Dongara	\$ 0.006	\$ 0.013	\$ 0.006	
Xanadu IRCM	\$ 0.041	\$ 0.095	\$ 0.043	
Xanadu Highcliff	\$ 0.021	\$ 0.048	\$ 0.022	
Total Risk Adjusted Value	\$ 0.013	\$ 0.029	\$ 0.013	
Current Price	\$ 0.003	\$ 0.010	\$ 0.002	
Discovery Leverage per share	2277%	1559%	3580%	

Source: Strachan Corporate

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