JENNINGS CAPITAL INC.

July 27, 2009

Recommendation: SPECULATIVE BUY
Revised 12-Month Target: C$0.20
Previous 12-Month Target: C$0.17
Risk Rating: ABOVE AVERAGE

NORWOOD RESOURCES LTD.
(TSXV-NRS C$0.075)

SECURED NOTE ISSUE PROVIDES CAPITAL FOR SAN BARTOLO RE-DRILL

- **Norwood is offering US$5 million in Secured Convertible Notes.** These Notes carry a 10% coupon and are convertible into Units (= 1 common share plus one full warrant at C$0.10) at C$0.07. Depending on foreign exchange rates, this could result in the issuance of approximately 160 million new shares. There are provisions for early repayment and warrant acceleration. (page 2)
- **Successful issue will allow re-drill of San Bartolo well this fall.** Proceeds from this issue will be used to drill a sidetrack to the San Bartolo-1 well. Expenses will include rig upgrades to enable it to drill underbalanced, as well as the direct drilling and testing costs. If successful, the Company believes it could be on stream by year end 2009. Our mid-point estimates for initial production and 2P reserves are 600 Bbl/d and 1.0 MMBbl. (page 2)
- **Potential resource volumes increase with further play refinements and no farm-out.** With the Notes financing, the Company will not be farming out its prospects. We have also adjusted various reservoir parameters and eliminated any potential resources for the Masachapa formation. Overall, our estimate of unrisked potential resources has risen to 92 MMBbl from 72 MMBbl (NRS WI). (page 3)
- **Although hardly riskless, we believe the Notes are well priced.** A success at San Bartolo should add approximately C$17 million of value and increase the NAV (basic) to C$0.19/sh. The fully diluted value, taking into account full conversion to Units, should be C$0.13/sh. We have given a 50% chance of success on the well, and the Company and its consultants have rated it even higher. (pages 4, 5,6)

We are maintaining our SPECULATIVE BUY recommendation on Norwood and increasing our 12-month target price to C$0.20 per share.

Sector: **OIL & GAS**

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Company Statistics			
Market Cap			$8 MM
Basic Shares O/S			103.6 MM
Fully Diluted Shares			115.0 MM
52-Week Range			$1.37 - $0.05
Major Shareholders			None over 10%
Cash (06/30/09 est.)			$ 2.4 MM
Debt (06/30/09 est.)			$ 0.0 MM
Working Capital (06/30/09 est.)			-$ 3.8 MM
Trading Parameters			
EV/BOE *(2P at exit 2008)*		*($/BOE)*	N/A
Implied Value of Potential			
	Unrisked	*($/BOE)*	$0.01
	Risked	*($/BOE)*	$0.20

** =(EV - PV10 of 2P reserves)/potential resources*

Norwood Resources Ltd. has a large onshore concession in Nicaragua, and three wells drilled to date have indicated substantial oil pay. Gross potential resources could be over 100 MMBbl. The Company also has a deep gas play in Texas, with potential for up to 13 Tcf.

Please see important disclosures on pages 7 and 8.

Norwood Issuing Convertible Notes

In our last update (January 29, 2009), we suggested that Norwood needed to either farm-out one or more of its Nicaraguan prospects, or raise new funds which would be highly dilutive. At the time, we believed a farm-out was the more likely of the two, but on July 15, the Company announced that it intended to issue a minimum of US$5 million in Secured Convertible Promissory Notes. The major terms of these Notes are summarized below:

Convertible Notes - Significant Terms

Security:	Notes will have security interest on all the assets of the Company
Term:	2 years
Interest:	10% per annum, payable semi-annually
Early Repayment:	Norwood will have the right to repay the Note and accrued interest at any time during the term, with 30 days notice and the payment of a 5% penalty.
Conversion:	Convertible into units ("Units") at a deemed price of C$0.07 per Unit. Each Unit consists of one common share plus one share purchase warrant with a strike price of C$0.10 per share, expiring two years after closing. The warrants may be exercised without converting the Note.
Warrant Acceleration:	The Company has the right to accelerate exercise of the warrants if the common shares trade above C$0.50 per share for ten consecutive days.

At current exchange rates, full conversion of the Notes (assuming the minimum issue of US$5 million) would result in the issuance of approximately 80 million units. Further exercise of the warrants issued as part of these units would result in a total of 160 million new shares, or 154% of the current issued and outstanding common shares.

San Bartolo Redrill

Proceeds from the Notes will be used to drill a sidetrack well at San Bartolo. The objective is to test 1,400 feet of the Upper Brito formation that has been identified by the Company and three independent consultants as being the most likely to contain movable oil. The well will be drilled underbalanced and will deviate from the existing wellbore starting at a depth of approximately 5,500 ft.

Norwood will test 1,400 ft of the Brito formation using underbalanced drilling and testing techniques.

In addition to the direct drilling and testing costs, Norwood will also need to upgrade the drilling rig to make it suitable for this operation. Expenses will include such things as a new mud system and downhole blowout preventers.

Success case: 600 Bbl/d and 2P reserves of 1.0 MMBbl

The Company now estimates that the four zones to be tested could each produce 150 – 250 Bbl/d, prior to stimulation (the previous range was 80 – 200 Bbl/d). A frac' could increase that by 30% -50%. This results in a worst case (single zone, unsuccessful frac') of 150 Bbl/d and best case (all four zones and successful frac's) of 1,500 Bbl/d. Our 600 Bbl/d estimate comes from approximately 80 ft of net pay and average permeability of 15 mD (prior analysis of the core samples indicated a range of 10 – 30 mD).

Our estimate of 1.0 MMBbl (2P) is based on the reserves that could be assigned to the San Bartolo re-drill and equal probable reserves for one offsetting location. From previous disclosure and discussions with management, we are using the following reservoir parameters:

Porosity:	14%
Water Saturation:	45%
Net Pay:	80 ft
Recovery Factor:	15%
Reserves/Well	**500 MBbl**

As a consistency check, the initial production rate of 600 Bbl/d would require a decline rate of ~ 35% annually to yield 500 MBbl of reserves.

The Company believes it can get a successful well on production by the end of 2009. The wellsite is close to an all weather highway, and a temporary flowline and storage tanks could be installed relatively easily.

Resource Potential Update

Norwood has continued to refine its petrophysical analysis since our last update. The table below summarizes our estimates of the resource potential and values for Norwood's prospects.

Nicaragua Resource Potential – July 2009

	Gross OOIP *(MMBbl)*	**Recovery Factor**	**Gross ROIP** *(MMBbl)*	**NRS WI** *(MMBbl)*	**Unit Value** *(C$/Bbl)*	**Unrisked Value** *(MM$)*	**Chance of Success**	**Risked Value** *(MM$)*
Maderas Negras	122	15%	18	13	$17.25	$221	10%	$22
San Bartolo	117	15%	18	12	$17.25	$213	50%	$106
La Centcera	78	15%	12	8	$17.25	$141	10%	$14
Las Mesas	210	15%	32	22	$17.25	$380	10%	$38
San Cayatano	94	15%	14	10	$17.25	$170	10%	$17
El Chichcayo	43	15%	6	5	$17.25	$78	10%	$8
El Castillo (N & S)	41	15%	6	4	$17.25	$74	10%	$7
El Socorro (N & S)	62	15%	9	7	$17.25	$113	10%	$11
Mesa Grande	85	15%	13	9	$17.25	$153	10%	$15
Las Mesitos	22	15%	3	2	$17.25	$40	10%	$4
Total	**874**		**131**	**92**		**$1,582**		**$243**
				with timing discount		**$1,097**		**$169**
					per share	**$4.05**		**$0.62**

Per share amounts are based on full dilution from the planned issue of Notes and outstanding options.

This further analysis has also led to the downgrading of the Masachapa formation. The original results in Spring 2008 suggested that it had the potential to be larger than the Brito. The new view is that it is unlikely to be productive of anything other than water.

Key Variables and Risk Factors

We identified these risk factors previously, but they bear repeating:

The Petrophysical Analysis: This boils down to the exploration risk of success. We are encouraged by the new analysis, the reputations of the consultants and their independent methodologies. The fact that some oil has been recovered from the wells also minimizes the risk of a source, usually one of the larger exploration risks.

Areal Extent of Prospects: We have used the areas provided to us by the Company at the time of our initiating coverage. The new analysis examines the reservoir quality, rather than the extent. While there is a possibility that the area could be higher, we believe that risk more likely skewed to the downside. This could be mitigated by the possibility of thicker net pay, as the net pay we are currently using is based only on intervals in which core is available.

This is still an exploration play and carries risks of producibility, size and execution.

The Company's technical abilities to drill and complete a well successfully: Producibility will only be confirmed by a successful test. Norwood has taken two significant steps to reduce this risk:

- The Company has engaged RPS Engineering to review the drilling, completions and testing procedures in both the Maderas Negras and San Bartolo wells and compare them to successful operations in analogous fields in India, Thailand, Argentina and Canada.
- The Company has also retained Mr. Roberto Rodrigano, an expert in underbalanced drilling. Mr. Rodrigano has nearly 40 years of drilling experience in many basins around the world, much of it with Weatherford, and is the author of many technical papers.

Valuation and Target

We are maintaining our recommendation of **SPECULATIVE BUY**, and increasing our **12-month target to C$0.20 per share**.

Norwood Resources 12-Month Target

Method	Parameter	Multiple	Valuation	Weight	Weighted Valuation
	(C$/sh)		*($/sh)*		*(C$/sh)*
Risked 12-Month NAV	$0.21	1.00	$0.21	100.0%	$0.21
					$0.21

Our target is set on the basis of a successful re-drill at San Bartolo, rather than an expected value based on the chance of success. Norwood presents an unusual circumstance with the importance of the San Bartolo re-drill. The outcome is essentially binary:

- A successful well will result in reserves, production and cash flow. It would also raise the chance of success for step-out and appraisal wells in the San Bartolo prospect, as well as maintain the rest of the prospect inventory.

- A failure will leave the Company with minimal financial resources and cast doubt on the validity of the play and remaining prospects. It would be unlikely they could raise any additional funds to test the play further.

Norwood has no production or cash flow. If the well is unsuccessful, the Company will have no source of funds to make the coupon payments.

Despite the significant dilution associated with the Notes, success at San Bartolo could result in returns up to 135% over the next 12 months.

Overall, the Notes appear to be appropriately priced. In the event of a dry hole, they are secured against all the remaining assets of the Company, which would be substantially the value of the drilling rigs (we are assuming that a fourth failure would result in no remaining value for the undeveloped lands in Nicaragua, and that at current gas prices and the high capital costs, Bigfoot will also have little value). A successful well would result in a fully diluted NAV of C$0.13/sh, representing a 53% return over the weighted average cost of C$0.085/sh (C$0.07 deemed price of the Units plus C$0.10 to exercise the warrants). A success on the follow-up well in late 2010 would further increase the NAV to C$0.20, or a 135% return.

Assuming that production commences on January 1, 2010, we estimate that San-Bartolo-1 could yield cash flow of approximately C$10.5 million for calendar 2010 (for a 600 Bbl/d well, declining at 35%). In that event, we expect the following to occur:

- The Company will give notice of early repayment of the Notes in mid-2010.
- With the successful well, basic NAV will be C$0.19/sh, so the Note holders will elect to convert to Units at the deemed price of C$0.07, resulting in the issuance of ~80 million shares and 80 million warrants with a strike price of C$0.10.
- Norwood will drill a step out well later in 2010, also likely to be tied into temporary facilities by that year end. We would look for first production beginning in 2011.
- Although we believe it unlikely in 2010, if Norwood's shares trade above C$0.50 for ten days, the Company could trigger their exercise, resulting in ~80 million new shares and proceeds to the Company of C$8 million, depending on foreign exchange rates. It is also possible (but again, unlikely) that this accelerator could be triggered prior to the Notes converting to units. In that event, Norwood would still have approximately C$5.7 million of debt in the form of the Notes, despite the separation of the warrants.

Net Asset Value

The table on the next page illustrates our estimate of Net Asset Value under various scenarios.

As things stand now ("Current (June 30 est.)"), we estimate Norwood's NAV at C$0.03 per share[1]. Without additional funding, it would be unable to drill or exploit any of its prospects, so while those prospects have higher theoretical

[1] Should it be successful in its disputes with Hoco Drilling and Schlumberger, working capital would increase by approximately C$4.6 million, and the NAV would correspondingly rise to C$0.075 per share.

values in 12 months and in our ExNAV calculation, we have grayed-out that section of the table.

The second scenario ("Post Closing") assumes that the Company closes for US$5 million of Notes and that the re-drill of San Bartolo is successful. We estimate the value of the new reserves would be C$17.3 million. The proceeds from exercise of the Notes and Warrants include elimination of the C$5.7 million in debt in the event that the Notes are converted to Units, and C$8 million for the exercise of the C$0.10 warrants issued as part of the Units.

The third scenario ("Post Unit Conversion") contemplates the conversion of the Notes to Units. The shares outstanding increase by the 80 million issued as part of the conversion. Subsequent dilution consists of the warrants issued as part of the units (and the outstanding options which have strike prices between C$0.65 and C$1.18). At the fully diluted level, it is no different than the Post Closing scenario.

Norwood Resources Net Asset Value

				Assumes Success on San Bartolo-1 Redrill					
	Current (June 30 est.)			Post Closing			Post Unit Conversion		
	Value	Shares	NAV/sh	Value	Shares	NAV/sh	Value	Shares	NAV/sh
Oil & Gas Assets	*(C$MM)*	*(MM)*	*(C$/sh)*	*(C$MM)*	*(MM)*	*(C$/sh)*	*(C$MM)*	*(MM)*	*(C$/sh)*
San Bartolo Reserve Additions	$0.0			$17.3			$17.3		
Undeveloped Land	$3.3			$3.3			$3.3		
Drilling Rigs	$6.0			$6.0			$6.0		
Abandonment Liabilities	($0.2)			($0.2)			($0.2)		
	$9.1			$26.3			$26.3		
Financial Assets & Liabilities									
Working Capital (1)	($3.8)			$1.3			$1.3		
Debt	$0.0			($5.7)			$0.0		
G&A	($2.0)			($2.0)			($2.0)		
	($5.8)			($6.4)			($0.8)		
Net Asset Value (basic)	**$3.3**	103.6	**$0.03**	**$19.9**	103.6	**$0.19**	**$25.6**	183.6	**$0.14**
Proceeds/Shares from Options/Warrants/Notes	$0.0	-		$13.7	160.0		$8.0	80.0	
Net Asset Value (FD)	**$3.3**	103.6	**$0.03**	**$33.6**	263.6	**$0.13**	**$33.6**	263.6	**$0.13**
Risked Exploration Prospects									
To Be Drilled within 12 months				$21.3	263.6		$21.3	263.6	
Proceeds/Shares from Options				$0.0	-		$0.0	-	
Risked 12-Month NAV				**$54.8**	263.6	**$0.21**	**$54.8**	263.6	**$0.21**
Remaining prospects				$221.3	-		$221.3	-	
3 Year Timing Discount				($6.5)			($6.5)		
Deduct Land Value				($3.3)			($3.3)		
Proceeds/Shares from Options				$5.0	7.2		$5.0	7.2	
ExNAV (FD)				**$271.3**	270.8	**$1.00**	**$271.3**	270.8	**$1.00**

Value is not likely realizable due to lack of capital for exploration and development, or subject to further dilution.

(1) Includes the note payable to Hoco Drilling in the amount of C$2 million. Norwood has initiated legal action over equipment missing from the rigs against Hoco, and in the worst case, the debt can be settled at Norwood's option with shares issued at a deemed price of C$1.10. Also includes C$2.6 million payable to Schlumberger with respect to the 2008 testing program at San Bartolo and Maderas Negras. Norwood is also disputing this on the basis of Schlumberger's performance during that program.

Jennings Capital Inc. Research Disclosures

Company	Ticker
Norwood Resources Ltd.	TSXV-NRS

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Note *We initiated coverage on* ***Norwood Resources Ltd.*** *on August 27, 2008, with a SPECULATIVE BUY recommendation, an ABOVE AVERAGE risk rating and a target price of C$3.25. Share price at that time was C$1.00. On October 29, 2008 we place our target and recommendation UNDER REVIEW. Share price at that time was C$0.10. On January 29, 2009 we reinstated our SPECULATIVE BUY recommendation and reduced our target price to C$0.17. Share price at that time was C$0.10.*

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Revised Monthly

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