



**Carnarvon Petroleum Ltd**

**Date of Lodgement: 21/5/12**

**Title: “Company Insight – Explains Strategic Focus & Inherent Value”**

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**Highlights of Interview**

- Explains main assets & status of each – value of Company underpinned by production & 1P reserves.
- Current knowledge about the Phoenix-1 discovery & the other ‘Phoenix’ blocks.
- Preferred options to progress Phoenix – farmout, drilling, further 3D seismic.
- Farmout process for WA-435-P & WA-437-P (containing Phoenix) & timing.
- Woodside expects to start drilling nearby in 2013.
- Discusses \$84 million (\$0.12 per share) valuation of Thailand production and the upside.
- Summary objectives for 2012 & longer term value creation.

**Record of interview:**

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Carnarvon Petroleum Limited (ASX code: CVN; market cap of ~\$75m) has oil and gas assets in Western Australia and Thailand. Can you outline the major assets and the status of each?

**Managing Director, Adrian Cook**

As you’ve indicated our asset holdings are in Western Australia and Thailand, being areas that we believe we know well.

In Western Australia we are focused on exploring for oil and gas in the Roebuck Basin, which is located between the prolific Carnarvon and Browse Basins. We have an interest in five blocks in this area that we colloquially refer to as our “Phoenix” blocks, on account of the Phoenix-1 gas discovery that is in one of the blocks. At this stage we are talking to parties about joining us in two of the blocks to drill the two key prospects we’ve identified to date.

In Thailand we have five onshore blocks and produce oil from two of those. All five blocks contain oil prospects and leads that we’d like to explore further but at present the oil production and associated reserves essentially underpin the value of the Company.

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What is the history of Phoenix? What do you know about Phoenix so far?

**Managing Director, Adrian Cook**

In the early 1980's BP drilled two wells in the area. Both wells logged significant gas readings in a series of sandstones, with the Phoenix-1 well being declared a gas discovery. At the time there appeared to be two constraints to further exploration in the area. The first was that the reservoir sands in the Phoenix-2 well, drilled to the north of Phoenix-1, were considered tight and the then joint venture did not have access to the areas to the south. A well drilled nearby several years later intersected significantly better quality reservoir sands and so we are looking to find where the gas discovered in Phoenix-1 could be trapped in these better quality sands.

The second inhibitor at the time was that gas and LNG markets in the area were not as robust as they are today. With nearby LNG projects like Browse and current domestic gas demands, a development in this region is now a very different proposition.

Carnarvon and its joint venture partner have completed considerable technical work since acquiring the blocks and have a very good understanding of the geology of the area. This work was supported by new 3D seismic data that was acquired by the current joint venture, the first ever over these blocks. This data shows significant structures near to the Phoenix gas wells that we believe warrant exploring further through drilling.

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What are the preferred options to progress Phoenix?

**Managing Director, Adrian Cook**

Our strategy is to explore the five blocks progressively and if we're able to identify sufficiently attractive drill prospects, fund the next stage of exploration by "farming out" an interest in the blocks in exchange for the cost of drilling.

We are well advanced in farming out the WA-435-P and WA-437-P permits that include the Phoenix-1 gas discovery.

Advancing the other three permits will involve acquiring further 3D seismic data and completing technical work on that and other relevant data for the area. We currently have a second 3D seismic acquisition program underway covering a substantial 4,289km<sup>2</sup> in the next blocks for farmout. We believe some of the leads in these blocks could also contain oil and the prospect of holding a combination of oil and gas resources in this region is very appealing.

I think it's important to appreciate that the five blocks cover a substantial 28,000 km<sup>2</sup> and we see opportunity in unlocking this area systematically and progressively over time.

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Can you give more detail on the farmout process for Phoenix? What are your objectives? To what degree is Phoenix a strategic asset in the region?

**Managing Director, Adrian Cook**

As I indicated earlier, Carnarvon and its joint venture partner have undertaken considerable technical work in the region. The farmout process has included a detailed review and analysis of the historical data over and near the blocks we have. We then acquired, processed and interpreted 1,100 km<sup>2</sup> of new 3D seismic data. With all this data we completed a number of technical studies and drew on the advice

of external advisors to build a detailed technical picture of the prospective geology in this area. This material and our conclusions for the WA-435-P and WA-437-P permits have been provided to a number of parties interested in farming into these two blocks.

The farmout process involves interested parties undertaking their own detailed review, generally taking into account technical, development and economic factors. This review usually takes some time and we've indicated that we're working to have the farmout completed in the third quarter, 2012. Following which we would expect to work with the new parties to prepare to drill the prospects that have been determined from our technical work. The timing of drilling will be affected by a number of factors, including availability of a drilling rig, weather and environmental, although we'd hope to see drilling activity commence in late 2013.

In terms of the strategic opportunities, we feel these blocks have the potential to play a key part in the development of the Western Australian LNG and the domestic gas environment. The blocks have several factors in their favour including discovered gas, proximity to LNG projects and domestic gas infrastructure, and the potential for meaningful volumes of gas, associated liquids and oil.

If this area develops as we hope, these blocks certainly have the potential to play a strategic role in the region.

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In the same basin as your Phoenix gas discovery, Woodside Energy is acquiring 3D seismic in 2012 with an aim to start exploration drilling in 2013. What are the implications for Carnarvon Petroleum?

**Managing Director, Adrian Cook**

Woodside have made a substantial commitment to explore in this region that has, of itself, created additional interest in the Phoenix blocks. Beyond that, we foresee opportunities to access equipment such as seismic vessels and drilling rigs at lower cost and potential development synergies. However we're talking about a very large area and we see a lot of opportunity for exploration by other parties also, beyond Woodside and Carnarvon Petroleum.

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What approximate level of recoverable gas do you believe could make for a commercial discovery at Phoenix and what markets are you assuming?

**Managing Director, Adrian Cook**

Based on the joint venture's work and that of independent consultant, ISIS, there is clearly a possibility for significant volumes of hydrocarbons in these permits. We recently said that two of our key prospects in WA-435-P and WA-437-P have mean recoverable potentials of 1 to 2 Tcf each. High side cases are double these volumes.

We are working on a number of development scenarios for different outcomes. It is early days, but we are finding that because of the relatively shallow water depth and proximity to shore the development options are greater, and therefore the minimum economic volumes are less than would be the case for deeper water resources. Initially we need to remain as flexible as possible around commercialization alternatives until we have a better understanding of the farminee's objectives for the first two blocks. An early discovery in these blocks would likely offer a "first mover advantage" and some influence over the development and market for any hydrocarbons.

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What value do you place on current Proved Reserves (1P) in Thailand and what potential value upside is there if you add to these Reserves? What verification do you have for these?

**Managing Director, Adrian Cook**

Each year an independent consultant, Gaffney, Cline & Associates, reviews the reserves in Thailand. As part of that process they value the reserves to determine the economic cut-off point. Their 31 December 2011 report assessed a value of \$84 million net to Carnarvon for 1P reserves that we covered in our ASX announcement on 22 March 2012. Fundamental to this 1P value, and the upside beyond this, is the delivery of production volumes above the current base level. That has been an issue for us in the last 12 months or so and we intend to address that by focusing on a sandstone reservoir development in the Wichian Buri extension ("WBEXT) area of the L44/43 Concession.

The sandstone development program is not only expected to increase production but also provide the added benefit of more stable and predictable decline rates, compared to the volcanic reservoirs in the past. We have 3D seismic data over the sandstone area, well tie data and historical production analogues from the adjoining Wichian Buri oil field that has been producing from the sandstone reservoir since the mid 1990's. So we're reasonably confident about the results we can expect from this program.

The current status of the program is that it is awaiting environmental approval from the Thailand Government. Unfortunately Thailand is currently experiencing a bottleneck in its approval process that is impacting the whole industry. We're continuing to work with the Government on this matter and we're comfortable it is only a matter of time before we commence the drilling program.

In addition to the WBEXT sandstone program, we are looking to increase production by working over existing wells, assessing the applicability of new technologies, and continuing to develop and explore the prolific volcanic reservoirs.

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Can you summarise your major objectives for the rest of the year including drilling, seismic, farmouts and any other relevant corporate activity?

**Managing Director, Adrian Cook**

Improving production levels is a clear objective for us as it not only provides operating cash flows but also underpins reserves and obviously our share price. The independent consultant, Gaffney, Cline & Associates, values our 1P reserves at \$0.12 per share. So we think there is real upside for shareholders by focusing on improving the production levels through both the steadier sandstone development program and the more prolific but variable volcanic reservoirs.

The farmout of Phoenix is also a priority in 2012 and then moving on to drilling hopefully in 2013. Phoenix is an exploration play, but the key ingredients are there for it to be a material asset for the company. Making an early commercial discovery around the existing Phoenix-1 gas discovery has the potential to unlock the value of the greater Phoenix area in the medium term.

Our third objective is to keep working on our other exploration acreage in Thailand and Australia and mature these as quickly as possible to drillable prospects.

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Longer term, can you give an idea on the potential value-add for shareholders as you progress Phoenix and other permits through exploration or corporate transactions?

**Managing Director, Adrian Cook**

We have always seen south east Asia and Australia as our region of focus. We believe that our onshore and shallow offshore assets in conjunction with our management, technical and financial capabilities fit consistently with this focus.

In the shorter term, value for shareholders will be added through improving oil production levels and farming out the WA-435-P and WA-437-P permits for drilling, ideally in 2013.

Longer term, we see value for shareholders coming through exploration success in our existing portfolio and through the introduction of new opportunities for shareholders. Our current portfolio contains oil exploration opportunities around our existing oil fields and in our other blocks that we hold onshore Thailand. Discoveries here have the advantage of being brought into production very quickly. In Western Australia, as I've said earlier, we're pursuing significantly larger value propositions and the progressive unlocking of these over time.

Overall we believe we hold a balanced portfolio of assets and have a management team very focused on delivering value from these in both the shorter and longer term.

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Thank you Adrian.

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