



Carnarvon Petroleum Ltd

Date of Lodgement: 6/6/12

Title: “Company Insight – Implied Value of Thailand Concessions”

Highlights of Interview

- Explains implied value of Thailand assets at \$0.16 per Carnarvon share after Carnarvon’s JV partner agrees to sell its 60% stake in the assets.
- Explains Carnarvon’s view on it not having pre-emptive rights to purchase the stake.
- Explains the adjustments to the valuation of the assets while the transaction is finalised.
- No major impediments to transaction proceeding.
- Explains why the purchaser of the 60% cannot be named yet.
- The purchaser is well advanced with its plans to add value to the Thailand assets and shares a similar philosophy to Carnarvon.

Record of interview:

companyinsight.net.au

Carnarvon Petroleum Limited (ASX code: CVN; market cap of ~\$80m at \$0.115 per share) recently advised that its joint venture partner in its Thailand production assets – Pan Orient Energy Limited – had announced the sale of its 60% stake in its Concessions for US\$170 million. You’ve stated that this implies a value for Carnarvon’s 40% interest of US\$113 million or \$0.16 per Carnarvon share. How do you assess the value of your Thailand assets relative to your other assets?

Managing Director, Adrian Cook

In terms of Carnarvon’s production asset, there are some useful data points now around the value of the oil reserves in Thailand. The independent consultant, Gaffney, Cline & Associates, assessed the value of these reserves as at 31 December 2011 at \$84 million for the proved reserves and \$222 million for the proved and probable reserves. We now have a market price for the asset at \$113 million on a look through basis.

We also have a suite of exploration assets in Thailand and Western Australia that are being matured to drill. The next value point we’re looking for is the farmout of our interests in two of the Phoenix permits in WA-435-P and WA-437-P. Our objective is to use the farmout to assist in funding the next round of exploration activity near our Phoenix gas discovery. Based on the data and analysis that we have to date, success in this area has the potential to generate significant value for Carnarvon shareholders. We believe the potential not only lies in the two prospects that have been determined to date, but also in the other leads that are currently being developed across the 28,000km² covered in the five permits.

companyinsight.net.au

Does Carnarvon have any rights in relation to potentially purchasing Pan Orient's 60% stake? If so, what's your potential position?

Managing Director, Adrian Cook

As a general rule Carnarvon prefers not to have joint operating agreements containing pre-emptive rights, which is the case with the operating agreements with Pan Orient. So no, we do not have any rights to purchase Pan Orient's 60% stake. That said, we feel this is a good opportunity for a new operator, with greater technical resources, to tackle the production challenges we have experienced over the past 18 months.

companyinsight.net.au

When selling oil assets is it justifiable to make a pro-rata assessment of the value of Carnarvon's 40% interest when Carnarvon's is a minority interest?

Managing Director, Adrian Cook

The answer depends on the objectives of any acquirer. Carnarvon holds a material interest in the oil assets that its partner, Pan Orient, is in the process of selling. The level of interest is such that decisions of the joint venture require the agreement of both partners. This may be particularly appealing to an acquirer interested in a material stake in the asset without the day to day management operations of the oil field or alternatively an owner seeking full control.

That said, Carnarvon's immediate focus is to work with the new operator to increase production levels and explore the full potential of the asset. I'm expecting we'll be in a position to provide more detail on this in the coming weeks.

companyinsight.net.au

The transaction for Pan Orient has a December 31, 2011 effective date. By the expected completion date of June 15, 2012 Carnarvon's oil reserves would have reduced through subsequent production. To what extent would that affect the value of your 40% stake in the JV?

Managing Director, Adrian Cook

This is a common arrangement in a sale process whereby the parties agree a date to determine the value of the asset and then changes from that date, such as production converting to revenues, are dealt with via a working capital adjustment. Also included in the working capital adjustment are things like inventory and oil stocks. Pan Orient reported a value at 31 December 2011 of \$170 million for their 60% interest (Carnarvon holds the other 40%) plus a working capital adjustment of \$8 million. Meaning overall, at the date of completion in June 2012, the asset's value is estimated to be around \$178 million for Pan Orient's share, or \$119 million for Carnarvon on a look through basis.

companyinsight.net.au

What do you understand are the potential impediments to the parties completing the sale?

Managing Director, Adrian Cook

We are not privy to the terms of the Sale and Purchase Agreement, but understand the parties are working through the normal "conditions precedent" for such a transaction. During our discussions with Pan Orient and the purchaser last week they indicated that they were on track to complete the transaction around 15 June 2012 and did not foresee any impediments to completing the transaction.

companyinsight.net.au

The Pan Orient announcement of 24 May doesn't mention the purchaser of its 60% stake. Why not?

Managing Director, Adrian Cook

We understand there was no requirement for Pan Orient or the purchaser to disclose these details and both parties had a preference to reach completion before considering disclosing any further details.

We can say that the purchaser is a sizable integrated Asian energy company with relevant capabilities for this asset. In our meetings with the purchaser last week in Bangkok they discussed their ideas to explore and develop the field. The purchaser has been reviewing the detailed technical data since late last year and as such is quite advanced in terms of new ideas to revitalize production. These ideas are consistent with our own and we look forward to advancing them in the coming weeks.

companyinsight.net.au

Thank you Adrian.

To read past Company Insights please visit companyinsight.net.au

DISCLAIMER: Gryphon Management Australia Pty Ltd trading as Company Insight has taken reasonable care in publishing the information contained in this Company Insight. It is information given in a summary form and does not purport to be complete. This is not advice. The information contained herein should not be used as the basis for making any investment decision. You are solely responsible for any use you choose to make of the information. You should seek independent professional advice before making any investment decisions. To the fullest extent permitted by applicable law, Company Insight is not responsible or liable for any consequences (including, without limitation, consequences caused by negligence) of any use whatsoever you make of the information, including without limitation any loss or damage (including any loss of profits or consequential loss) suffered by you or a third party as a result of the use.