



Carnarvon Petroleum Ltd

Date of Lodgement: 8/8/12

Title: “Company Insight – New operator, new approach”

Highlights of Interview

- Explains factors impacting production in the June 2012 quarter and measures to reintroduce shut in production
- Provides further colour on the new L44/43 and L33/43 operator’s plans for the Thailand oil field
- Confirmation Phoenix farmout discussions are progressing and next stage of work has commenced for further farmouts to occur
- Explains June 2012 quarter cash flows
- Confirms Carnarvon’s focus is to increase production, farmout Phoenix and build prospect portfolio

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Carnarvon Petroleum Ltd (ASX code: CVN, market capitalization of ~\$70 million) produced 57,806 barrels of oil (net to Carnarvon) for the quarter to 30 June 2012 versus 71,767 barrels of oil for the quarter to 31 March 2012 from its Thailand concessions. Can you explain the fall in production?

Managing Director, Adrian Cook

The primary reason for the decrease in production, compared to the previous quarter, was due to a number of wells being shut in by the Agricultural Land Reform Office (ALRO). If we had not shut in these wells we would have expected a production result in line with the previous quarter.

While we didn’t produce this oil in the June 2012 quarter, we do expect some benefit on the reinstatement of production from these wells due to higher flush production rates. We also expect production results in the September 2012 quarter to reflect the initial results of the recently commenced sandstone development program.

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Why did the Agricultural Land Reform Office (ALRO) decide to shut in production? What is the process with ALRO from here?

Managing Director, Adrian Cook

ALRO approve the use of certain lands in Thailand where that use is not for agricultural purposes. The original exploration activities in the area were approved by ALRO, however there was a misunderstanding between the Department of Mineral Fuels in Thailand who granted the exploration and production licences, ALRO and the Joint Venture as to whether further production approvals were required.

We understand all information requested by ALRO has now been provided and a number of meetings have been organized to address the approvals required.

While at the time of shut in the combined production from the affected wells was around 500 bopd gross, Carnarvon anticipates initial renewed flush production potentially significantly in excess of shut in rates.

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What changes do you expect the new operator of your Thailand oil assets (ECO Environmental Investments Limited) to make? Do you expect improvements to the operations?

Managing Director, Adrian Cook

We anticipate the new operator (ECO: 60% equity interest) will make significant changes to the overall development of the fields, particularly with respect to reservoir management. However the full extent of those changes are not likely to be evident until later in the year.

The new operator is currently managing the changeover of duties from Pan Orient. That said we are already seeing a change in focus for this field away from exploration and more towards development. Initially the development focus will be on the WBEXT sandstone drilling program, where the environmental approvals were recently granted. Carnarvon has been working with the operator on the sandstone focused development program that is expected to deliver a steady improvement in production levels through the course of the program.

The new operator is also working hard on preparing an overall field development plan that will focus on a number of opportunities including further drilling into the sandstone reservoirs and the volcanic reservoirs, extensive work overs of existing wells and reviewing new production methods. We also expect there will be a balanced focus on new exploration opportunities in the future.

We're confident we'll see a return of the ALRO shut in wells shortly, at better than shut in production rates, and a steady improvement in production as the sandstone development program takes effect. It's worth noting that the technical resources currently being applied to the asset are greater than we've seen in the past. We're looking forward to seeing the first outputs from the oil development plan in a couple of months and the full report in early 2013.

In the meantime we continue to work with the operator on building production and identifying new exploitation prospects.

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Are you able to make a comment on how the Phoenix farm out negotiations are going for exploration permits WA-435-P and WA-437-P? When do you expect a deal to be finalized?

Managing Director, Adrian Cook

The Phoenix negotiations are continuing as we outlined in the quarterly report. It's difficult to say more than that at this time while the negotiations are ongoing. Other than to reiterate that we continue to work toward completing a deal we can announce by the end of September 2012 that will include timing to drill the first well - a significant milestone in Carnarvon's recent history.

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You completed ~3,854km² of 3D seismic on WA-435-P, WA-436-P and WA-443-P. What will be the next phase of exploration on these permits?

The completion of the Phoenix farm out will result in us drilling a large gas prospect in the WA-435-P permit within the previous Phoenix 3D seismic survey area. This second 3D survey, called Zeester, was designed to help assess the leads in the northern part of these three blocks, particularly the large oil prone areas identified in our previous work. Essentially we have been working through all the previously acquired seismic and well data to fully document all prospects and leads over this very large acreage. The Zeester and Phoenix 3D data sets are important elements in integrating the regional 2D data and well data to delineate further drilling locations.

Fugro have indicated that the Zeester 3D data are expected to be available by late in the fourth quarter of this calendar year. The timing of the availability of these data will enable us to complete the Phoenix farm out and then commence work with our joint venture partner on assessing these new data. The new 3D data is expected to support the previously identified leads and Carnarvon will evaluate later in the year whether to begin the process of farming out WA-436-P and WA-443-P on the basis of the new data, or explore at higher equity levels.

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Cash flows from operations were \$3.8 million during the quarter before \$2.6 million on drilling activities, \$1.2 million on technical work, new venture and corporate costs and \$2.4 million on Thailand government taxes. Are these reasonably standard levels of expenditure?

Managing Director, Adrian Cook

For the activities during the quarter these were reasonably standard levels of expenditure. However, the new operator of the Thailand oil assets has outlined where potential savings can be made on an already world class cost structure.

In line with decreased cash flow from the unexpected shut in of wells due to ALRO, we decided to ease back the drilling activities during the quarter.

Drilling recommenced in the sandstone development program upon being granted the environmental approvals. So normally we'd expect higher operating cash flow but also higher drilling costs in a quarter.

We're currently working to return the shut in production and add new production from the sandstone development and further well work overs. These will drive up our revenues that are currently supported by improved oil prices so far this quarter compared to the June 2012 quarter.

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What are your main operational and corporate objectives for the rest of the year?

Our business objectives for 2012 haven't changed. That is to improve production levels, initially through the sandstone development program, with the aim of increasing cash flows, farm out the two Phoenix blocks and reduce our exposure in our other Thailand exploration blocks while building the prospect portfolio in our Western Australian exploration assets.

Our corporate objective is as always to deliver value to shareholders and there are a number of avenues that Carnarvon is pursuing to enable us to deliver that value.

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Thank you Adrian.

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