



Carnarvon Petroleum Ltd

Date of Lodgement: 23/10/12

Title: “Company Insight – Explains Farmout of WA Permits”

Highlights of Interview

- Explains the farmout of WA permits.
- Outlines what is indicated by pre-drill exploration.
- Why Carnarvon chose Apache & JX Nippon as JV partners.
- Explains the prospects for Phoenix South & its potential volumes.
- Possible development scenarios if Phoenix South & Roc are commercial.
- Outlook for Carnarvon.

Record of interview:

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Carnarvon Petroleum Limited (ASX code: CVN; market cap of ~\$70m) and its JV partner, Finder Exploration, have farmed out 60% of WA-435-P and WA-437-P that incorporates the Phoenix-1 gas discovery (which is in the Roebuck basin situated between the Browse and Carnarvon basins, offshore Western Australia). Can you explain why you have entered into a farmout of these exploration permits?

Managing Director, Adrian Cook

In short, we were looking to introduce a major oil and gas company to the Joint Venture, with substantial financial and operating capabilities, to operate and assist in funding the next stage of exploration. As we outlined recently, the next stage of exploration will include drilling up to two wells near the proven gas at the Phoenix-1 gas discovery. Apache clearly fits that bill as a well respected international Operator with a great deal of experience in the Carnarvon basin.

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Can you explain what your pre-drill work such as seismic surveys has indicated about the WA-435-P and WA-437-P prospects?

Managing Director, Adrian Cook

Mud and wireline logs from the Phoenix-1 well were interpreted by BP as a gas discovery and proving hydrocarbon charge in the region. To move the project forward it was necessary to better understand the outcomes of the second BP well (Phoenix-2) and to see if it was possible to identify better reservoir “sweet spots”. 3D seismic data was the only exploration tool to deliver on both of these questions. The 3D seismic showed Phoenix-2 was drilled out of closure (that is in the wrong spot) and also showed the chance of better developed reservoir, across two very large prospects in the WA-435-P and WA-437-P permits, which are the focus of this current farmout.

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You have farmed out the prospects to Apache Northwest (40% and Operator) and JX Nippon Oil & Gas Exploration (20%). Why did you farmout to Apache and JX Nippon? What was the overall interest from companies in the farmout process?

Managing Director, Adrian Cook

There was a great deal of industry interest in this farmout opportunity largely as a consequence of the size of the acreage, the presence of a gas discovery and the quality of the new data available since the wells were drilled by BP. Apache is a world class explorer and driller, and is therefore the perfect Operator to replace Finder for the near term drilling phase, particularly with their access to contracted drilling rigs. JX Nippon has production in the Carnarvon basin and is an active explorer and as such we felt comfortable with the farminee’s ability to undertake the drilling and any development programs. Also, their receptiveness to working with the current Joint Venture partners in any joint oil or gas sales agreements was another commercial imperative.

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The farmout to Apache and JX Nippon will collectively cover the cost of drilling the Phoenix South prospect (firm) and the Roc Prospect (contingent on result of Phoenix South well). Why did you focus on the Phoenix South prospect within WA-435-P?

Managing Director, Adrian Cook

The Phoenix South and Roc prospects are two large independent structures defined on 3D seismic data and both warrant drilling. The focus initially will be on the Phoenix South prospect because it is closer to the existing Phoenix-1 gas discovery.

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What happens if Roc is not drilled? Are you free carried on drilling a different well? How do you determine the amount (cost) that you are free carried if you drill a different well?

Managing Director, Adrian Cook

If the Roc prospect is not drilled then the farminee’s will not earn their interests in the WA-437-P permit. However there maybe circumstances where the Joint Venture agrees, based on say the results of the Phoenix South well, to drill a different prospect and in doing so re-define the farmin terms to accommodate a different well.

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You've stated that all parties to the new JV will agree the final depth of each well once well planning work commences. Can you outline the possible overall timing of drilling these wells?

Managing Director, Adrian Cook

Now that the farmin agreements have been finalized the Operator will commence work on well planning that will in due course be presented to the Joint Venture partners for approval. Our focus to date has been on concluding the farmin agreements but we expect the Operator will commence the well planning work shortly and then propose a timetable for drilling the first well as it fits within their rig schedule. Drilling slots are hard to come by at the moment, so working with Apache was assessed as a strong option to deliver an early spud date for Phoenix South.

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The Phoenix-1 gas discovery is within WA-435-P and WA-437-P. What approximate volumes are you targeting in the Phoenix South and Roc prospects?

Managing Director, Adrian Cook

Based on the technical work undertaken by the current Joint Venture partners, and independent consultant reviews of this work, we are looking at mean recoverable volumes in the order of one to two trillion cubic feet of recoverable gas in each prospect, with the additional potential for significant associated liquids. These are meaningful volumes and would add considerable value to Carnarvon if we are successful in the upcoming drilling program.

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If you attain those volumes, what development concepts might be considered?

Managing Director, Adrian Cook

The current prospects are located in about 140 meters of water, which is reasonably shallow, and around 150 kilometers from Port Hedland. These two factors, together with the potential volumes involved, mean that there are a number of development options available to the Joint Venture. We have covered some of these possibilities in previous shareholder updates and they range from an onshore gas plant for domestic gas supply; or an LNG development at Port Hedland or processing through existing infrastructure in the area.

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Presumably if you have commercial success it will make it viable to fund your 20% share of development costs in your own right? Would that be your thinking at this stage?

Managing Director, Adrian Cook

We remain open to Carnarvon's participation in any development. At the end of the day we are here to generate value for shareholders, whether that's by participating in a development or selling all or part of our interest in a permit prior to a development. We plan to assess the outcomes of the next stage of exploration before making a decision on this.

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Now that you are free carried on the two wells in WA-435-P and WA-437-P where will Carnarvon focus next?

Managing Director, Adrian Cook

Our next focus in the area is expected to be on the WA-436-P block. The recently acquired “Zeester” 3D seismic data is expected to confirm and better define some potentially significant additional prospects in WA-436-P where a number of leads have already been identified on the original 2D seismic data. Of particular interest are a number of leads in the shallower Jurassic that have the potential to contain oil and we particularly like the large Bandy lead that falls within the Zeester 3D seismic data.

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Can you summarise Carnarvon’s other Company-wide growth priorities, which you can now presumably devote more attention to?

Managing Director, Adrian Cook

Over the last twelve months or so we have concentrated on the two areas we know best, namely Thailand and the North West Shelf. Our priorities for the foreseeable future will be in these regions and on the assets that we currently have in the business. We will particularly be focusing our attention on defining and realizing value from our other three blocks in the North West Shelf (namely WA-436-P, WA-438-P and WA-443-P) and to maximizing stable production at our Thailand production asset before turning our minds to new opportunities.

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Thank you Adrian.

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Thank you Adrian.

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