CARNARVON PETROLEUM LTD

Company Insight
the intelligent market update

Carnarvon Petroleum Ltd Date of Lodgement: 22/2/13

Title: "Company Insight – MD on Production Update & 2013 Outlook"

Highlights of Interview

- **Current & future production in Thailand.**
- **Revenue for Thailand assets.**
- **Discusses Phoenix & Phoenix South.**
- **Relative pricing of Phoenix future production.**
- **Financial position.**
- **Upside for shareholders.**

Record of interview:

companyinsight.net.au
Carnarvon Petroleum Limited (ASX code: CVN; market cap of ~$55m) is currently producing oil from its 40% interest in concessions in the Phetchabun basin, Thailand. What is the status of last year's production initiatives?

Managing Director, Adrian Cook
We're currently waiting for the next update from the Operator as they continue to undertake technical work and pursue Agricultural Land Reform Office (ALRO) approval to recommence additional shut-in production wells. Communication has been limited recently, particularly around Chinese New Year celebrations, but we're not seeing anything that impacts our views on the deliverability of the targets, it is just unfortunate that it is taking longer than expected. We are currently scheduled to meet with the Operator in Thailand at the end of the month to go through these matters.

companyinsight.net.au
I appreciate you have to meet with the Operator shortly to discuss production. However, with all these production objectives on your Thailand concessions, such as progressively recommencing the shut-in production wells, the sandstone oil development and the volcanic oil development, can you summarise your current expectation on the production outlook and broadly where that production will come from?

Managing Director, Adrian Cook
The Operator presented Carnarvon with a target production rate of 3,000 bopd (gross) to exit 2012 during meetings in September 2012. The target was based on a mix of new production from both the sandstone and volcanic reservoirs and the reintroduction of wells shut-in by ALRO. Carnarvon formed the view that the action plan to deliver the above target was achievable and supported the Operator's initiatives in this regard.

The Operator was successful in bringing back online 4 out of the 10 shut-in ALRO wells in December 2012, and we've been advised that the Operator expects the remainder will be online shortly. The development of the sandstone reservoir was successful in achieving the necessary individual well flow rates, which aggregated over 1,200 bopd. However, the reservoir proved more complex than had been modelled prior to drilling, resulting in more technical work being required and a number of revisions being made to the field design and equipment requirements.

The procurement and installation of the water flooding equipment necessary to achieve the targeted 800 bopd flow from this area is simply taking longer than anticipated. The volcanic wells drilled in December 2012 and early 2013 are also taking longer than planned to complete and test because of a number of operational delays.

Carnarvon believes the 3,000 bopd (gross) target remains achievable even though the original time frames were not met, in part because of unexpected field complexities and the time required by the new Operator to complete the technical work.

companyinsight.net.au
At current oil prices, what revenue would that mean for Carnarvon's 40% share?

Managing Director, Adrian Cook
At production rates of around 1,500 bopd (gross), Carnarvon would anticipate its share of monthly revenues to be around A$1.8 million at US$100 per barrel, with associated costs of sales around A$0.6 million. At production levels of around 3,000 bopd (gross), Carnarvon would anticipate its share of monthly revenues to be around $3.7 million with associated costs of sales around A$0.7million. That of course is the equivalent of around $36 million in cash flow per annum. These figures are before tax and drilling costs.

Currently site activities involve well workovers, completions and testing, and with a break in drilling activities this is projected to result in an increase in cash reserves to around $20 million by the end of March 2013.

Our plans for drilling will be reviewed later this month when we meet the Operator to consider the technical work completed to date and the forward plans for the field, including the completion of the sandstone reservoirs drilled in 2012 that currently await water injection pumps and associated equipment to be installed.

companyinsight.net.au
Can you remind investors on the status of and recent activities on the Phoenix blocks, WA-435-P and WA-437-P (CVN 20%), offshore North West Shelf? What are the attractions of these assets?

Managing Director, Adrian Cook
In October 2012 we completed a farm out of a portion of our interests in these two exploration permits to Apache and JX Nippon. The farm out involved Apache and JX Nippon funding the drilling of one firm well, being the Phoenix South well in the WA-435-P permit and one contingent well, being the Roc well in the WA-437-P permit. It also involved a payment to Carnarvon to cover past costs and those funds have now been received.

The key attraction of these assets is that the prospects to be drilled are potentially very large, they are very close to discovered gas and they are covered by modern 3D seismic data and new technical work. Their attraction is also the optionality to develop them as an LNG facility or domestic gas facility.

companyinsight.net.au
In particular, what is the status of the Phoenix South well?

Managing Director, Adrian Cook
Apache is the Operator of both of the exploration permits and they are working toward drilling the Phoenix South well by the end of 2013. At this stage Apache intend to use the Atwood Eagle drilling rig for this well and they're currently completing the necessary technical work to refine the well locations and preparing the drilling approval applications.

companyinsight.net.au
What do you make of recent press regarding the impact of the U.S. exporting gas on current LNG prices and particularly for any Phoenix development?

Managing Director, Adrian Cook
The Phoenix opportunity is somewhat unique in that it potentially contains very large volumes of gas and condensate in reasonably shallow water and reasonably close to onshore infrastructure. It has the potential to be a domestic gas or an LNG development as I indicated earlier. But importantly the water depth and proximity to shore of the prospects could result in significantly lower development costs compared with a number of alternative projects.

There have been a number of articles in the media recently about the potential for US shale gas to be exported to Asia. There looks to be a consensus view that for the US to export shale gas to Asia they would require selling prices of around $14 or $15 per mmscf.

Clearly there are a number of variables in any development but at this stage we believe a Phoenix development would compete strongly against LNG pricing at this level.

companyinsight.net.au
What progress has been made on the L52/50 and L53/50 concessions in Thailand?

Managing Director, Adrian Cook
We were able to acquire the balance of this asset from the Operator following a strategic review that resulted in them changing their focus away from onshore Thailand acreage to pursue significantly larger offshore prospects. We now hold 100% of these two blocks and since taking over operatorship we've completed significant new work. We now have firm plans to drill two low cost wells late in 2013 or early 2014 into prospects that are analogous to an offshore field that flowed 10,000 bopd.

We are in discussions with a number of parties regarding them joining us in these concessions and in parallel we are progressing activities and approvals that will enable us to drill within this timeframe.

companyinsight.net.au
What is the current financial position of the company?

Managing Director, Adrian Cook
We have advised the market that we expect to have around $20 million in cash reserves by the end of March 2013 and we are on track and confident of delivering this outcome, particularly following the receipt of funds relating to cost recoveries from the Phoenix farm out and the build-up of operating cash as the drilling rig takes a break in Thailand. Carnarvon has no debt, minimal commitments and an operating cash flow that we believe makes the Company reasonably robust financially.

companyinsight.net.au
In October 2012 you completed what you described as a well supported capital raising to underpin the Company's exploration and development plans. Despite the capital raising being well supported, the share price has fallen from between 8 to 9 cents in October to the current 6 cents. Why do you think that is the case? What market feedback have you received?

Managing Director, Adrian Cook
The key issue is that the targeted production rate of 3,000 bopd (gross) by the end of December 2012 was not achieved on time. The delivery of the other key goal in 2012, namely the Phoenix farm out, has not been recognized in the share price at this stage due to the drilling program not commencing until late in 2013.

In November and December 2012 a number of institutional investors also sold significant volumes of shares into the market, in what was a soft market generally, causing a significant drop in the share price. Our current focus is to highlight these factors to shareholders, work with the Operator on increasing production to the target level in Thailand, and creating additional value opportunities for shareholders.

companyinsight.net.au
You indicate that you are on track to have a cash balance of $20 million by end March 2013, you have your Australian farm out completed and Thailand exploration and production assets and you have no debt and no significant commitments. Can you reconcile your current market capitalization of approximately $55 million with the possible value of your portfolio of assets?

Managing Director, Adrian Cook
I think your question pretty effectively highlights the main opportunities within Carnarvon relative to the current market capitalization.

companyinsight.net.au
Can you summarise then the general outlook for investors for Carnarvon in 2013?

Managing Director, Adrian Cook
I believe Carnarvon is in very good shape with the core work completed in the sandstone development to commence this new production in Thailand for minimal additional cost.

We have a number of new exploration and development initiatives in progress in the L44/43 and L33/43 concessions in Thailand to also add to production, including recently completing a new 100km^2 3D seismic survey in the L33/43 concession covering an area of proven high oil flow rates.

Also in Thailand we like the L52/50 and L53/50 concessions and will be working simultaneously toward drilling two exploration wells and introducing a new partner to the opportunity.

We are particularly interested in commencing the Phoenix South well in 2013 given its potential and working on the other blocks we hold with a view to farming them out to advance further exploration initiatives. In the area around Phoenix there will also be new activity from Woodside and Shell with their plans to commence a multi well drilling program in 2013 that will add to the interest of the industry and investors in this region.

Overall we feel the Company is well positioned, well funded and very focused on delivering value for shareholders this year.

companyinsight.net.au
Thank you Adrian.

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