

# CEO Newsletter

25 August 2016



Dear Shareholders,

As you may have noticed we've been busy in the first half of 2016 securing a number of new projects and preparing for the drilling of the Outtrim East-1 and Roc-2 wells.

A bit over a month ago we announced that Outtrim East-1 well discovered oil and successfully recovered some 90 metres of core. With tightening levels of human resources in the industry, getting the core into the laboratory, cut and logged has taken until now. This week was the first opportunity we've had to observe the core which was helpful for our technical team in terms of considering the geological composition of the area. What we will be looking for from the laboratory is their assessment of the amount of net producible sands and the quality of the sands, before we're able to make estimates of the recoverable volumes. We don't have a firm due date on when we'll receive the laboratory reports but will update you as soon as they're received and assessed by the Quadrant Energy and Carnarvon teams.

As you may well have seen from our ASX announcements we are progressing steadily through the drilling of the Roc-2 appraisal well. We expect to have the first valuable information from the well in only a couple of weeks' time. Of the 100 day drilling plan, around half the time will be taken drilling to the target and the remainder will be acquiring core, logging and flow testing. At the top of the reservoir, which is around 4,250 metres below the sea bed, we'll be looking to confirm the presence of gas and condensate on logs (acquired while drilling) before we proceed with the remaining drilling, coring, testing and logging.

I've been asked about the meaning of the hydrocarbon shows in the shallower section, as covered in our announcement on 16 August 2016. This is the first time we've seen evidence of hydrocarbons in this shallow depth. For the Roc-2 well it is unlikely to have any real relationship with the deeper objective. What it does mean, and this is a positive, is we now need to ask ourselves where should we be looking in the basin for shallower oil accumulations? Where might there be new prospects that warrant further investigation?

I've recently completed a series of meetings in Sydney, Melbourne and Singapore with potential investors and current shareholders to ensure they understand our projects and are aware of the timing of events that may affect their investments. In general, I felt there is still a level of cautiousness around where oil prices are trending but that there is a heightened sense that the industry is poised for a recovery.

On 4 July 2016, we announced that we had contracted MGPaleo to build and populate some of the missing elements of our North West Shelf geological database. The data is important because it helps improve the accuracy of our seismic data, which in turn increases our understanding of the geology around new oil and gas targets. Currently we are well into loading the data into our system and the team from MGPaleo and Carnarvon are working hard to make this all happen as quickly as possible.

MGPaleo are a specialist geoscience group, mostly PhD geologists based in Perth, who analyse rock chips and cores that are produced during drilling. What they do is give exploration geoscientists information on how reservoirs connect, are distributed geographically, the environment in which the rocks were deposited and their age in millions of years. MGPaleo is the market leader in South East Asia for these services.

In my view this is another illustration of the innovative technical work that is quietly going on behind the scenes at Carnarvon to help us target better quality projects and attract high quality partners.

In terms of our new Buffalo project, the cutting edge seismic reprocessing work is now well in train. This is a big task and is expected to take around 40 weeks to complete, before we can then commence our interpretation work. Overall we're expecting it will take around a years' work before we can ascertain whether we have a viable new project. In the success case we expect to have significant clarity and a more accurate data set over this permit. This will enable us to more accurately target the remaining oil resources and identify new oil opportunities, within the historically prolific Plover Formation, the formation the Buffalo oil field produced from. We are also looking for it to provide significantly greater clarity over deeper targets that are also of interest to Carnarvon.

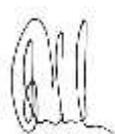
The other new project secured this year (WA-521-P) is in its infancy technically at the moment. At this stage we can see some sizable structures on the seismic data but a lot more work is needed before we can advance this project and attract a partner to test the prospects by drilling a well or wells.

You may have also noticed that we continue to hold a steady course on our strategy even with oil prices fluctuating rather wildly since the start of the year. While I believe we're unlikely to see further strengthening in the oil price in the second half of the year, we are starting to see supply falling in the US and the level of global over supply reducing. We are watching this trend carefully as it could impact us securing the assets we like at attractive prices.

Even as industry circumstances change and evolve, our ongoing focus remains on generating value for shareholders through clever thinking and targeted exploration that is coupled with good partners capable of helping us drill exciting wells.

Very soon we'll see our next major value proposition tested with the Roc-2 well reaching the target depths. Your team at Carnarvon have great expectations that we'll find the gas and condensate that we are looking for and it will deliver commercially as we all hope.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Adrian Cook'.

**Adrian Cook**  
Managing Director  
Carnarvon Petroleum