

BUY

Current Price **\$0.11**
Valuation **\$0.19**

Ticker:	CVN
Sector:	Energy
Shares on Issue (m):	989.8
Market Cap (\$m):	108.9
Cash (\$m)*:	100.7
Debt (\$m):	0.0
Enterprise Value (\$m):	8.2
* Argonaut estimate	

52 wk High/Low:	\$0.29	\$0.08
12m Av Daily Vol (m):		6.42

Key Metrics

	15E	16E	17E
P/E (x)	7.2	-47.5	-77.8
EV/EBIT (x)	0.9	-1.4	-1.8

Financials:

	15E	16E	17E
Revenue (\$m)	7.5	1.6	3.3
EBIT (\$m)	9.4	-6.0	-4.6
NPAT (\$m)	25.1	-2.3	-1.4

Net Assets (\$m)	136.5	133.8	132.8
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Op CF (\$m)	3.7	5.3	6.5
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Per Share Data:

EPS (cps)	2.5	-0.2	-0.1
CFPS (cps)	0.4	0.5	0.7

In A\$ unless otherwise stated

Substantial Shareholders

	Shares (m)	%
Edward Patrick Jacobson	34.2	3.5
Peter James Leonhardt	17.8	1.8



Friday, 19 June 2015

Carnarvon Petroleum Limited

Whole new geographic play opened by Phoenix

Analyst | Philipp M-O Kin

Quick Read

Carnarvon Petroleum Limited (CVN) is focused solely on the West Coast of Australia including the Carnarvon and Roebuck Basins. The recent Phoenix South-1 oil discovery, from the never before targeted Early Triassic oil play in the offshore Roebuck, has opened up a new stratigraphic concept in the area with CVN holding a significant share of acreage.

CVN is in a strong position with A\$101m cash, up to US\$32m of royalty payments and gross US\$70m carry on the upcoming Roc-1 well (spud date Q4 2015) which will test the structure up dip from the Phoenix South-1 oil discovery. In addition, the extensive acreage position in the Phoenix area has numerous follow up prospects with further lead generation expected from the recently acquired seismic data. We initiate with a BUY and Valuation of \$0.19/ps.

Event & Impact | Positive

Trading at a discount to cash backing and royalty payments with no value given to assets and volumes. CVN has cash of A\$100.7m and up to US\$32m of future royalty cashflow from its recently divested Thailand asset. Currently, no value is being ascribed for the Phoenix South-1 oil discovery, the Phoenix South 3D area and the US\$70m gross cost cap Roc-1 well which is scheduled to begin drilling in Q4 2015. Given the sharp decline in rig utilisation over the last 12 months we view the US\$70m cost cap will sufficiently cover any potential cost over runs (and CVN having to contribute to the well cost).

Volume upside exists on current numbers. The recent independent resource assessment of the Phoenix & Phoenix South discoveries came to best estimate gross contingent resource (2C) of 31 mmbbl (6.3 mmbbl net to CVN). The other identified prospects within the Phoenix 3D area, including Roc, come to unrisked 73 mmbbl, risked of 25 mmbbl (net 5 mmbbl to CVN). Whilst the largest current target is the Roc prospect, the newly identified Bandy lead in the Zeester 3D area may be larger and more prospective than Roc.

Roc success could spur more exploration: Success in the Roc-1 well to spud in Q4 CY15 is likely to result in an active drilling campaign in 2016 within the Phoenix 3D area that contains the oil discoveries. In addition, success at Roc-1 will also likely result in the JV considering drilling programs outside the Phoenix 3D area which only comprises 5% of the acreage held by the JV.

Recommendation

CVN is unique in the Oil & Gas space as it offers A\$101m cash, US\$32m royalty income, 20-30% of the ~22,000km² acreage position around the ground-breaking Phoenix South discovery and 100% of the Cerberus blocks in the Carnarvon Basin with significant upside potential. CVN is seeking to replicate the Phoenix success with a new partner in the Cerberus blocks which CVN views as similar to the Phoenix South Early Triassic discovery. Should Roc discover estimated 42 mmbbl this would add \$0.07 to the share price (net basis). We initiate with a BUY recommendation and A\$0.19/ps Valuation.

Carnarvon Petroleum Limited CVN.AU

 Equities Research
 Analyst: Philipp M-O Kin

Recommendation BUY
Current Price \$0.11
Target Price \$0.19

Sector Energy
Issued Capital (m) 990
Options on issue (m) 0.0
Market Cap (m) \$108.9
Updated 18-June-2015
***note: financial forecasts are unrisks**

Profit & Loss 31 December (\$m)	2015A*	2015E	2016E	2017E
Revenue from ordinary activities	7.5	1.6	3.3	3.4
Cost of sales	(2.8)	0.0	0.0	0.0
Gross Profit	4.6	1.6	3.3	3.4
Corporate and administrative expenditure	(2.0)	(2.1)	(2.2)	(2.3)
Employee benefits expense	(1.4)	(1.4)	(1.5)	(1.6)
Directors' fees	(0.3)	(0.3)	(0.3)	(0.3)
Unrealised foreign exchange gain (loss)	12.0	0.0	0.0	0.0
Travel related costs	(0.4)	(0.5)	(0.5)	(0.5)
Share based payments	(0.2)	(0.2)	(0.2)	(0.2)
New venture and advisory expenditure	(2.2)	(2.3)	(2.4)	(2.5)
Exploration expenditure written off	(0.7)	(0.8)	(0.9)	(1.0)
Results from operating activities	9.4	(6.0)	(4.6)	(4.9)
Financial income	2.8	3.7	3.2	2.7
Gain on farm out	2.0	0.0	0.0	0.0
Gain (loss) on sale	(18.0)	0.0	0.0	0.0
Financial costs	(0.2)	0.0	0.0	0.0
Deferred consideration asset revaluation	(2.3)	0.0	0.0	0.0
Net Finance (Costs) / Income	(15.8)	3.7	3.2	2.7
Profit before tax	(6.3)	(2.3)	(1.4)	(2.2)
Deferred income tax	(1.8)	0.0	0.0	0.0
Income tax expense	23.2	0.0	0.0	0.0
Total Tax Expense	21.4	0.0	0.0	0.0
Profit for the period	15.1	(2.3)	(1.4)	(2.2)
Exchange differences arising in translation	8.2	0.0	0.0	0.0
Total comprehensive income/ loss	8.2	0.0	0.0	0.0
Total comprehensive profit (loss) members	25.1	(2.3)	(1.4)	(2.2)

Cash Flow (\$m)	2015A*	2015E	2016E	2017E
Receipts from customers and GST recovered	8.1	1.6	3.3	3.4
Payments to suppliers and employees	(3.1)	0.0	0.0	0.0
Income and special remuneratory benefit taxes paid	(2.8)	0.0	0.0	0.0
Interest received	1.6	3.7	3.2	2.7
Net cash provided by operating activities	3.7	5.3	6.5	6.1
Exploration, evaluation & development	(18.4)	(16.0)	(17.3)	(18.7)
Exploration permit commitment payments	(1.3)	0.0	0.0	0.0
Acquisition of property, plant and equipment	(1.0)	(2.0)	(2.1)	(2.2)
Cash held as security	(0.6)	0.0	0.0	0.0
Net cash used in investing activities	(21.4)	(18.0)	(19.4)	(20.9)
Outflows from sale of Thai assets	63.0	0.0	0.0	0.0
Proceeds from farm out activities	2.0	0.0	0.0	0.0
Proceeds from exercised options	0.0	0.0	0.0	0.0
Proceeds from issue of shares	0.0	0.0	0.0	0.0
Repayment of borrowings	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Cost of issue of shares	0.0	0.0	0.0	0.0
Net cash provided by financing activities	65.0	0.0	0.0	0.0
Net Increase/decrease in cash held	47.4	(12.7)	(12.8)	(14.8)
Cash at the beginning of the period	49.6	97.4	84.7	71.9
Effect of exchange rate fluctuations	0.5	0.0	0.0	0.0
Cash at the end of the period	97.4	84.7	71.9	57.1

Balance Sheet (\$m)	2015A*	2015E	2016E	2017E
Total Current Assets	106	93	81	67
Total Non-Current Assets	31	54	72	90
Total Current Liabilities	1	1	1	1
Total Non-Current Liabilities	0	12	19	26
Total Equity	137	134	133	131

Production Summary	2015A*	2015E	2016E	2017E
Average Gas Price (A\$/mcf)	6.3	6.3	6.3	6.3
Average LPG Price (A\$/T)	987	987	987	987
Average Condensate Price (US\$/bbl)	67	52	58	61
Average Oil Price (US\$/bbl)	75	58	64	68
WACC %	10	10	10	10
USD/AUD Exchange Rate	0.79	0.79	0.79	0.79

*For 6 Months ended 31 December 2014

Financial Ratios	2015A*	2015E	2016E	2017E
Reported Earnings				
Net Profit (\$m)	15.1	(2.3)	(1.4)	(2.2)
EPS (cents)	1.5	(0.2)	(0.1)	(0.2)
EPS Growth (%)	-	-	-	-
PER (x)	7.2	(47.5)	(77.8)	(50.0)
Normalised Earnings				
Net Profit (\$m)	25.1	(2.3)	(1.4)	(2.2)
EPS (cents)	2.5	(0.2)	(0.1)	(0.2)
EPS Growth (%)	N/A	N/A	N/A	56%
PER (x)	4.3	(47.5)	(77.8)	(50.0)
Cashflow				
Operating Cashflow (\$m)	3.7	5.3	6.5	6.1
CFPS (cents)	0.4	0.5	0.7	0.6
PCF (x)	29.2	20.6	16.7	17.9

Financial Ratios	2015A*	2015E	2016E	2017E
Balance Sheet Ratios				
Total Debt / Equity (%)	N/A	N/A	N/A	N/A
Profitability Ratios				
Net Profit Margin (%)	336%	-147%	-43%	-64%
Return on Assets (%)	18.2%	-1.6%	-0.9%	-1.4%
Return on Equity (%)	18.4%	-1.7%	-1.1%	-1.7%

CVN Acreage Position	Permit	Basin	Equity	JV Partners (s)	Partner interest
WA-435-P	Roebuck	20%(**)	Quadrant(*), JX Nippon, FINDER		40%/20%/20%
WA-436-P	Roebuck	30%(**)	Quadrant(*), FINDER		40%/30%
WA-437-P	Roebuck	20%(**)	Quadrant(*), JX Nippon, FINDER		40%/20%/20%
WA-438-P	Roebuck	30%(**)	Quadrant(*), FINDER		40%/30%
TP-27/EP-490	Barrow	100%			
EP-491	Barrow	100%			
EP-321	Perth	2.5% of 38.25% (***)			
EP 407	Perth	2.5% of 42.5% (***)			

Note: (*) Denotes operator where Carnarvon is non-operator partner

(**) Post farmout equity

(***) Carnarvon has an overriding royalty interest in these assets

Risked & Unrisked case Valuation	mmbbl	Unrisked	Risked	Risked	
	Best Est	AUD NPV	AUD NPV	AUD NPV	\$ PS
Development assets					
Thai Royalty		21	100%	21	0.02
Total		21		21	0.02
Exploration assets					
Phoenix & Phoenix South	31	50	100%	50	0.05
Phoenix 3D area (Minus Roc)	31	50	10%	5	0.01
Roc Well	42	67	20%	13	0.01
Exploration Upside	40	64	10%	6	0.01
Total		230		74	0.08
Cash		101	-	101	0.10
Corporate & Overhead		(10)	-	(10)	(0.01)
Debt		-	-	-	-
Total Valuation		343		186.9	0.19

Substantial Shareholders	Shares (m)	%
Edward Patrick Jacobson	34.19	3.45%
Peter James Leonhardt	17.75	1.79%

Directors/Management	
Peter J Leonhardt	Chairman
Adrian Cook	Managing Director
Ted Jacobson	Non-Executive Director
William (Bill) Foster	Non-Executive Director
Dr Peter Moore	Non-Executive Director
Philip Huizenga	Chief Operating Officer

CVN Valuation

The table below shows our risked sum-of-parts valuation of CVN. This underpins our risked valuation of A\$0.19/ps.

The valuation consists of:

Riskd Valuation of A\$0.19 /ps

1. NPV of the Thai royalty payments
2. NAV of Phoenix & Phoenix South
3. NAV of Phoenix 3D area
4. NAV of the Roc-1 well potential
5. NAV of further exploration upside
6. Net cash position, corporate & overhead costs

Table 1: CVN development assumptions & evaluation summary

Operations		2015	2016	2017	2018
Oil Production	mmbbl	0.10	0.04	0.04	0.04
Total Production	mmboe	0.10	0.04	0.04	0.04
Opex & Capex					
Total Opex	A\$m	0.00	0.00	0.00	0.00
Total Capex	A\$m	(1.50)	(2.00)	(2.00)	(2.00)
Total Expex	A\$m	(13.20)	(16.00)	(16.00)	(16.00)
VALUATION					
Development assets		Unrisked	POS	Riskd NPV	NPV/ps
Thai Royalty	A\$m	21	100%	21	0.02
Total	A\$m	21		21	0.02
Exploration assets					
Phoenix & Phoenix South	A\$m	50	100%	50	0.05
Phoenix 3D area (Minus Roc)	A\$m	50	10%	5	0.01
Roc Well	A\$m	67	20%	13	0.01
Exploration Upside	A\$m	64	10%	6	0.01
Total	A\$m	230		74	0.08
Cash*	A\$m	101		101	0.10
Corporate & Overhead	A\$m	(10)		(10)	(0.01)
Debt	A\$m	0		0	0.00
TOTAL A\$m	A\$m				0.09
TOTAL /ps	AUD / ps			186.9	0.19

Source: Argonaut

*Argonaut Estimates

Sum of Parts: A\$187m

Due to the exploration nature of CVN, albeit with recently assigned volumes from the Phoenix discovery, the market is factoring in a steep discount due to overall sector uncertainty arising from oil price fluctuations, first entrant risk, relatively long lead time to monetisation, location remoteness and a lack of infrastructure.

There is no doubt the size of the prize that CVN has potentially uncovered is very large, however further analysis of the new early Triassic play is critical. Whilst CVN holds significant acreage with the 100% owned Cerberus blocks and between a 20%-30%

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...however...

...the new play oil assay reports high quality light crude oil which requires far less volume to support a commercial discovery

We have ascribed the additional Phoenix areas with varying possibilities of success (POS) ranging from 10-20%...

...with DGM assigning a POS of 42% for the Roc Bewdy and Bottler prospects

In our view, the share price is most leveraged to successful exploration of the Phoenix 3D area and Roc-1 drill success

interest in the Roebuck Basin blocks, we believe there is insufficient understanding of the new play to consider it de-risked. Positively, unlike gas which requires any discovery to be “world class” in order to support a commercial development, the new play oil assay reports high quality light crude oil which requires far less volume to support a commercial discovery.

We view significant potential in CVN’s acreage with the Phoenix South discovery surprising the Company and the market. Argonaut’s base case gives a risked valuation of A\$187m or A\$0.19/ps. Given the underexplored nature of the play, CVN is engaging in an aggressive geological / exploration program, which we view as having a high probability of finding further oil accumulations and believe the risk is weighted towards the upside.

At this stage we are optimistic there is a significant amount of hydrocarbons in the new play of the Roebuck Basin, however due to the immature nature (only eight wells drilled in the Roebuck with none targeting the Triassic play) it may take time before understanding of the new play is sufficient to justify a full exploration/appraisal program.

We have ascribed the additional Phoenix areas with varying possibilities of success (POS) ranging from 10-20%. This is based on the success of the Phoenix South discovery and extensive follow up lead potential. Whilst these results are ‘game changing’ in nature, we attribute significant risk to exploration drilling due to the underexplored nature of the play.

It is important to note that a POS factor of 10-20% is typical for exploration plays, however due to the Phoenix South discovery and the new 3D seismic, DeGolyer and MacNaughton (DGM) have assigned a geological POS of 42% for the Roc, Bewdy and Bottler prospects. For conservatism we maintain our 10-20% POS factors however we take note of the potential upside.

Sensitivity Analysis on Valuation

In our view, the share price is most leveraged to successful exploration of the Phoenix 3D area and Roc-1 drill success. Whilst the Thai royalty is not the largest part of our CVN valuation (A\$21m) it will underpin overheads and fund some exploration/assessment costs. The key driver in realising shareholder value will be “cracking the code” of the Triassic sandstone.

CVN have a strong partner with Quadrant Energy (previously Apache). The asset sale of Apache’s Australian Subsidiary to the consortium of Macquarie Capital and Brookfield Asset management did not affect the exploration program with Quadrant recently re-affirming that that Roc-1 well and further exploration in the area remain its #1 focus.

On our current NAV we ascribe A\$7/bbl and POS of 10%-20% to exploration upside outside of Phoenix South. This translates to an NPV of A\$24m (\$0.03 /sh). Increasing the POS, on the back of exploration success and potential farm out news, has a significant impact on value.

Share Price Catalysts

CVN is fully funded for its 2015 work program with A\$101m cash, continuing royalty stream and up to a US\$70m gross carry on the upcoming Roc-1 well, scheduled to spud in Q4 CY 2015

Success in the Roc-1 well is likely to result in an active drilling campaign in 2016

Thai Royalty payments by Loyz to CVN occur in November of every year until either US\$32m or 20 payments have been made

CVN is fully funded for its 2015 work program with A\$101m cash, continuing royalty stream from its recently sold Thai assets and up to a US\$70m gross carry on the upcoming Roc-1 well. The 2016 work program is undetermined and highly dependent on the success of the current 3D programs and Roc-1 well.

- Roc-1 Drilling
 - The Roc-1 well is targeting a look-alike structure to Phoenix South-1 with the well scheduled to commence in Q4 CY2015
 - Roc-1 target depth is 500m shallower than the Phoenix South-1 well and thus is expected to have better reservoir properties
 - Success in the Roc-1 well is likely to result in an active drilling campaign in 2016 within the Phoenix 3D area. In addition, the JV is considering drilling programs outside the Phoenix 3D area
- Volume upside from Seismic program
 - New prospect identification in the greater Phoenix area commenced with new seismic acquisition program completion in Q3 CY 2015
 - JV is currently pre-investing in new seismic data to provide a broader range of options for drilling in 2017 and beyond
 - The new 3D seismic data is necessary to quantify a number of opportunities that exist in the area where the data is being acquired
- Further exploration prospects
 - High prospectivity of surrounding areas near the Phoenix discovery with a number of lookalike prospects in shallow water depths
- Payment of Thai Royalty
 - Recent sale of the Thai assets was structured to give CVN a 12% Overriding royalty (ORR) over Loyz Share (20%). This gross ORR is solely reliant on oil price. Payments by Loyz to CVN occur in November of every year until either US\$32m or 20 payments have been made

Table 2: CVN Acreage Position

Permit	Basin	Equity	JV Partners (s)	Partner interest	Indicative program
WA-435-P	Roebuck	20%(**)	Quadrant(*), JX Nippon, Finder	40%/20%/20%	Analysing results of Phoenix South -1
WA-436-P	Roebuck	30%(**)	Quadrant (*), Finder	40%/30%	Seismic & Aeromag Acquisition, Exploration
WA-437-P	Roebuck	20%(**)	Quadrant(*), JX Nippon, Finder	40%/20%/20%	Exploration drilling
WA-438-P	Roebuck	30%(**)	Quadrant (*), Finder	40%/30%	Seismic & Aeromag Acquisition, Exploration
TP-27 / EP-490	Barrow sub-basin	100%	N/A		Seismic Interpretation Exploration
EP-491	Barrow sub-basin	100%	N/A		Seismic Interpretation Exploration
EP-321	Perth	2.5% of 38.25% (***)	N/A		Appraisal
EP 407	Perth	2.5% of 42.5% (***)	N/A		Appraisal

Source: Carnarvon Petroleum

(*) Denotes operator where Carnarvon is non-operator partner

(**) Post farm out equity

(***) Carnarvon has an overriding royalty interest in these assets

The Greater Phoenix Project Area

The Greater Phoenix area consists of four exploration acreage permits in offshore Western Australia

The Greater Phoenix area consists of four exploration acreage permits in offshore Western Australia (WA-435-P, WA-436-P, WA-437-P and WA-438-P) covering approximately 22,000km². These permits are situated in the north-western region of the Bedout Sub-basin within the greater Roebuck Basin.

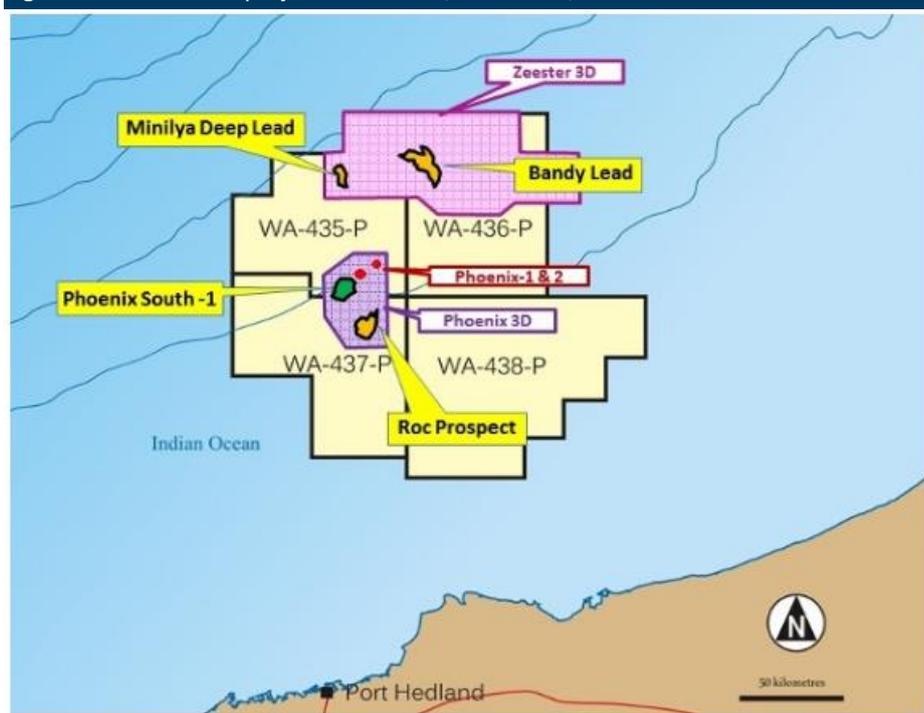
On 18 August 2014 CVN announced the discovery of light oil with associated gas in Phoenix South-1 which was the first well drilled in the Bedout Sub Basin for almost 30 years and only the eighth in the basin overall

The well identified ~66m of net pay across four distinct oil columns with further upside potential

Six samples of high quality 46 to 48 degree API oil were recovered.

What was unique about this discovery was that it tested a never before targeted interval and opened up the prospectivity of an entirely new hydrocarbon province in Australia

Figure 1: The Phoenix project: WA-435-P, WA-436-P, WA-437-P & WA-438-P



Source: Carnarvon Petroleum

Phoenix South-1 Discovery

On 18 August 2014 CVN announced the discovery of light oil with associated gas in the Phoenix South-1 well. The well was the first drilled in the Bedout Sub Basin for almost 30 years and only the eighth in the basin overall. The well was drilled to a total depth (TD) of ~4,595m and discovered an overall sand rich package between 4,160m and TD.

The well identified ~66m of net pay across four distinct oil columns with further upside potential in the deeper reservoir sections which remain largely untested (the well was still in hydrocarbons at TD). Six samples of high quality 46 to 48 degree API oil were recovered. What was unique about this discovery was that it tested a never before targeted interval.

This well opened up the prospectivity of an entirely new hydrocarbon province in Australia and demonstrated a new play concept in the North West Shelf (NWS). Importantly, this was the first time an oil discovery in the NWS was made in the Lower Keraudren reservoir interval which sits in Early Triassic aged sediments.

Interestingly, Quadrant and CVN were both looking for gas

With the discovery of oil the Phoenix South-1 well became a rare instance of technical failure but commercial success

Quadrant surprised the market by guiding an oil-in-place estimate of up to ~300 mmbbl calculated on the aerial extent of the discovery (46km²)

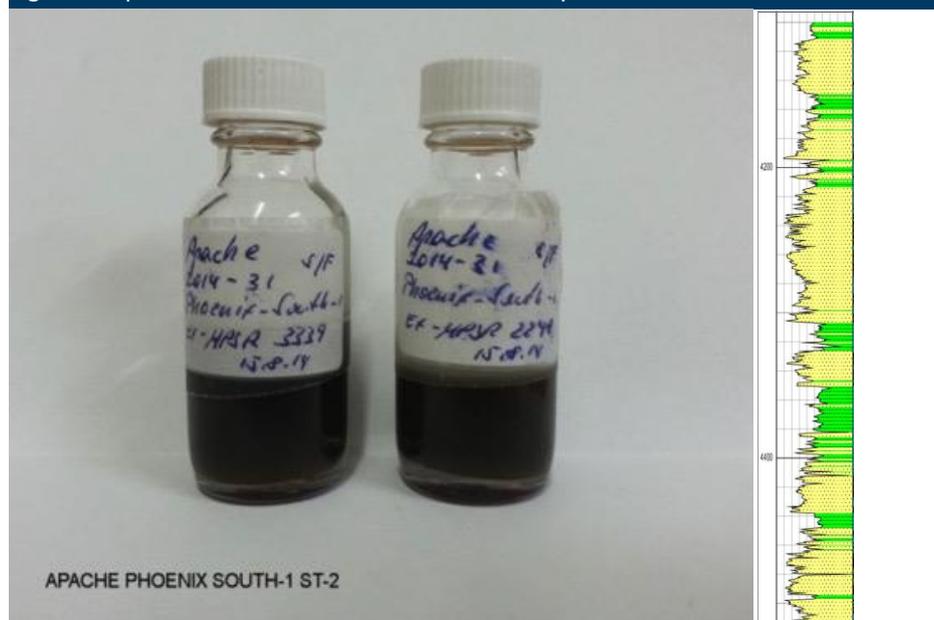
CVN engaged DeGolyer and MacNaughton (DGM) to provide an independent assessment of prospectivity and volumes in the area

DGM assessed recoverable oil at Phoenix South & Phoenix-1 at a total contingent resource of 31 mmbbl best case, aggregated 2C resource estimate

We anticipate that further work will result in volume upside to the published DGM estimates

Interestingly, Quadrant and CVN both had identified the Phoenix deposit as gas. With the discovery of oil the Phoenix South-1 well became a rare instance of technical failure but commercial success. It provided CVN and Quadrant with a significant amount of data to update exploration models, volume estimates and assumptions in the basin.

Figure 2: Apache Phoenix South-1 ST-2 oil discovery



Source: Carnarvon Petroleum

Quadrant surprised the market by guiding an oil-in-place estimate of up to ~300 mmbbl calculated on the aerial extent of the discovery (46km²). Whilst the 300 mmbbl estimate from Quadrant was welcomed by the JV, it was not particularly well defined and as a result CVN engaged DGM to provide an independent assessment of prospectivity and volumes in the area.

DGM assessed the best estimate of recoverable oil at Phoenix South to be 19mmbbl. In addition to Phoenix South volumes, Phoenix-1, which was drilled in 1980 by BP, was also assessed as an oil discovery containing a best estimate of recoverable oil of 9 mmbbl. These two proven oil discoveries provide a total contingent resource of 31 mmbbl best case, aggregated 2C resource estimate.

It is important to note the CVN commissioned DGM report was conducted separately to the ongoing work that Apache, as operator, continues to do on the Phoenix South-1 and previous drill data. The work Apache is conducting is significant and incorporates technical analysis, special core analysis and further volume estimates. We anticipate that this further work will result in volume upside to the published DGM estimates.

Figure 3: Phoenix: Oil Discovery in the First Well Drilling rig



Source: Carnarvon Petroleum

Following the successful Phoenix South-1 well Quadrant moved forward to drill the Roc-1 prospect in Q4 CY2015 which is situated up-dip from Phoenix South-1 and displays similar geology but improved reservoir characteristics

The Roc prospect is interpreted to contain a net best case estimate of 42 mmbbl with a high case of 133 mmbbl

DGM has assessed the Roc-1 well to have a technical chance of success of 42%, which is very high

The drilling cost of Roc-1 is carried by Quadrant and JX Nippon up to a US\$70m cap on a gross basis.

The table below highlights the Contingent Resource estimate given to the Phoenix and Phoenix South discoveries. As shown the total oil recoverable ranges from between 13 and 78 mmbbl, with a best estimate of 31 mmbbl.

Table 3: Resources – Phoenix 3D Area

Field	Reservoir Interval	Contingent Resources (mmbbl)		
		1C	2C	3C
Phoenix South	Lower Keraudren	6	19	56
Phoenix	Lower Keraudren	3	9	28
Total Contingent*		13	31	78

Source: Carnarvon Petroleum

*Statistical aggregate of contingent resources

Roc-1, the follow up to Phoenix South-1,

Following the successful Phoenix South-1 well Quadrant elected to drill the Roc-1 prospect in Q4 CY2015 which is situated up-dip from Phoenix South-1 and displays similar geology but improved reservoir characteristics.

Roc-1 is the second target that attracted Quadrant to farming into the Roebuck Basin. Preliminary interpretations indicate that the Roc structure has a better reservoir parameters due to Roc being 500m shallower than the Phoenix South discovery and is a larger structure than Phoenix South. The Roc prospect is interpreted to contain a net best case estimate of 42 mmbbl with a high case of 133 mmbbl. DGM has assessed the Roc-1 well to have a technical chance of success of 42%, which is very high.

The drilling cost of Roc-1 is carried by Apache and JX Nippon up to a US\$70m cap on a gross basis with each JV party to pay their respective share past the cap. The Roc-1 well is in shallower water and has a shallower reservoir target compared with the Phoenix South-

On our numbers we view it as highly unlikely that the well will cost in excess of the US\$70m and thus we view CVN as fully carried

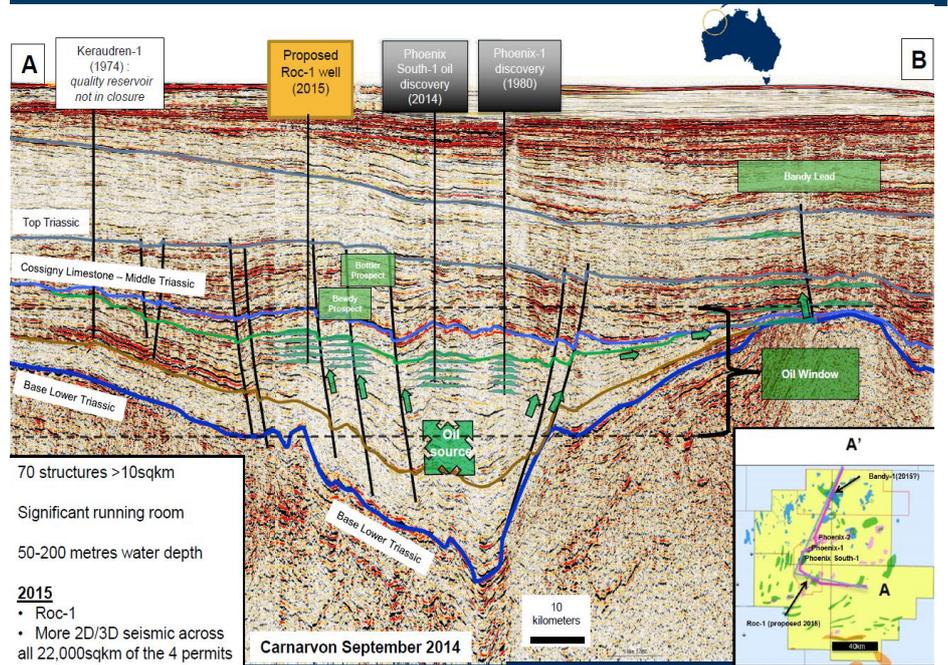
1 well. It is scheduled to be drilled by a jack-up rig, and as a result, we have a significantly lower cost estimate for the well compared with Phoenix South-1. On our numbers we view it as highly unlikely that the well will cost in excess of the US\$70m and thus we view CVN as fully carried.

Figure 4 shows the location of the Roc-1 well (now slated for Q4 CY2015) in relation to the Phoenix-1 & Phoenix South-1 oil discoveries.

Overall, there is great interest in the Roc-1 well and we anticipate the price will ramp up as the deadline draws sooner

Figure 4: Emerging New Lower Triassic Oil Province

Should CVN have a discovery of the expected 42 mmbbl we anticipate this would add \$0.07 to the share price (net basis)



Source: Frog Tech

Overall, there is great interest in the Roc-1 well and we anticipate the price will ramp up as the deadline draws sooner. Should CVN have a discovery of the expected 42 mmbbl we anticipate this would add \$0.07 to the share price (net basis).

Exploration – Phoenix 3D Area

Within the Roebuck Basin permits CVN only has ~1,100km² of the total 22,000km² area covered by 3D seismic (called the Phoenix 3D area).

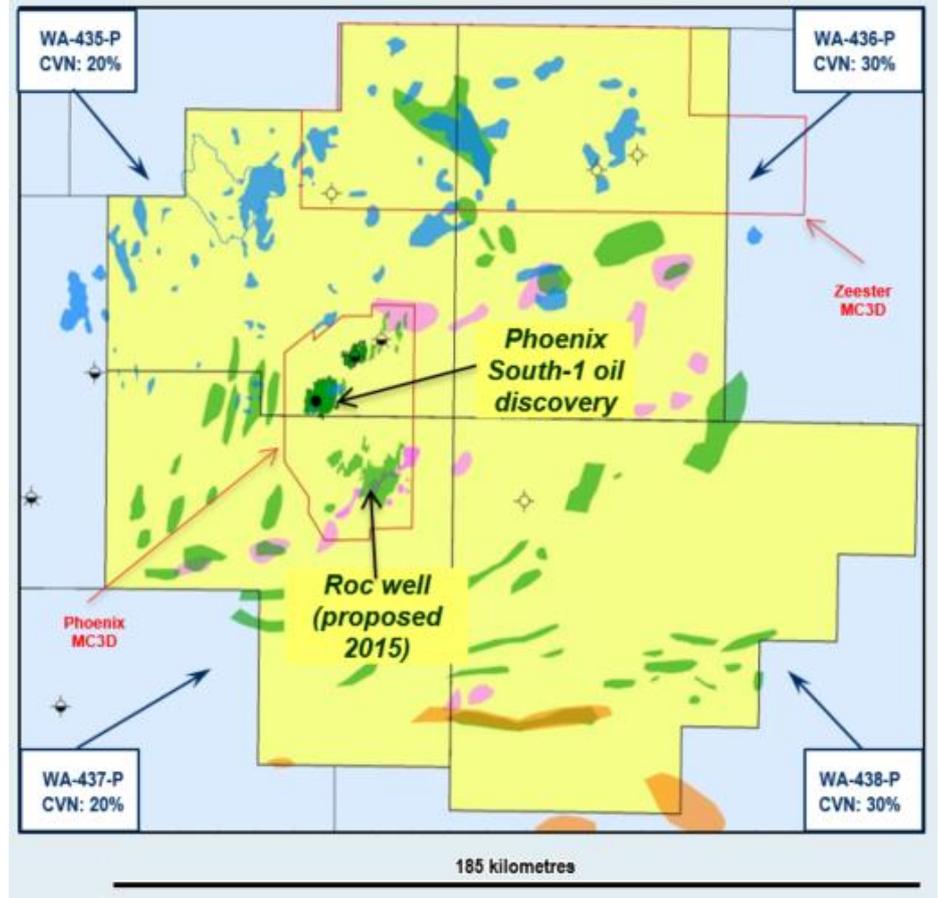
Within the Roebuck Basin permits CVN only has ~1,100km² of the total 22,000km² area covered by 3D seismic (called the Phoenix 3D area). Due to the success of the Phoenix South-1 well, which proved a working hydrocarbon system, the JV has embarked on further seismic activities to identify additional leads and prospects within the Greater Phoenix area. Positively however, following the success of the Roc-1 well CVN commissioned DGM, to assess the potential recoverable oil within the Phoenix 3D seismic area (Figure 5), which includes the Phoenix South-1 discovery and the Roc prospect.

Figure 5: Map of potential prospects and leads following the Phoenix South discovery

Due to the success of the Phoenix South-1 well, which proved a working hydrocarbon system, the JV has embarked on further seismic activities to identify additional leads and prospects within the Greater Phoenix area

The seismic interpretation showed that in addition to the Roc prospect, the Bewdy, Bottler and Phoenix 2 up-dip structures, which also all lie within the Phoenix 3D, provide early follow up opportunity in the case of success in the Roc-1 well

DGM have given these four prospects a total best estimate of 73 mmbbl of recoverable oil



Source: Carnarvon Petroleum

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Table 4: Gross Prospective Resource estimates only within the Phoenix 3D area (Unrisked)

Field	Reservoir Interval	Prospective Resources (mmbbl)			Probability of Geological Success
		Low	Best	High	
Roc	Lower Keraudren	12	42	133	42%
Bewdy	Lower Keraudren	3	9	26	42%
Bottler	Lower Keraudren	2	7	20	42%
Phoenix 2 Updip	Lower Keraudren	1	4	14	27%
Phoenix West	Lower Keraudren	Undetermined	Undetermined	Undetermined	
Total Phoenix 3D Prospects*		35	73	154	

Source: Carnarvon Petroleum

(*)Statistical aggregate of contingent resources

Exploration – Greater Phoenix Area

Following success of Phoenix South, the JV licenced the 3,854 km² Zeester 3D seismic survey covering the Northern parts of WA-436-P and WA-435-P which has highlighted some significant leads

The Capreolus 3D seismic acquisition and licensing survey will result in an additional 5,100 km² of 3D seismic coverage in the basin

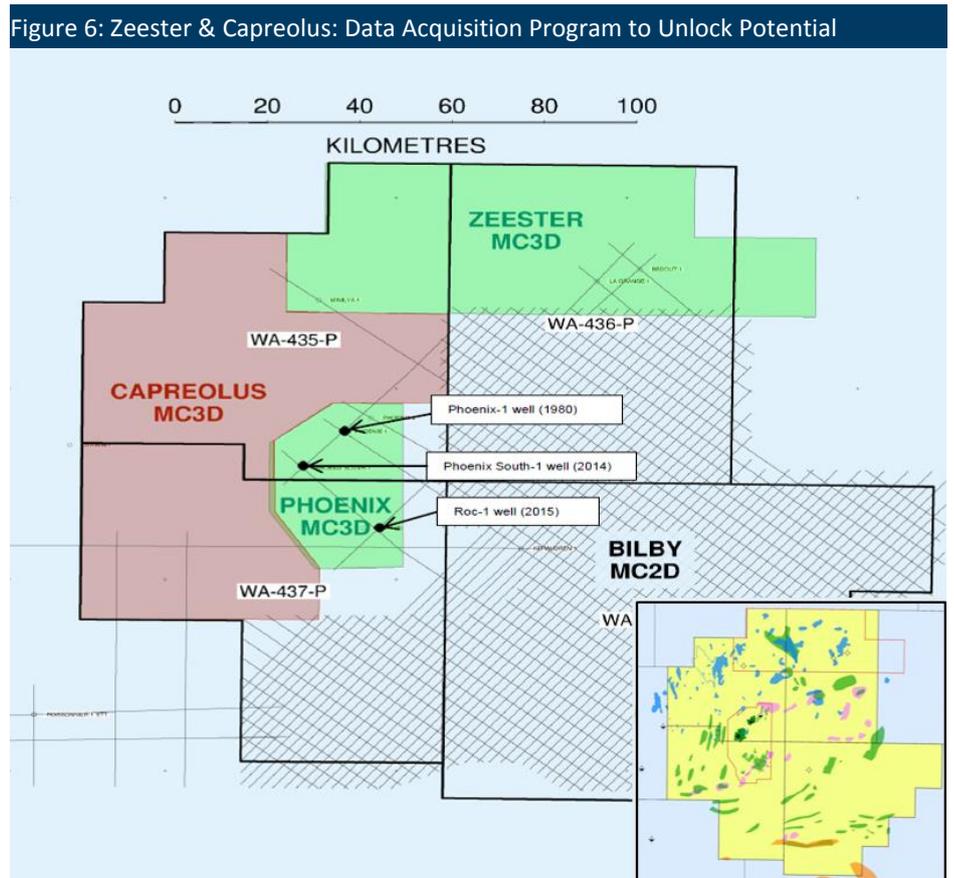
Currently, the remainder of the Roebuck Basin blocks are covered by 2D seismic (Bilby)

Should the JV have additional success with the exploration program, we anticipate that further 3D seismic work will be conducted

Following success of Phoenix South, the JV licenced the 3,854 km² Zeester 3D seismic survey covering the Northern parts of WA-436-P and WA-435-P. The interpretation of this seismic survey is currently underway and is expected to add to CVN’s lead and prospect inventory. Of particular interest is the Bandy lead which had been identified as a significant prospect.

The Capreolus 3D seismic acquisition and licensing survey will result in an additional 5,100 km² of 3D seismic coverage in the basin. The program is expected to reveal a number of new prospects and enable greater delineation of numerous leads that lie to the west of Phoenix South as identified on existing 2D data. This acquisition is on schedule and is currently around 60% complete.

Currently, the remainder of the Roebuck Basin blocks are being covered by 2D seismic (Bilby). Should the JV have additional success with the exploration program, we anticipate that further 3D seismic work will be conducted over the Bilby 2D.



Source: Carnarvon Petroleum

The Cerberus Project

In May 2014, CVN secured exploration acreage permits EP-490, TP/27 and EP-491 in the Carnarvon Basin (Barrow Sub Basin). These permits cover ~3,200km² and are collectively known as the Cerberus Project.

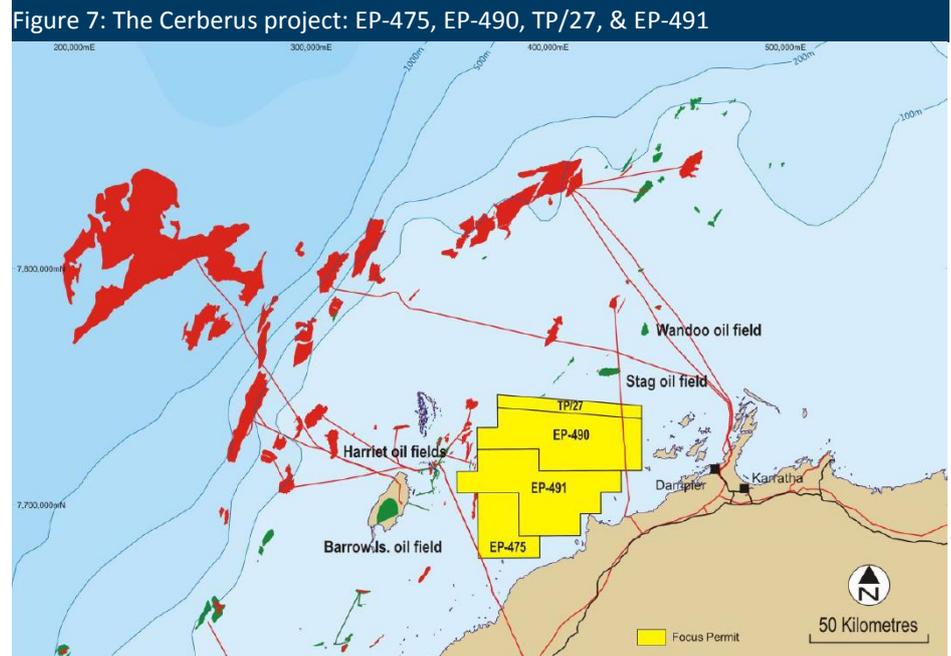
In May 2014, CVN secured exploration acreage permits EP-490, TP/27 and EP-491 in the Carnarvon Basin (Barrow Sub Basin). These permits cover ~3,200km² and are collectively known as the Cerberus Project

These new blocks are substantially covered by modern 3D seismic data that will aid in identifying analogous traps to the Stag and Wandoo oilfields

Based on the generally accepted view of the NWS geology, these blocks have been passed on by the larger oil companies multiple times as non-prospective...

...consequently, CVN acquired these blocks for a minimal work commitment comprising re-interpretation of 3D seismic data and geological studies with...

...CVN identifying a number of new material oil prospects based on its understanding of the new early Triassic play which came from the Phoenix South-1 discovery



Source: Carnarvon Petroleum

Two major hydrocarbon accumulations occur immediately to the north of the blocks, being the Wandoo and Stag Oil field. Wandoo (estimated recoverable oil at ~100 mmbbl) is located ~46 km to the north. Its primary reservoir at ~600m below seabed in the early Cretaceous Sandstone of the Muderong Shale. Stag (estimated recoverable oil of ~50 mmbbl) is located 24 km to the north. Both fields lie in approximately 50 metres of water. Positively, these new blocks are substantially covered by modern 3D seismic data that will aid in identifying analogous traps to the Stag and Wandoo oilfields.

It is important to note that these blocks have been available for some time and, considering the neighbourhood, one would expect some significantly larger players to already own them. However, based on the generally accepted view of the NWS geology, these blocks have been passed on by the larger oil companies multiple times as non-prospective. Consequently, CVN acquired these blocks for a minimal work commitment comprising re-interpretation of 3D seismic data and geological studies.

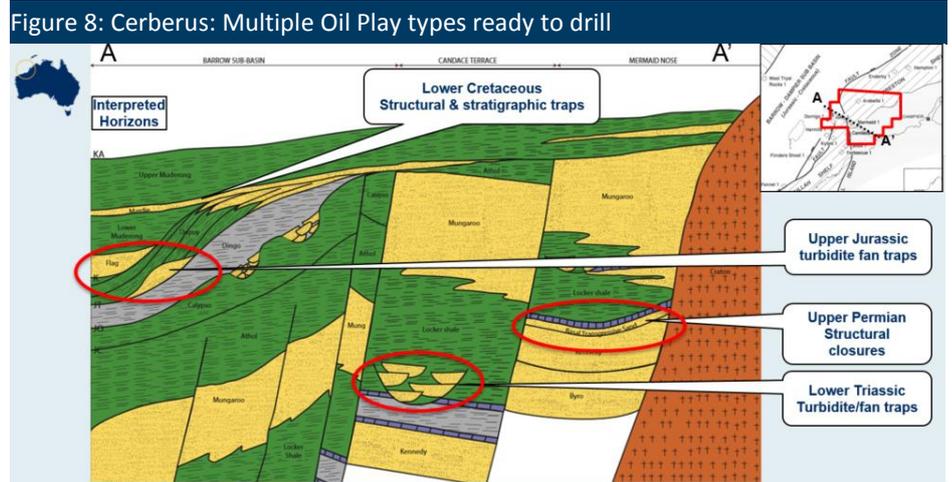
Subsequently CVN has identified a number of new material oil prospects based on its understanding of the new Early Triassic play which came from the Phoenix South-1 discovery. The prospects identified thus far are associated with Early Triassic source rocks that have been demonstrated in nearby wells through recently completed geochemistry and biostratigraphy studies. The Triassic source rocks are analogous to the proven oil-prone source rocks at Phoenix and the Perth Basin.

CVN expect the Cerberus project to be an exact replica of the success at Phoenix with a large acreage holding within a (to be proven) oil province...

...and...

...after further work CVN plan to farm out some its position in exchange for a free carry on exploration drilling

These Triassic sourced targets are in addition to the more traditional oil plays across the area, which are primarily sourced from the Upper Jurassic Dingo sandstone and migrated into Cretaceous aged sediments like the Stag, Wandoo and Harriet oil fields in this area.



Source: Carnarvon Petroleum

CVN expect the Cerberus project to be an exact replica of the success at Phoenix with a large acreage holding within a (to be proven) oil province. After further work CVN plan to farm out some its position in exchange for a free carry on exploration drilling. Importantly, water depth over the blocks does not exceed 70 metres, which when combined with shallow target depths, allows for cost effective drilling using offshore jack-up rigs.

The Thai Royalty Stream

On 18 February 2015 CVN completed the divestment of its remaining 20% interest in its Thailand oil assets for a Cash payment and Overriding royalty of 12% of 20% total production

Payments to CVN occur in November of every year until either US\$32m or 20 payments have been made

CVN does not have any obligations with regard to ongoing operating or capital expenditures applicable to these permits

We view the ongoing royalty income from the Thailand production assets will help contribute towards operating and administration costs into the future

On 18 February 2015 CVN completed the divestment of its remaining 20% interest in its Thailand oil production concessions L44/43, L33/43 and SW1A for US\$50m.

Figure 9: Oil production licences in Thailand



Source: Carnarvon Petroleum

In addition to the cash payment, the sale was structured to give CVN a 12% Overriding Royalty (ORR) over ongoing production from Loyz share (20%). Payments by Loyz to CVN occur in November and are based on the previous 12 months of production. The royalty will finalise when either US\$32m or 20 payments have been made.

Due to the nature of the royalty interest CVN does not have any obligations with regard to ongoing operating or capital expenditures applicable to these permits.

We view the ongoing royalty income from the Thailand production assets will help contribute towards operating and administration costs into the future.

Financial Position

At the end of the Q3 FY2015 CVN had A\$100.7 million in cash and nil debt.

We believe CVN is securely positioned to fund its ongoing exploration and company costs going forward. The revenue stream from the Thai royalty should cover overheads and some exploration costs. Post the drilling of Roc-1 CVN will no longer be carried on further costs and will need to fund them out of cash reserves. On our numbers, and with an extensive exploration plan, CVN is adequately funded for the next three years. However, should the Roc-1 well be successful, CVN and its partners will most likely embark on a more aggressive campaign which would require more capital to fund ongoing activities. This could come from further farm-downs (particularly in the Cerberus project), equity raise, asset sale or debt facility. For the purpose of our cashflow modelling we have not assumed a successful drill result from Roc.

Appendix

Appendix A | Directors and Management

(The following biographies are taken from the CVN website)

Peter J Leonhardt – Chairman

Peter is an independent company director and adviser with extensive business, financial and corporate experience. He is a Chartered Accountant, former Senior Partner with PricewaterhouseCoopers and Managing Partner of Coopers & Lybrand in Western Australia. His professional career with the firm spanned 35 years in Australia and overseas and included six years as a member of the national governing body of Coopers & Lybrand.

Peter was Chairman of Voyager Energy Ltd prior to its merger with ARC Energy Ltd and is a director of CTI Logistics Ltd. He is also a director of the Western Australian Institute for Medical Research and the Cancer Research Trust. Mr Leonhardt is a member of the Audit Committee and the Remuneration Committee.

Adrian Cook - Managing Director, Chief Executive Officer

Adrian has 25 years experience in commercial and financial management, primarily in the petroleum industry. Immediately prior to joining Carnarvon, Adrian was the Managing Director of Buru Energy Limited, an ASX listed oil and gas exploration and production company with interests in the Canning Basin in Western Australia. Adrian has also held senior executive positions within Clough Limited's oil and gas construction business and was on the executive committee at ARC Energy Limited, an ASX listed mid cap oil and gas exploration and production company. Adrian joined Carnarvon on 2 November 2009 and was appointed to the Board on 1 July 2011.

Ted Jacobson - Non-Executive Director

Ted is a petroleum geophysicist with 35 years experience in petroleum exploration principally in the European North Sea, South East Asia, South America and Australia. Prior to joining Carnarvon Petroleum Ted was co-founder of Discovery Petroleum and more recently since 1996, co-founder and technical director of Tap Oil Ltd which grew to a market capitalization of over \$400 million under his technical leadership.

Ted joined the Board on 5 December 2005, was appointed Chief Executive Officer on 19 December 2005 and became a non-executive director following his retirement as Managing Director and Chief Executive Officer on 30 June 2011. Ted is a member of the Petroleum Exploration Society of Australia and member of the Australian Institute of Geophysicists

William (Bill) Foster - Non-Executive Director

Bill is an engineer with extensive technical, commercial and managerial experience in the energy industry over a 40 year period. He has been an advisor to a major Japanese trading company for the last 20 years in the development of their global E&P and LNG activities and has spent time prior to this working internationally in the development of a number of energy companies.

Bill was a former independent director of Tap Oil Ltd and of the E&P companies that were formed through his advisory services to the Japanese trading company. Mr Foster is a member of the Audit Committee and the Remuneration Committee

Dr Peter Moore - Non-Executive Director

Peter Moore has extensive experience in exploration and production in Australia and internationally gained through senior roles with a number of globally recognised companies. Peter led Woodside's worldwide exploration efforts as the Executive Vice President Exploration reporting to the CEO. In this capacity, he was a member of Woodside's Executive Committee and Opportunities Management Committee and was the Head of the Geoscience function across all of the company (Exploration, Development, Production, M&A).

Peter is currently the Professor and Executive Director of Strategic Engagement at Curtin University's Business School, reflecting his broad business experience. In 2014, Peter was appointed as the Chair of ESWA (Earth Sciences WA) and in 2015 he was appointed to Curtin University's Science and Engineering Advisory Council. Peter is a very successful oil and gas explorer as well as a business leader, being involved in numerous, significant discoveries throughout Australia and overseas, including the giant Pluto and Calliance gas discoveries (while VP Exploration Australia), offshore Western Australia.

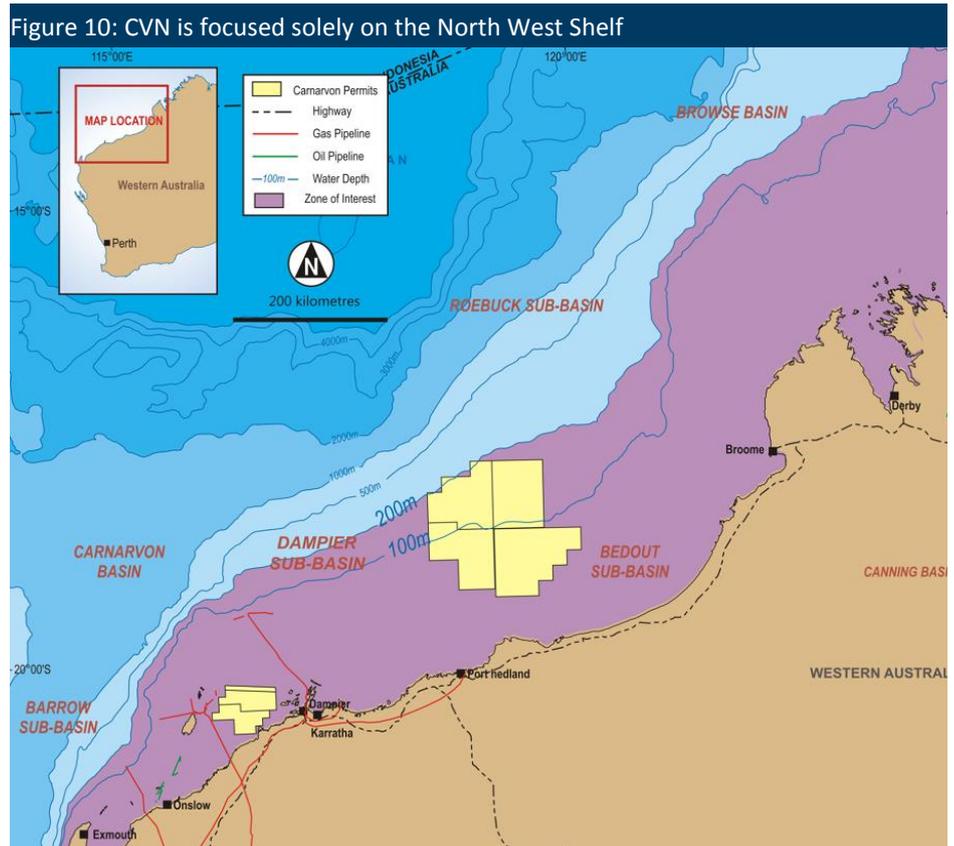
Philip Huizenga - Chief Operating Officer

Philip joined Carnarvon in early 2007 as Principal Petroleum Engineer but was promoted to Chief Operating Officer. Philip has an extensive engineering background with nearly 20 years in the oil and gas industry encompassing many years of rig exposure on offshore and remote locations and several years reservoir engineering experience. Philip has worked internationally in Asia and the Americas in a number of engineering and management roles. Philip is a member of the Society of Petroleum Engineers and sits on the Industry Advisory Council to the Dept of Petroleum Engineering at Curtin University

Appendix B | Petroleum Potential of the Lower Triassic of the North West Shelf

The Phoenix South-1 discovery was ground breaking in that it indicated a new non Jurassic petroleum system within the Carnarvon Basin. The discovery debunked the widely held belief that that the Early Triassic source rocks of the Perth Basin did not extend beyond the Basin and that non Jurassic oils did not exist on the NWS beyond Perth and Petrel basins. The Phoenix South-1 discovery potentially opens up a brand new province for oil discoveries.

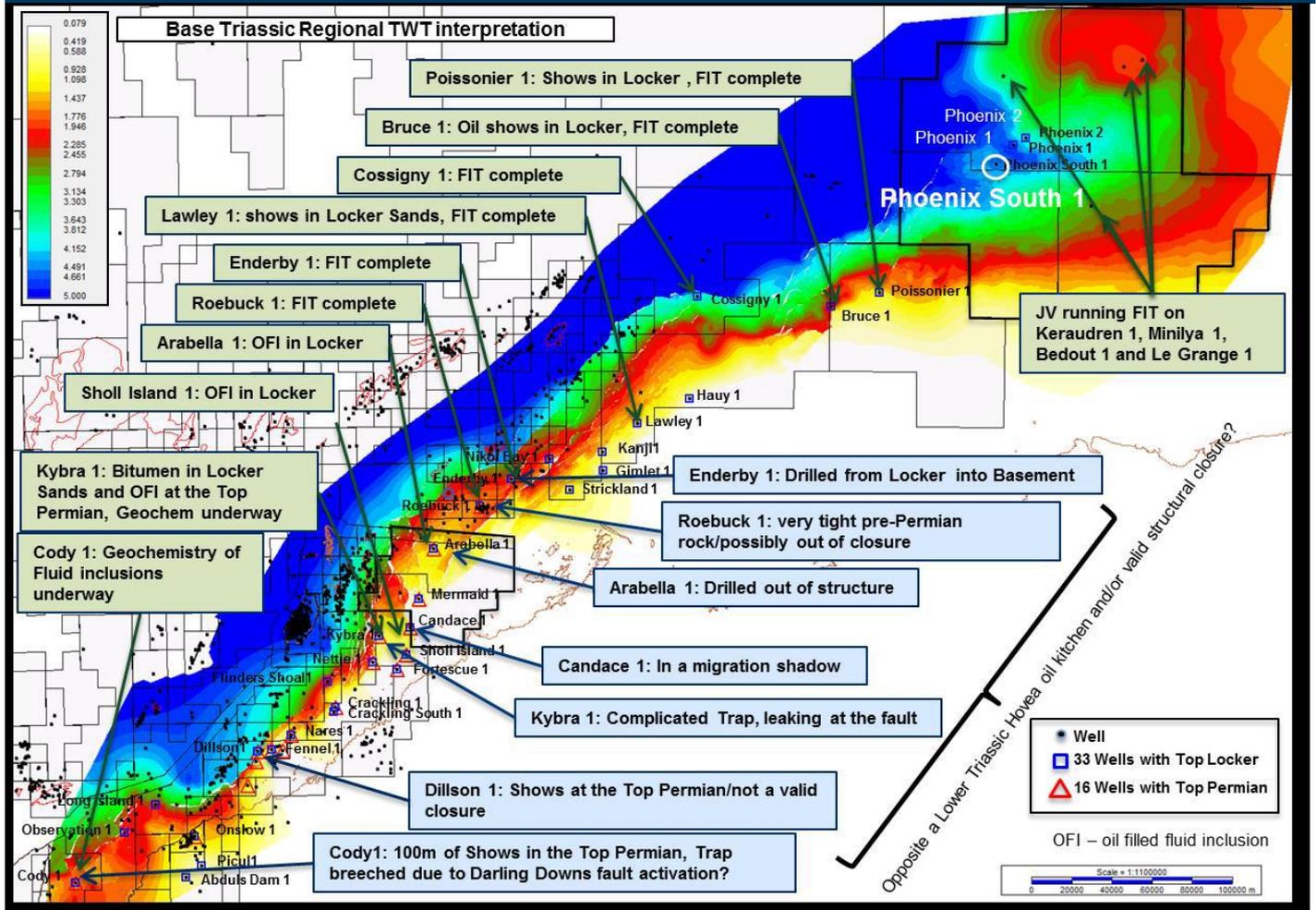
Figure 10 highlights in purple the potential new play opened up by the Phoenix South-1 well. As shown the new play type is extensive, however CVN believe they have a significant portion of the prime areas. CVN have a significant position in the Roebuck Basin at 20% and a further 100% position in the Carnarvon Basin (Cerberus Blocks).



Source: Carnarvon Petroleum

Figure 11 demonstrates there have been 33 Lower Triassic and 16 Upper Permian well penetrations from the Phoenix discovery to the Carnarvon Basin. Few of these wells have drilled valid structural closures or opposite a possible Lower Triassic (Hovea Member) source rock kitchen. This highlights the underexplored nature of the discovery.

Figure 11: 16 Permian well penetrations...and even fewer valid tests



Source: Carnarvon Petroleum

In our view, the reason there has been no Permo-Lower Triassic fields from Perth to Petrel Basin can be explained due to less than 30 wells drilled to Permian depth on the NWS with very few valid structures penetrated. The Lower Triassic source interval has only been recently proven thanks to a recent CVN proprietary oil to source rock study using hydrocarbon filled fluid inclusions or oil shows which have been typed to non Jurassic source rocks.

Key observations from the Lower Triassic Petroleum Prospectivity study of the North West Shelf Post the Phoenix South-1 Discovery

Post the Phoenix South-1 discovery, CVN conducted a regional analysis of the intervening 2,000 km and sought to address some key questions about the Lower Triassic (source, seal and potential reservoirs) and the Upper Permian Chinty and Kennedy (mixed carbonate/clastic reservoirs) Petroleum System along the shallow water margin of the Carnarvon and Roebuck basins:

- 1) Source rock: Is there evidence in the wells drilled to date of a working petroleum system tied to the Early Triassic or other pre-Jurassic source rocks?

- 2) Reservoirs: What is the palaeogeography, sedimentology and porosity/permeability of the relevant sequences and what are the implications for this petroleum system?
- 3) Trap types: What are the trap types that may contain commercial hydrocarbons and their potential volumes?

Key observations from the regional study have highlighted:

- 1) Few wells along this 2,000 km have drilled into the Early Triassic or older formations, and only a handful have been drilled on structures that are juxtaposed against the currently generating Early Triassic oil or gas windows. It is apparent that where they are so located, hydrocarbon shows or hydrocarbon filled fluid inclusions exist. It has shown that there were multiple hydrocarbon columns in wells drilled 100's of km North of the Perth basin. Unfortunately recent fault movement along the Darling Downs Fault System has breached these traps, likely in the Miocene.
- 2) Several of the NWS wells that are located in the inboard Carnarvon Basin and up to Phoenix have recently been geochemically typed (using oil shows or hydrocarbons extracted from fluid inclusions) by Carnarvon Petroleum to potentially non Jurassic source rocks. It can also be observed that from the Carnarvon to Phoenix area few faults break through the base Cretaceous unconformity. This has probably allowed the early Mesozoic structures to stay intact and not be breached and likely retain their hydrocarbons.
- 3) Reservoirs at less than 2,000 metres present day depth indicate high net-to-gross sand with up to 1,000 milli-Darcies permeability and circa 20% porosity.
- 4) Reservoir facies are varied, from Locker Shale submarine canyon systems to a mixed carbonate to clastic marine coastline/shelf for the upper Permian Formations.

A fresh look at the Lower Triassic to Upper Permian petroleum prospectivity of the NWS will be beneficial; especially as the August 2014 Phoenix South-1 light oil discovery by Quadrant, Carnarvon, Nippon and Finder highlights this play system is working well at the discovery target depths of 4,000 to 4,500 metres. These Permo-Triassic targets are also typically located inboard areas suitable for jack-up rigs, often less than 100 km from shore and can have target depths much shallower, and often less than 3,000 metres.

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