CEO Newsletter

27 November 2015

CARNARVON PETROLEUM LTD

Dear Shareholder,

Carnarvon Petroleum's (ASX:CVN) managing director, Adrian Cook, has exclusively spoken to Proactive Q&A Sessions™.

Carnarvon recently reported that drilling of the Roc-1 well in permit WA-437-P in Australia's North West Shelf is underway as the operator Quadrant Energy spuds the well in a known oil reservoir.

Progress of the well will be closely watched following last year's discovery of a new oil province in the North West Shelf and the Phoenix South-1 oil well success in August 2014.

Roc will target the same Lower Keraudren reservoir in which oil was discovered in the 2014 Phoenix South-1 well by the same joint venture partners in an adjoining area of the wider Phoenix project.

Now that Roc-1 has spudded, drilling is expected to take around 35 to 40 days to reach a Total Depth of 4,700 metres.

Equity interest holders (upon satisfaction of the farm in agreement terms) in WA-437-P are: Carnarvon Petroleum: 20%, Quadrant Energy (Operator): 40%, JX Nippon: 20% and Finder Exploration: 20%.

Spudding of the well has been carried to US$70 million by JX Nippon and Quadrant – a consortium between Brookfield Asset Management (NYSE:BAM) and Macquarie Capital (ASX:MQG).

PROACTIVE INVESTORS: Welcome Adrian.

What is the scope of your expectations for the upcoming drilling at Roc-1? Can you characterise the potential of the well?

Adrian Cook: On 7 April this year we announced the results of an independent resource assessment undertaken by industry expert DeGolyer and MacNaughton.

Their estimate for the Roc prospect, that will be tested by the Roc-1 well, is that the recoverable volume range is between 12 million barrels and 133 million barrels.

It's worth noting too that if Roc-1 well confirms the presence of the same oil discovered last year in the Phoenix South-1 well then the prospects between Roc and Phoenix South are highly likely to also contain oil.

DeGolyer and MacNaughton estimate that these additional prospects' recoverable volume range is between 5 million barrels and 46 million barrels.

The discovery of oil in the Phoenix South-1 well last year and the interpretation that BP discovered oil in their Phoenix-1 well in 1980 means the possibility that Roc-1 well contains oil is high.

DeGolyer and MacNaughton assessed the Roc well as having a 42% chance of success, which is high in our industry for an exploration well

What hints does the 2014 discovery at Phoenix South-1 provide about the potential of Roc-1 and the Lower Keraudren reservoir?

Adrian Cook: The Phoenix South-1 discovery was important for our industry because firstly, it proved for the first time on the North West Shelf that oil exists in the Keraudren formation and secondly, it proved a new oil basin along the North West Shelf.

The significance of the discovery led the joint venture partners to invest around $50 million in late 2014 acquiring a significant amount of 3D seismic data and new 2D seismic data.

To put this into context, before the present joint venture partner group began its exploration program, this area of the North West Shelf contained no 3D seismic data.

So we are involved in an important step change in terms of the application of new data to what is now a proven petroleum system.

The area we are dealing with is enormous and available data is limited so the process to explore and discover the potential of this basin will take us some time.

That said, the Roc-1 well is now drilling and will hopefully provide us with exciting new information very early in the New Year.

How is timing relevant to Carnarvon's strategy of drilling Roc-1 during a slump for the macro oil market?

Adrian Cook: In a broad sense, oil prices affect two components of our business, namely input costs and values.

In a low oil price environment business input costs, such as for the acquisition of new seismic data and drilling wells tend to fall.

Similarly, in this environment production revenues and asset divestment values also fall. And of course the converse occurs as oil prices rise.

In the current environment of low oil prices we're seeing some benefits associated with decreasing costs from service providers.

The ideal scenario is that this environment continues until we proceed to develop and produce oil from this area or until we divest our interests, at which time it would be advantageous if the oil price were to increase.

So timing is important around spending activities and value realising activities and its one that we consider when assessing our projects.

PROACTIVE INVESTORS: Thank-you Adrian.

Yours faithfully

Adrian Cook
Managing Director
Carnarvon Petroleum