

CEO Newsletter

15 January 2016



Dear Shareholders,

On a personal note I'd like to start by wishing you all a happy and prosperous 2016.

In this forum I'm seeking to provide you with some "behind the scenes" news on our business and the activities that are in progress. To be clear, this is not a forum in which I'm able to provide 'share price sensitive' news, that must and will be done through the ASX platform.

Right now we're completing the Roc-1 well drilling operations. We successfully collected hydrocarbon samples, side wall cores and completed the logging program. Very shortly I expect we'll announce that the well has finished and rig has left the site.

We commenced the well believing the oil discovered in the Phoenix South-1 well had migrated laterally to the Roc structure. It appears at this early stage that the critical issue was insufficient seal to trap the oil in the same level or stratigraphy as it existed in Phoenix South.

Discovering the condensate rich gas in the deeper level clearly indicates there is an active hydrocarbon system in the area. That's certainly very encouraging, as is the fact that we discovered quality reservoir to the level we expected. The importance of these facts for the broader acreage should not be underestimated.

There's a lot of work currently going into assessing the Roc-1 well results but key for us as shareholders is to understand the range of possible volumes involved and whether they are economic. We expect to have initial volume estimates within six weeks of the rig leaving site. Key to this will be the lab assay results for the hydrocarbon samples, seismic mapping and log data analysis.

The discoveries in Phoenix South and more particularly in Roc support the rationale for securing the Cerberus permits. Our technical team are also analysing the Roc-1 well results and how they impact on the Cerberus permits with our initial view being that they provide further support for the prospectivity in these blocks.

A number of you have asked me what the above means in terms of Carnarvon's business model and strategy. Our plan is to build a North West Shelf focused oil and gas business using the technical expertise of our team. We feel we're making solid progress in achieving this objective. Two discoveries in two wells in the Phoenix blocks are a great result in my view and bode well for future activities in this area. We like what we see in the Cerberus blocks and are keen to progress to testing those. We've also been working on a number of new ventures that I hope we can present to you in due course.

Our view on oil prices is that they cannot be sustained at these levels long term and therefore will rise at some point in the future. Our view is that we should position a part of the business to benefit from a future price rise but not in a manner that overly compromises the financial strength of the business.

In terms of our financial position, we last reported cash of A\$103 million and we have been prudent with our outlays in the last quarter. Accordingly, I do not expect we'll report a significantly different result in the December 2015 quarterly report that we'll present to you within the next two weeks.

I recognise and appreciate that the share market in a broader sense is very challenging right now. This has been exacerbated in our sector by the falling oil price.

From my perspective we are not directly exposed to the oil price right now. We're positioning ourselves for exposure to future oil prices that we expect to improve in time. We are in a very strong financial position with our cash holdings that we plan to very carefully manage whilst continuing to generate prudent growth opportunities for our future benefit.

Yours faithfully



Adrian Cook
Managing Director
Carnarvon Petroleum

For all enquiries please contact:

Shareholder Enquiries

Mr Thomson Naude
Company Secretary
Phone: (08) 9321 2665
Email: investor.relations@cvn.com.au

Media Enquires

Mr Tony Dawe
Professional Public Relations
(08) 9388 0944 / 0405 989 743
tony.dawe@ppr.com.au