Carnarvon Petroleum’s MD, Adrian Cook, details for Energy Boardroom how the company is capitalizing on its deep experience, substantial technical expertise and financial strength to take advantage of the current low cost environment and build an appealing asset portfolio in the North West Shelf of Western Australia, one of the most prolific hydrocarbon regions in the world.

What would you highlight as some of the company’s main achievements since your appointment as Managing Director in 2011?

Successfully transforming Carnarvon into a specialist North West Shelf (“NWS”) business, from its previous broad ranging South East Asian and Australian focus, has been one of our most satisfying achievements to date.

In executing this new strategy, two key tangible achievements have stood out: the Phoenix South-1 and Roc-1 discoveries that we made in our first two NWS exploration wells.

Behind the scenes we have also made important progress in developing our people and building an extensive regional database that we have already used to secure fantastic new exploration acreage.

Looking to the future, it will be our people, our database and our focus that will allow us to uncover and present better opportunities to our partners and capital markets, both locally and internationally to either invest in our company or co-invest into promising projects in the NWS.

Why did you decide to focus your company’s business on the North West Shelf?

In reaching this decision we asked ourselves several crucial questions including, where were there significant hydrocarbon volumes to achieve our financial aspirations, where were there effective governments, attractive fiscal regimes, deal frequency and oil and gas services to make projects a reality.

We formed the view that we understood the NWS very well and we felt confident we could generate really attractive returns for our shareholders by focusing our efforts in this region.

But to create a successful business, we knew we had to create something that had a clear and sustainable competitive advantage. This we knew had to be based on the knowledge and experience of our people, the quality of our data and our strong focus on new and innovative thinking to previous geological challenges in the NWS. I wouldn’t say we’ve achieved our objectives yet but we are making very tangible progress toward these goals.

Carnarvon’s strategy is based on three main pillars: early positioning into new untested resources, applying new technology to discovered resources, and improving cost structures to enhance project economics. How is the company progressing so far?

Our Phoenix South-1 and Roc-1 discoveries in the Bedout sub-basin currently receive the most focus from external stakeholders. These discoveries were the result of Carnarvon and its partners pursuing an untested play in a lightly explored region of the NWS. Quadrant Energy have done magnificent job since taking over as operator in 2012, maturing our initial geological ideas into a project where we’re looking at appraising the resources in the middle of this year.
But Carnarvon is now much more than just the Phoenix and Roc projects.

In 2014 we secured a large acreage position in the NWS where we’re focused on similarly untested play types in what we call our Cerberus project. Our prospects in Cerberus have significant volume potential and significantly lower finding and development costs compared with say our Phoenix South and Roc project because of the shallower water and prospect depths.

Earlier this year we also joined Quadrant Energy in a proven oil play that will endeavor to consolidate resources into a cost effective development hub we hope will replicate the successful Harriet joint venture that Quadrant Energy (then Apache) led.

More recently we secured a permit outboard of our Phoenix permits where we’re again looking to establish a new NWS model of deeper source rocks like those in Phoenix South and Roc feeding classic high quality shallower NWS reservoirs.

So clearly we’ve had a lot of success in executing our strategy, with tangible evidence of this becoming public in the last couple of years.

What’s more, we’re highly confident of securing more permits throughout this year. We believe strongly that current distressed market conditions offer the most advantageous window in which to accumulate quality opportunities. Our initiative for the remainder of the year is to continue strengthening the quality and diversity of our portfolio within the main pillars that you referred to.

As reported in January 2016, gas and condensate was discovered while drilling the Roc-1 well, part of the WA-437-P permit. What have been the main outcomes of the post-well analysis?

The early technical analysis very quickly provided us with the clarity and confidence to commit to the Roc-2 well this year. The key ingredients of hydrocarbon presence, reservoir quality and potential commercial volumes were all supported in the analysis. The Roc-2 well will seek to enhance our understanding of these components and prove that commercial flow rates are possible. To do this the well has plans to include a hydrocarbon flow test and coring across the entire 120 meter reservoir section.

Whilst being careful not to get ahead of ourselves, there is a strong possibility of a commercial resource at Roc which really opens up a great deal of opportunity in the region by reducing the economic thresholds needed to tie other discovered resources back into a Roc development hub.

Light oil was also discovered in the Phoenix South-1 well, 20km north-east of the Roc-1 well. In the second half of 2014, this discovery then stood as the most significant new play concept in the North West Shelf since the prolific Exmouth sub-basin some 20 years previously. What have been the recent developments on the WA-435-P since the drilling of this successful well?

A lot of work has been going into assessing the data we extracted from the Phoenix South-1 well, particularly in relation to the porosity and permeability of the reservoir and the potential for fracture networks to contribute to hydrocarbon recovery.

Phoenix South and the prospects between it and Roc remain of particular interest to Carnarvon. To date our efforts have been concentrated on identifying the best resource to underpin a development hub. The Roc resource is currently the leading contender in this regard and naturally has been receiving most of our attention since the discovery was made.
Recently Quadrant Energy acquired the other two partners’ interests in the Bedout sub-Basin. What consequence does this acquisition have for Carnarvon and did you consider acquiring more permit equity?

We spent a great deal of time considering whether to increase our permit equity interest. As much as we would have loved more equity, in the end our enthusiasm for the project had to be tempered by prudent business management.

We had to have regard to market conditions, our cash balance and potential work programs in the coming years. We need to remain strong through what may continue to be unsettled times in the industry to provide shareholders with the best possible chance of creating value from this project.

Our conclusion was that we should remain steady and strong at a 20% equity level.

You recently acquired a 28.5% share in the Outtrim Block (WA-155-P(1)). What rationale motivated you to move forward on this acquisition?

This is a permit that poses particular geological interest in terms of its proven oil resources with historic well results leading us to believe there is real upside potential in this area.

Quadrant Energy is the operator in this permit and while we clearly know them well, of interest to us was that they created significant shareholder value in the Harriett joint venture doing something similar.

Drilling the Outtrim East-1 well is anticipated to commence in June 2016 and will make for an interesting future for Carnarvon and Quadrant if both Outtrim East-1 and Roc-2 wells result in commercial projects. If this is the case, there is a lot of synergy due to the timing of the development scenarios of each asset and consistency of joint venture partners.

In the Cerberus blocks, Carnarvon is also looking to progress its exploration plans with a partner with the intention of drilling one or more prospects while retaining a significant equity interest in this project. What kind of partners are you looking for?

For this project, drilling costs are significantly cheaper than in our other projects because the water depths and prospects are particularly shallow. The key is to find a partner who recognizes the value in drilling a large untested resource play on 3D seismic data for a relatively low cost. Commercially, this project would generate a very high return on a modest investment. We are keen to drill one or more prospects in the permits and will continue to talk with a number of preferred partners about the opportunity. In the background we have completed all the required technical work and are well advanced in obtaining approvals to drill in the permits from as early as 2017.

What key differentiating factors of Carnarvon do you think appeal to future partners?

Our very experienced technical team, the quality of our database and our particular NWS focus is difficult to recreate for a new party to the NWS. Rather than spending significant time and money trying to recreate this, a number of organizations are looking to how we can structure dealings with them to access our resources and, like us, position for an upswing in the industry.

Similarly, businesses already in the NWS that have a wider business portfolio see Carnarvon’s resources and focus as a means of better utilizing their own resources in the NWS.
We’re also finding industry investors talking with us about leveraging off our expertise and potentially co-investing in asset acquisitions.

The key is recognizing that the Carnarvon team offer a specific expertise and a willingness to deal pragmatically with the right partners and investors.

**With two wells to be drilled in the upcoming months, 2016 is set to be a busy year for Carnarvon. As Managing Director, do you see the current low drilling and exploration costs as an opportunity?**

We definitely see it as a window of opportunity and have been building and diversifying our portfolio during this downturn. Now is the time for a company that has the capacity, particularly in its balance sheet, as well as the capability with its people, to identify what could be quality projects and try to capitalize on such opportunities. The market will inevitably improve in the coming years, and larger companies will increase exploration budgets as they look for more growth opportunities and reserve replacement. If we have done our job correctly, we will have advanced these projects for these large companies to step into and have them matured ready for drilling.

We are applying this thinking to the Cerberus blocks, for example, where we have completed all the technical work, and we are maturing it through the environmental approval process with the government in preparation for drilling. If the market begins to improve in 2017 on higher oil prices, this project will be up and ready to drill. This is exactly the type of mentality that we are replicating with our other wholly owned projects.

**Many exploration companies would like to benefit from the current low industry costs, but they don’t necessarily have the resources to make the most of arising opportunities. Why do you believe Carnarvon has the means to grow and develop its asset portfolio in this period of opportunity?**

We are in the fortunate position where we are able to look through the current industry issues and focus on the opportunities now that will make this a great company as the sector conditions improve. We have maintained a stable team which has been diligently working on their areas of expertise. We uphold a five year plan, with a drive to deliver on our objectives each year which really keeps our team on track. Our strong balance sheet which includes almost AUD 100 (USD 73.3) million of cash also enables us to do what we need to do and is a magnet for people bringing us new deals.

We are now seeing lower costs in some areas of what we’re focused on and have begun to commit to certain work and thereby take advantage of these lower costs. But we are careful not to make big commitments simply because they’re “on sale”. They need to fit appropriately into the bigger work plans that we have.

Our priority over the coming years is to generate significant value for shareholders. We aim to uncover some new material plays that will lead us to achieve this goal. We certainly believe that there are some really interesting plays available in the NWS that can create material value for a company of our size.

**What in particular excites you about this industry?**

There is definitely an excitement associated with the endeavor of discovering a big, new resource play. We are inspired by taking on a new geological puzzle and being able to solve it – naturally with a focus on realizing an appropriate reward for our shareholders as a result.
Yours faithfully

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