

CEO Newsletter

23 December 2016



Dear Shareholders,

Well, it's been quite a year at Carnarvon. A 100% success rate finding hydrocarbons in our four wells was quite remarkable, and rare in our industry. This is even more so considering three of the four wells were in an emerging basin.

I'm actually pretty pleased with our results and most particularly with the gas and condensate we've discovered in the Roc-1, Roc-2 and Phoenix South-2 wells. I believe we are accumulating a good volume of gas and condensate in this area now.

On a broader basis though, in the last two and a half years we have proven that the Phoenix and Roc area has a strong petroleum generating system. We've proven there are effective structures trapping hydrocarbons and that these hydrocarbons flow at commercial rates. And on the point of flow rates, the strong Phoenix South-2 pressure regime provides another step up in hydrocarbon flow potential with the old adage "pressure is your friend" when it comes to flow rates.

Clearly the journey so far has had its ups and downs. Geologically we've missed some targets and have been surprised with some results. But that's the nature of exploration in a new basin. Overall, it's been an excellent result.

In the new year, we will get together with the Quadrant Energy team and consider the forward program for the Phoenix / Roc area. I'm keen for us to do more work on the Dorado prospect. It's an attractive target given its volume potential and because, compared with Phoenix South, it's in shallower water (100m versus 140m) and has a shallower target reservoir (3,700m versus 5,200m) giving it a lower well cost.

Success at Dorado would also give us three key gas condensate pools to work with in terms of considering development options. Part of our time next year will also focus on advancing these options.

Elsewhere in the business, our technical team organised and hosted a technical think tank with some 100 industry experts attending. This two day session explored the Permo-Triassic potential of the North West Shelf and was a real credit to Stephen Molyneux for leading this initiative. It certainly enhanced our technical reputation within the industry and with the representatives from the major organisations who attended. This bodes well for future business relationships with these people.

On our Buffalo project, the early seismic work overseen by Andy Padman is showing encouraging results.

Our WA-521-P project is identifying some very large structures at the target Jurassic level and Claudia Valenti will continue advancing her mapping around these structures into the new year.

On the Outtrim project, we're currently waiting for the operator, Quadrant Energy to call a meeting to go through the results of the Outtrim East-1 well. The Roc-2 and Phoenix South-2 wells took priority over this meeting and we now expect to get together in the new year to review the Outtrim East results.

The major frustration for me is the ongoing flat share price, notwithstanding the positive well results. In January and February next year Stephen Molyneux and I will be on the road meeting investors (both retail and institutional) to discuss our 2016 results and highlight our value proposition, which we both feel is greater than we're seeing at the moment in our share price.

Until then I'd like to wish you all a very Merry Christmas and a safe, happy and prosperous New Year.

Yours faithfully

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

Adrian Cook
Managing Director