

# Letter to shareholders

14 August 2018



## Highlights

- Carnarvon's strategy generates significant shareholder value
- Phoenix Project drilling proves what we'd hoped for and much more in Dorado
- Buffalo Project remains active with the team focused on this oil production asset
- Exciting outlook across a quality portfolio

Dear Fellow Shareholder

The past month has seen unprecedented activity for Carnarvon Petroleum.

The level of excitement and interest from media, shareholders and the broader market in our recent drilling and operational activities has been significant.

On behalf for the Company, I would like to take the opportunity to update you on our strategy and plans for the coming months, while also welcoming new shareholders to our Company.

## Strategy

In 2013, Carnarvon refined its strategic focus, making a decision to divest its onshore Thailand oil production assets and other Asian interests to concentrate on Australian investments.

The decision was driven by the reality that investment markets were not fully valuing the Asian assets in the Carnarvon portfolio. In two transactions Carnarvon divested its interest in these assets, realising in excess of A\$100m in proceeds before the drop in oil prices at the end of 2014.

In refining the strategic focus, the Company decided Australia's North West Shelf represented a logical, manageable and compelling area of focus for our geoscience team, which was familiar with the province.

This was viewed as a strategy that investors could embrace, appreciating the risks (and potential rewards) that come with offshore exploration. Fortuitously, the significant drop in the oil price from 2014 to 2017 caused discretionary exploration to be largely curtailed by most upstream companies.

With a strong cash position and an industry in retreat, Carnarvon secured and progressed new projects with its inhouse geoscience team, including in areas that majors had overlooked as unlikely to yield significant discoveries.

A further benefit of this point in the cycle was that significantly reduced rig rates were negotiated, compared to earlier years, and Carnarvon was one of the most active in drilling wells throughout the bottom of the cycle.

### **Phoenix Blocks (predominantly CVN 20% working interest)**

The Phoenix Blocks represent one such area of focus. Following the recent completion of the Dorado-1 and Phoenix South-3 wells, Carnarvon and its joint venture partner will have drilled six wells in this sub-basin, with hydrocarbons discovered in each well.

The Dorado-1 well was one of the higher risk exploration targets considered by our joint venture, and the decision to drill was taken because of the large geological structure (i.e. potential for large volumes of hydrocarbons) and the low drilling cost relative to the potential reward.

The joint venture has now announced that the well encountered approximately 120 metres of net oil pay. Both the light oil recovered in the wireline testing and the indicative quality of the reservoir point to a highly valuable discovery.

Yesterday we announced that the Phoenix South-3 well had intersected a large gross hydrocarbon column in reservoir that was at the lower end of our expected range. The Phoenix and Phoenix South wells have confirmed a significant gas condensate resource. The commerciality of this will be assessed in time, but it is the oil in Dorado and potentially successful adjacent structures that will now become our immediate focus. And we expect this to be highly profitable for shareholders in due course.

### **Buffalo Project (100% CVN)**

A project that the Company is equally excited about, but that has attracted far less investor attention so far, is the Buffalo Project in Timor-Leste territorial waters.

BHP produced oil for several years at Buffalo before the field was successfully abandoned in 2004. It's important to note that the field was still producing some 4,000 barrels per day when it was abandoned.

Carnarvon's technical team, convinced that there could be a quantum of oil left behind that was material for a junior and commercially recoverable, set about applying modern seismic data technology to answer this question.

Using cutting-edge reservoir mapping technology, we have remodelled the project and identified a very attractive redevelopment project together with new exploration targets.

The project appears economically very compelling based on our preliminary mean recoverable volume of 31 million barrels, which has been reviewed by leading independent consulting firm RISC.

Importantly the capital expenditure can be predominantly or entirely funded by Carnarvon.

To emphasise the scale of this project, at today's oil price this project would generate revenue of more than A\$3 billion over a project life of a few years.

We are progressing discussions with the Timor-Leste Government, with whom we have a constructive and supportive dialogue, and have set up a representative office in the capital Dili.

Both parties are aligned in our wishes to fast-track this project through to development, but at the same time to establish, confirm and adhere to clear guidelines and regulatory processes.

The Australian Government remains involved in this process to ensure the Maritime Boundary Treaty is ratified and all stakeholders are aligned.

Carnarvon is targeting the drilling of the Buffalo-10 well in 2019, which will not only provide physical confirmation of the technical work, but also serve as the first production well for the project.

While we won't get the adrenaline rush of an exploration discovery from the first Buffalo well, it is expected to prove up a resource with total project costs modelled at around US\$20 per barrel. This would make this among the lowest cost structures we've ever seen, indicating the project will have attractive economics in any foreseeable oil price environment.

## **Outlook**

As you can imagine, the Carnarvon office is a hive of activity. Our team, most of whom are significant shareholders themselves, are working hard to unlock the value of the Company's assets.

The Dorado result is a truly spectacular discovery and I'm looking forward to reporting on the volumetric estimates in the next couple of weeks.

The Buffalo project remains an ideal oil field redevelopment for us and we're making good progress with this asset.

And of course, we're working hard maturing our other projects with the Labyrinth project currently open for farm in.

Shareholders monitoring movements in our share price will have noted significant volatility over July and August. As speculators move off our register and are replaced by institutions seeking medium term exposure to two quality oil projects, with exploration upside, I'm expecting this volatility will become more manageable.

I very much look forward to keeping shareholders informed on our progress, and to meeting as many of you as I am able in the roadshows and AGM to come.

Yours faithfully

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

Adrian Cook  
Managing Director

## **Contingent Resources**

The contingent resources in the Buffalo oil field are 31.1 million barrels (2C) with low and high estimates of 15.3 million barrels (1C) and 47.8 million barrels (3C) respectively – Refer to Carnarvon Petroleum's ASX announcement on 28 August 2017.

The estimates of contingent resources included in this report have been prepared in accordance with the definitions and guidelines set forth in the SPE-PRMS.

A combination of deterministic and probabilistic methods were used to prepare the estimates of these contingent resources.

Carnarvon is not aware of any new information or data that materially affects the information included in this report and that all material assumptions and technical parameters underpinning the estimates in this announcement continue to apply and have not materially changed.

The resource estimates outlined in this report were prepared by the Company's Chief Operating Officer, Mr Philip Huizenga, who is a full-time employee of the Company. Mr Huizenga has over 20 years' experience in petroleum exploration and engineering. Mr Huizenga holds a Bachelor Degree in Engineering, a Masters Degree in Petroleum Engineering and is a member of the Society of Petroleum Engineers. Mr Huizenga is qualified in accordance with ASX Listing Rules and has consented to the form and context in which this statement appears.

## **Forward Looking Statements**

This document may contain forward-looking information. Forward-looking information is generally identifiable by the terminology used, such as "expect", "believe", "estimate", "should", "anticipate" and "potential" or other similar wording. Forward-looking information in this document includes, but is not limited to, references to: well drilling programs and drilling plans, estimates of reserves and potentially recoverable resources, and information on future production and project start-ups. By their very nature, the forward-looking statements contained in this news release require Carnarvon and its management to make assumptions that may not materialize or that may not be accurate. The forward-looking information contained in this news release is subject to known and unknown risks and uncertainties and other factors, which could cause actual results, expectations, achievements or performance to differ materially, including without limitation: imprecision of reserve estimates and estimates of recoverable quantities of oil, changes in project schedules, operating and reservoir performance, the effects of weather and climate change, the results of exploration and development drilling and related activities, demand for oil and gas, commercial negotiations, other technical and economic factors or revisions and other factors, many of which are beyond the control of Carnarvon. Although Carnarvon believes that the expectations reflected in its forward-looking statements are reasonable, it can give no assurances that the expectations of any forward-looking statements will prove to be correct.