

Attention : ASX Company Announcements Platform

Lodgement of 'Company Interview'



'COMPANY INTERVIEW'-MARKET PROFESSIONALS

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**Carnarvon Petroleum Limited**

**Date of lodgement: 21/11/2013**

**TITLE: "Company Interview – Strengthening balance sheet ahead of high impact well"**

**Highlights:**

- Carnarvon is offering existing shareholders the opportunity to participate in an Entitlement Issue.
- The Entitlement Issue includes a free option that provides shareholders with additional leverage.
- High impact Phoenix South-1 well expected to spud between mid December 2013 and mid January 2014.

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**Record of interview:**

**Company Interview question:**

Carnarvon Petroleum Limited (ASX code: CVN, market capitalization of ~\$70 million) announced that it is offering shareholders the opportunity to participate in a Entitlement Issue to ensure the company is appropriately funded as it enters into drilling of the Phoenix South-1 well where Carnarvon is free-carried for expenditure of up to US\$50 million. What is the background to this offering?

**Managing Director, Adrian Cook**

The Board made a prudent decision to ensure the Company's funding arrangements will be sufficient to meet any reasonable contingent costs associated with drilling the Phoenix South-1 well.

The Company's 2012 farm out covers the cost of the first US\$50 million (gross). In the event of hydrocarbons being present at the current objective horizon the operator is proposing to deepen the well to test further potential hydrocarbon zones. The operator has also proposed a more extensive testing programme than initially planned if hydrocarbons are present. In addition, the possibility exists that drilling operations may be impacted by cyclones with consequent cost increases.

The Board formed the view that there is a reasonable possibility that well costs could exceed US\$50 million (gross) and the Board felt it prudent to initiate this offer to existing shareholders to ensure it held sufficient funding ahead of commencing drilling operations at Phoenix South-1.

**Company Interview question:**

Carnarvon last reported cash reserves of around \$20 million. To what extent would you consider drawing on these funds?

**Managing Director, Adrian Cook**

While the costs in question are of a contingent nature, if they were to arise and given the timing through Christmas holiday period, without this raising the Company may find that it is required to consider drawing too heavily on its existing cash reserves or worse is forced into a position that limits in some way shareholders' exposure to the upside associated with drilling this exciting opportunity.

The Board is prepared to draw on its cash reserves provided that it retains prudent levels of cash for its ongoing operations. Funds raised pursuant to the Entitlement Issue will assist in this regard.

The Board carefully considered this balance and the possibility that the Entitlement Issue may not be fully subscribed in forming its view that this initiative was the most appropriate in the circumstances.

**Company Interview question:**

Why did you decide to raise this capital in the form of a Entitlement Issue and why did you include the bonus option?

**Managing Director, Adrian Cook**

The Entitlement Issue provides existing shareholders with the entitlement to acquire additional shares ahead of the Phoenix South-1 well on the terms offered. Shareholders can also apply for shortfall shares and options pursuant to the Entitlement Offer. If there is a short fall then the Board is still in a position to place some shares to new shareholders if required.

The option was intended to reward existing shareholders and provide them with additional value in the event of success in the Phoenix South-1 and or Roc wells that are expected to be drilled within the term of the option.

We also have arranged to have the options listed on the Australian Securities Exchange to further enable shareholders to realize value from their investment in the Company.

**Company Interview question:**

You said that Apache proposed deepening the Phoenix South-1 well. Can you provide more detail around this process and decision?

**Managing Director, Adrian Cook**

Apache is the operator of WA-435-P and in completing its technical work for drilling the Phoenix South-1 well it felt that there was a reasonable possibility that hydrocarbons may be present below the previously assessed targets. Apache therefore proposed at the last Technical Committee Meeting a contingent plan to take the well deeper than the previously planned, and farmed out, depth of 4,500 meters should there be hydrocarbons at this depth.

In this success case it makes sense to ensure that the well reaches the bottom of any hydrocarbon zone and this has the technical support of the Company.

**Company Interview question:**

What is the latest timing for the Atwood Eagle drilling rig to commence or spud the Phoenix South-1 well?

**Managing Director, Adrian Cook**

At this stage the window in which Apache expects to receive the rig is between mid December 2013 and mid January 2014.

We expect to receive further news next week on this timing and will update shareholders once we have that information.

But in any event, current indications are that the well will commence reasonably soon and we are looking forward to testing this high impact prospect.

**Company Interview:**

Thank you Adrian.

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