



## Carnarvon Petroleum Limited (CVONF) Letter to Shareholders

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Perth, Australia (ABN Newswire) - Carnarvon Petroleum Limited (ASX:CVN) (OTCMKTS:CVONF) provides the Company's Letter to Shareholders.

#### 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.

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.

#### About Carnarvon Petroleum Limited:

Carnarvon Petroleum Limited is an oil and gas exploration company, listed on the Australian stock exchange (ASX:CVN), Frankfurt (FRA:CJB) and US OTC (OTCMKTS:CVONF). Carnarvon has an extensive acreage position in the North West Shelf of Western Australia that is designed to offer investors high alpha leverage to the energy sector. The company's near term focus is on maturing oil, gas and condensate discovered in its Phoenix project, with partner Quadrant Energy, and on bringing into production oil from the Buffalo field.

Source: Carnarvon Petroleum Limited

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