

Q1

**CARNARVON**
PETROLEUM LTD

Quarterly Report
30 September 2014
Carnarvon Petroleum Limited



Quarter Highlights:

- Play-opening Phoenix South-1 oil discovery made in Western Australia (CVN:20%)
- Joint venture partners commit to drill Roc well in Western Australia in 2015 (CVN:20%)
- Drill ready prospects finalised in new Carnarvon Basin exploration blocks (CVN:100%)
- Thailand oil production averaged 4,140 bopd (gross) (CVN:20%)
- Well-funded with cash of A\$48.5 million, US\$32 million receivable from oil receipts and zero debt

Managing Director's Comments

The important news during the quarter was the discovery of oil in the Phoenix South-1 well and the ramifications for the broader acreage holding in which Carnarvon holds equity interests between 20% and 30%.

In the near term we are awaiting the laboratory results from some 70 rock cores taken while drilling the Phoenix South-1 well which when analysed will provide us with information on the potential recoverable oil for the Phoenix South geological structure.

Following the announcement of the well result, Apache and JX Nippon committed to drilling the next significant geological structure along the spill chain from Phoenix South. This well, called Roc-1, is expected to be drilled in 2015 and funded by Apache and JX Nippon.

During the quarter the joint venture partners also advanced plans for additional activities in 2015 that Carnarvon will announce once finalised by the partners. All in all we expect an active program in this area in the coming year.

Behind the scenes the Carnarvon team has been advancing the technical work on the three Cerberus exploration permits in the Carnarvon Basin, with a suite of substantial new drill ready prospects having been identified and finalised. These permits are held 100% by Carnarvon and will be presented to potential partners interested in joining Carnarvon to explore for oil in this prolific region of Western Australia's North West Shelf.

We were again encouraged by stable oil production in Thailand during the quarter and a successful new well being brought into production. The operator's practice of deliberately choking back well flow rates appears to be improving the overall recovery rates from the wells and bodes well for the current drilling program that commenced in October 2014.

Finally, in relation to financial matters, the Company's balance sheet is very strong with cash of \$48 million, no debt and future cash flow from oil production and an oil production related receivable of US\$32 million.

Adrian Cook
Managing Director

Western Australia (North West Shelf)

WA-435-P permit

(Carnarvon 20%, Finder Exploration 20%, JX Nippon 20%, Apache 40% and Operator)

Drilling of the Phoenix South-1 well concluded during the quarter resulting in the first oil discovery in the offshore Canning Basin (Bedout Sub-Basin), a play-opening discovery within the 22,000 km² acreage that Carnarvon has equity in.

The Phoenix South-1 well intersected at least four discrete oil columns ranging in thickness from 26 to 46 metres. Six oil samples were recovered from these sands with API gravity estimates of 46 to 48 degrees. Permeabilities estimated from the fluid extraction zones indicates tens to hundreds of millidarcies and a productive oil reservoir for these discrete zones.

The joint venture expects to receive laboratory results from fluid and rock sampling and testing through the remainder of 2014 and Carnarvon has indicated that it expects to be in a position to update shareholders on these results by the end of 2014.

The recovery of oil from the Phoenix South-1 well has changed the view of the prospectivity of the offshore Canning Basin. At the conclusion of the Phoenix-1 and 2 drilling campaigns some 30 years previously, the area was thought to contain “stranded gas” and “tight rocks”. However the oil discovery at Phoenix South-1, where the oil and reservoir quality point to a potentially commercial discovery, has changed the assessment of the area from “tight gas” to “potentially productive oil”.

While further work is still required to determine the resource size of the Phoenix South-1 discovery, the economics of oil versus gas means that the joint venture can target smaller structure sizes and significant new seismic mapping is currently underway to identify and define new prospects and leads. A revised map outlining some of these leads and prospects is contained in this report.

WA-437-P permit

(Carnarvon 20%, Finder Exploration 20%, JX Nippon 20%, Apache 40% and Operator)

Following on from the oil discovery at Phoenix South-1 in the WA-435-P permit, Apache Northwest Pty Ltd (“Apache”) and JX Nippon formally notified Carnarvon that they are committed to drilling the Roc prospect in WA-437-P in the North West Shelf of Western Australia.

The Roc prospect is a follow-up exploration well to the major new oil discovery made at the Phoenix South-1 well. This is a similarly large structure identified on modern 3D seismic data and is the next major geological structure along the spill chain from Phoenix South.

The well will be funded to US\$70 million (gross cost of well) by Apache and JX Nippon. The Roc-1 well is in shallower water than Phoenix South-1 and hence will be drilled by a jack-up rig, leading to a lower cost estimate for the well than the recent Phoenix South-1 well.

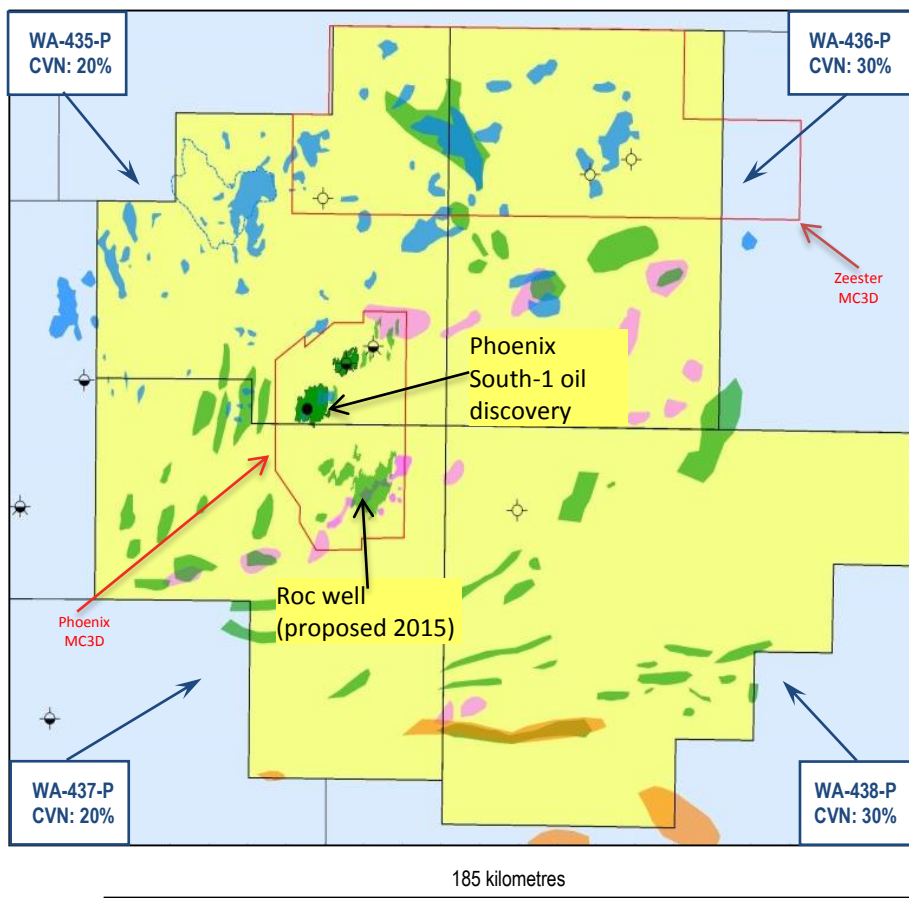
WA-436-P and WA-438-P permits

(Carnarvon 30%, Finder Exploration 30%, Apache 40% and Operator)

Apache has notified Carnarvon that they have exercised an option to acquire a 40% interest and operatorship in WA-436-P and WA-438-P, with 20% provided by Carnarvon and 20% by Finder.

Following Apache’s exercising of the option, Carnarvon holds a 30% interest in each of WA-436-P and WA-438-P.

The objective of the agreement was to draw forward value to the Phoenix South-1 well and Roc-1 well and, on exercise of the option, secure a world-class operator in Apache for these permits.



Revised map of potential prospects and leads following the Phoenix South discovery

EP-490-P and TP/27 and EP-491-P permit
(Carnarvon 100%)

In the previous quarter, Carnarvon was awarded three contiguous blocks on the eastern flank of the prolific oil producing Barrow Sub basin – Petroleum Exploration Permit EP-490, TP/27 and EP-491– now known within Carnarvon as the Cerberus Permits. Carnarvon is Operator and 100% working interest holder in these blocks that cover a total area of around 3,200 km².

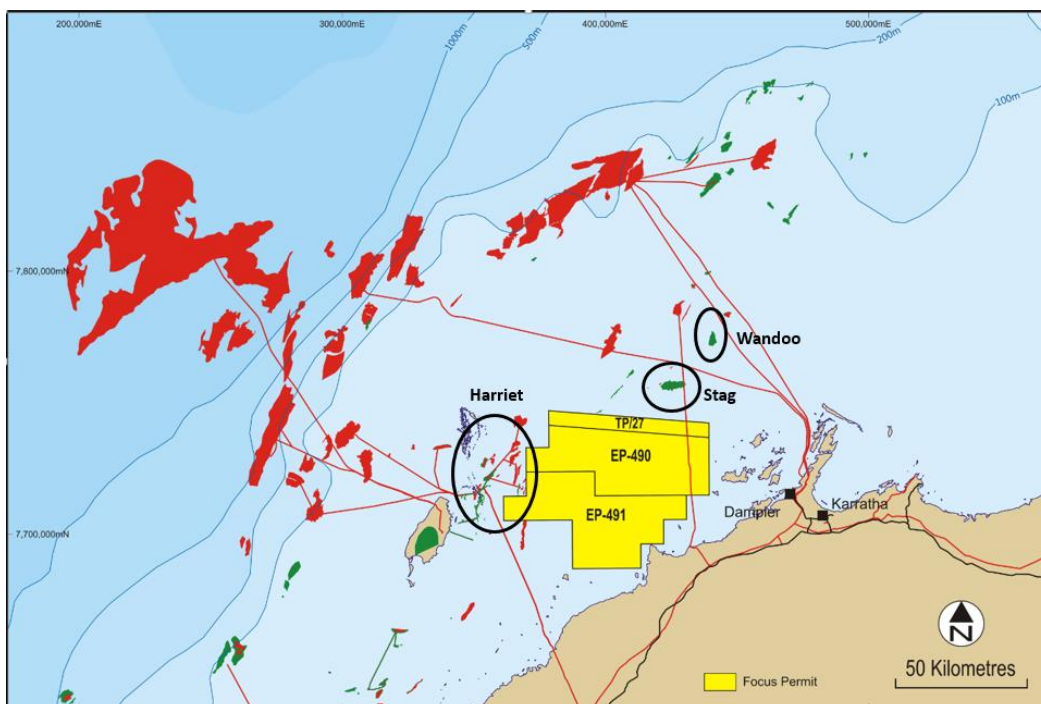
Carnarvon has commenced interpretation of existing modern 3D seismic data that covers a significant proportion of these blocks to prepare drill ready prospects. Following this, the Company will look to introduce at least one joint venture partner to drill one or more of these prospects while retaining a significant equity interest.

Two major hydrocarbon accumulations occur immediately adjacent to the blocks. The Wandoo Oilfield is located approximately 46kms to the north with its primary reservoir at a depth of approximately 600 metres in the Early Cretaceous *M.australis* Sandstone. Recoverable oil is estimated to be approximately 100 million barrels. The Stag Oilfield is located only 24 kms to the north with its primary reservoir at a depth of approximately 700 metres. Recoverable oil is estimated to be around 50 million barrels. Both fields lie in approximately 50 metres of water.

Numerous oil and gas fields have also been discovered to the west of the blocks, including the significant hydrocarbon accumulations in the Harriet area that produces from the highly prolific Flag Sandstone.

Water depth over the Cerberus blocks does not exceed 70m, which when combined with shallow target depths, allows for cost effective drilling using offshore jack-up rigs.

Work commitments for the primary three year period entail reprocessing the existing 3D seismic and geological studies and will not add any significant cost exposure to Carnarvon’s already low future commitments which have largely been satisfied already.



Location map of the 100% owned Permits in the Carnarvon Basin

Thailand

Oil production

(Carnarvon 20%, Loyz Energy 20% and Towngas 60% and Operator)

Production rates during the quarter averaged 4,140 bopd (gross). Two wells were drilled and completed at the beginning of the quarter, and the increased production from one of these wells (WBEXT-3E) was offset by further controlled reduction in production rates from other wells.

The strategy to flow fractured igneous wells at rates significantly below capacity, in order to reduce the early onset of water incursion via coning, has been successful to date with the WBEXT-3C and WBEXT-3D wells outperforming similar wells in the vicinity.

Drilling recommenced post quarter end with the WBEXT-10B well. This well is appraising the oil column within the WBEXT-3C/3D/3E fault block to determine the optimum number of additional development wells to exploit this oil pool.

An additional five wells, including WBEXT-10B, are expected to be drilled in the final months of 2014.

Planning is well underway for 2015 drilling which is expected to include exploration in the south of the L44/43 Concession, infill drilling in the Na Sanun East reservoir and appraisal and development drilling in the L33/43 Concession.

L33/43 Concession

(Carnarvon 20%, Loyz Energy 20% and Towngas 60% and Operator)

No drilling occurred in this Concession during the quarter.

L44/43 Concession

(Carnarvon 20%, Loyz Energy 20% and Towngas 60% and Operator)

WBEXT-3E

The WBEXT-3E well was a successful appraisal well that intersected an igneous reservoir in the same fault block as the WBEXT-3C and WBEXT-3D wells. The well was placed on test and free flowed clean oil at an initial rate of 600 to 700 bopd. The well was put into production at deliberately restricted flow rates and over the quarter has produced around 30,000 barrels of oil with negligible water produced.

WBEXT-3ST1

The WBEXT-3ST1 well was drilled in a smaller fault block immediately to the west of the WBEXT-3C/3D/3E fault block. Although the well had good oil shows, upon completion the well flowed sub-commercial rates at only 5-10 bopd. Analysis suggests the well was drilled into an area of poor reservoir development.

Corporate / Financial

The Company's cash holdings at the end of the Quarter were A\$48.5 million, compared to A\$50.5 million at the end of the previous Quarter. These balances include cash held as security in relation to bank guarantees and minimum cash holding requirements by Thailand authorities.

Net revenue for the quarter was A\$7.5 million on 76,177 bbls of oil sold, generating a positive operating cash flow of A\$5.9 million from the L44/43 and L33/43 Concessions in Thailand, before the net half-year tax payment of A\$2.7 million.

Separate from the above, A\$6.1 million was spent on exploration and development costs during the quarter. This includes A\$4.6 million, which reflects Carnarvon's share of the Phoenix South-1 drilling costs in excess of the well cost cap. In addition, A\$1.5 million was spent on drilling and site preparation activities in the Concessions in Thailand.

During the quarter, the Company spent A\$3.4 million on technical work, new ventures and corporate costs, including \$1.5 million licencing new 3D seismic data on the North West Shelf of Western Australia.

Key Statistics	Units	Current Quarter	Previous Quarter
Capital			
Share price (ASX code: CVN)	¢/share	23.0	7.5
Listed option price (ASX code: CVNO)	¢/share	13.5	3.5
Shares on Issue	m shares	987	987
Market capitalisation	A\$m	227	74
Cash	A\$m	48.5	50.5
Debt	A\$m	None	None
Production			
Oil produced (net to Carnarvon)	bbls	76,177	73,009
Average oil produced (gross field)	bopd	4,140	4,012
Average sale price	A\$/bbl	97.86	100.79
Cash flows			
Net sales revenue	A\$m	7.5	7.2
Production operating costs	A\$m	(1.6)	(1.6)
Taxes	A\$m	(2.7)	(0.2)
Operating cash flow before tax			
	A\$m	3.2	5.4
Technical, new ventures and corporate costs	A\$m	(3.4)	(1.8)
Exploration and development costs (including drilling)	A\$m	(6.1)	(2.0)
Foreign currency translation gain / (loss)	A\$m	3.6	(0.7)
Adjusted net sales revenue	A\$m	-	(0.5) ¹
Thailand asset sale net of working capital and costs	A\$m	-	28.9
Net cash received from joint ventures	A\$m	0.7	-
Net cash flow	A\$m	(2.0)	29.3

Notes to Operating cash flows before tax

¹ Cash received during the June quarter was \$0.5m less than recorded sale revenue due to timing differences in receipt of revenue as a result of increased production between the March and June quarter.

Abbreviations

A\$	Australian dollars
Bopd	Barrels of oil per day
Bwpd	Barrels of water per day
Bbls	Barrels of oil
CVN	Carnarvon Petroleum Limited
JV	Joint Venture
Km	Kilometres
Km2	Square kilometres
m	Millions
Qtr	Quarter
Tcf	Trillion cubic feet (gas)
2D	Two dimension seismic data
3D	Three dimensional seismic data
WBEXT	Wichian Buri field extension area
WBV	Wichian Buri igneous reservoir in which there is three key igneous zones
L33	L33/43 exploration Concession which is to the north of the L44/43 exploration Concession
ST	Sidetrack well
SW1A	This is a small exploration Concession within the larger L44/43 exploration Concession
Tcf	Trillion Cubic Feet
US\$	United States of America dollar

About Carnarvon Petroleum

Carnarvon Petroleum Limited (Carnarvon) is a Perth based company listed on the Australian Securities Exchange (ASX: CVN). The Company's principal activity is oil and gas exploration and production.

Carnarvon's objective is to create material returns on its shareholder's investments, through delivering profitable and sustainable growth from the development, exploitation and commercialisation of oil and gas assets.

Carnarvon is focused on oil & gas exploration in the world-class province of the North West Shelf area off the coast of Western Australia, and is producing oil from onshore assets in Thailand.

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