

Q2



Quarterly Report
31 December 2013
Carnarvon Petroleum Limited



Key points during the quarter

- Phoenix South-1 and Roc-1 (contingent) wells are fully carried to an increased US\$70m each
- Apache granted an option to acquire a 40% interest in two additional Phoenix blocks
- Phoenix South-1 well in Western Australia scheduled to spud in the June 2014 quarter
- Oil production in Thailand was steady at 46,461 barrels net to Carnarvon
- Cash holdings were A\$21m at the end of the quarter, with an additional A\$1.5m oil sales received on 2 January 2014.

Managing Director's comments

During the quarter Carnarvon took decisive measures to ensure that the Company was fully funded for the drilling of the high impact Phoenix South-1 well on the North West Shelf, Western Australia. The Company did this by offering existing shareholders the right to participate in an entitlement issue with an attaching free listed option. Through its close relationship with the oil and gas major, Carnarvon also finalised an agreement wherein Apache will pay additional amounts (increased to gross cost caps of US\$70MM) in each of the Phoenix South-1 well and the contingent Roc-1 well. Apache will consequently earn an option to expand their involvement in the greater Phoenix area in WA-436P and WA-438P.

Carnarvon is now in the position where, in the event of success, it will have a world class operator in Apache working four contiguous blocks with two key wells being fully funded and material equity across this acreage being held.

Carnarvon is also confident that Apache is committed to ensure the Phoenix South-1 well is drilled with its contracted rig, within the commitment timeframe, having regard to minimising the impact of cyclone activity on drilling operations.

Based on the above the Company is in a very strong position financially leading into the drilling of this well and potentially the Roc-1 well. The strong financial position of the Company meant the Board has resolved not to place any shortfall in the entitlement offer.

In Thailand, Carnarvon is pleased that the first of the wells drilled in the current campaign resulted in additional oil production. During the quarter the joint venture also worked through a number of initiatives to increase production resulting in some wells being shut-in for workover related activities. Hence despite an increase in sandstone oil production as a direct result of the water flood project, and the contribution from the well completed late in the quarter, overall production was slightly lower when compared to the previous quarter. We look forward to improvements in production as a result of the ongoing drilling campaign, continued improvement due to the water flood project, and the results from the workover campaigns in the coming quarters.

With current production generating surplus cash flows, and underpinning enterprise value, increasing Thailand production will deliver extra cash flow to explore and develop new asset opportunities in the future.

In summary, Carnarvon offers shareholders a unique investment proposition across its Australian and South East Asian asset portfolio, with stable production underpinning exposure to world class exploration opportunities.

Adrian Cook
Managing Director

Western Australia (North West Shelf)

WA-435-P and WA-437-P permits

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

During the quarter all remaining Government approvals were secured and well planning was completed for the drilling of the Phoenix South-1 well in WA-435-P.

Additional well cost funding was secured during the quarter through an agreement with Apache. Apache agreed to fund an additional US\$20m for the Phoenix South-1 well and the Roc-1 well (contingent). Consequently, both wells will be funded to US\$70m (gross cost per well) by Apache and JX Nippon with this being the success case estimate for the Phoenix South-1 well.

Carnarvon retains its 20% interest in both wells that are contained within WA-435-P and WA-437-P respectively.

Having regard to timing of the rig release from Woodside and other Apache operational activities, Apache advised on 9 January 2014 that it was scheduling the commencement of the Phoenix South-1 well in the June 2014 quarter. This significantly reduces the risk of cyclones affecting the Phoenix South-1 operations and ensures Carnarvon is strongly funded through the drilling of this well.

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

(Carnarvon 50%, Finder Exploration 50% and Operator)

During the quarter, Carnarvon and Finder Exploration Pty Ltd (Finder) agreed to grant Apache an option to acquire a 40% interest and operatorship in WA-436-P and WA-438-P (20% from Carnarvon and 20% from Finder), for a nominal consideration to be exercised on or before 3 July 2014. Upon Apache exercising the option, Carnarvon will hold 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 (contingent) and, on exercise of the option, secure a world class operator in Apache for these permits.

WA-443-P permit

(Carnarvon 100% and Operator)

Carnarvon continued to interpret and study existing seismic data in this permit during the quarter.

WA-399-P permit

(Carnarvon 13%, Apache Energy Limited 60% and Operator, Jacka Resources 15% and Rialto Energy 12%)

The joint venture parties confirmed their intention to withdraw from the permit on the grounds of insufficient prospectivity following a detailed review of newly acquired 3D seismic data.

Thailand

L20/50 Concession

Siam Moeco notified Carnarvon that they intend to relinquish this block prior to exploration drilling. As a result the block will revert back to the government and Carnarvon's commercial agreement with Siam Moeco over this block will lapse.

L52/50 & L53/50 Concessions

(Carnarvon 100% and Operator - *subject to Government approval of recent 50% interest transfer*)

Carnarvon continued its technical work and progressed environmental approvals while seeking a partner to join the Company in drilling two wells including the Ta Chana prospect.

L33/43 concession - Thailand

(Carnarvon 40% and Towngas 60% and Operator)

The joint venture continued its planning for a mix of development drilling into the shallow igneous reservoirs and exploration drilling into the deeper igneous reservoirs with intent to commence drilling in early 2014 on newly acquired and processed 3D seismic data.

L44/43 concession - Thailand

(Carnarvon 40% and Towngas 60% and Operator)

Water injection project

During the quarter 18,000 barrels of water was injected into the reservoir with the result that oil production from the fault block ceasing their decline profile and commenced increasing from around 100 bopd to around 140 bopd. The joint venture continues to optimise the process of water injection.

WBEXT-2BST2 well

The WBEXT-2BST2 well was completed during the quarter with good oil shows in the igneous 1 and igneous 2 reservoirs. Production commenced in the last week of the quarter from the deeper igneous 2 reservoir at rates of around 175 bopd with 40 barrels per day of produced water and 500,000 scf/day of gas. This well was completed up-dip of the WBEXT-2C well.

WBEXT-4C well

The WBEXT-4C well targeted similar reservoirs to the nearby WBEXT-2C and WBEXT-2BST2 wells in a contiguous but untested fault block.

As at the end of the quarter the well had drilled to a depth of around 1,000 m and the rig was preparing to set intermediate casing.

Production

During the quarter a number of wells were shut-in for operational reasons relating to pressure build-up for long term well testing, workover activities associated with regular maintenance, wells shut-in for drilling activities and wells shut-in for water flood project testing and workovers. The deferment of oil from these shut-in wells was not fully mitigated by increases in rates due to the water flood project and production from the newly drilled well WBEXT2B-ST2 as the latter was only producing for the last week of the quarter.

Corporate / Financial

The Company's cash reserves at the end of the quarter were A\$21.0 million, compared to A\$19.9 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\$4.7 million on 46,461 bbls of oil sold, generating a positive operating cash flow before tax of A\$2.6 million from the L44/43 and L33/43 concessions in Thailand.

Separate from the above, A\$1.4 million was spent on drilling and site preparation activities in the concessions in Thailand and A\$1.9 million on technical work, new ventures and corporate costs. The new ventures expenditure included the acquisition of a large North West Shelf data set of approximately A\$0.5m.

The entitlement offer completed during the quarter produced proceeds of A\$3.1m. Following this result, the increase in the cost cap of Phoenix South-1 to US\$70m and the revised expected drilling date falling outside the cyclone season, the Company does not intend to place any entitlement offer shortfall.

Key Statistics	Units	Current quarter	Previous quarter
Capital			
Share price (ASX code: CVN)	¢/share	6.4	6.5
Listed option price (ASX code: CVNO)	¢/share	2.2	N/A
Shares on Issue	shares	986,565,952	935,383,501
Market capitalisation	A\$m	63	61
Cash	A\$m	21.0	19.9
Debt	A\$m	None	None
Hedging	A\$m	None	None
Production			
Oil produced (net to Carnarvon)	bbls	46,461	48,299
Average oil produced (gross field, CVN 40%)	bopd	1,263	1,312
Average sale price	A\$/bbl	101.48	102.07
Cash flows			
Net sales revenue	A\$m	4.7	4.9
Production operating costs	A\$m	(2.1)	(2.2)
Operating cash flow before tax			
	A\$m	2.6	2.7
Technical, new ventures and corporate costs	A\$m	(1.9)	(1.3)
Exploration and development costs (including drilling)	A\$m	(1.4)	(2.0)
Foreign currency translation gain / (loss)	A\$m	0.2	(0.6)
Thai petroleum income tax	A\$m	-	(1.2)
Adjusted net sales revenue	A\$m	(1.5) ¹	1.4 ²
Entitlement offer proceeds	A\$m	3.1	-
Net cash flow	A\$m	1.1	(1.0)

¹ A\$1.5m of November 2013 sales revenue were received on 2 January 2014 and is not included in total cash of A\$21.0 million for 31 December 2013.

² Note A\$1.4m of May 2013 sales revenue was received on 2 July 2013 and is not included in total cash of A\$20.9 million for 30 June 2013, however is included in total cash for 31 September 2013.

Abbreviations

API	American Petroleum Institute gravity measure
A\$	Australian dollars
AVO	Amplitude Versus Offset (geophysics)
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 dollars

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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