

Q3



Quarterly Report
31 March 2014
Carnarvon Petroleum Limited



March 2014 Quarter Highlights:

- Successful drilling operations in Thailand
- Oil production in Thailand increased 28% quarter on quarter to 59,383 barrels net to Carnarvon
- Sale agreement signed for half of Carnarvon's Thailand interests for consideration up to US\$65 million
- Cash steady at \$21 million, with zero debt
- Independently assessed Thailand oil field reserves are in line with prior year:
 - Proved reserves of 3.2 million barrels net to Carnarvon
 - Proved and probable reserves of 11.8 million barrels net to Carnarvon

Managing Director's comments

The sale of half of Carnarvon Petroleum's 40% interest in its oil producing assets in Thailand in March 2014 was a standout result for all involved. The deal provides the Company with an additional US\$30 million on completion (excluding a working capital adjustment of US\$3 million), whilst retaining upside exposure to future improvements in Thailand production through a royalty of up to US\$32 million and our retained 20% interest.

Following completion of the sale, Carnarvon expects to have cash of approximately A\$50 million with no debt or hedging, and minimal commitments. The additional cash puts the Company in a strong financial position for success in the Phoenix South-1 well and alleviates market concerns about needing to raise additional capital in the short term.

Production in Thailand is performing very well and as announced on 13 March 2014, flow rates are now deliberately being restrained to preserve the longevity of the new wells. This is a new approach to managing these types of wells and we're keen to see if they perform as expected over the long term, and importantly, slow the ingress of water, which has been a problem for this field in the past.

We have recently taken a number of important steps to enhance the corporate profile and communication with shareholders and key stakeholders. I'm pleased to report this is already having a positive impact in the market. In this regard, shareholders are encouraged to subscribe to Carnarvon's email service that can be done via the Company's web site.

Finally, in regards to the timing of the Phoenix South-1 well, Apache reaffirmed plans to commence the well in late May or June this year. This timing is consistent with that previously advised to the ASX. While the exact timing of our well depends on Apache's progress in drilling of the Brunello development well, importantly the rig is now in Apache's control.

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)

Additional well cost funding has been secured through an agreement with Apache. Apache agreed to fund an additional US\$20m for each of the Phoenix South-1 well in WA-435-P and the Roc-1 well (contingent) in WA-437-P. 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.

Apache recently advised 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)

In the previous 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). 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 intends to withdraw from the permit based on insufficient prospectivity following the technical work performed on the area.

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

Oil production

(Carnarvon 40% and Towngas 60% and Operator)

During the Quarter a total of six wells were drilled, completed and commenced flow-testing.

At Quarter end, the production from the field was being deliberately limited to around 3,000 bopd.

For the June 2014 quarter it is anticipated that two wells will be drilled and completed to finish the current drilling campaign. The results from the campaign will be integrated into the seismic and geological interpretations and used as the basis for further drilling.

The joint venture is currently undertaking technical work and planning for the next drilling campaign, that is likely to commence in the September 2014 Quarter, with a further eight to twelve wells to be drilled in 2014.

Reserves

On 31 March 2014 the Company advised proved reserves were 3.2 million barrels net to Carnarvon and that proved and probable reserves were 11.8 million barrels net to Carnarvon as at 31 December 2013.

The reserves information contained in this report concerning the SW1, L33/43 and L44/43 fields are summaries of the reports filed by the Company on the ASX on 31 March 2014 which was released on the relevant date with the written consent of Mr C Chapman, President of Chapman Petroleum Engineering Ltd. Mr Chapman has a Bachelor of Science Degree, is a member of the Australian Mining and Metallurgy and has more than 25 years relevant experience. The Company is not aware of any new information or data that materially affects the information included in the relevant market announcements and confirms that all of the material assumptions and technical parameters underpinning the estimates in the relevant announcements continue to apply and have not materially changed.

L33/43 concession

(Carnarvon 40% and Towngas 60% and Operator)

L33-2D well

The L33-2D well intersected good quality reservoir with flow rates of between 20 and 50 bopd and associated water of around 400 bwpd. Post the quarter end the L33-2D well was deepened with testing yet to commence.

L44/43 concession

(Carnarvon 40% and Towngas 60% and Operator)

WBEXT-4C well

The WBEXT-4C well intersected good quality reservoir with excellent pressure and flowed several barrels of oil during clean-up operations before the bottom section of the well collapsed. Post Quarter end, the well has been the subject of several work-overs with no results to report at this time.

WBEXT-4BST1 well

The WBEXT-4BST1 well intersected the igneous reservoir with good oil shows but initial testing resulted in high water cut oil at sub-commercial rates. Following re-completion into the overlying sandstone reservoirs the well is flowing around 50-60 bopd with negligible water.

WBEXT-2AST2 well

The WBEXT-2AST2 well intersected the igneous reservoir with sub-commercial flow rates.

WBEXT-3C well

The WBEXT-3C is a deviated development/appraisal well located in the WBEXT production area, to the north of the Wichian Buri Field. Initial testing was successful with the well testing at rates up to 3,500 bopd. To reduce the chance of early water incursion due to water coning, the flow rate has been deliberately reduced.

WBEXT-5A well

The WBEXT-5A well is an exploration well drilled to intersect the sandstones to the east of the current WBEXT production area. The well successfully intersected several sandstones and has been put on 90 day test with rates around 80-100 bopd with no water.

WBEXT-3D well

The WBEXT-3D well is a follow-up to the WBEXT-3C well, in the same fault block but interpreted to intersect the igneous V1 reservoir around 20m up dip.

At Quarter end this well was drilling ahead with completion and testing operations underway at the time of writing.

Water injection project

During the quarter around 28,000 barrels of water were injected into the reservoir and encouragingly water production from the fault block remains low. The reservoir continues to pressure up and the joint venture anticipates future production increases as the project is optimised. To date the water injection process has arrested the previous natural field decline and marginally improved production results from the first few months of operation. The operator is undertaking additional field work intended to further lift production, in addition to that from continued water injection.

L52/50 & L53/50 Concessions

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

In February 2014, Carnarvon advised the Thailand authorities of its intention to withdraw from the L52/50 and L53/50 Exploration Concessions in Southern Thailand.

Carnarvon was unable to secure a suitable farm-in partner to join the Company in drilling two wells in these Exploration Concessions. As previously outlined to shareholders, Carnarvon's intention was not to commit to these wells without a farm in partner. Accordingly, the Board has indicated its intention to return these Concessions to the Government of Thailand in good standing.

Corporate / Financial

The Company's cash reserves at the end of the Quarter were A\$21.2 million, compared to A\$21.0 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\$6.2 million on 59,383 bbls of oil sold, generating a positive operating cash flow before tax of A\$4.0 million from the L44/43 and L33/43 concessions in Thailand.

Separate from the above, A\$4.4 million was spent on drilling and site preparation activities in the concessions in Thailand and A\$1.2 million on technical work, new ventures and corporate costs. The company also received a cash offset of \$0.7m for research and development and a \$1.1m corporate deposit during the quarter.

Key Statistics	Units	Current quarter	Previous quarter
Capital			
Share price (ASX code: CVN)	¢/share	8.8	6.4
Listed option price (ASX code: CVNO)	¢/share	4.2	2.2
Shares on Issue	m shares	987	987
Market capitalisation	A\$m	87	63
Cash	A\$m	21.2	21.0
Debt	A\$m	None	None
Hedging	A\$m	None	None
Production			
Oil produced (net to Carnarvon)	bbls	59,383	46,461
Average oil produced (gross field, CVN 40%)	bopd	1,650	1,263
Average sale price	A\$/bbl	103.70	101.48
Cash flows			
Net sales revenue	A\$m	6.2	4.7
Production operating costs	A\$m	(2.2)	(2.1)
Operating cash flow before tax			
	A\$m	4.0	2.6
Technical, new ventures and corporate costs	A\$m	(1.2)	(1.9)
Exploration and development costs (including drilling)	A\$m	(4.4)	(1.4)
Foreign currency translation gain / (loss)	A\$m	0.3	0.2
Adjusted net sales revenue	A\$m	(0.4) ¹	(1.5) ²
Entitlement offer proceeds	A\$m	-	3.1
Research and development	A\$m	0.7	-
Corporate deposit	A\$m	1.1	-
Net cash flow			
	A\$m	0.2	1.1

¹ \$1.5m of November 2013 sales revenues were received during the quarter and was included in cash of \$21.2m. Additionally, \$1.9m of March 2014 sales revenue will be received in April which is not included in cash of \$21.2m resulting in a net revenue timing adjustment of \$0.4m for the quarter

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

Abbreviations

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
L44	L44/43 exploration Concession
L33	L33/43 exploration Concession which is to the north of the L44/43 exploration Concession
ST	Sidetrack well
SW1	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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