

Q2

**CARNARVON**
PETROLEUM LTD

Quarterly Report
31 December 2014
Carnarvon Petroleum Limited



Quarter Highlights:

- Roc-1 exploration well planning is in progress with the well funded to US\$70 million (gross) by way of 2012 farm out to Apache and JX Nippon
- Greater Phoenix area assessment commenced with new seismic acquisition program commencing in the March 2015 Quarter
- Phoenix South-1 well results analysis to assess recoverable volumes progressed
- Acquired EP-475-P which adds to the number of leads and prospects in Cerberus area
- Thailand oil production increased 11% (Q/Q) to an average 4,624 bopd (gross) (CVN:20%)
- Executed agreement to divest remaining 20% interest in Thailand for approximately US\$58.2m
- Carnarvon well-funded with cash of A\$52.4 million plus a US\$32 million receivable from oil receipts and zero debt

Managing Director's Comments

Our business focus is to discover new oil and gas reserves on the North West Shelf. As you can see from the highlights above we made solid progress last quarter and we are keen to understand the potential recoverable volumes of oil at Phoenix South-1, and communicate those results to the market as soon as possible.

Drilling the Roc-1 well is the key exploration event for Carnarvon in 2015 and Apache are committed to spudding the Roc-1 well in 2015. At present, a rig has been booked and its availability remains subject to variation depending on the priorities of other parties. At present, we are unable to confirm a specific date for spudding the Roc well, but we will provide an update once a date is confirmed with Apache.

If the Roc-1 well encounters oil, as we hope, then we will have confirmed a number of oil bearing structures (Phoenix, Phoenix South and Roc) in close proximity and provide a solid base for exploring the broader hydrocarbon potential of this new emerging oil province in the Bedout Sub Basin. So while our short term focus is on validating, and hopefully replicating, the Phoenix South-1 well results, our longer term focus is on planning our future regional exploration activities.

Our oil production assets in Thailand are very low cost operations and remain profitable, despite the decline in oil prices over the past 6 months. First oil production in the Phoenix area won't be for a number of years and so current oil prices are expected to have only a minimal impact on our balance sheet and no impact whatsoever on our exploration focus.

Global crude supply exceeds demand by approximately 2 million barrels of oil per day (roughly 2% of global production) which in simple terms is why we're seeing the fall in oil prices. This is expected to correct itself in due course as the economics force higher cost producers into reducing marginal and unprofitable production and for supply and demand to return to balance. I agree with US Government predictions that weak oil prices will continue until the supply and demand equilibrium is restored later this year.

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)

The WA-435-P exploration permit (along with WA-436-P, WA-437-P & WA-438-P) was acquired by Carnarvon Petroleum and Finder Exploration in a government gazettal round in 2009.

The Phoenix MC3D was acquired in 2010/11 and covered an area of approximate 1,100 km², enveloping the Phoenix-1 well drilled in 1980 by BP, with reported gas shows throughout tight sands in the reservoir objective.

Apache and JX Nippon farmed into the permit in 2012 and the Phoenix MC3D data was reprocessed in 2013 before drilling Phoenix South-1.

The Phoenix South-1 prospect was high graded for drilling and was the first well to be drilled in the area for around 30 years and still only the eighth well in a basin area of around 22,000 km².

The Phoenix South-1 well was spud in May 2014 and drilling was completed in late August, with the well reaching a total depth ("TD") of around 4,595m. An overall sand rich package between 4,160m and TD showed elevated C1-C5 gas readings and fluorescence, similar to the Phoenix-1 well.

Interpretation of readings from the wireline and LWD logging tools indicated a similar result as the untested Phoenix-1 well of gas charged hydrocarbon sands. However six oil samples were recovered from the well using a wireline formation evaluation tool proving an oil discovery at the Phoenix South-1 well.

The oils recovered are light black oils with API gravities of 46 to 48 degree, which is high quality oil. Reservoir permeability inferred from pressure build-up during oil sampling ranges from tens to hundreds of millidarcies. The ability for oil to flow from the reservoir is demonstrated by the recovery of these six oil samples, as well as being supported by the reservoir permeability results is indicative of a productive oil reservoir. The oils are significantly under-saturated and there is no indication of a primary gas cap.

Technical work is still ongoing to determine the reservoir's commercial deliverability and ultimately recoverable volumes.

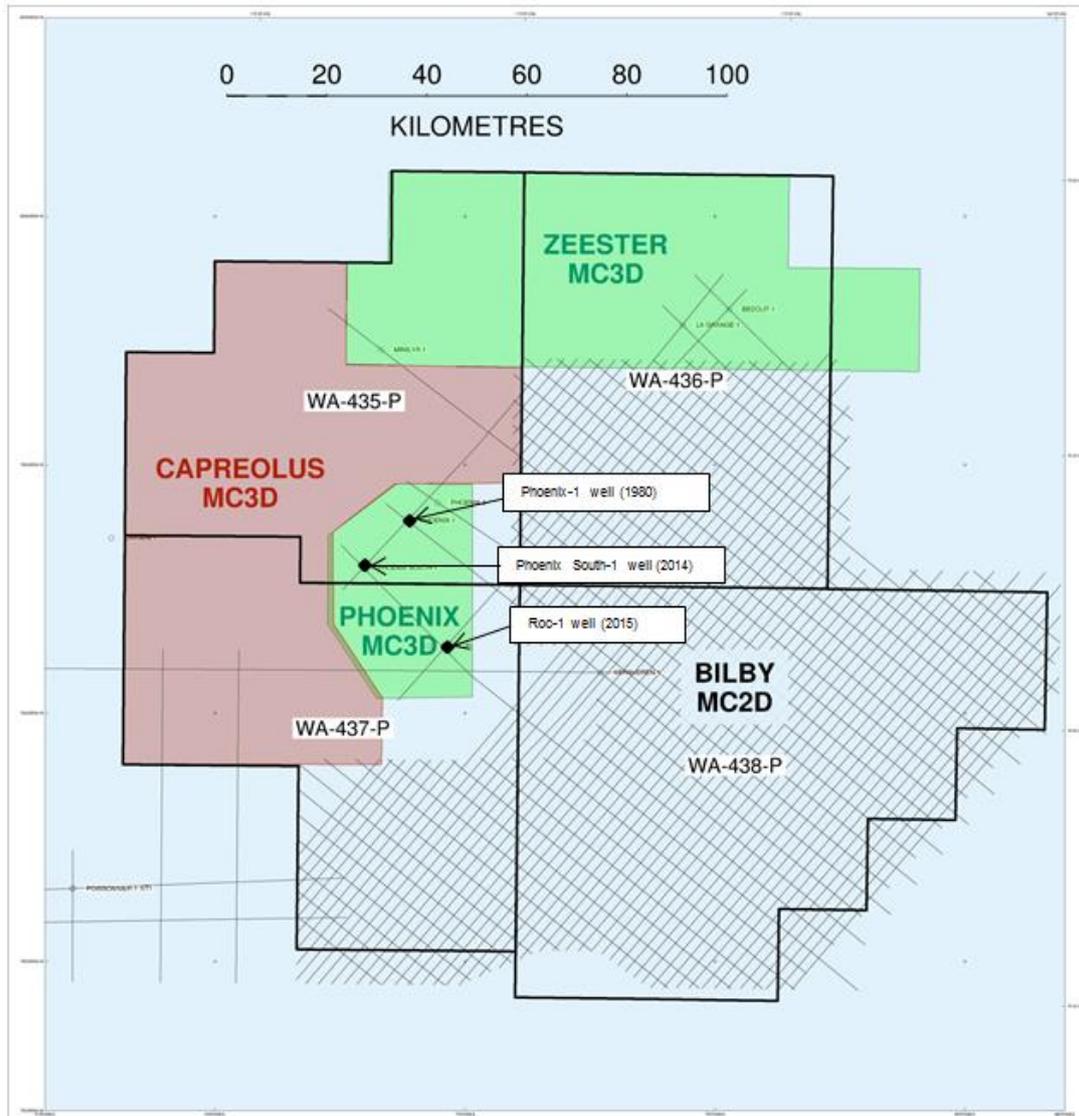
Notwithstanding that the full results of the Phoenix South-1 well are not yet available; recovery of oil from this oil discovery well supports an active oil dominated petroleum system in an area previously thought to be a gas province.

New 2D and 3D seismic data is being acquired as announced on 13 January 2014 and the results are expected to support follow-up drilling in 2015 and beyond.

The proven Lower Keraudren play will be the initial focus of future regional exploration and drilling, however several other plays have been identified within the sub-basin that have the potential to be charged by the same source rocks, including deeper Permian and shallower Lower to Middle Jurassic age reservoirs.

The discovery of oil at Phoenix South-1, in area thought to be gas prone and undrilled for over a quarter of a century, demonstrates the ability to find hydrocarbons in neglected areas of the North West Shelf of Western Australia. The particular discovery of oil in the deeper and older Lower Keraudren reservoir

highlights the ability for other similar sparsely explored blocks, such as Carnarvon’s Cerebrus blocks discussed below, to unlock the potential oil and gas reservoirs long overlooked by others in the industry.



Map showing the seismic acquisitions being undertaken by Carnarvon and its joint venture partners

WA-437-P permit

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

The discovery of oil at Phoenix South-1 in the adjacent WA-435-P permit and further detailed technical work on the existing datasets has resulted in a vastly revised view of prospectivity as evidenced by the updated prospects and leads map across WA-437-P and adjacent permits.

Within the already acquired Phoenix MC3D area a number of prospects had been identified and the Joint Venture has confirmed the Roc-1 well is to be drilled in 2015.

The Roc prospect is interpreted to be both larger and shallower than Phoenix South-1, and is the next major geological structure along the spill chain from Phoenix South, and is consequently expected to be similarly oil charged.

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.

Further prospectivity for exploration beyond 2015 will be enhanced by the acquisition of the Capreolus MC3D and Bilby MC2D seismic survey in 2015.

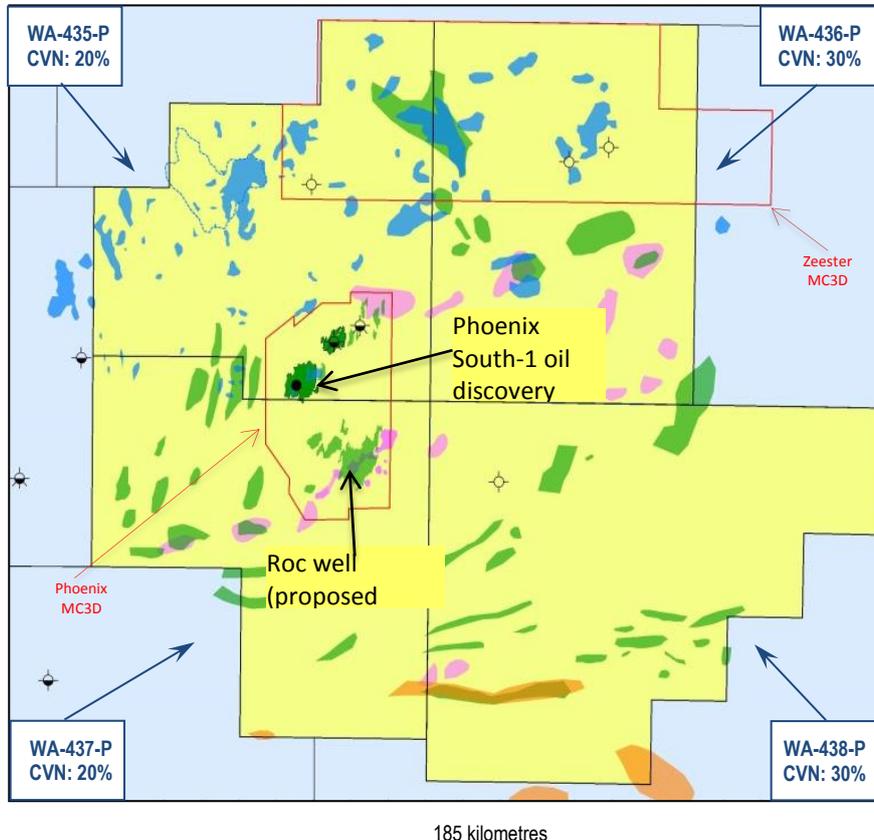
WA-436-P and WA-438-P permits

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

A second 3D seismic survey covering WA-436-P and WA-435-P (after the Phoenix MC3D) was the Zeester MC3D acquired in 2011/2012. This survey covers an area of 3,854 km² and incorporates the Bandy lead in WA-436-P. The current Joint Venture partners have licensed this data following the success of the Phoenix South-1 well.

Additionally, the previously mentioned Bilby MC2D will acquire modern 2D seismic data over most of the remaining acreage holding.

Collectively the new data will provide important new insights regarding the regional geology and its prospectivity. The objective will be to use this data to identify new and refine currently identified prospects and leads for possible future drilling.



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

EP-490-P and TP/27 and EP-491-P permit (“Cerberus Blocks”)
(Carnarvon 100%)

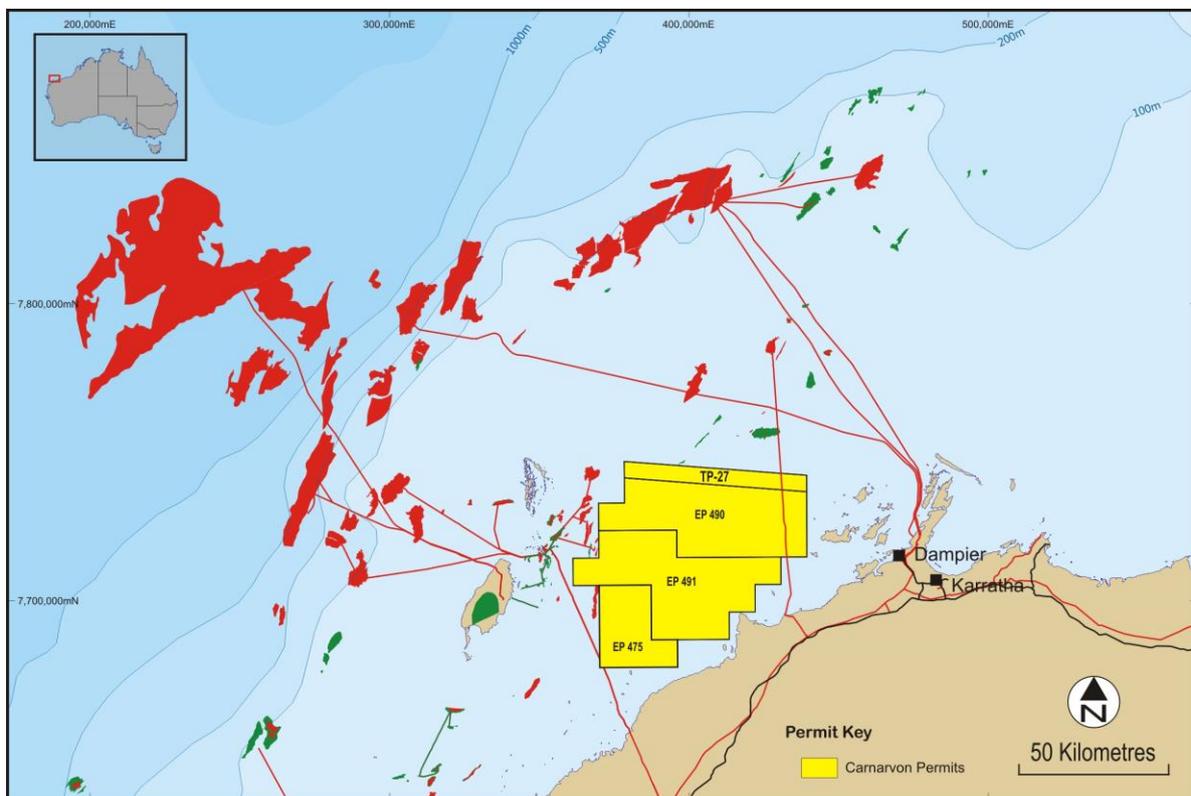
In late May 2014, Carnarvon was awarded three contiguous blocks on the eastern flank of the prolific oil producing Barrow Sub basin – Petroleum Exploration Permit EP-490, TP/27 and EP-491– now known within Carnarvon as the Cerberus Permits. Carnarvon is Operator and 100% working interest holder in these blocks that cover a total area of around 3,200 km².

Carnarvon was awarded these blocks as part of the government’s gazettal process. The blocks were attractive because of their proximity to a known oil producing province, and importantly, they were acquired with minimal cost commitments in the primary term with drilling not required until the fourth year of the work program, being a discretionary commitment.

With the aid of modern 3D seismic data, which has recently been acquired and reprocessed, Carnarvon’s technical team has already identified a number of material oil prospects. Three large prospects have been high-graded for near-term drilling. Numerous additional leads and prospects have been identified in multiple play types, including the well-known Jurassic play, and an evolving play in the Permian and Triassic, which has been proven in the recent Phoenix South-1 well.

With a combination of shallow water depths (in the vicinity of 50m), and shallow depths to target ranging from 1000m to 2,000m sub-sea, drilling costs are expected to be manageable. Multiple development options exist due to shallow water depth, shallow target depth, proximity to shore and oil and gas production infrastructure nearby.

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.



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

EP-475-P permit
(Carnarvon 100%)

During the Quarter, Carnarvon entered into an agreement to acquire the EP-475-P exploration block at a nominal cost. The acquisition is currently subject to the standard government approvals.

EP-475-P is a shallow water block contiguous to and south of Carnarvon's Cerberus permits, and is an extension of the play types being developed in those blocks.

Similar to the Cerberus blocks, EP-475 is nearby and on-trend with undeveloped resources in Early Cretaceous sands and is in the vicinity of wells with significant oil and gas shows.

Since acquiring the exploration block Carnarvon has extended the seismic 3D coverage to include the outboard sections of WA-475-P and has begun the technical work required to high grade the leads in the block including Locker submarine canyon and fan traps. These types of structures have the potential to trap significant volumes of hydrocarbons.

Evidence of a working petroleum system is supported by satellite seeps of hydrocarbons to surface and direct hydrocarbon indicators ("DHI") from the seismic data.

At the completion of the currently undergoing technical work Carnarvon will market this block to attract a partner in conjunction with the Cerberus blocks.

Thailand

Divestment of Thailand Assets

During the quarter Carnarvon entered into a Sale and Purchase Agreement (“SPA”) with the Berlanga Group to divest its remaining 20% interest in the Thailand oil production concessions.

As previously announced to market, the total cash consideration is approximately US\$58.2 million subject to final completion adjustments,

The effective date for the transaction is 1 October 2014 with completion currently scheduled on or before 16 February 2015. Completion remains subject to satisfying a number of standard terms and conditions, including receiving joint venture partners’ consents, executing completion documents and receiving payment of consideration.

Oil production

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

Production rates during the quarter averaged 4,624 bopd (gross), an 11% increase over the previous Quarter with continued drilling success. Four wells were drilled and completed through the Quarter with production at year end increasing to around 6,000 bopd (gross).

The strategy to flow fractured igneous wells at rates significantly below full capacity, in order to reduce the early onset of water incursion via coning, is continuing in 2015 with most of the wells drilled in 2014 being produced at rates around one half to one third of full capacity.

The operator has indicated further individual well rate reductions which will result in overall field production levels of around 5,000 to 5,500 bopd (gross) for the first quarter of 2015. The field production rates will be reviewed at the commencement of the next drilling campaign.

The 2014 drilling campaign has been safely and successfully completed. The wells drilled in 2014 have contributed to an increase in production from around 1,500 bopd (gross) in late 2013 to 2014 exit rate of 6,000 bopd (gross).

The drilling rig is currently stacked in Thailand with the 2015 drilling campaign of around 14 wells planned to commence at the beginning of the 2nd Quarter of 2015.

The Joint Venture has been granted a new production license to the East of the existing WBEXT production area. The granting of the "WBEXT East" production license has allowed the WBEXT-5A well to resume production. WBEXT-5A is a sandstone producer drilled in the 1st Quarter of 2014 targeting the sandstone around the original WBEXT-1F well and was drilled to increase the area of the overall production licenses. The well was shut-in at the completion of its original 90 day testing limit and has now resumed production in line with shut-in rates of around 50 bopd (gross) with nil water. In addition to the sandstone discovery, a number of igneous follow-ups to the WBEXT-3C fault block are expected to be targeted later this year within this new production area.

Exploration and Drilling

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

New 3D seismic survey is being acquired over the South East area of the L44/43 Concession. The total area for this new survey is around 166 km². Approval of the Environmental Impact Assessment (“EIA”) was granted in late November 2014 allowing the surveying to commence in December 2014. Drilling of the

explosive shot holes commenced in late December with acquisition planned to conclude by the end of February 2015.

This seismic survey covers the L44-R oil discovery which was drilled in 2008 and tested over 300 bbls of oil over a number of days but was deemed to be sub-commercial with high water cuts. This area was lightly covered by sparse 2D data making follow up appraisal difficult.

The new 3D will improve locating targets for appraisal drilling of the L44-R discovery and also highlight a number of exploration targets that have been identified from the existing 2D data in an area that is interpreted to be sourced from the same kitchen as the NSE and Si Thep oil fields.

L33/43 Concession

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

L33-6A

L33-6A is a deviated exploration well in the southern part of the L33/43 concession, outside of the production areas, and around 1km north of the producing wells in the WBEXT area. Around 40m of the targeted igneous section was intersected with the well, with oil shows being observed and high gas readings consistent with observations from the more southerly WBEXT-3C and 3D wells. The well was completed over the igneous section, however during testing operations the well only produced minimal amounts of water indicating a potentially tight reservoir at this location. The operator is reviewing the results of this well including an injectivity test to determine next steps. A number of follow up locations have been mapped in the vicinity of this discovery well.

L44/43 Concession

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

WBEXT-10B

WBEXT-10B is a directional appraisal well in the same fault block as WBEXT-3C/3D/3E. The well was drilled down dip of the original crestal production wells in order to test the extent of the oil column in this reservoir. The well was completed as a producer with oil shows on logs supported by observations of high gas readings. The well initially tested at rates up to 450 bopd (gross) but has since been choked back to current rate of around 300 bopd (gross) with nil water.

WBEXT-3F

The WBEXT-3F well was drilled in the WBEXT-3ST1 fault block and completed for testing. During drilling of this well there were reasonable oil shows through the thick igneous section but minimal gas shows and no losses. No fractures were identified from logging and while the well was put on test the well failed to flow hydrocarbons.

WBEXT-10C

The WBEXT-10C well was drilled and completed as an igneous producer, and the well has been tested at rates as high as 2,500 bopd (gross) with negligible water. The WBEXT-10C well was drilled in the same fault block as WBEXT-3C/3D/3E/10B. The igneous reservoir intersected by the WBEXT-10C well was significantly down dip of the other wells and below the interpreted structural closure and hence structural OWC, implying a stratigraphic component to the fault block. In line with current field practise, the well has been choked back from maximum potential to extend ultimate recovery and field life.

(* Subject to the completion of the Thailand Asset Divestment)

Corporate / Financial

The Company's cash holdings at the end of the Quarter were A\$52.4 million, compared to A\$48.5 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. In addition, this balance also includes A\$9.3 million of cash and deposits held in the L44/43 and L33/43 joint venture which will form part of the working capital completion adjustment as part of the Sale and Purchase agreement entered to during the quarter.

Net revenue for the quarter was A\$6.7 million on 85,086 bbls of oil sold, generating a positive operating cash flow of A\$5 million from the L44/43 and L33/43 Concessions in Thailand.

Separate from the above, A\$2.2 million was spent on drilling, site preparation and seismic acquisition activities in the Thailand Concessions. A\$1.6 million was spent on technical work, new ventures and corporate costs and A\$0.8 million was spent on exploration activities in the North West Shelf during the quarter.

Key Statistics	Units	Current Quarter	Previous Quarter
Capital			
Share price (ASX code: CVN)	¢/share	13.5	23.0
Listed option price (ASX code: CVNO)	¢/share	7	13.5
Shares on Issue	m shares	988	987
Market capitalisation	A\$m	133	227
Cash	A\$m	52.4	48.5
Debt	A\$m	None	None
Production			
Oil produced (net to Carnarvon)	bbls	85,086*	76,177
Average oil produced (gross field)	bopd	4,624*	4,140
Average sale price	A\$/bbl	77.44	97.86
Cash flows			
Net sales revenue	A\$m	6.7*	7.5
Production operating costs	A\$m	(1.7)*	(1.6)
Taxes	A\$m	-	(2.7)
Operating cash flow before tax	A\$m	5.0*	3.2
Technical, new ventures and corporate costs	A\$m	(1.6)	(3.4)
Exploration and development costs (including drilling)	A\$m	(3.0)*	(6.1)
Foreign currency translation gain / (loss)	A\$m	2.9	3.6
Adjusted net sales revenue	A\$m	0.6 ¹ *	-
Net cash received from joint ventures	A\$m	-	0.7
Net cash flow	A\$m	3.9	(2.0)

Notes to Operating cash flows before tax

*Subject to divestment as a result of the Sale and Purchase agreement announced on 4 December 2014, wherein the Effective Date for the transaction is 1 October 2014.

¹ Cash received during the June quarter was \$0.6m less than recorded sale revenue due to timing differences in receipt of revenue as a result of increased production between the September and December quarter.

Abbreviations

Bopd	Barrels of oil per day
Bwpd	Barrels of water per day
Bbls	Barrels of oil
OWC	Oil water contact
CVN	Carnarvon Petroleum Limited
JV	Joint Venture
Km	Kilometres
Km2	Square kilometres
m	Millions
Qtr	Quarter
Q/Q	Quarter on Quarter
Tcf	Trillion cubic feet (gas)
2D	Two dimension seismic data
MC2D	Multi-client 2D – seismic data acquired for multiple parties that require licensing
3D	Three dimensional seismic data
MC3D	Multi-client 3D – seismic data acquired for multiple parties that require licensing
WBEXT	Wichian Buri field extension area
NSE	Na Sanun East field production 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

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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