CEO Newsletter

3 March 2015

CARNARVON PETROLEUM LTD

Dear Shareholders,

Welcome to my first CEO Newsletter for 2015; a year which is already off to a flying start.

Our two-year transition into a North West Shelf focused oil and gas business reached a key milestone this month, after the successful completion of the sale of our remaining interests in the onshore oil production assets in Thailand. The deal was completed in the context of the oil price crashing from US$80 per barrel to under US$50 per barrel in the weeks prior to closing. Many shareholders may not appreciate the long hours of hard work and stress that goes on behind the scenes to secure a deal of this nature. I want to acknowledge the tremendous effort made by the Carnarvon deal team for delivering this great outcome in a very challenging market and to thank them for their hard work and professionalism.

With the proceeds of the sale of our Thailand assets now in the bank, Carnarvon is in a very robust financial position with over A$100 million cash, no debt and an income stream from future oil production of up to US$32 million. In addition, our next well, Roc-1, which is scheduled to be drilled in 2015, will have the projected drilling costs funded by other parties. In my view, this makes Carnarvon Petroleum a stand-out company in the Australian small-cap oil and gas sector.

It seems I'm not the only person who shares this view. On the back of our major oil discovery at the Phoenix-1 South well last year, I have been invited to give the keynote speech next month at the Australasian Oil & Gas (AOG) Conference, the largest annual oil and gas industry event held in the Southern hemisphere. Not surprisingly, the subject of my AOG speech is *"Discovering a new oil province on the North West Shelf"*. I will forward a copy of my speech to all CVN shareholders shortly, so you can gain some insights into how we are positioning our Company to achieve future growth and exploration success.

In this respect, we continue to work closely with our Joint Venture partners to progress the 5,000 km² 3D seismic program over the Phoenix Blocks, which we announced in January. This seismic data will give us a much better understanding of the structural geology of the Bedout Sub Basin and is expected to identify a multitude of new exploration targets. This data will augment the information we are starting to compile from the testwork being conducted by Apache on the Phoenix South-1 well, which will eventually build up a comprehensive geological understanding of the entire Sub Basin.

Unfortunately I can't provide any update on the progress of the Phoenix South-1 testwork. All I can say at this time is that the laboratory testwork being conducted by Apache is continuing, and we will provide an update to the market when we can.

While we wait for the testwork results and the 3D seismic data on Phoenix, we are developing our exploration thesis on the 100% owned Cerberus Project; comprising four contiguous blocks of approximately 3,700 square kilometres in the heart of the Carnarvon Basin. Given the proximity to established oil and gas production wells and onshore

processing and pipeline infrastructure, the Cerberus Project has attracted interest from a number of major oil and gas companies.

Clearly the current state of global oil market is creating some difficult conditions for oil producers, and is having a significant impact on exploration activities in big and small companies alike.

My view is that oil prices have fallen as a direct result of sustained increases in global production capacity and rising inventories, which has created an oversupply. It will take some time for the market to stabilize and reach equilibrium between supply and demand, which continues to be strong. In the meantime, we can expect to see higher cost oil producers cut their operating costs and boost production to preserve their margins, which could see further downward pressure on the oil price in the short-term.

In the medium to long-term, higher cost producers will drop their cost of production or be forced out of the market. We have already seen a 30% drop in the number of drill rigs deployed by the relatively high-cost US onshore shale oil drilling sector compared to last year, which suggests the US industry is responding quickly to the challenge of sustained low oil prices.

The inevitable consequence of this sort of downturn is that larger oil and gas companies shed jobs and projects to cut their costs, and this creates opportunities for opportunistic, nimble and well-resourced junior companies like Carnarvon, who aren't afraid to "think and act differently" to create value for shareholders.

In that context, our technical team is closely examining our regional data base for new projects to complement our existing North West Shelf project portfolio. Our feeling is that current market conditions provide an ideal opportunity for Carnarvon to secure new projects – not dissimilar to the conditions at the height of the 2009 Global Financial Crisis, when we secured the Phoenix acreage.

I'm pleased that we have made significant progress in our plans to build a successful North West Shelf oil and gas business and we're in very good shape to capitalize on current industry conditions. 2015 is off to a flying start and we aim to build on this early momentum.

I look forward to providing you with another CEO newsletter in due course and sharing my AOG speech with you later this month.

Yours faithfully

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