



CARNARVON
PETROLEUM LTD

Q1

Quarterly Report
30 September 2018



Quarter Highlights:

- Dorado oil discovery, considered to be the third largest in the history of the North West Shelf
- Hydrocarbons encountered in the Phoenix South-3 well
- Buffalo Project PSC discussions advancing with the Government of Timor-Leste
- A\$49.5 million held in cash at the end of the quarter after A\$15.7m exploration spend

Managing Director's Comments

This quarter represented the beginning of an immensely transformational period for Carnarvon. The Discovery of oil in the Dorado-1 well in the Bedout Sub-basin is an incredibly important milestone for Carnarvon. Dorado is considered to be the third largest oil discovery in the history of the North West Shelf of Australia and Carnarvon owns 20% of this oil field.

Carnarvon and its Joint Venture partner have now commenced appraisal and development planning for Dorado. In addition, there are highly promising follow-up prospects of similar characteristics to Dorado within tie back distance to the Dorado field. In particular, the Roc-South, Apus and Pavo prospects have the potential to deliver significant value to Carnarvon and its shareholders.

The Phoenix South-3 well was also completed during the quarter. The well encountered a large gross hydrocarbon column in the Caley reservoir. The Joint Venture is evaluating the sidewall core samples taken in the well to determine the commercial productivity of the reservoir in this well.

During the quarter, Carnarvon made encouraging progress in its production sharing contract (PSC) discussions with the Government of Timor-Leste in relation to the Buffalo Project. The PSC will have a particular focus on ensuring that Carnarvon's legal rights will be preserved through conditions equivalent to those already in place under Australian domestic law, as per the Maritime Boundary Treaty that was signed between Australia and Timor-Leste earlier this year.

Carnarvon also continued its well planning for the Buffalo Project, with the objective of drilling a well in late 2019. The discussions to date between Carnarvon and the Government of Timor-Leste have reinforced that all parties are aligned in their desire to achieve first oil as soon as practicable. Carnarvon looks forward to signing the PSC and progressing the oil field redevelopment plans, particularly in light of the appreciating price of oil.

I would like to welcome Mr Gavin Ryan who joined the Board of Carnarvon as a non-executive director. Mr Ryan is a lawyer with extensive legal and commercial skills gained through an international career with organisations such as BHP Petroleum, PTTEP and Shell. As Carnarvon moves towards an important period of growth for the Company, Mr Ryan's skills and experience are a valuable addition to the Board.

At the end of the quarter, the Company had a strong cash balance of A\$49.5 million. The primary source of the exploration expenditure during the quarter of A\$15.7 million were for the Dorado-1 and Phoenix South-3 wells.

Phoenix Project

(Carnarvon 20%-30%; Quadrant Energy is the Operator)

During the quarter Carnarvon and its Joint Venture partner made a significant discovery in the Dorado-1 well.

With 171 million barrels of 2C gross contingent oil resources discovered (refer to ASX announcement on 20 August 2018), Dorado is one of the largest oil resources ever found on the North West Shelf of Australia.

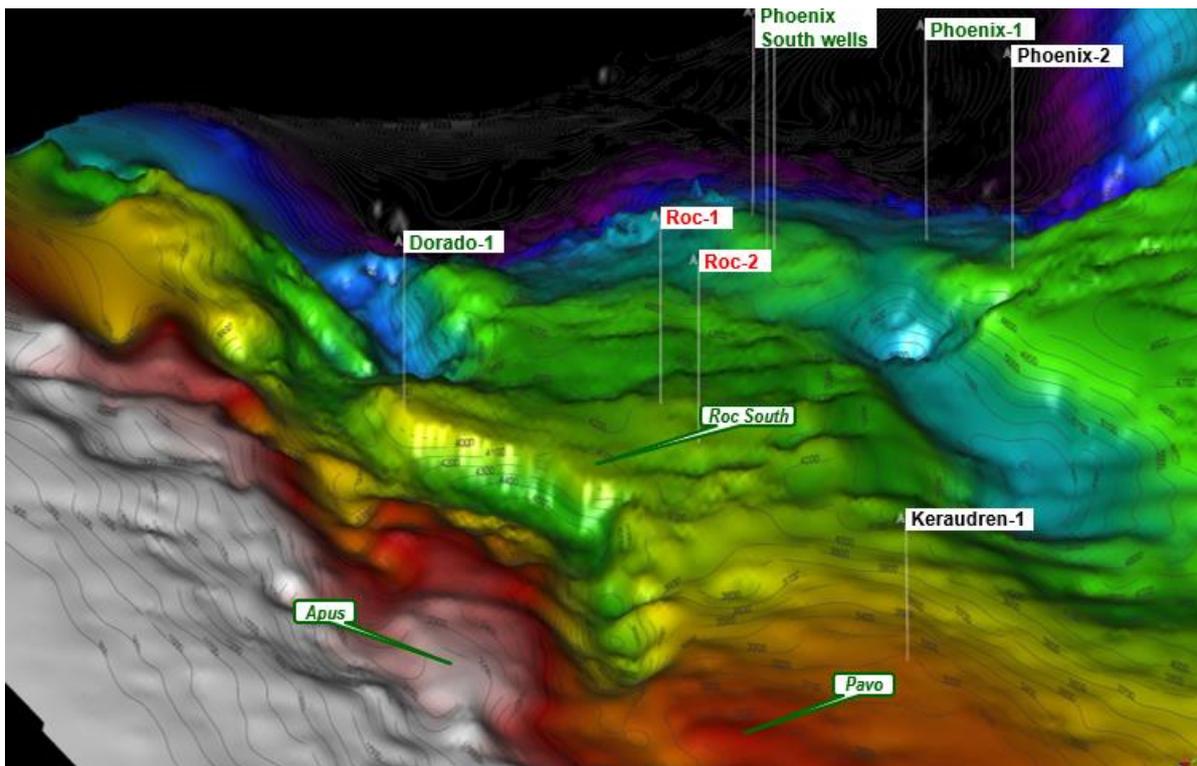
While significant in its own right, given a number of follow up targets including Roc South, Apus and Pavo, the greater area has the potential to add significant resources to those which have already been discovered.

The Dorado-1 well also discovered 552 billion cubic feet of gas and 16 million barrels of condensate on a gross 2C basis (refer to ASX announcement on 20 August 2018). When combined with the nearby Roc field, the aggregate resource has the potential to justify a separate gas and condensate development on the discovered 2C basis.

A key area of focus is currently on developing the Dorado oil discovery with the Joint Venture commencing preparations for Dorado appraisal. Additional technical work has also been initiated around the follow up targets.

The Phoenix South-3 well was also completed during the quarter with the well intersecting a large gross hydrocarbon column. The Joint Venture will continue to assess the commerciality of the discovery, with particular focus on the sidewall core samples taken in the well.

The Phoenix South-3 well was designed as a re-drill of the Phoenix South-2 well which was terminated earlier than planned due to well pressures encountered in the well. The completion of the Phoenix South-2 well control event allowed the Joint Venture to submit a successful insurance recovery claim. As part of the claim, the majority of the Phoenix South-3 well costs will be recovered. With the well now complete, the Joint Venture has begun working with the claims adjustor to finalise the settlement.



Top Triassic 3D depth visualisation of Carnarvon's well locations, discoveries and prospects in the Bedout Sub-basin.

Labyrinth Project – WA-521-P

(Carnarvon 100% and operator)

Carnarvon continued its farm-out process for the Labyrinth project to acquire a suitable partner to join the project and evaluate the significant oil prospects which have already been identified in the permit. The Labyrinth project is located in the Bedout Sub-basin in close proximity to Carnarvon's Dorado, Roc and Phoenix South discoveries.

Results from the Phoenix South-3 well in particular has enhanced the confidence of the Labyrinth play type. There is now a higher level of confidence for hydrocarbon charge for reservoirs above the Cossigny Limestone, due to the Phoenix South-3 well intersecting hydrocarbons at this level within the Late Triassic Cuvier Member.

With geological analysis identifying 1.5 billion barrels of recoverable prospective resource in the permit (refer to ASX announcement on 7 February 2018), the increased confidence in the presence of oil charged sands significantly de-risks the Labyrinth project. In particular, the standout Ivory prospect is estimated to contain 420 million barrels of mean recoverable oil (refer to ASX announcement on 7 February 2018).

Buffalo Project – WA-523-P

(Carnarvon 100% and operator)

Carnarvon continued its drilling preparations and project planning for the Buffalo oil field redevelopment through the quarter. This included Carnarvon revising and developing internal processes which will allow the Company to operate drilling and subsequent development and operational activities.

An Environmental Plan for the drilling of up to three wells was also submitted during the quarter.

Carnarvon and the Timor-Leste government agency Autoridade Nacional do Petróleo e Minerais (ANPM) continued Production Sharing Contract (PSC) discussions during the quarter. The terms of the PSC are to be agreed by all parties prior to the ratification of the Maritime Boundary Treaty (Treaty) between the Australian and Timor-Leste Governments. The Treaty provides that the terms of the PSC will be equivalent to the terms under Australian domestic law.

The meetings with the Government of Timor-Leste to date have demonstrated that all parties are aligned in wanting to achieve first oil as soon as practicable. Carnarvon will continue its discussions with the ANPM and will provide updates once the agreement is finalised.

The largest portion of the WA-523-P exploration permit however will remain under Australian jurisdiction. The Australian exploration area contains a number of exploration prospects, including both the shallow Jurassic prospects (the same play type as the Buffalo and Laminaria oil fields) and a deeper but as yet untested Triassic interval.

Maracas Project – WA-524-P

(Carnarvon 100% and operator)

During the quarter, Carnarvon completed its first interpretation of the Full Wave Inversion (FWI) reprocessed data over the Maracas Project. The FWI improves the quality of the existing seismic data. Similar techniques have been successfully applied in Carnarvon's Buffalo and Phoenix projects.

The technical work has identified numerous prospects including Maracas, Tyrico and Las Cuevas. These Permian level prospects are structural/stratigraphic traps which have similar geological characteristics to successful onshore Perth Basin discoveries. Carnarvon looks forward to providing further information in the coming months as it finalises its technical work.

The Maracas permit is located offshore of Dampier nearby existing infrastructure, producing fields and discoveries. With shallow water depths of 60m, the prospects within the Maracas project can be drilled with a cost-effective jack-up drilling rig.

Condor Project – AC/P62

(Carnarvon 100% and operator)

Carnarvon continued its technical work on the Condor project during the quarter. The Company has already identified various leads over multiple Jurassic and Triassic reservoir levels with similar properties to the nearby Challis oil field and Crux gas field.

In particular, the Vulture prospect is a Triassic intra-graben structure of a similar size to the Challis oil field. Located in 150 meters of water depth, the Company has also identified a secondary target which can be tested with the same well.

The Vulcan Sub-basin is a world class and proven oil and gas basin featuring the Montara, Jabiru, Skua and Challis oil fields. The basin is currently experiencing a renaissance which is being driven by new 3D seismic data. Carnarvon is utilising the high-quality Cygnus 3D survey, recently acquired by Polarcus, to pursue the potential of the 1,512km² area within the Condor project permit.

Eagle Project – AC/P63

(Carnarvon 100% and operator)

Towards the end of the quarter, Carnarvon received the high-quality Cygnus 3D seismic data which was recently acquired by Polarcus over the Eagle project area. Carnarvon has now begun its interpretation of the data and will further develop the leads which have already been identified using the pre-existing 2D seismic data.

The Eagle project is located in relatively shallow water within the Vulcan Sub-basin and is in close proximity to the Condor project. With the permit awarded to Carnarvon earlier in the year with minimal commitments, the Company will continue its technical work in the coming months before looking to bring in a partner to further the project.

Cerberus & Santa Cruz Projects - EP-475, EP-490, EP-491, EP-497 & TP/27

Carnarvon completed the transfer of these permits for a nominal fee during the quarter.

As a result of the recent Dorado oil discovery, Carnarvon has focused its attention and funds on the development of the Bedout Sub-basin and the Buffalo oil field. As such, the Company made the prudent decision to divest the entirety of its interests in the Cerberus and Santa Cruz projects rather than commit to upcoming well programs.

Corporate / Financial

The Company's cash holdings at the end of the quarter were \$49.5 million, compared to \$63.6 million at the end of the previous quarter.

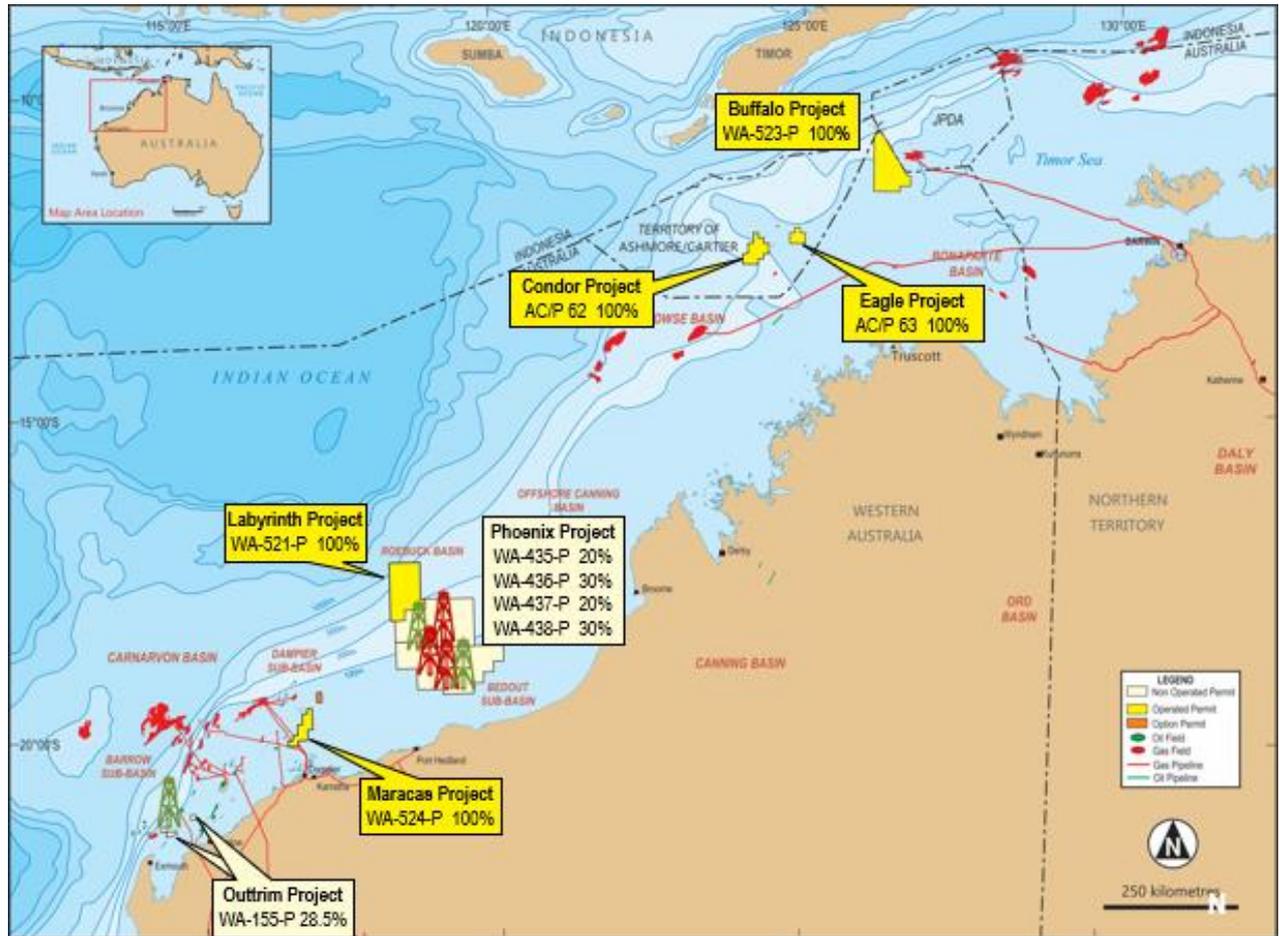
During the quarter A\$14.6 million was spent on exploration activities in the North-West Shelf which primarily included drilling expenditure relating to the Dorado-1 and Phoenix South-3 wells. However, the majority of the Phoenix South-3 well costs will be refunded by an insurance claim which should be finalised in the coming months. The Company also spent \$1.4 million on business development and corporate costs.

The Company's United States Dollar ("USD") holdings at the end of the quarter were US\$28.8 million and its Australian Dollar ("AUD") holdings were A\$9.6 million. Carnarvon holds a balance between USD and AUD as a natural hedge to expected future expenditures denominated in both USD and AUD. The retention of US dollars influences Carnarvon's reported cash holdings due to AUD / USD exchange rates at each reporting period end.

In addition to the above, there was interest received of A\$0.3m and proceeds from the exercise of employee shares of A\$0.5m.

A weakening of the average Australian Dollar relative to the US dollar during the quarter resulted in a foreign exchange translation adjustment that increased the Company's reportable cash holdings by A\$1.1 million.

Project Map



Project Table

Project	Permit(s)	Operator	Interest held	Interest acquired Q/Q
Phoenix	WA-435-P	Quadrant Energy	20%	-
Phoenix	WA-436-P	Quadrant Energy	30%	-
Phoenix	WA-437-P	Quadrant Energy	20%	-
Phoenix	WA-438-P	Quadrant Energy	30%	-
Labyrinth	WA-521-P	Carnarvon Petroleum	100%	-
Buffalo	WA-523-P	Carnarvon Petroleum	100%	-
Maracas	WA-524-P	Carnarvon Petroleum	100%	-
Condor	AC/P62	Carnarvon Petroleum	100%	-
Eagle	AC/P63	Carnarvon Petroleum	100%	-
Outtrim	WA-155-P	Quadrant Energy	28.5%	-
Cerberus	EP-490	Carnarvon Petroleum	-	(100%)
Cerberus	EP-491	Carnarvon Petroleum	-	(100%)
Cerberus	EP-475	Carnarvon Petroleum	-	(100%)
Cerberus	TP/27	Carnarvon Petroleum	-	(100%)
Santa Cruz	EP-497	Carnarvon Petroleum	-	(100%)

Abbreviations

Bopd	Barrels of oil 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
USD	United States of America dollar

Cautionary Statement

There are numerous uncertainties inherent in estimating reserves and resources, and in projecting future production, development expenditures, operating expenses and cash flows. Oil and gas reserve engineering and resource assessment must be recognised as a subjective process of estimating subsurface accumulations of oil and gas that cannot be measured in an exact way.

Prospective Resources are the estimated quantities of petroleum that may potentially be recovered by the application of a future development project and may relate to undiscovered accumulations. These prospective resource estimates have an associated risk of discovery and risk of development. Further exploration and appraisal is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

Resources

All contingent and prospective resources presented in this report are prepared as at 21 July 2017, 28 August 2017, 7 February 2018, 23 April 2018 and 20 August 2018 (Reference: CVN ASX releases of at 21 July 2017, 28 August 2017, 7 February 2018, 23 April 2018 and 20 August 2018). The estimates of contingent and prospective resources included in this announcement have been prepared in accordance with the definitions and guidelines set forth in the SPE-PRMS and have been prepared using probabilistic methods.

Carnarvon is not aware of any new information or data that materially affects the information included in this report and that all material assumptions and technical parameters underpinning the estimates in this presentation continue to apply and have not materially changed.

Competent Person Statement Information

The Resource estimates outlined in this report were compiled by the Company's Chief Operating Officer, Mr Philip Huizenga, who is a full-time employee of the Company. Mr Huizenga has over 25 years' experience in petroleum exploration and engineering. Mr Huizenga holds a Bachelor Degree in Engineering, a Masters Degree in Petroleum Engineering and is a member of the Society of Petroleum Engineers. Mr Huizenga is qualified in accordance with ASX Listing Rules and has consented to the form and context in which this statement appears.

Forward Looking Statements

This document may contain forward-looking information. Forward-looking information is generally identifiable by the terminology used, such as "expect", "believe", "estimate", "should", "anticipate" and "potential" or other similar wording. Forward-looking information in this document includes, but is not limited to, references to: well drilling programs and drilling plans, estimates of reserves and potentially recoverable resources, and information on future production and project start-ups. By their very nature, the forward-looking statements contained in this news release require Carnarvon and its management to make assumptions that may not materialize or that may not be accurate. The forward-looking information contained in this news release is subject to known and unknown risks and uncertainties and other factors, which could cause actual results, expectations, achievements or performance to differ materially, including without limitation: imprecision of reserve estimates and estimates of recoverable quantities of oil, changes in project schedules, operating and reservoir performance, the effects of weather and climate change, the results of exploration and development drilling and related activities, demand for oil and gas, commercial negotiations, other technical and economic factors or revisions and other factors, many of which are beyond the control of Carnarvon. Although Carnarvon believes that the expectations reflected in its forward-looking statements are reasonable, it can give no assurances that the expectations of any forward-looking statements will prove to be correct.