



CARNARVON
PETROLEUM LTD

Q2

Quarterly Report
31 December 2018





Quarter Highlights:

- Noble Tom Prosser rig secured to drill Dorado appraisal wells commencing around April 2019
- Significant follow up potential identified following world-class Dorado discovery
- Buffalo Project PSC discussions significantly advanced with the Government of Timor-Leste
- A\$48.3 million held in cash at the end of the quarter after A\$1.2m exploration spend

Managing Director's Comments

Following the incredible Dorado discovery in 2018, Carnarvon and its Joint Venture partner have moved swiftly to commence preparations to appraise the discovery.

The Noble Tom Prosser jack-up drilling rig has been secured to drill two firm Dorado appraisal wells. The first of which, Dorado-2, is expected to commence around April this year. The aim of the appraisal drilling program is to gain further information on the hydrocarbon volumes and the flow properties of these hydrocarbons to optimise Dorado's development.

The 2019 Dorado appraisal program will put the Joint Venture in a strong position to consider the Final Investment Decision (FID) in 2020. Importantly, we are also focused on increasing the resource volumes which have already been discovered. This involves continuing work to further define the follow-up potential within the greater Dorado area. The stand-out prospects already identified are Roc South, Apus and Pavo. We released prospective resource volumes on each of these in our ASX announcement on 15 October 2018.

The Roc South prospect, in particular, is a natural follow up to the Dorado discovery. Located in close proximity to Dorado and with very similar characteristics, Roc South has a very high chance of success and could naturally be developed alongside the Dorado discovery.

With the takeover of Quadrant by Santos now complete, I would like to thank Quadrant for all of their efforts and support over the years which culminated in the Dorado discovery. We welcome Santos into the Joint Venture whose oil and gas expertise will be invaluable as the Dorado discovery moves through the appraisal, development and production phases. With many of the Quadrant staff remaining in this project, we expect to have an even stronger Joint Venture.

During the quarter, Carnarvon continued its discussions with the Government of Timor-Lest with regards to the Production Sharing Contract (PSC) for the Buffalo oil field redevelopment. The discussions have been very positive to date, with both parties agreeing in principle to the material elements of the PSC. The intention of all parties is to finalise these discussions prior to the ratification of the Maritime Boundary Treaty between the Australian and Timor-Leste Governments.

Carnarvon recently commenced a farm out process for the Buffalo project. Discussions with potential partners are seeking to determine whether appropriate parties can add value and financing to the project while Carnarvon looks to bring both the Dorado and Buffalo projects into production.

At the end of the quarter, Carnarvon maintained a strong cash balance of A\$48.3 million. The exploration expenditure during the quarter of A\$1.2 million included technical work following the Dorado discovery and preparatory work on the Buffalo oil field redevelopment project.

Finally, I would like to take this opportunity to again thank those shareholders who were able to attend our AGM during the quarter and all of our shareholders for their continued support. I'm looking forward to the coming year which is poised to be a standout year for your Company as we continue to build value from our impressive suite of assets.

Phoenix Project

(Carnarvon 20%-30%; Santos is the Operator)

The Dorado-1 well made a world-class hydrocarbon discovery, encountering light oil, gas and condensate in a number of reservoirs and collecting significant data from well logging and fluids sampling. A comprehensive post well evaluation of the data obtained in the well is currently underway. This evaluation includes fluid analysis, reservoir studies, image log interpretation and special and routine core analysis.

Given the significant resources encountered and the accompanying subsurface uncertainties from the single well drilled to date, further appraisal of the Dorado discovery is warranted.

The Dorado-2 well is targeting the hydrocarbon columns in a down-dip location in order to confirm the extent of the hydrocarbon accumulations and further calibrate the reservoir and fluid properties. The Dorado-2 well is expected to commence around April 2019.

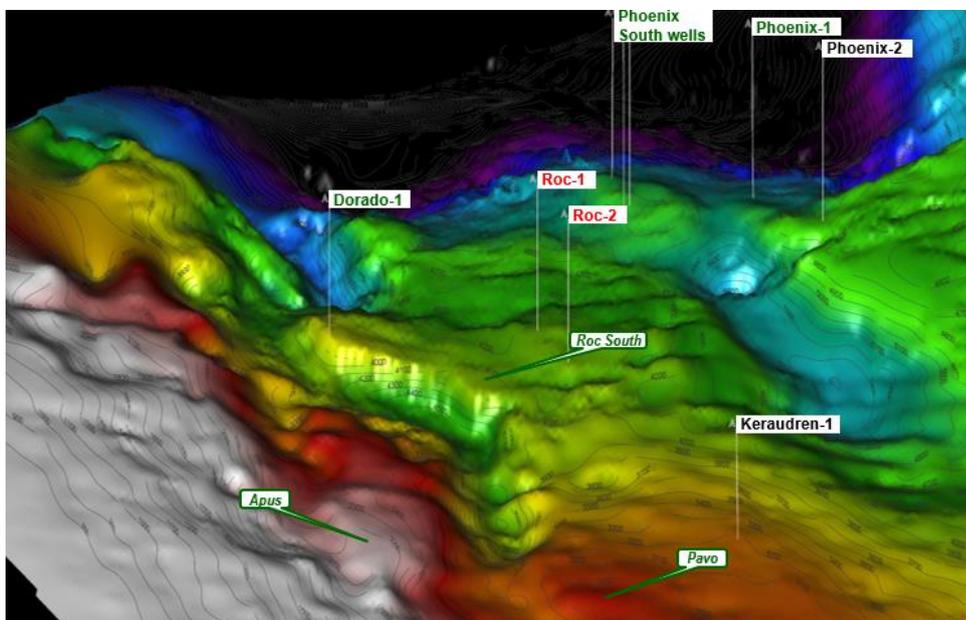
The Dorado-3 well, being planned with drill stem tests, will also be critical to understand reservoir performance and obtain representative fluid samples required for the design of the Dorado production facilities.

The results from these two wells will also be instrumental in preparing for FID in late 2020.

Carnarvon and its Joint Venture partner Santos, have secured the Noble Tom Prosser jack-up drilling rig for the Dorado wells which was also used to drill the Roc-1 discovery in 2016.

During the quarter, work also continued in defining the follow up potential to the Dorado discovery. The Roc South prospect, which is located 13 km from the crest of the Dorado structure, has a high probability of success with an estimated 74 million barrels of oil equivalent (Gross, Pmean - refer to ASX announcement on 15 October 2018). Roc South is a very similar trap to Dorado, also being up-dip of the Roc discoveries and relying on the Dorado canyon for sealing and setting up the prospect.

There are also two additional standout oil prospects nearby which have been de-risked following the Dorado discovery. The Pavo and Apus prospects are estimated to contain 82 million barrels and 612 million barrels respectively of oil recoverable (Gross Pmean) (refer to ASX announcement on 15 October 2018). Carnarvon looks forward to providing further information on these prospects as the technical work progresses.



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



Buffalo Project – WA-523-P

(Carnarvon 100% and operator)

Discussions on the Production Sharing Contract (PSC) between Carnarvon and the Timor-Leste government agency Autoridade Nacional do Petróleo e Minerais (ANPM) continued during the quarter.

Pleasingly, all parties have agreed in principle to the fundamental terms of the PSC. The aim now is to have the PSC completed and ready for signing upon the ratification of the Maritime Boundary Treaty (Treaty) between the Australian and Timor-Leste Governments.

Carnarvon is also actively engaging with the governments of both Australia and Timor-Leste in order to be able to drill a well in the Timor-Leste jurisdiction in this calendar year.

Towards the end of 2018, Carnarvon commenced a process to introduce a partner to the Buffalo project. Acquiring a suitable partner will assist with financing the project which will be vital as Carnarvon works towards bringing both the Dorado and Buffalo fields into production.

In the meantime, Carnarvon has also continued to build its operational readiness for the Buffalo project. During the quarter, Carnarvon submitted the environmental plan for the drilling of up to three wells in the field. Finalising the Environmental plan in the coming months will be an important step towards redeveloping the oil field.

In addition, Carnarvon completed a field surveillance program in the area of the Buffalo Oil Field Redevelopment Area. The survey indicated that there are no impediments to locating the wells in the surface locations that are most ideal for targeting the identified attic of oil.

Labyrinth Project – WA-521-P

(Carnarvon 100% and operator)

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 have 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.

Carnarvon's geological analysis has identified 1.5 billion barrels of recoverable prospective resource in the permit (refer to ASX announcement on 7 February 2018). In particular, the Ivory prospect is estimated to contain 420 million barrels of mean recoverable oil (refer to ASX announcement on 7 February 2018).

The forward plan for the Labyrinth project is to acquire additional 3D seismic over the standout Ivory prospect. Carnarvon will commence planning the Seismic program in the coming months and aims to initiate the seismic acquisition in 2020.

Carnarvon is looking to bring a partner into the project for the seismic acquisition and the drilling of the Ivory prospect.



Maracas Project – WA-524-P

(Carnarvon 100% and operator)

Following the completion of the first interpretation of the Full Wave Inversion (FWI) reprocessed data, Carnarvon continued to build its inventory of prospects and leads in the Maracas project during the quarter.

The technical work has identified new plays and the potential for a working petroleum system within the permit. In addition, a fault seal study has been completed which will be analysed to strengthen and de-risk the prospects.

Once the technical work is completed, Carnarvon will initiate a farm-out process to bring in a suitable partner to continue to test the numerous prospects which have already been identified.

The most significant prospects are Permian level structural/stratigraphic traps which have similar geological characteristics to successful onshore Perth Basin discoveries.

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 continues to augment the technical work already completed on the prospects and leads identified within the Condor project with additional technical work being performed to identify further prospects.

A fault seal analysis was completed towards the end of the quarter with the results to be analysed in the coming months. The aim of the analysis is to minimize the geological risk of the presence of faults and therefore de-risk the prospects which have been identified.

The Condor project lies within the Vulcan Sub-basin which 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)

During the quarter, Carnarvon commenced its technical work on the Eagle project. The technical work involves detailed mapping of the high-quality Cygnus 3D seismic data which was recently acquired by Polarcus. The aim of the technical work is to identify prospects and leads, and to enhance our understanding of the petroleum systems in the permit.

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 in 2018 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.



Corporate / Financial

The Company's cash holdings at the end of the quarter were \$48.3 million, compared to \$49.5 million at the end of the previous quarter.

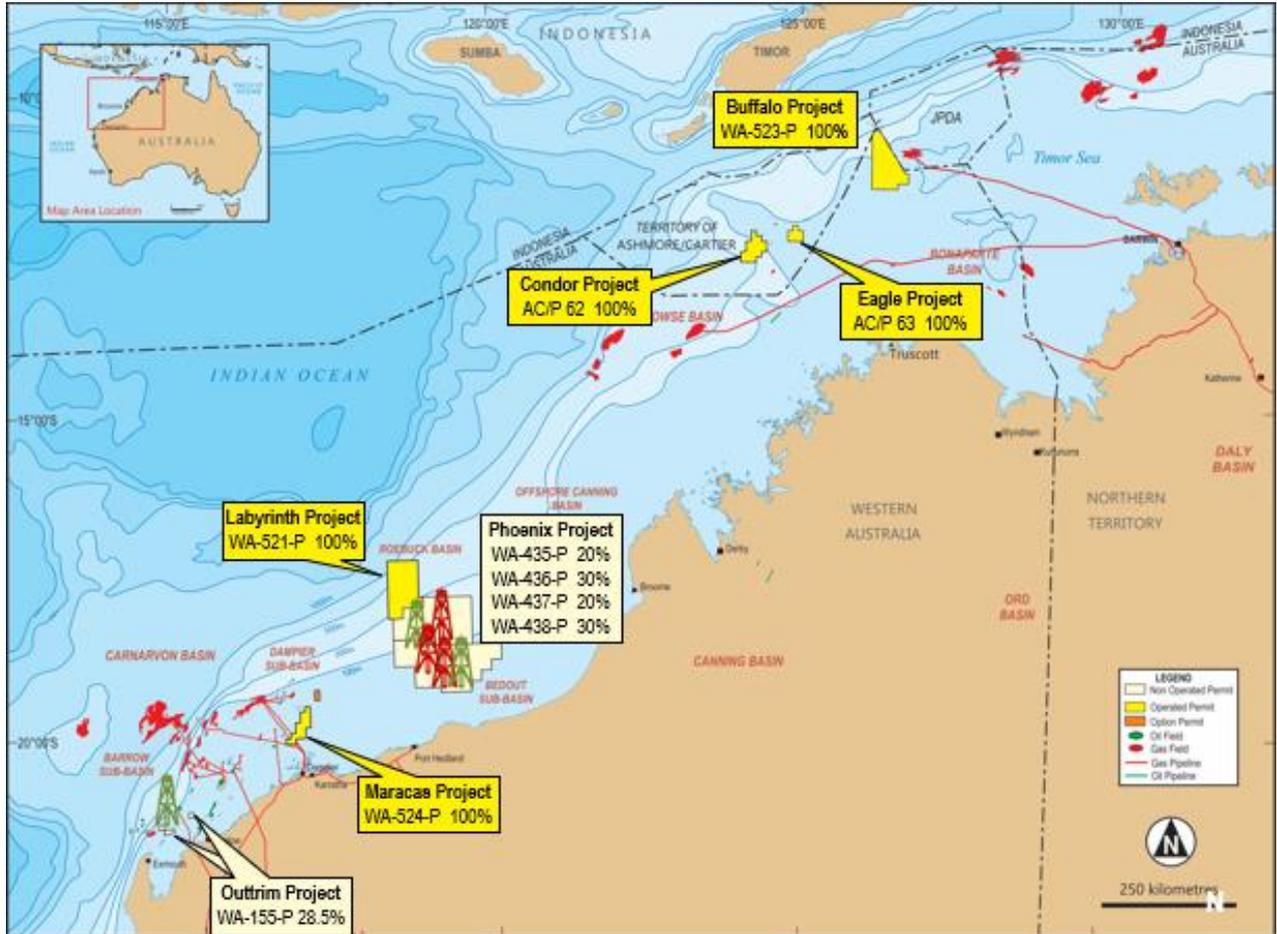
During the quarter, A\$1.2 million was spent on exploration activities in the North-West Shelf which primarily included technical work performed on the Dorado, Phoenix and Buffalo projects, and Carnarvon's other exploration projects. The Company also spent \$1.1 million on business development and corporate costs.

The Company's United States Dollar ("USD") holdings at the end of the quarter were US\$29.4 million and its Australian Dollar ("AUD") holdings were A\$6.6 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.

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\$0.9 million.

In addition to the above, interest of A\$0.2m was received during the quarter.

Project Map



Project Table

Project	Permit(s)	Operator	Interest held	Interest acquired Q/Q
Phoenix	WA-435-P	Santos	20%	-
Phoenix	WA-436-P	Santos	30%	-
Phoenix	WA-437-P	Santos	20%	-
Phoenix	WA-438-P	Santos	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	Santos	28.5%	-

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, 20 August 2018 and 15 October 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.