

Q3

Quarterly Report
31 March 2017



Quarter Highlights:

- Phoenix South-2 well discovered gas and condensate at Caley level as anticipated
- Phoenix South Caley volumes upgraded to 143 million barrels of oil equivalent (“mboe”)¹
- Plans for drilling the Dorado-1 exploration well commenced, targeting 127 mboe¹ in Caley
- A\$51 million held in cash, Q/Q \$4m exploration spend and \$4.0m currency translation effect

Managing Director’s Comments

During the quarter we announced the Phoenix South-2 gas and condensate discovery at the Caley level, being the same level that contains similar gas and condensate in Roc. Analysis of the hydrocarbons encountered in Phoenix South-2, together with other well data collected, resulted in us reporting an increase in the estimates for the Phoenix South Caley prospective resource volumes by some 32% on a barrels of oil equivalent basis.

Planning has now commenced on the Dorado-1 exploration well that is targeting 545 bscf¹ of gas and 31 million barrels¹ of condensate (that is 127 mboe¹) and we will release further information on this as we reach the key progress milestones.

During the quarter we also bid farewell to Ted Jacobson, former Managing Director of Carnarvon, and more recently a non-executive director. Ted made many important contributions during his time at Carnarvon and he continues to remain close to the Company since retiring.

Phoenix Project

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

The Phoenix South-2 well was completed early in the quarter and was the fourth successive discovery drilled by the joint venture in the Phoenix Permits. The configuration of the casing set-up was designed in a way that was intended to allow for the assessment of both the Hove and Caley levels. The amount of open hole section meant that drilling had to cease once we encountered higher than expected pressures. It also meant that no logging while drilling data or wireline logging data was recorded over the interpreted Caley reservoir. The high pressures encountered and the nature of the gas observed in the well, did allow the Company to use this information to upgrade the prospective resource for the Phoenix South Caley as shown in the table below. The resources remain a prospective resource, albeit with a significantly increased probability of geological success.

Other work being performed by the joint venture includes preliminary project engineering studies such as a metocean study to understand year round ocean conditions in the region and studies for onshore facilities at Port Headland.

The prospective resource table below outlines a number of resources that the joint venture may test before committing to a development concept. This includes the Dorado-1 well, which will test the Caley level and a number of interpreted sands in the Milne level. The joint venture is also considering the next steps with respect to re-drilling the Caley and Hove discoveries encountered at Phoenix South-2.

¹ Refers to Pmean prospective resource. See tables on page 2 of this quarterly and ASX releases of 14 November 2016 and 28 March 2017 for further information. Volume estimates are prepared using probabilistic methods.



Contingent Resources	Light Oil			Natural Gas			Condensate			Barrels of Oil Equivalent		
	MMBBL 1C	MMBBL 2C	MMBBL 3C	BSCF 1C	BSCF 2C	BSCF 3C	MMBBL 1C	MMBBL 2C	MMBBL 3C	MMBOE 1C	MMBOE 2C	MMBOE 3C
Roc A/B sand	-	-	-	204.5	331.8	580.3	11.9	19.6	34.8	47.8	77.8	136.6
Phoenix South - Barret	6.8	16.7	29.6	-	-	-	-	-	-	6.8	16.7	29.6
Phoenix	2.0	7.0	16.0							2.0	7.0	16.0
Total	8.8	23.7	45.6	204.5	331.8	580.3	11.9	19.6	34.8	56.6	101.5	182.2

Prospective Resources	Light Oil				Natural Gas				Condensate				Barrels of Oil Equivalent				Probability Geologica Success
	MMBBL P90	MMBBL P50	MMBBL Pmean	MMBBL P10	BSCF P90	BSCF P50	BSCF Pmean	BSCF P10	MMBBL P90	MMBBL P50	MMBBL Pmean	MMBBL P10	MMBOE P90	MMBOE P50	MMBOE Pmean	MMBOE P10	
Phoenix South Caley	-	-	-	-	128.0	401.0	489.0	963.0	10.5	39.4	56.8	122.0	33.0	109.8	142.6	290.9	71%
Phoenix South Hove	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD
Roc C/D sand	-	-	-	-	52.5	110.0	120.0	199.0	3.1	6.5	7.2	12.1	12.3	25.8	28.2	47.0	66%
Dorado Caley	-	-	-	-	58.7	338.0	545.0	1,260.0	2.5	16.6	31.6	74.9	12.8	75.9	127.2	296.0	36%
Dorado Milne A	-	-	-	-	45.7	266.0	429.0	1,016.0	2.0	13.1	24.9	59.7	10.0	59.8	100.2	237.9	23%
Dorado Milne B	-	-	-	-	36.5	295.0	438.0	1,025.0	1.6	14.3	25.4	60.8	8.0	66.1	102.2	240.6	23%
Dorado Milne C	-	-	-	-	82.3	416.0	565.0	1,248.0	3.5	20.1	32.8	75.4	18.0	93.1	131.9	294.3	23%
Dorado Milne D	-	-	-	-	51.5	409.0	555.0	1,251.0	2.3	19.4	32.2	75.5	11.3	91.2	129.6	295.0	23%

See ASX releases of 14 November 2016 and 28 March 2017 for further information.
Volume estimates are prepared using probabilistic methods.

Labyrinth Project – WA-521-P

(Carnarvon 100% and operator)

The Company has completed its interpretation of the 2D seismic data it licenced since being awarded the permit in mid 2016. The interpretation has identified an encouraging main lead called 'Labyrinth'. 3D seismic data needs to be acquired over Labyrinth to promote it to a drill ready prospect. The Company is considering the next steps with respect to this and introducing partners to advance the exploration activities.

Buffalo Project – WA-523-P

(Carnarvon 100% and operator)

The 3D reprocessing and Full Wave Inversion ("FWI") has been progressing and is nearing the final stages. The data produced so far is showing encouraging results over key intervals (e.g. Triassic and the existing Buffalo oil field within the permit) that have historically not been able to be properly mapped. These intervals are now becoming clearer which is expected to significantly de-risk exploration efforts in the permit as well as considering whether the Buffalo field could be brought back into production.

Maracas Project – WA-524-P

(Carnarvon 100% and operator)

The Company has recently commenced reprocessing existing 3D seismic data over the permit. The reprocessing includes the application of FWI technology that has demonstrated clear improvements in both the Phoenix and Buffalo areas. The reprocessed data will assist with the mapping of existing leads and identifying new prospects and will enable the company to study the potential for hydrocarbon bearing sands in the permit.

Outtrim East - WA-155-P(1)

(Carnarvon 28.5%, Quadrant Energy is the Operator)

The joint venture has been progressing with the technical work following the Outtrim East-1 oil discovery. Drilling planned in the surrounding acreage in 2017 may be instrumental in determining the next steps for this project.

Cerberus Project - EP-490, EP-491, EP-475 and TP/27

(Carnarvon 100% and operator)

The Company recently applied for a one-year suspension and extension of the permit work program, particularly in relation to commitments to drill two exploration wells. At the time of writing, the Company is waiting for the regulators' response as to whether the suspension and extension request has been approved.

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%	-
Outtrim	WA-155-P(1)	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%	-

Corporate / Financial

The Company's cash holdings at the end of the quarter were \$51.1 million, compared to \$59.9 million at the end of the previous quarter.

The Company's United States Dollar ("USD") holdings at the end of the quarter was US\$38.9 million with the balance being Australian Dollars. Carnarvon holds the majority of its cash in USD as a natural hedge to expected future USD denominated expenditures. The retention of predominantly US dollars influences Carnarvon's reported cash holdings due to AUD / USD exchange rates at each reporting period end.

A strengthening of the Australian Dollar relative to the US dollar during the quarter resulted in a foreign exchange translation adjustment that diminished the Company's reportable cash holdings by A\$4.0 million.

During the quarter A\$4.1 million was spent on exploration activities in the North West Shelf which includes the Phoenix South-2 drilling costs. In addition to this \$0.8 million was spent on business development and corporate costs.

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 14 November 2016 and 28 March 2017 (Reference: CVN ASX releases of 14 November 2016 and 28 March 2017). 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 20 years' experience in petroleum exploration and engineering. Mr Huizenga holds a Bachelor Degree in Engineering and a Masters Degree in Petroleum Engineering. 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.