

Quarterly Report



December 2011 Quarter

ASX: CVN

Company

Carnarvon produces oil onshore Thailand and has exploration interests onshore Thailand and Indonesia and offshore Western Australia.

Capital

	<u>At 31 Dec. 11</u>	<u>At 30 Sep. 11</u>
Share price	\$0.097	\$0.14
Market capitalisation	\$67m	\$97m
Net cash / (debt)	\$10.3m	\$12.3m

Reserves (net to CVN)

Production (net to CVN)

	<u>At 31 Dec. 10</u>		<u>31 Dec. 11 Qtr</u>	<u>30 Sep. 11 Qtr</u>
Proved (1P)	4.7 mmbbls	Production (bbls)	87,856	91,892
Proved & Probable (2P)	20.4 mmbbls	Average sale price (\$/bbl)	A\$99.43	A\$94.27
Proved, Probable & Possible (3P)	51.9 mmbbls	Net sales revenue (\$'m)	A\$8.73m	A\$8.66m

SIGNIFICANT EVENTS DURING THE QUARTER

- ❖ Net sales revenue for the quarter was A\$8.73m, 1% higher than the previous quarter
- ❖ Production for the quarter was 87,856 barrels of oil, 4% lower than the previous quarter
 - Sandstone development anticipated to commence February 2012
- ❖ Cash flows from Thai operations before tax and drilling costs were \$6.4 million during the quarter
 - \$5.3 million was spent on drilling activities in the L44/33 and L33/43 Concessions in Thailand
 - \$1.2 million was spent acquiring seismic in the L52/50 and L53/50 Concessions in Thailand
 - \$0.5 million was spent acquiring seismic in the Phoenix blocks
 - The Company does not expect further seismic acquisition payments in the March 2012 quarter
- ❖ Cash reserves at quarter end were \$10.3 million; Carnarvon has no debt
- ❖ The Farmout process for the exploration blocks containing the Phoenix prospect, WA-435-P & WA-437-P, commenced on schedule in December 2011
 - The process is expected to conclude around June / July 2012
- ❖ New 3D seismic is being acquired on a multi-client basis over WA-435-P, WA-436-P & WA-443-P
 - This acquisition is at no cost to Carnarvon until it decides to licence the data
- ❖ Apache continued processing the new 3D seismic data over WA-399-P permit, offshore Western Australia
- ❖ 2D seismic data acquisition was completed in the L52/50 and L53/50 joint venture in Thailand
 - Processing and interpretation has commenced
- ❖ Technical work is ongoing in the L20/50 joint venture in Thailand to enhance the value of the asset

Oil Production and Revenue

Carnarvon realised an average sales price of A\$99.43/bbl on reduced production to achieve a net sales revenue of A\$8.7m, 1% higher than the previous quarter. The reduction in production was due to natural decline and water ingress experienced by wells producing from volcanic reservoirs.

Throughout the December 2011 quarter (“the quarter”), the joint venture increased production from the NSE-F field. NSE-F6 was brought online at the beginning of the quarter and tested at 1000 bopd; 400 bopd net to Carnarvon. Three additional wells were drilled into the field (NSE-5, 7 & 9) and NSE-F6 was re-entered to increase the well production rate with an extension to its horizontal section. A further four wells were drilled into known volcanic reservoirs with the objective of increasing production.

No wells were drilled into sandstone reservoirs during the quarter. The joint venture submitted an environmental approval application for several well locations required to develop the sandstone and volcanic reservoirs in the WBEXT field. Approval from the DMF is expected in February 2012, at which point a 10-well drilling campaign targeting the sandstone reservoir will commence.

In the quarter, the joint venture began a trial of inflow control devices (“ICD’s”). ICD’s are a wellbore technology that is installed over the well’s producing interval. They are designed to reduce the impact of water incursion by restricting the flow from water-bearing intervals. The technology was first installed in BR-1RDST1 and as a result, the oil production rate increased by over 300%. The technology has since been implemented in another three wells with all wells experiencing increases in oil production rates. The trial will be expanded in 2012, installing ICD’s in new and existing wells.

Reserves

Updated reserves assessments are currently underway by international energy consultants Gaffney, Cline and Associates (“GCA”) covering Carnarvon’s 40% equity interest in the L33/43, L44/43 and SW1A assets onshore Thailand.

Carnarvon expects the results of these studies to be available early in the June 2012 quarter.

As previously advised, based on drilling results achieved in 2011, negative reserve revisions are anticipated at the L33-2 and WBEXT fields.

Production performance during the 2011 calendar year is also anticipated to result in negative technical revisions across several fields and movement of reserves from 2P into 3P, however the extent of those revisions should be, to some extent, offset by the encouraging positive production results from the pilot study into the ICD’s.

Sandstone Exploration and Appraisal

The anticipated environmental approval for drilling production wells within the WBEXT production licence was not granted during the quarter and as such no wells were drilled in the area. Environmental approval is expected in February 2012, whereupon a 10-well drilling program targeting the sandstone reservoir will commence.

Volcanic Exploration and Appraisal

Wells drilled and / or completed during the quarter:

Well	Permit	Status
L33-2A	L33/43	Completed as development well but initial testing did not produce commercial volumes
BR-2ST3	L44/43	On production – Bo Rang A1 Volcanic
BR-4ST1 & ST2	L44/43	Completed as development well but initial testing did not produce commercial volumes
NSE-F7	L44/43	On production –Na Sanun Main Volcanic
NSE-F5	L44/43	On production – Na Sanun Main Volcanic
NSE-F9	L44/43	Completed as development well but initial testing did not produce commercial volumes
NSE-F6 - Deepen	L44/43	Suspended due to drilling issues
L44-VD1ST1 & ST2	L44/43	Drilling is underway

L33-2A was an exploration well targeting the unproven WBV2 volcanic zone. Excellent fracturing was indicated by the drilling mud losses observed while drilling. However, only water was recovered on test.

BR-2ST3 was a development of the Bo Rang “A1” volcanic reservoir. The well tested at an initial rate of approximately 500 BOPD gross (200 BOPD net to Carnarvon) and no water.

BR-4ST1 targeted the Bo Rang “A1” reservoir at a location approximately 850 meters east of BR-2ST3 development well. Just prior to drilling the main target section the directional assembly ("MWD") was removed as is common practice in order to reduce the risk of sticking the MWD in the hole when massive drilling fluid losses are experienced in the target reservoir. A subsequent deviation survey indicated that the well deviated coming out of the casing shoe, just missing the top of the intended target. The well was temporarily suspended before a second sidetrack (**BR-4ST2**) was drilled into the reservoir. Early production testing was dominated by fluid lost during the drilling process. Oil production is expected once all these fluids have been produced.

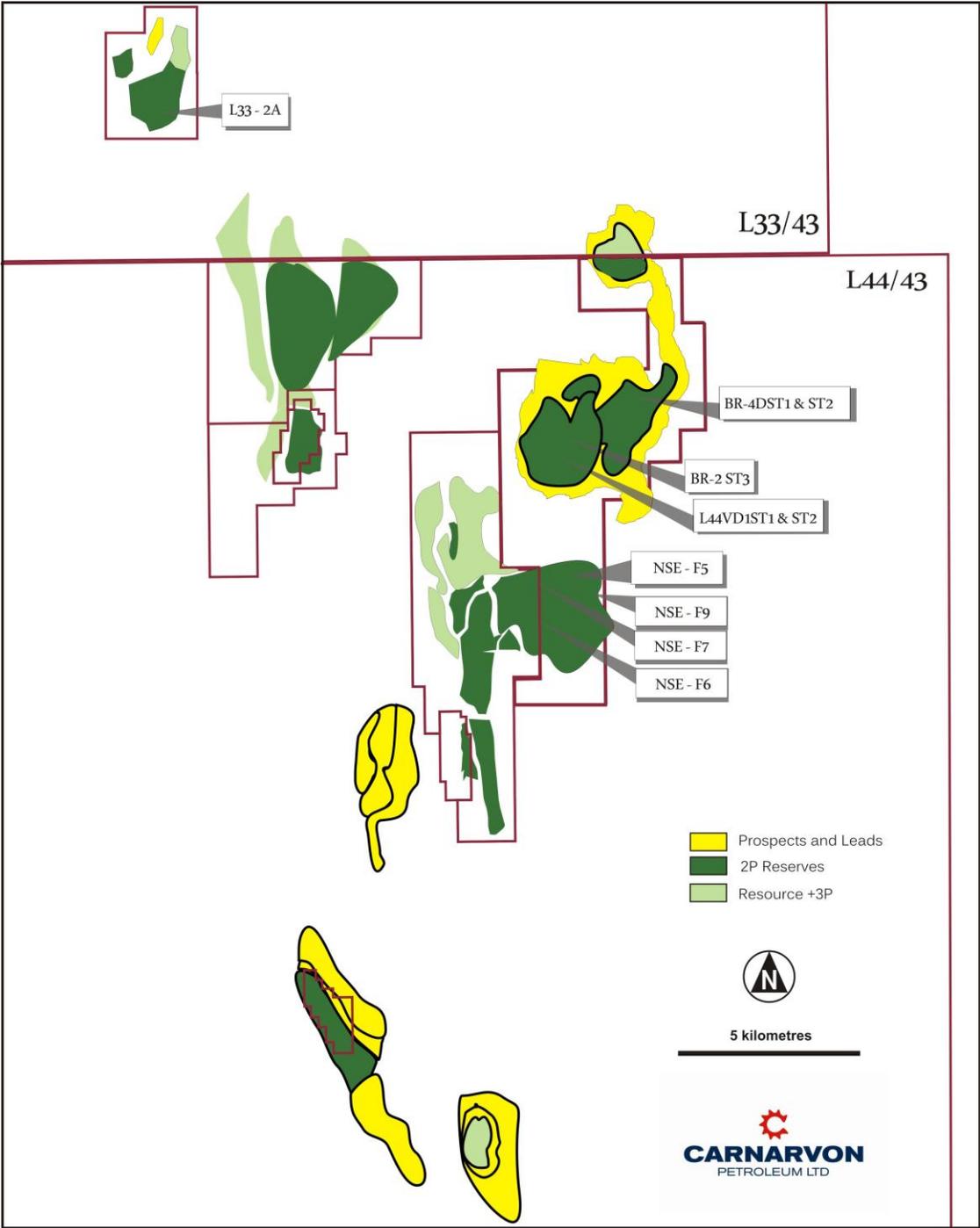
NSE-F7 well encountered extensive fracturing within the target volcanic formation with over 2,000 barrels of fluid losses observed while drilling. The well tested at 540 BOPD gross, 216 BOPD net to Carnarvon.

NSE-F5 was drilled as a horizontal well targeting the main volcanic unit approximately 1.4 kilometres east of the NSE-F7 well. It was put on test prior to running an ICD recompletion. The well tested at 690 BOPD gross after the ICD was installed (276 BOPD net to Carnarvon).

NSE-F9 appraisal well, drilled in the eastern portion of the NSE-F1 field has recovered 38degree API oil with minimal water at sub-commercial rates. The well did not encounter the extensive fracturing needed to flow oil and will be sidetracked at a future date.

A drilling operation began at **NSE-F6** to increase the horizontal section of the well by 200 metres and install an ICD. During the operation the downhole packer could not be removed and the well was suspended. A workover rig will remove the packer before the drilling rig returns to complete the drilling operation.

The drilling operation for the appraisal well **L44VD1ST2** is currently underway. The well is appraising the oil potential of the Bo Rang "A2" volcanic. The well will be completed with an ICD.



EXPLORATION IN THAILAND

(a) L20/50 Concession – Thailand (Carnarvon Petroleum 55% and Operator)

During the quarter, post-drill re-mapping of all the available seismic data in L20/50 concession was completed. The new interpretation incorporated the results of Tapao Kaew-1 and Krai Thong-1, drilled in the first half of 2011. The revised seismic interpretation, and geochemical and temperature data from old and new wells, have been integrated into an updated basin model, the results of which are favourable for hydrocarbon generation in the Nong Bua Graben. Carnarvon has identified several structural leads in the basin on the new mapping, each with the potential to contain significant hydrocarbons.

The joint venture has entered the '2nd Obligation Period' and has applied to relinquish 50% of the concession area in accordance with concession commitments. Under the application, the joint venture will retain the most prospective acreage. Commitments during the second obligation period include a 3D survey and two exploration wells. The joint venture continues to carry forward a credit for one commitment well after exceeding the commitments during the '1st Obligation Period', thus effectively leaving only one exploration well to be drilled in the remainder of the second obligation period.

The joint venture is continuing to review options for the acquisition of 3D seismic data over the most prospective areas of the basin. A 3D survey will be acquired to improve understanding of the complex faulting and structure of the basin, and to better define and de-risk identified leads.

(b) L52/50 & L53/50 Concessions - Thailand (Carnarvon Petroleum 50% and Non-operator)

Acquisition of 315km of 2D seismic data across the combined L52/50 & L53/50 Concessions was completed during the quarter. Processing and interpretation of the data is now underway and is anticipated to be completed by the end of the March 2012 quarter.

EXPLORATION IN AUSTRALIA

(a) WA-435-P, WA-436-P, WA-437-P and WA-438-P – Australia Offshore NW Shelf (Carnarvon Petroleum 50%, Finder Exploration 50% and Operator)

The Operator completed a detailed assessment of the plays, prospects and leads in the permits in 2011, including the 3D seismic acquired in 2010 covering a portion of the WA-435-P and WA-437-P exploration blocks. Rock physics studies are currently underway in order to identify reservoir quality sweet spots. The gas discovery at Phoenix-1 demonstrates a working petroleum system with a gas influx at total depth ("TD").

The results of the PSTM 3D interpretation reinforced the proven Triassic Phoenix gas resource of 870 BCF original gas in place ("OGIP"). The interpretation also increased the confidence in the two most advanced prospects in Roc and Phoenix South and volumetric analysis suggests each is capable of containing up to 5.5 TCF of OGIP.

The interpretation has also identified a number of follow-up leads within the 3D area and ongoing analysis has highlighted other play types extending outside of the defined 3D area and into the adjacent WA-436-P and WA-438-P permits.

The shallow water depth and proximity of the permits to both onshore domestic gas pipeline and large-scale liquefied natural gas (LNG) should provide the joint venture with many options for the commercialisation of any gas discoveries.

The joint venture commenced a farmout process for the blocks containing the Phoenix 3D, WA-435-P & WA-437-P, during the December 2011 quarter. The process is expected to be completed by June / July 2012.

A ~4,247 km² new seismic survey is underway across WA-435-P and WA-436-P. So far, data has been acquired over around 40% of the main lines. The data will be available to Carnarvon on a multi client basis, although at this stage Carnarvon has not committed to licence the data. The new seismic data is expected to be invaluable in advancing the prospects and leads identified in this area.

**(b) WA-443-P– Australia Offshore NW Shelf
(Carnarvon Petroleum 100% and Operator)**

The multi-client 3D seismic survey being undertaken across WA-435-P and WA-437-P also extends into WA-443-P. The seismic acquisition will cover the Salamander prospect in the north-western section of the block.

Geological and geophysical studies are currently being carried out on this block in conjunction with similar work in the Phoenix permits.

**(c) WA-399-P – Australia Offshore NW Shelf
(Carnarvon Petroleum 13%, Apache Energy Limited 60% and Operator, Jacka Resources 15% and Rialto Energy 12%)**

Processing of the “Gazelle” 3D seismic programme covering the entire permit commenced on 16 May 2011 and is approximately 70% complete. Incorporation of this 3D data set into a complete re-evaluation of the permit will enable the joint venture to fully evaluate the merits of future exploration drilling locations.

The Designated Authority of WA approved the joint venture’s request to move the one exploration well commitment from Permit Year 4 (7 Sept 2011 – 6 Sept 2012) to Permit Year 6 (7 Sept 2013 – 6 Sept 2014).

EXPLORATION IN INDONESIA

**Rangkas PSC – Onshore Indonesia
(Carnarvon Petroleum 33%, Lundin Petroleum 67% and Operator)**

Carnarvon’s interest in the PSC has been revised upward to 33% after Tap Oil Limited withdrew from the PSC during the quarter. The revision came at no additional cost to Carnarvon.

Seismic data gathered in 2011 was used to refine the geophysical mapping of 15 significant leads. Seismic interpretation has also complemented a number of reservoir and basin modelling studies undertaken. The work completed to date indicates multiple play types, often stacked, are present in this PSC.

The above work now fulfils the requirements of the ‘1st Exploration Period’ and 25% of the area of the Rangkas block was submitted for partial relinquishment, as required under the terms of the PSC.

CORPORATE

Carnarvon's consolidated cash at the end of the December 2011 quarter was \$10.3 million compared to \$12.3 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, amounting to \$0.9 million in total as at 31 December 2011. Net revenue for the quarter was \$8.7 million generating an operating cash flow before tax of \$6.4 million from the L44/33 and L33/43 Concessions in Thailand.

Separate from the above, \$5.3 million was spent on drilling activities in the L44/33 and L33/43 Concessions in Thailand, \$1.4 million on corporate costs, \$1.2 million acquiring seismic in the L52/50 and L53/50 Concessions in Thailand, and \$0.5 million acquiring seismic in the Phoenix blocks.

The Company does not expect any further payments for seismic acquisition in the March 2012 quarter.

Other than normal trade creditors, Carnarvon has no debt.

Abbreviations

Bopd	Barrels of oil per day
Bbls	Barrels of oil
CVN	Carnarvon Petroleum Limited
DMF	Department of Mineral Fuels Thailand
JV	Joint Venture
Km	Kilometres
Km²	Square kilometres
m	Millions
Qtr	Quarter
TVD	True vertical depth
Tcf	Trillion cubic feet (gas)
2D	Two dimension seismic data
3D	Three dimensional seismic data
WBEXT	Wichian Buri field extension area
NS	Na Sanun field area
NSE	Na Sanun East field area
NSE-F1	Extension of NSE
NSW	Na Sanun West field area
OGIP	Original gas in place
WBV	Wichian Buri volcanic reservoir where there are three key volcanic 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