

Letter from Managing Director to Shareholders

8 July 2011



Dear Shareholder,

I'd like to take this opportunity as your new Managing Director to briefly highlight some of the Company's key plans for the future.

People

As announced on 29 June 2011 Mr Edward (Ted) Jacobson retired as an executive of the Company with effect from 30 June 2011. However, Ted remains an important part of the Company as a non-executive director, consultant and major shareholder. Notwithstanding this change, Carnarvon has a robust management team keenly focused on advancing the existing portfolio of exploration assets, introducing new assets into the business and supporting our joint venture operator improve production levels.

Production

As many of you will be aware production declined in early 2011. This was due to the decline in the flow rates from the temporarily shut-in WBEXT-1, WBEXT-1A and WBEXT-1B wells on their reintroduction and limited replacement production from new volcanic reservoir wells. As outlined in the March 2011 quarterly report, production drilling has focused on sandstone reservoir targets. These wells typically produce at lower initial rates compared with volcanic reservoir wells, but their flow rates are more stable for longer periods. On 20 June 2011 Carnarvon also announced that a second drilling rig had been introduced into the production operations. A second rig allows the joint venture to simultaneously pursue production from both sandstone reservoir and volcanic reservoir targets, while also maintaining sufficient drilling slots to test new exploration targets.

Exploration

We are also actively advancing Carnarvon's other exploration assets. These work programs typically involve acquiring new seismic data, processing and interpreting that data and drilling prospects that are supported by seismic and other data.

The Carnarvon team is particularly excited by the initial seismic results from the colloquially named "Phoenix" asset. This asset is so named because it includes the Phoenix-1 gas discovery. Earlier this year the joint venture acquired a large 1,100km² of new 3D seismic data and processing of that data is nearly complete.

It is encouraging that the new Phoenix 3D data, at this early stage, supports the prospects and leads identified on the reprocessed 2D seismic data. We'll provide shareholders with a separate and more fulsome update on this exciting asset shortly.

We also plan to provide shareholders with regular updates on Carnarvon's other exploration assets as they reach relevant news worthy junctures.

I am a strong believer in the growth potential of Carnarvon and intend to work hard with the management team to create value for shareholders from the existing assets and from new assets that we introduce in the future. The current calendar year has been difficult for Carnarvon's shareholders. We acknowledge this and plan to work hard to improve the position for all shareholders in the future.

Yours sincerely

A handwritten signature in black ink, appearing to read "Adrian Cook".

Adrian Cook
Managing Director