

Quarterly Report



September 2011 Quarter

ASX: CVN

Company

Capital

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

	At 30 Sep. 11	At 30 Jun. 11
Share price	\$0.140	\$0.175
Market capitalisation	\$97m	\$120m
Net cash / (debt)	\$12.3m	\$15.2m

Reserves (net to CVN)

Production (net to CVN)

	At 31 Dec. 10		30 Sep. 11 Qtr	30 Jun. 11 Qtr
Proved (1P)	4.7 mmbbls	Production (bbls)	91,892	93,842
Proved & Probable (2P)	20.4 mmbbls	Average sale price (\$/bbl)	A\$94.27	A\$94.73
Proved, Probable & Possible (3P)	51.9 mmbbls	Net sales revenue (\$'m)	A\$8.66m	A\$8.89m

Carnarvon Petroleum Limited (ASX: CVN, "Carnarvon" or the "Company") is pleased to provide shareholders with this latest Quarterly Report, which details the progress made by the Company during the quarter.

SIGNIFICANT EVENTS DURING THE QUARTER

- ❖ Production for the quarter was 91,892 barrels of oil, 2% lower than the previous quarter
 - Being an average 999 bopd net compared to 1,031 bopd in the previous quarter
 - WBEXT2B well free flowed 440 bopd net to Carnarvon
- ❖ Multi Tcf prospects confirmed in preliminary Phoenix 3D seismic data, offshore Western Australia.
 - Seismic interpretation work is progressing on schedule
 - Strong interest continues to be expressed from third parties in this asset
- ❖ Apache continued processing the new 3D seismic data over WA-399-P permit, offshore Western Australia
 - The permit is adjacent to the Pyrenees Oil development, a joint venture between BHP Billiton and Apache PVG Pty Ltd
- ❖ 2D seismic data interpretation in the Rangkas PSC in Indonesia was completed.
 - Joint venture is now assessing prospects and leads from the seismic data
- ❖ 2D seismic data acquisition was progressing in the L52/50 and L53/50 joint venture in Thailand.
 - Acquisition is on budget and slightly behind schedule
- ❖ Cash flows from Thai operations before tax and drilling costs were \$5.7 million during the quarter
 - Cash reserves at quarter end were \$12.3 million, Carnarvon has no debt

REVENUE FROM PRODUCTION IN THAILAND (IN L44/43 & L33/43 CONCESSIONS)

(Carnarvon 40% and non-operator)

Oil sales and revenues net to Carnarvon for the past two quarters were as follows:

	Sep. 11 Quarter	Jun. 11 Quarter	Qrtly % Changes
Net sales revenue (A\$000)	8,662	8,890	(3%)
Net sales volumes (bbls)	91,892	93,842	(2%)
Average sales price achieved (A\$/bbl)	94.27	94.73	-%
Net average daily volume (bopd)	999	1,031	(3%)

Production and oil prices were steady during the quarter, compared to the previous quarter, resulting in steady sales revenue of \$8.7 million.

As outlined in the next section, drilling activities during the quarter primarily focused on increasing production levels. The eight wells drilled mostly targeted known volcanic reservoirs with results continuing to encourage without delivering material new volumes. Of note was the WBEXT-2B side track well that initially flowed at 1,100 bopd, as announced on 14 July 2011. This flow rate was impacted by early water incursion and the flow rate declined rapidly.

Other volcanic reservoir targeting wells drilled during the quarter flowed oil but at lower than expected rates, typically due to having intersected tight reservoirs. The joint venture is currently working with a number of third parties to trial new technologies seeking to enhance production, or reduce the impact of water incursion, using these new applications.

Wells targeting sandstone reservoirs during the quarter were limited to POR-6A and POR-6B because of limited suitable well sites and pending environmental approvals. The joint venture previously sought approval for an addendum to an existing environmental approval to add additional well locations within the WBEXT production licence, covering both sandstone and volcanic wells. During the quarter the joint venture was advised that a separate environmental approval application was required and accordingly the commencement of a WBEXT sandstone drilling campaign is expected to commence in the first quarter of 2012.

In light of the drilling outcomes from the L33-2 field and the WBV2 volcanic in the WBEXT field during the past three quarters, the joint venture expects Gaffney, Cline & Associates ("GCA") to report lower reserves, in particular from these fields. GCA will consider these as at 31 December 2011, with the report expected late March or early April 2012. GCA reported proved and probable reserves net to Carnarvon in these fields of 1.7 mmbbls for L33 and 1.4 mmbbls for WBEXT WBV2 as at 31 December 2010.

DRILLING ACTIVITIES IN THAILAND (IN L44/43 & L33/43 CONCESSIONS)

(Carnarvon 40% and non-operator)

Sandstone Exploration and Appraisal

Wells drilled and / or completed during Quarter:

Well	Permit	Status
POR-6A	L44/43 & SW1A	On production – WBEXT SST
POR-6B	L44/43	On production - WBEXT SST

As detailed previously, the anticipated environmental approval for drilling production wells within the WBEXT production licence was not granted during the quarter and as such only a limited number of sandstone appraisal wells into the WBEXT sandstone area could be drilled.

The **POE-6A** appraisal well has been on production from a sandstone zone at a stabilized rate of 75 bopd (gross) since the end of July 2011. The **POR-6B** appraisal well was placed on production from the “G” sandstone reservoir at the end of September 2011 and is currently flowing at approximately 30 bopd (gross).

Volcanic Exploration and Appraisal

Wells drilled and / or completed during Quarter:

Well	Permit	Status
WBEXT-2BST1	L44/43	On production – WBEXT WBV1
NS-2A	SW1A	On production – NaSanun Volcanic
NSW-A	L44/43	Tight primary volcanic – suspended in order to access potential oil in sandstones
WBEXT-1DST1 & ST2	L44/43	On production - WBEXT WBV1 volcanic
L44-G2 & ST1	L44/43	Completed as development well but initial testing did not produce commercial volumes
NSE-F6	L44/43	On production – upper/main volcanic zone

The **WBEXT-2BST1** well, a step out appraisal of the 2010 WBEXT WBV2 volcanic reservoir oil discovery is currently on production at a restricted rate of approximately 50 bopd (gross). At the WBEXT field the joint venture is currently evaluating the deeper WBV2 volcanic reservoir and the impact of the WBEXT-2B well on reserves. The field gas / oil contact was encouraging in that it was encountered at the structural level for possible oil reserves assigned in the 31 December 2010 evaluation. The oil / water contact on the other hand appears to be at the structural level for only proved oil reserves assigned in the 31 December 2010 evaluation based on the water production from the well.

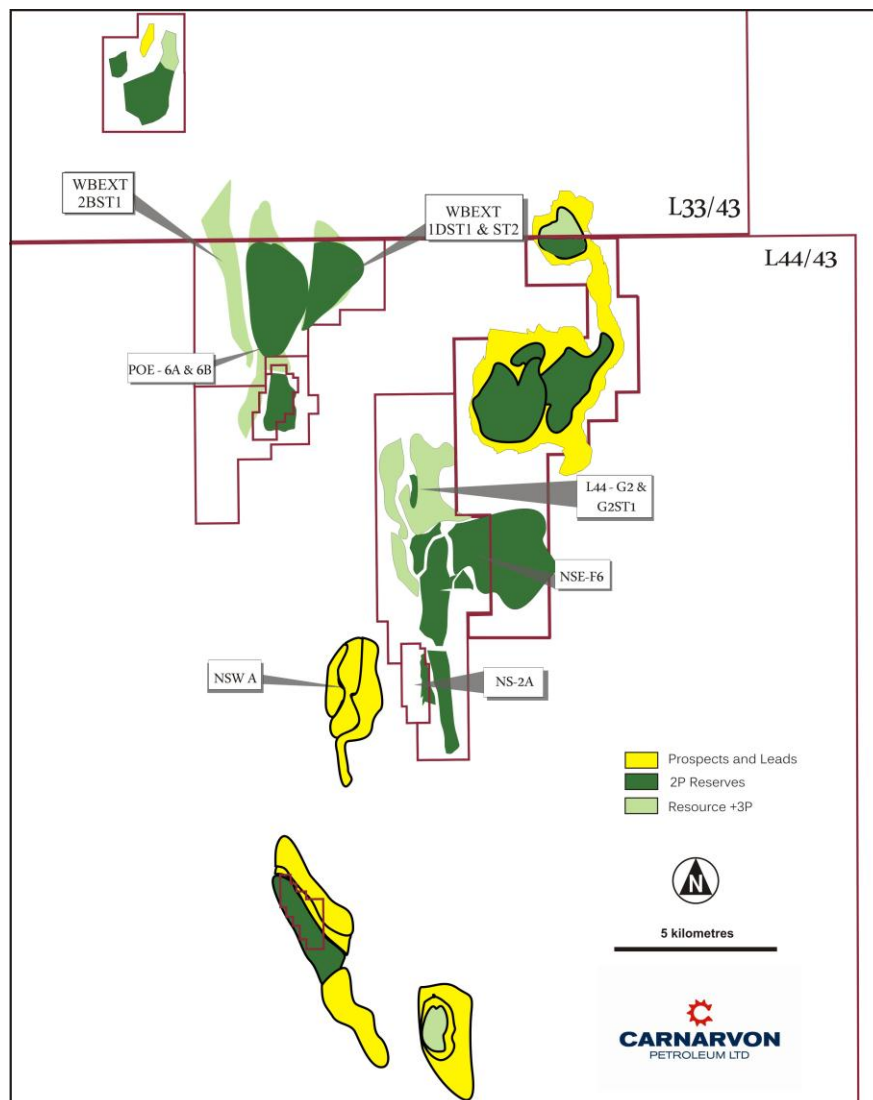
NS-2A is currently on production from a volcanic within the Na Sanun field at a rate of around 100 bopd (gross).

The **NSW-A** exploration well encountered a tight primary volcanic objective with encouraging oil shows were encountered in sands below the volcanic zone. Well bore conditions in this case did not allow wire line logging despite repeated attempts. This well has been suspended and the deeper sandstone potential is being evaluated to determine if the sidetrack of the well is justified.

The **WBEXT-1DST2** well was designed to appraise the WBV2 volcanic in the WBEXT area. Borehole stability issues required a sidetrack (WBEXT-1DST2) into the WBV1 volcanic. The well is on production at a rate of approximately 80 bopd (gross).

L44G2 and subsequent sidetrack **L44G2-ST1** were appraising the NSE North accumulation discovered in August 2007. The well was completed as a development well but initial testing did not flow commercial hydrocarbons.

NSE-F6 is a horizontal well into the crest of the NSE-F1 field. The well was completed for development and commenced producing in early October 2011.

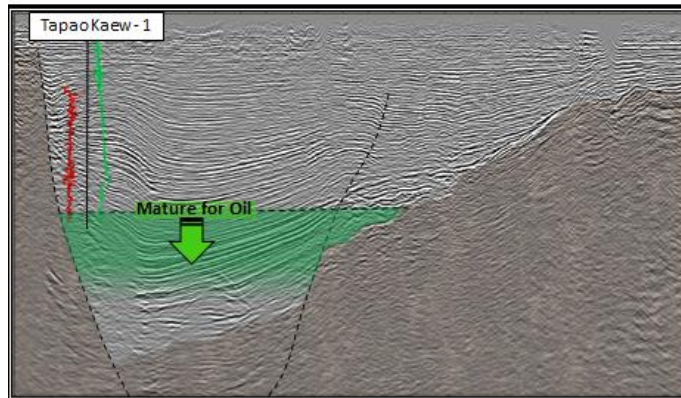


EXPLORATION IN THAILAND

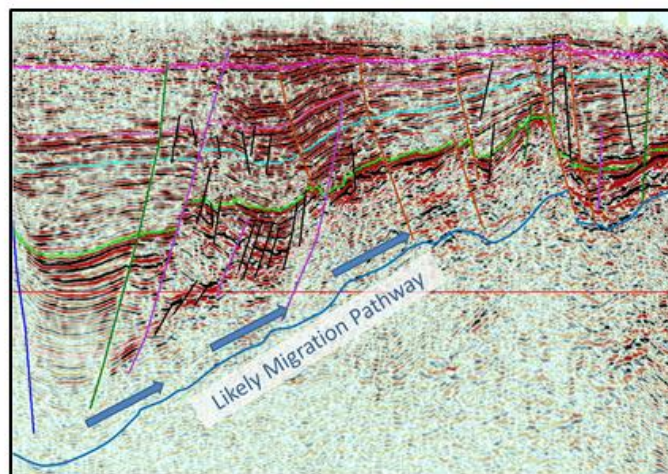
(a) L20/50 Concession – Thailand (Carnarvon Petroleum 50% and Operator, Sun Resources 50%)

During the quarter Carnarvon advanced its studies and assessment of the results from the Tapao Kaew-1 and Krai Thong-1 wells drilled in early 2011.

Well cuttings and sidewall cores were subjected to age dating and detailed geochemical analysis with the aim of better defining source rocks in the basin. The results of the geochemical analysis have shown good to excellent quality, mature source rocks at the base of the Tapao Kaew-1 well as illustrated below.



Current analysis suggests the presence of good source rocks, seal and reservoir within complex faulting and multiple fault terraces on eastern flank of the basin. There is also good potential for trapping along likely hydrocarbon migration pathways as outlined below.



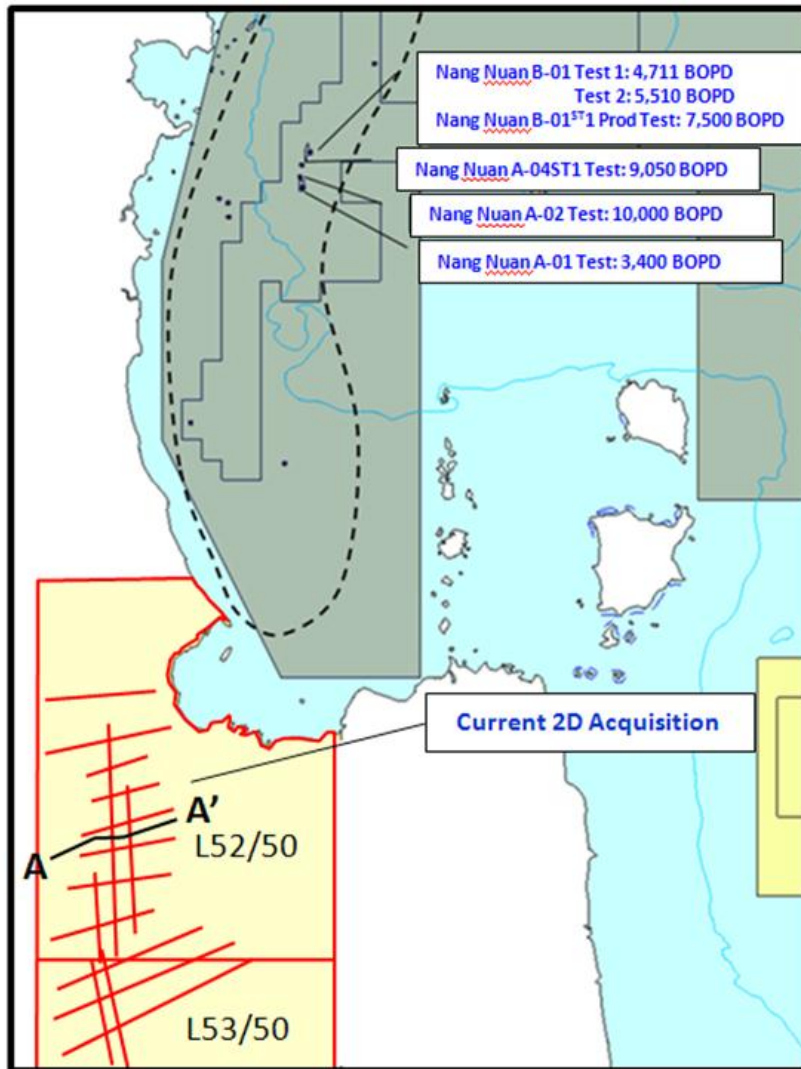
The joint venture is currently reviewing options for the acquisition of 3D seismic data over the eastern flank of the basin to improve the geological understanding of the faulting structures and enhance the future drilling potential in this Concession.

The drilling of the two wells in the '1st Obligation Period' exceeded the Concession commitment and consequently the credit for one well can be carried forward. After carrying out further studies through 2011, the joint venture is currently considering plans for the '2nd Obligation Period', requiring a 50% relinquishment, 3D survey and one well commitment.

(b) L52/50 & L53/50 Concessions - Thailand
(Carnarvon Petroleum 50%, Pearl Energy 50% and Operator)

Acquisition of 315 km of 2D seismic data across the combined L52/50 & L53/50 Concessions commenced during the quarter with up-hole drilling near complete and seismic acquisition in progress.

While both permits are lightly explored their potential is significant being on trend and in a similar basin to an offshore field that flowed up to 10,000 bopd from the single Nang Nuan well as pictured below.

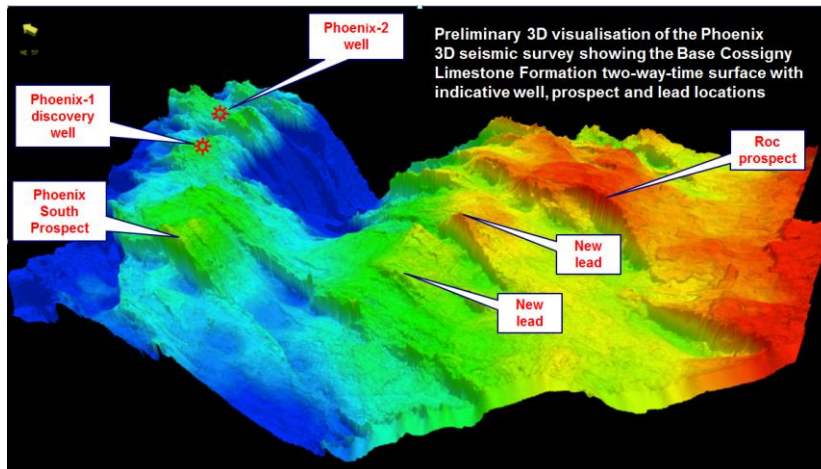


The L52/50 and L53/50 Concessions were granted in February of 2010 and the first year work program, consisting primarily of studies, has been completed. The work to date, including detailed surface geological mapping, has given the joint venture confidence in the planned exploration programme.

EXPLORATION IN AUSTRALIA

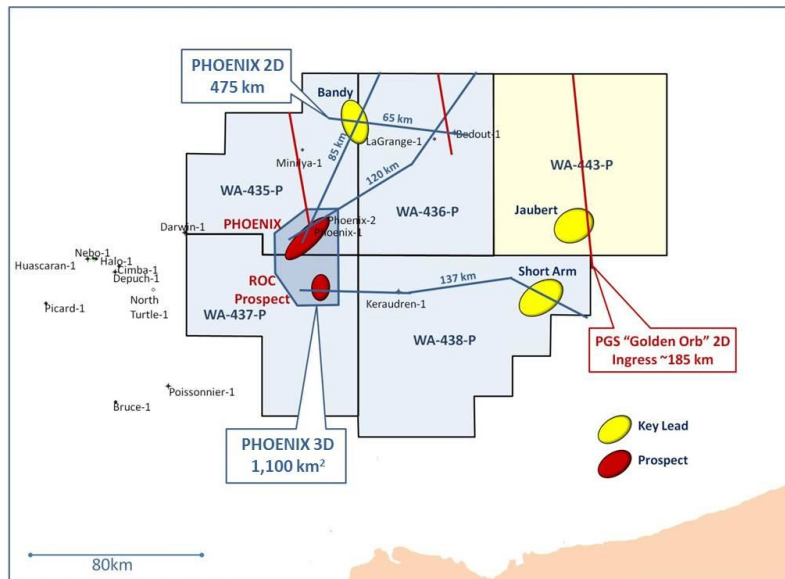
(a) WA-435-P, WA-436-P, WA-437-P and WA-438-P – Australia Offshore NW Shelf (Carnarvon Petroleum 50%, Finder Exploration 50% and Operator)

The WA-435-P, WA-436-P, WA-437-P and WA-438-P permits contain the Phoenix-1 and Phoenix-2 gas discoveries, close to onshore pipeline infrastructure at Port Hedland and new LNG projects. The information derived from the new 3D and 2D seismic data is expected to play an important part in the appraisal of the Phoenix discoveries.



Processing of the new 3D seismic survey was completed during the quarter, with detailed velocity analyses and migration being carried out. Detailed reservoir analysis and remapping of the Phoenix and Phoenix South structural complex in the WA-435-P permit and also the large Roc Prospect and other follow-up leads in the WA-437-P permit commenced during the quarter.

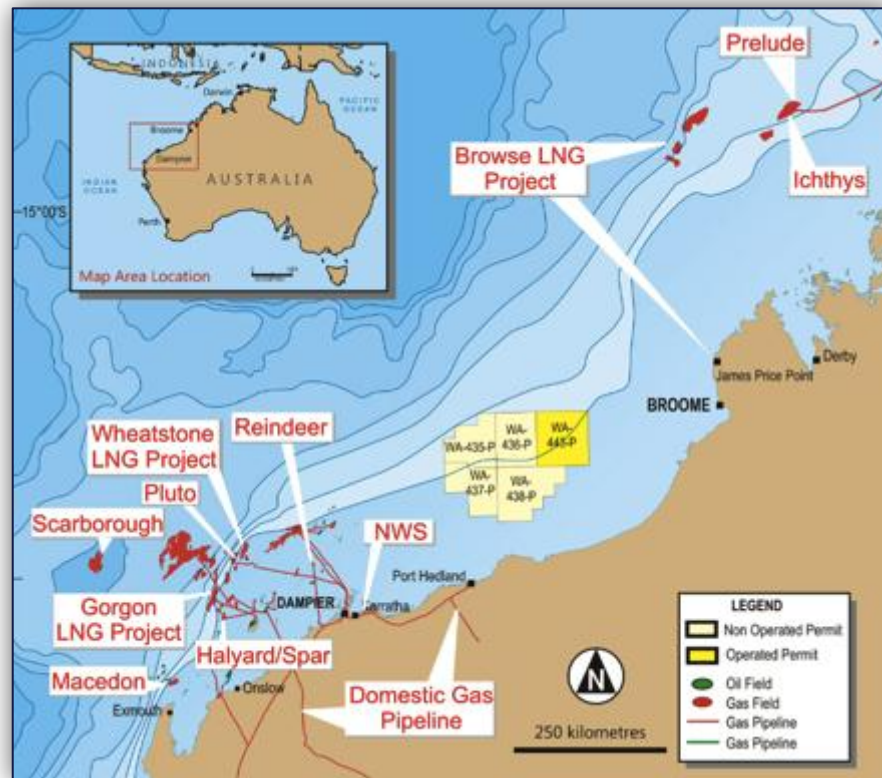
In conjunction with the 3D seismic programme, 475 km of 2D seismic data was also acquired, providing important well ties and new data over key leads in the area.



Phoenix 3D & 2D seismic survey area

In addition, a regional airborne gravity and magnetics survey, recorded over the eastern permits in the Bedout Sub-basin, was also interpreted during the quarter and has provided a regional set of maps to complement the seismic interpretation.

The four permits are situated in the north-western part of the Bedout Sub-basin within the greater Roebuck Basin, offshore Western Australia. The permits lie in an under-explored area that has received little recent attention, between the prolific Carnarvon Basin hydrocarbon province to the southwest and the Browse Basin to the northeast. The town of Port Hedland lies approximately 150 km to the south of the permits and Broome lies 250 km to the northeast. Water depths range from 35 to 265 metres and the permits cover a very large area of more than 21,000 km² (268 graticular blocks).



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

No previous drilling has taken place in the WA-443-P block. A large Middle Triassic prospect, Jaubert, has previously been recorded in the block as a faulted anticlinal closure. The structural form and size of Jaubert are comparable to the adjacent Phoenix group of potentially large gas accumulations. Carnarvon acquired 1,500 km of reprocessed 2D seismic data during the quarter.

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. The operator, Apache Northwest, reports that the processing of the data is progressing and is scheduled for completion in December 2011. 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.



M/V GeoAtlantic used to acquire the “Gazelle” 3D seismic data

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).

The WA-399-P exploration permit is situated offshore Western Australia within the Carnarvon Basin. The block is adjacent to the Pyrenees Oil development, a joint venture between BHP Billiton and Apache PVG Pty Ltd, which commenced oil production in February 2010. Nearby, there are several producing oil fields including Enfield and Vincent/Van Gogh, as well as the Macedon gas field, currently under development, and a number of other oil and gas field discoveries.

EXPLORATION IN NEW ZEALAND

PEP 38524 – Offshore New Zealand

(Carnarvon Petroleum 10%, AWE 60% and Operator, ROC 20% and Kea Petroleum 10%)

The Joint Venture completed its assessment of the results of the Tuatara-1 well drilled in September 2010 and incorporated these into a re-evaluation of the prospectivity of the permit. That assessment concluded that the remaining prospects were of a similar play type to that tested by the Tuatara-1 well and accordingly Carnarvon elected to withdraw from the block during the quarter.

EXPLORATION IN INDONESIA

Rangkas PSC – Onshore Indonesia

(Carnarvon Petroleum 25%, Tap Oil 24%, Lundin Petroleum 51% and Operator)

Recording of the 500 km Rangkas 2D seismic acquisition programme was completed on 1 April 2011 and processing of the data was completed during the quarter.

These seismic data enhance the 1,000 km of existing reprocessed 2D seismic data being used to refine geophysical mapping of some 15 significant leads. Seismic interpretation has also complimented 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 stated in the PSC requirements.

The Rangkas Block covers an area of 3,977 km² and is located onshore west Java, southwest of Jakarta. Previous exploration seismic and drilling in the block, along with the presence of surface oil seeps, indicates the presence of an active petroleum system.

CORPORATE

Carnarvon's consolidated cash at the end of the September 2011 quarter was \$12.3 million compared to \$15.2 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. As at 30 September 2011 cash held as security in relation to bank guarantees and minimum cash holding requirements by Thailand authorities was \$0.9 million.

Net revenue for the quarter was \$8.7 million generating an operating cash flow before tax of \$5.7 million from the L44/33 and L33/43 Concessions in Thailand.

Separate from the above, Carnarvon incurred \$1.3 million during the quarter on its half-year instalment of Thai Petroleum Income Tax, \$4.8 million on drilling activities in the L44/33 and L33/43 Concessions in Thailand, \$1.4 million on corporate costs and \$1.0 million acquiring seismic in the L52/50 and L53/50 Concessions in Thailand. The remaining balance of the seismic acquisition program in the L52/50 and L53/50 Concessions is approximately \$1.5 million net to Carnarvon.

Abbreviations

API	American Petroleum Institute gravity measure
A\$	Australian dollars
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
WBV	Wichian Buri volcanic reservoir in which 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