



CARNARVON
PETROLEUM
LIMITED
ABN 60 002 688 851

31 October 2006

Company Announcements Office
Australian Stock Exchange Limited

Via ASX Online

Dear Sirs,

QUARTERLY REPORT FOR SEPTEMBER 2006

Please find attached Carnarvon Petroleum Limited's Mining Exploration Entity Quarterly Report for the quarter ended 30 September 2006 incorporating:

- Report on activities for the September 2006 quarter; and
- Appendix 5B.

Yours faithfully,
Carnarvon Petroleum Limited

A handwritten signature in black ink, appearing to read 'RA Anderson', is written over a horizontal line. The signature is fluid and cursive.

RA Anderson
Company Secretary

REPORT FOR SEPTEMBER 2006 QUARTER

SUMMARY

Key events during the quarter were:

- Three wells in the Phase 1 (7 well) program were drilled, logged and cased for later production testing. Subsequent to the Quarter the “G” sandstone in 2 wells was brought into production.
- A new 245 sq km 3D seismic survey was completed to define the complex structural geology of the Wichian Buri area and to determine the positioning of a 15 to 20 well programme (“Phase 2”) planned to commence later in the year and extending into 2007.
- On 10 August 2006 the company placed 50 million shares at 5 cents per share to raise \$2.5 million. In conjunction with this placement the Company undertook a share purchase plan, which was oversubscribed, for 20 million shares at a similar price of 5 cents per share to raise \$1 million. These funds are being applied towards the Company’s share of budgeted expenditure on the SW1A Joint Venture in Thailand, evaluation and assessment of new opportunities, working capital, and costs of the issue.
- In order to rationalise the number of small shareholders and reduce administration costs, subsequent to the Share Purchase Plan the Company undertook an offer to sell unmarketable parcels. This exercise reduced the number of shareholders from over 5,000 to under 2,500, which is expected to save the company approximately \$40,000 per annum.
- The consolidated cash balance at the end of the quarter was \$3.2 million (including the Company’s share of cash held by the SW1A Joint Venture), compared to \$1.9 million at 30 June 2006.

OPERATIONAL, EXPLORATION & DEVELOPMENT ACTIVITIES

SW1A Concession (Wichian Buri Oil Field) – Thailand (Carnarvon Petroleum 40% / Pan Orient Energy 60%)

Development

The Phase 1 drilling programme commenced on 11 July 2006 with development well POE-2.

POE-2 Development Well

The POE-2 well was positioned 0.24 kilometres to the northeast of the Wichian Buri N-2 production well, which has been one of the best producers within the northern part of the field.

Logging of POE-2 indicated hydrocarbon pay of 5.8 metres within the “F” sandstone at a depth of 964 metres and 5.6 metres within the “G” sandstone at a depth of 1,035 metres. The “G” sandstone has never been flow tested previously.

Further analysis of the logging data indicated a zone of possible hydrocarbon pay of approximately 7 metres in the shallower section at a depth of 572 metres. This zone has also never been flow tested before and will require such testing to determine the commercial potential.

Subsequent to the reporting period, the “G” sandstone has been brought into production for flow testing. The well is currently flowing oil and a stabilised flow rate will be announced when established.

POE-1 Development Well

On 21 August the second well in Phase 1, POE-1, was drilled to a total depth of 1,015 metres.

Oil shows which were intersected over the “F” sandstone at a depth of 787 metres are similar to those encountered in POE-2 over the same reservoir level. However, drilling difficulties were encountered while drilling through a fault and the drillstring became lodged in the hole at a location midway between the “F” and deeper “G” sandstone reservoirs, the latter of which was not penetrated. As a consequence, logging had not been run by the end of the quarter.

The well was suspended and the drilling rig mobilized to the next planned well to continue the drill programme. The drilling rig will return to POE-1 to remove the drill pipe in the hole and complete drilling to total depth at the end of the Phase 1 programme. Logs will then be run to evaluate potential oil zones within the well at both the “F” and “G” sandstone levels and prepare the well for production testing.

POE-8 Development Well

On September 1, POE-8 was drilled to a total depth of 1,312 meters.

Logging indicated hydrocarbon pay of approximately 2 meters within the F sandstone, 3 meters within the G sandstone and 4 meters in a deeper sandstone at 1,250 meters. Neither the G nor deeper reservoir has been flow tested on the concession to date.

Log interpretation also suggests that hydrocarbons may be present in shallower zones at 615 meters, 635 meters, 660 meters and 785 meters and in a deeper hydrocarbon zone within a fractured volcanic sill at 1,155 meters. Flow testing will be required to determine the hydrocarbon potential of these additional zones.

This is an encouraging result with possible hydrocarbon pay interpreted from logs at several levels throughout the well from shallow depths of 615 metres to 1,250 metres. In particular, the log interpreted zone of possible shallow hydrocarbons intersected at 615 metres is consistent with similar log results in POE-2 and other adjacent wells. This interval has previously not been tested and successful flow testing at this level could add significantly to the reserves at the greater Wichian Buri Field.

Drilling of the well was successfully completed and the well was suspended ready for production testing using the smaller workover drilling rig currently working on site.

POE-6 Exploration Well

The POE-6 well is located 500 metres north and 35 metres structurally up dip from WB-3, a well drilled in the late 1980's that flowed oil to surface from a thin oil column over water.

The POE-6 exploration well was drilled to a total depth of 1,200 metres and logging was completed.

The POE-6 well was primarily targeting the "F" sandstone reservoir in a large fault block separate and to the west of the main Wichian Buri field. This separate structure extends approximately 2.5 kilometers north and up dip of the POE-6 location.

Hydrocarbon shows and elevated mud gas readings were encountered over a combined interval of 128 metres while drilling through various targets between 700 to 1,200 metres. After drilling through the "G" sandstone target, crude oil approximately ½ centimetre in depth covered the entire reserve mud pit. Preliminary log analysis indicates a total net pay of approximately 22.8 metres in thickness, 10.2 metres in the G sand, 4 metres in the F sand as well as two other zones of 4.9 and 3.7 metres in net thickness.

Subsequent to the reporting period, the "G" sandstone has been brought into production. The well is currently flowing oil and a stabilised flow rate will be announced when established.

Phase 2 Drilling

Based on the interpretation of the new 3D seismic, 22 prospects have been identified and submissions have been prepared for government approval for these to be drilled in Phase 2 (up to 20 wells) due to commence in December 2006/January 2007.

In order to facilitate the December startup of Phase 2, and to ensure testing of successful wells will not be unduly held up, long lead items including casing and beam pumps are being ordered for 10 of the planned 20 Phase 2 wells.

Workover programme

The joint venture has contracted a smaller workover rig which has been mobilized on site. This rig will be used to complete the current Phase 1 wells ready for production testing and workover the existing 9 producing wells on the field .

Initial workover has been successful with increased production rates from the N4 well from 5 to approximately 20 bopd, by replacing the jet pump with a beam pump. Similar improvements are expected from other wells. Oil production from the current testing of POE-6 and POE-2 was subsequent to the reporting period and will be included in the next reporting period.

Production Testing

In October 2006 the workover rig commenced preparation of the Phase 1 wells for production testing. Each well will be flow tested for a minimum of 1 month. Testing is planned to start with the lowermost hydrocarbon interval in each well and progress upwards until all potential hydrocarbon zones have been evaluated. Thus, although the focus of the testing will be on the “F” and “G” sandstone levels, several other potential hydrocarbon zones identified from well logging will also be selected for testing.

Subsequent to the September Quarter, POE-6 and POE-2 have been brought into production for testing of the “G” sandstone reservoir. Both wells are producing oil, and stabilised flow rates will be announced when they are established. This is a good result for the Joint Venture, since no oil production has previously been obtained from this reservoir level. This is expected to add additional oil reserves in the greater Wichian Buri area. The remaining Phase 1 wells are also being prepared for production testing.

Operations

Production results for the September 2006, June 2006, and March 2006 quarters are shown in the table below:

SW1A Operating Data	September 2006 quarter	June 2006 quarter	March 2006 quarter
Oil production rate	83 bopd	80 bopd	100 bopd
Total production	7,600 bbls	7,295 bbls	8,963 bbls
Average sale price achieved	US\$50.57/bbl	US\$53.61/bbl	US\$48.40/bbl

It is apparent from an initial analysis that many of the wells are not performing according to normal anticipated production profiles. A programme to re-enter and workover these wells is planned to commence later in the year after the Phase 1 wells are brought onto long term production testing.

Carnarvon’s share of the planned December quarter expenditure is currently estimated at A\$1.2 million.

Carnarvon Basin (Western Australia)
EP 110 and EP 424

(Carnarvon Petroleum 35% / Strike Oil 40% / Pancontinental Oil & Gas 25%)

Carnarvon has a 35% interest in the permits EP 110 and EP 424 in the Carnarvon Basin, offshore northwest of Western Australia. Strike Oil is the operator of both permits.

Within EP 424 a new seismic survey of 178 kms has been acquired over the Baniyas prospect, which is a top Barrow Group prospect situated on the downthrown side of the Flinders Fault. Bright seismic amplitudes on the crest of the structure are similar to those observed on other prospects drilled along the Flinders Fault which encountered a gas cap on an oil leg. A large prospect has been identified at Baniyas with the bright seismic amplitudes covering a considerable area.

The new seismic data was acquired to enable detailed mapping of the Baniyas prospect which lies on the western edge of the EP 424 permit and overlaps into the Chevron operated permit TL/4. Costs for the acquisition of the new seismic are being shared between the Chevron operated joint venture and the EP 424 Joint Venture.

The Baniyas Prospect lies 6 kms to the southeast and updip of the Chevron operated Saladin Oil Field and a success at Baniyas could be rapidly tied into the Chevron operated infrastructure.

The year 3 EP 424 exploration program comprises a company commitment of \$152,000. This will be applied to the acquisition, processing and interpretation of the new seismic data.

CORPORATE ACTIVITIES

On 10 August 2006 the company placed 50 million shares at 5 cents per share to raise \$2.5 million. In conjunction with this placement the Company undertook a share purchase plan, which was oversubscribed, for 20 million shares at a similar price of 5 cents per share to raise \$1 million. These funds are being applied towards the Company's share of budgeted expenditure on the SW1A Joint Venture in Thailand, evaluation and assessment of new opportunities, working capital, and costs of the issue.

To rationalise the number of small shareholders and reduce administration costs, subsequent to the Share Purchase Plan the Company undertook an offer to sell unmarketable parcels. This exercise reduced the number of shareholders from over 5,000 to under 2,500, which is expected to save the company approximately \$40,000 per annum.

The consolidated cash balance at the end of the quarter was \$3.2 million (including the Company's share of cash held by the SW1A Joint Venture), compared to \$1.9 million at 30 June 2006.

An updated top 20 shareholders list (as at 30 October) is attached:

Top 20 Holders of ORDINARY FULLY PAID SHARES

*G1 / ORDINARY FULLY PAID SHARES

Rank	Name	Units	% of Issued Capital
1	ANZ NOMINEES LIMITED <CASH INCOME A/C> GPO BOX 2842AA MELBOURNE VIC	16,542,496	3.43
2	HAMILTON CAPITAL PARTNERS LTD C/- ALLIANCE INVESTMENTS SAM LE PANORAMA AB 57 RUE GRIMALDI MC98000 MONACO	11,168,596	2.32
3	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED GPO BOX 5302 SYDNEY NSW	9,565,000	1.99
4	ARNE INVESTMENTS PTY LTD LEVEL 2 88 COLLINS STREET MELBOURNE VIC	8,916,906	1.85
5	MR EDWARD PATRICK JACOBSON 43 VIKING ROAD DALKEITH WA	8,000,000	1.66
6	MR PETER JAMES LEONHARDT 24 AGETT ROAD CLAREMONT WA	7,768,493	1.61
7	ARNE INVESTMENTS PTY LTD LEVEL 2 88 COLLINS STREET MELBOURNE VIC	6,710,493	1.39
8	GERALDTON AGRICULTURAL SERVICES PTY LTD PO BOX 6 GERALDTON WA	6,611,000	1.37
9	PETROLEUM VENTURES PTY LTD C/- RESOURCE RECRUITMENT SUITE 17 LEVEL 1 18 STIRLING HIGHWAY NEDLANDS WA	6,260,640	1.30
10	CITICORP NOMINEES PTY LIMITED GPO BOX 764G MELBOURNE VIC	5,915,305	1.23
11	MR LAWRENCE ADDISON BROWN + MRS JILL BROWN 4 TIRRIL WAY MARTON CLEVELAND ENGLAND TS78PN UNITED KINGDOM	5,913,691	1.23
12	PENDOMER INVESTMENTS PTY LTD <LAW SETTLEMENTS FUND A/C> PO BOX 424 WEST PERTH WA	5,668,493	1.18
13	DALKEITH RESOURCES PTY LTD 2 RIVER RETREAT KEW VIC	5,374,921	1.12
14	MR JOHN THOMAS ROY 17 BROOME STREET COTTESLOE WA	5,368,832	1.11
15	MR GREGORY JOHN MUNYARD <THE G J MUNYARD FAMILY A/C> 9 GIBNEY VISTA WEST LEEDERVILLE WA	5,142,768	1.07
16	NATIONAL NOMINEES LIMITED PO BOX 1406 MELBOURNE VIC	4,602,927	0.96
17	WICKHAM HOLDINGS SA MEIERHOFSTRASSE 5 FL-9490 VADUZ FURSTENTUM LIECHTENSTEIN	4,333,333	0.90
18	MR EDWARD PATRICK JACOBSON 43 VIKING ROAD DALKEITH WA	3,817,903	0.79
19	TOLTEC HOLDINGS PTY LTD 47 CLOTILDE STREET MT LAWLEY WA	3,757,381	0.78
20	MR WILLIAM DOUGLAS GOODFELLOW PO BOX 36 AUCKLAND NEW ZEALAND	3,740,173	0.78
Total		135,179,351	28.07

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

CARNARVON PETROLEUM LIMITED

ABN

60 002 688 851

Quarter ended ("current quarter")

30 SEPTEMBER 2006

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from product sales and related debtors	205	205
1.2 Payments for (a) exploration and evaluation	-	-
(b) development	(1,554)	(1,554)
(c) production	(183)	(183)
(d) administration	(221)	(221)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	32	32
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
Net Operating Cash Flows	(1,721)	(1,721)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(250)	(250)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other	-	-
Net investing cash flows	(250)	(250)
1.13 Total operating and investing cash flows (carried forward)	(1,971)	(1,971)

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)	(1,971)	(1,971)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	3,314	3,314
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	3,314	3,314
	Net increase (decrease) in cash held	1,343	1,343
1.20	Cash at beginning of quarter/year to date	1,898	1,898
1.21	Exchange rate adjustments to item 1.20	(10)	(10)
1.22	Cash at end of quarter	3,231	3,231

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	76
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Not applicable

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Not applicable

Notes: Line 1.22 includes the company's share of cash held by the SW1A Joint venture in Thailand

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	600
4.2 Development	600
Total	1,200

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	60	517
5.2 Deposits at call	3,171	1,381
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	3,231	1,898

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.

Issued and quoted securities at end of current quarter

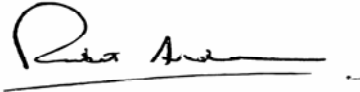
Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	481,787,134	481,787,134		
7.4 Changes during quarter (a) Increases through issues	70,000,000	70,000,000	5 cents	5 cents
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases (b) Decreases				
7.7 Options <i>(description and conversion factor)</i>	11,000,000 11,000,000		<i>Exercise price</i> 7 cents 10 cents	<i>Expiry date</i> 31 March 2008 31 March 2009
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here:

Print name: Robert A Anderson
COMPANY SECRETARY

Date: 31 October 2006

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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