

26 February 2009

Company Announcements Office
ASX Limited

Via ASX Online

Dear Sirs,

WARRO-3 DRILLING UPDATE

EP 321 and EP407 Western Australia

The onshore Warro Gas Field straddles the boundary between the two exploration permits EP 321 and EP 407 within the Perth Basin, Western Australia. Carnarvon Petroleum has an overriding royalty interest (ORRI) of 2.5% of net well head value from any production within these permits. Such an interest is free of all drilling and development costs.

The Warro-3 appraisal well is currently being drilled by operator Latent Petroleum with its joint venture partners Alcoa and Transerv Energy. Today Transerv released the following update.

“Transerv advises that drilling of the Warro #3 appraisal well has reached a depth of 3,669 metres and is currently in the process of running and setting 9 5/8 inch casing. The well is expected to commence drilling into the top of the reservoir interval from 3,800 meters.

The Warro #3 well encountered 3 gas shows whilst drilling between 3,035 and 3,134 metres. These shows combined with the results of geophysical logs in Warro #3 provide a positive correlation to the shows experienced whilst drilling the earlier Warro 1 and 2 wells. While these shows are of secondary importance to the main target interval below 3,800 metres, they support the geological model and provide a strong indication of the continuity of the structure that forms the Warro Gas Field.

The drilling of Warro #3 well is on target to reach its planned total depth of 4,375m by mid March. This will be followed by a further 35-40 days to complete the fracture stimulation program on the target gas zones to establish flow rates.

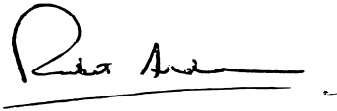
BACKGROUND ON THE WARRO GAS PROJECT

Transerv holds a 10% interest in the Warro Gas Project and is free carried for the first \$40m of project expenditure on the current evaluation program, which includes 2 to 3 wells plus seismic. This expenditure on the Warro Project evaluation program is being funded by Alcoa of Australia as part of their farm-in commitments. On completion of all farm-in expenditure obligations, including construction of production facilities, the project interests held will be Alcoa 65%, Latent Petroleum 25% (Operator) and Transerv 10%.

Warro #3 is an appraisal well to determine the flow rates achievable from the large Warro Gas Field using modern drilling and fracking technology. The field was originally discovered by WAPET in 1977 through a 2 well drilling program. If the evaluation program is successful, it will confirm the commercial viability of the Warro Gas Field, expected to yield 2to3 Tcf of recoverable gas for domestic consumption in WA.

The drilling and fracture stimulation techniques to be applied at Warro have been successfully developed in the USA, where tight gas projects now account for over 20% of its domestic gas supply. In 2008 Schlumberger undertook a detailed analysis of the two wells previously drilled at Warro to determine potential flow rates. Schlumberger predict that the application of modern fracking is likely to achieve commercial flows at Warro with initial daily flow rates of 5.1 to 6.8 MMcf per well, and total recovery per well of 5.8 to 6.4 Bcf.”

Yours faithfully
Carnarvon Petroleum Limited

A handwritten signature in black ink, appearing to read 'RA Anderson', with a horizontal line underneath it.

RA Anderson
Company Secretary