

Thailand Operations Update

21 May 2010



Drilling operations

- The new drilling rig, introduced to the field in February 2010 to replace the two older rigs, is performing to expectations on time and cost;
- The L44W-A15ST1 well looks particularly promising in that it penetrated ~60 metres of volcanic reservoir, which is significantly thicker than the ~23 metres encountered in the central and western portion of the field;
- The next series of wells will target the Bo Rang "B" reservoir which has a strong production history.

Production operations

- Current production is 6,500 bopd gross with two new wells still "cleaning up" and a number of drilled wells awaiting recompletion or deepening;
- Production from the new wells is averaging ~400 bopd per well, in line with pre-production estimates;
- The Joint Venture is considering the introduction of a second rig to accelerate development drilling and to evaluate a number of exploration prospects.

Forward plan

- A further 18 wells are planned for the remainder of calendar 2010, the majority of which will be production wells;
- The Joint Venture remains focused on delivering its target average of 9,000 bopd (gross) in calendar 2010;
- Carnarvon is confident all necessary steps are in place by the Operator to achieve the above average production target and to exit calendar 2010 with production levels around 10,000 to 12,000 bopd (gross)

Current field rate of 6,500 bopd (2,600 bopd net to CVN) and increasing

New Bo Rang "B" development well on production at 280 bopd (gross) but still cleaning up

Drilling ongoing at Bo Rang "B" site

Registered Office

Ground Floor
1322 Hay Street
West Perth WA 6005

PO Box 99
West Perth WA 6872

Telephone: 08 9321 2665
Fax: 08 9321 8867
Email: admin@cvn.com.au

ASX Code: CVN

www.carnarvon.com.au

THAILAND OPERATIONS UPDATE - Concession L44 (Carnarvon 40%)

NSE-E1 Field

The NSE-E3ST1 horizontal well completed at the end of March 2010 is currently on production at a rate of 750 bopd (gross). This was the third producing well drilled into the NSE-E3 pool.

NSE Central Field

NSE-H3, an infill development well targeting the main volcanic reservoir within the NSE Central field experienced collapse of the one metre open hole reservoir section of the well very shortly after the start of testing. A service rig is scheduled to open up the original one metre section and drill an additional ten metres of reservoir.

NSE-B3, an infill horizontal development well targeting the main volcanic reservoir within the NSE Central field, is currently producing at unstabilised rates of between 88 to 150 bopd (gross) as the well continues to flow back completion and drilling fluids combined with oil. Flow rates are anticipated to increase as the well “cleans up” further.

Bo Rang “B” Field

The L44W-A15ST1 well, a key step out horizontal appraisal well targeting the edge of the probable reserve (“2P”) envelope on the eastern flank of the Bo Rang “B” field has started initial testing at initial rates of approximately 270 barrels of oil per day (gross) with a 20% drilling mud/load fluid cut as the well continues to “clean up”. Prior to kicking off horizontally, L44W-A15 well was drilled vertically to determine the thickness of the main Bo Rang “B” volcanic reservoir at this eastern flank location. The well penetrated approximately 60 metres of volcanic reservoir, which is significantly thicker than the 24 metres encountered in the central and western portion of the field. The field oil water contact has yet to be encountered. In addition to the main Bo Rang “B” volcanic zone, two volcanic intervals of approximately 25 metres and a 10 metres thick interval were encountered between the depths of 335 to 390 metres. These zones appear to be gas bearing based on elevated mud gas readings observed while drilling and they exhibit good reservoir characteristics on logs. A future well will target these volcanic intervals in a down dip position looking for a possible oil leg.

The L44W-A15-2 well is a deviated appraisal well drilled from the same six well pad surface location as the L44W-A15ST1 well detailed above. The well is currently drilling ahead at a depth of 100 metres and is targeting the Bo Rang “B” volcanic reservoir. Upon completion of this well a third Bo Rang “B” appraisal well will be drilled from the same surface location leaving three additional well slots to target the deeper Bo Rang “A” field reservoir.

An additional six well pad at the L44W-A14 location has been constructed 1.2 kilometres due east of the L44W-A15 well pad. Upon the completion of the drilling of a third well at the L44W-A15 pad, the rig will likely move immediately to the L44W-A14 pad to drill two wells targeting the Bo Rang “B” volcanic reservoir within the 2P reserve envelope and at least one well within the possible reserve “3P” envelope. Should success be achieved extending the field limits out to the 3P envelope, up to an additional three wells will be drilled from this location.

NSE-F1 Field

Upon the completion of drilling operations from the L44W-A15/14 drill pads at Bo Rang “B”, the first appraisal wells to the NSE-F1 oil discovery made in 2009 will be drilled from the NSE-F2 pad that has been constructed approximately 1.2 kilometres north east of the discovery well surface location. In the success case, an additional four surface locations, each with multiple well cellars has been approved by the Government of Thailand.

Production

Current production of 6,500 bopd (gross) is behind plan mainly as a result of completing only half of the wells forecast to be drilled to date. This has been largely due to difficulties with the collapse of well bores in the shale just above the volcanic reservoir occurring in horizontal wells when massive drilling fluid losses are encountered in the top few meters of the target zone prior to the setting of casing. To address this issue, casing is now set prior to encountering the top of the volcanic reservoir objective with the most recently drilled L44W-A15 well being a successful application of this process.

The original operational plan forecast 2.5 wells per month with average gross production of 400 bopd per well (gross). While the production estimates have been achieved on an average per well basis, the number of wells drilled has been less than half of the forecast for the reasons discussed above. This is completely unrelated to the performance of the new rig which has been exceptional, with rig moves of averaging 36 hours and drilling rates of approximately 725 metres per day.

In order to accelerate development drilling and evaluate a number of high quality exploration wells prior to year end the Joint Venture will make a decision to take on a second rig sometime in July 2010. Factors influencing this decision will include production rates over the next two months and world oil prices.

Forward Plan

In order to increase production the Joint Venture is planning a further 18 wells for the remainder of calendar 2010, of which the majority will be development wells. The Joint Venture's target production levels for 2010 is to average 9,000 bopd (gross) which would result in Carnarvon producing and selling around 1.3 million barrels of oil for the 2010 calendar year. We also expect to improve on this level in 2011 as we continue to drill more development wells.

For the present calendar year Carnarvon understands that current production rates of 6,500 bopd (gross) will need to increase to 10,000 to 12,000 bopd (gross) by the end of the year to achieve the previously articulated goal for 2010 to average 9,000 bopd (gross).

Carnarvon is confident the Operator has put in place all the necessary steps to achieve and sustain these production rates, which includes:

- Having recently been granted an additional 20 year production license over Bo Rang North area which contains the Bo Rang A&B, L44W and NSE-F1 oil accumulations;
- All environmental and government approvals to drill and produce are now in place;
- No new approvals are required in the short to medium term and hence there are very few implications likely to result from continued unrest in Bangkok;
- Plans have been agreed with the Joint Venture to drill 25 to 30 wells in 2010;
- A fully contracted rig, working efficiently and capable of drilling 25 to 30 wells per year is currently in operation;
- Established success in bringing production wells on line quickly and cheaply;
- A minimum of 40 well locations already prepared and a further 20-30 in preparation; and Drilling completion method has been changed to limit potential to collapse of horizontally drilled holes.

Thailand 2010 Drilling – Concession L44/43

