

Letter to Shareholders

7 December 2012



Dear Shareholders,

In September 2012 we completed a body of work with our new joint venture partner for the development of a portion of the sandstone reservoirs in our Thailand oil production block. The area that we are currently focused on is referred to as the "1B fault block" in the Wichian Buri extension area. The development of this block is part of our overall plan to be producing 3,000 bopd gross by 31 December 2012 from our Thailand assets and together with the Phoenix farmout has formed two of our key near term goals.

Thailand production

There are three elements to achieving the abovementioned production target, being:

1. Return shut in wells to production (500 bopd gross target);
2. Develop the first of the sandstone fault blocks (800 bopd gross target); and
3. Deliver modest but steady additional production from igneous drilling/redevelopment (300 bopd gross target).

The remaining 1,400 bopd to make up the 3,000 bopd comes from existing base production.

Return shut in wells to production

At this time discussions with the Agricultural Land Reform Office ("ALRO"), to allow a return to production from a number of wells that are shut in, continue in a positive manner. We have a high degree of confidence that the matter will be resolved with production recommencing in the near term. We continue to push for resolution before our target date of 31 December 2012 but the exact timing is to some degree beyond our control.

Development of sandstone fault block

In relation to the development of the first sandstone fault block, the Joint Venture is working to its plan of drilling a number of production wells and a number of water reinjection wells. The drilling of those wells is now complete and was done on time and on budget. Well costs were in the order of \$1.0 million gross each (\$0.4m net to Carnarvon).

Joint Venture
focused on
achieving
3,000 bopd

Discussions
positive, timing
governed by
ALRO

Sandstone
drilling
completed on
time and budget

The development drilling was successful with oil shows in all of the wells drilled. A number of wells contained sandstone layers thinner, but more numerous, than predicted. The consequence has been more technical work was required, including interim testing of individual zones, and more detailed planning of the well perforation program to achieve the objective of 800 bopd from the fault block. The recoverable volume of oil from this fault block has not been impacted by the drilling results. We believe the careful attention to detail being paid by the operator to the technical work will ensure the maximum recovery of the oil in place and this knowledge will be applied across future development programs to the benefit of Carnarvon's shareholders.

Currently the work over rig is perforating and individually testing each of the sandstone intervals to enable the most effective recovery of the oil that is in place.

It is important to note that the objective of this program is to deliver the target flow rate from the overall reservoir rather than from a single interval in a single well. This is to maximise recoveries from the field. We had expected a range of flow rates as we proceed through the development program and the overall flow rate of each well will not be known until completion of the workover program. However to provide some indication of the potential in this area, recently the rig perforated two 4 metre zones in the WBEXT-1H well bore and is currently testing these at well over 200 bopd gross from these 2 zones. As previously advised the plan is to have 7 to 8 producing wells in this fault block, supported by water injection wells designed to maintain the necessary flow rates by maintaining the pressure in the reservoir.

Given this is a development program, Carnarvon plans to report results once the development program is online, rather than on a well by well basis which can be taken out of context until the development is completed. The Joint Venture remains confident of achieving 800 bopd gross from this fault block once the development is online.

Igneous production

The third avenue in which the Joint Venture is looking to achieve its target flow rate is in drilling and redevelopment of a number of igneous reservoir wells. The NSE-B2ST1 well currently being drilled is a sidetrack targeting an infill location in the NSE oil field and the results of this well will be known shortly.

One or two additional infill wells are planned for the greater NSE oil field in the near term depending upon the success of the first well. It is worth noting that these wells are based on revised technical work undertaken by the new operator's technical team.

Some differences in prognosis, no impact on the projected outcomes

Work over rig completing wells

Wells show necessary flow rates are achievable

The igneous potential is still substantial

Phoenix farmout

In relation to Phoenix we successfully executed the farmout agreements in October 2012 and announced that Apache and JX Nippon would drill one firm and one contingent well into the two very significant prospects that had been presented.

At this time the Joint Venture hasn't formally discussed the timing of the wells. However, informally Apache has indicated that it has a suitable drilling rig, namely the Atwell Eagle, arriving late in 2013 and Apache has tentatively allocated one of the first rig slots to the Phoenix South well. There are a number of potential variables to this timing and we'll provide shareholders with further clarity on this in the new year.

Looking to 2013

All efforts are being applied to deliver the target 3,000 bopd gross by 31 December 2012 and we remain confident of meeting this target based on the receipt of approvals from ALRO, the completion of the sandstone fault block and additional production from the igneous wells.

Looking to 2013, the Joint Venture expects to take a break from drilling operations early in 2013 to enable the technical teams to consider the results of the recent sandstone and igneous wells and provide further time to plan the forward program. Carnarvon strongly supports this position and of course this will result in positive cash flows during this period from the Thailand production.

And of course, late in 2013 we are looking forward to commencing the first of the Phoenix wells.

Yours sincerely,



Adrian Cook
Managing Director
Carnarvon Petroleum

Successful
farmout to
Apache and
JX Nippon

Phoenix South
drilling expected
late 2013 with
Atwell Eagle rig

Focus is on
increasing
production

Break in drilling
in early 2013

Positive CVN
cash flows

Phoenix
opportunity in
2013