

Quarterly Report



March 2012 Quarter

ASX: CVN

Company

Capital

Carnarvon produces oil onshore Thailand and has an exploration and production focus in South East Asia and Australia.

	At 31 Mar. 12	At 31 Dec. 11
Share price	\$0.13	\$0.097
Market capitalisation	\$90m	\$67m
Net cash / (debt)	\$10.0m	\$10.3m

Reserves (net to CVN)

Production (net to CVN)

	At 31 Dec. 11		31 Mar. 12 Qtr	31 Dec. 11 Qtr
Proved (1P)	3.8 MMbbls	Production (bbls)	71,767	87,856
Proved & Probable (2P)	12.1 MMbbls	Average sale price (\$/bbl)	A\$103.26	A\$99.43
Proved, Probable & Possible (3P)	22.7 MMbbls	Net sales revenue (\$'m)	A\$7.41m	A\$8.73m

SIGNIFICANT ACTIVITIES DURING THE QUARTER

- ❖ **Revenue** for the quarter was A\$7.41m on 71,767 barrels of oil produced. The joint venture is currently awaiting EIA approvals to commence the WBEXT sandstone development program and during the quarter brought forward the 2012 volcanic well program.
- ❖ **Proved reserves** of 3.8 MMbbls (\$84m on NPV₁₀ basis) and proved plus probable reserves of 12.1 MMbbls (\$222m on NPV₁₀ basis) net to Carnarvon as at 31 December 2011 were independently certified by Gaffney, Cline & Associates during the quarter.
- ❖ **Cash flows** from Thai operations before tax and drilling costs were \$5.4 million during the quarter, before expenditure of:
 - ❖ \$ 4.4 million on drilling activities in the L44/33 and L33/43 Concessions in Thailand
 - ❖ \$ 1.0 million on non-operated technical work, new venture and corporate costs; and
 - ❖ \$ 0.3 million on technical work for the Phoenix blocks
- ❖ **Cash reserves** at quarter end were \$10.0 million, 3% lower than the previous quarter; Carnarvon has no debt
- ❖ The **Phoenix farmout** progressed through to the data room stage during the quarter, with the data room closing late March. The farm out covers the exploration blocks WA-435-P & WA-437-P, containing the Phoenix gas discovery and the Phoenix South and Roc prospects.
 - ❖ At this stage the objective is to conclude a farm out agreement in the third quarter, 2012.
- ❖ **New ~4,289km² of 3D seismic data** acquisition, over a portion of the WA-435-P, WA-436-P & WA-443-P exploration permits, was 76% complete before the vessel was reassigned during the quarter. The program is expected to recommence in the second quarter, 2012 with four to six weeks to complete the acquisition.
 - ❖ The area covers a number of significant leads and is being undertaken by Fugro on a multi-client basis, at no cost to Carnarvon until it licences the data.
- ❖ **Apache processing** of the new 3D seismic data over WA-399-P permit was 80% complete at the end of the quarter.

Oil Production and Revenue

Carnarvon realised an average sales price of A\$103.26/bbl to achieve a net sales revenue of A\$7.4m.

Production during the March quarter averaged 1,972 BOPD gross (789 BOPD net to Carnarvon). The decrease in production from the previous quarter was a result of natural production decline from several key wells. No new production wells were brought online during the quarter with limited success in the volcanic reservoirs and the delayed commencement of the WBEXT sandstone reservoir drilling program.

The joint venture has submitted an environmental impact assessment ("EIA") application to approve surface and downhole locations for the wells required to develop the sandstone and volcanic reservoirs in the WBEXT field. The joint venture is waiting on approval of this application to commence sandstone reservoir drilling. The joint venture, similar to other oil and gas operations within the country, is experiencing delays in this approval process.

In advance of the EIA approvals to commence the sandstone drilling program, the joint venture plans to drill wells targeting volcanic reservoirs included in the 2012 approved work program and budget. These wells were originally planned to be drilled after the WBEXT sandstone development.

Reserves

Carnarvon updated its reserves position following the release of an updated independently certified reserves statement from Gaffney, Cline and Associates ("GCA"). Oil reserves in Thailand at December 31, 2011 have been assigned to Carnarvon's three on-shore concessions, being Concession SW1, Concession L44/43, and Concession L33/43 where it has a 40% working interest.

1. Proved Reserves ("1P") of 3.8 million barrels (2010: 4.7 million barrels) valued at US\$84 million after tax by GCA on NPV₁₀ basis, equivalent to A\$0.12 per CVN share. Proved Reserves were determined on the basis of the joint venture completing the current 2012 approved Work Program and Budget ("WP & B"). The revision also accounts for production in 2011 of over 400,000 barrels;
2. Proved plus Probable Reserves ("2P") position of 12.1 million barrels (2010: 20.4 million barrels) provides considerable upside valuation of US\$222 million after tax on NPV₁₀ basis, equivalent to A\$0.32 per CVN share, based on a multi-year work program.

Sandstone Exploration and Appraisal

The joint venture is planning to drill up to 15 wells to develop a portion of the Wichian Buri Extension (WBEXT) sandstone reservoirs throughout 2012. The drilling campaign is planned to commence upon EIA approval from the Office of Natural Resources and Environmental Policy and Planning (ONEP) in Thailand. The exact date that approval will be granted by ONEP is uncertain at this stage.

Wells drilled and / or completed during the quarter:

Well	Permit	Status
POE-3A	SW1A	Initial testing did not produce commercial volumes

The **POE-3A** appraisal well was drilled to horizontally intersect the main F sand reservoir of the Wichian Buri field, down flank from the production wells. The sands encountered appeared to be depleted and the well was deemed unsuccessful after testing. The results of this well were incorporated into the year end 2011 reserve report.

Volcanic Exploration and Appraisal

Wells drilled and / or completed during the quarter:

Well	Permit	Status
L44-VD1ST1 & ST2	L43/43	Intermittent testing at sub-commercial rates
L44-R2ST1 & ST2	L44/43	Initial testing did not produce commercial volumes
L44-G3	L44/43	Deeper volcanic unsuccessful; upper volcanic to be tested
NS-4A	SW1A	Testing is currently underway
NS-9A	SW1A	Drilling has commenced

The **L44VD1ST2** appraisal well was drilled into the Bo Rang "A2" volcanic objective encountering no drilling fluid losses suggesting a relatively tight reservoir. Oil is being produced at low rates on an intermittent basis.

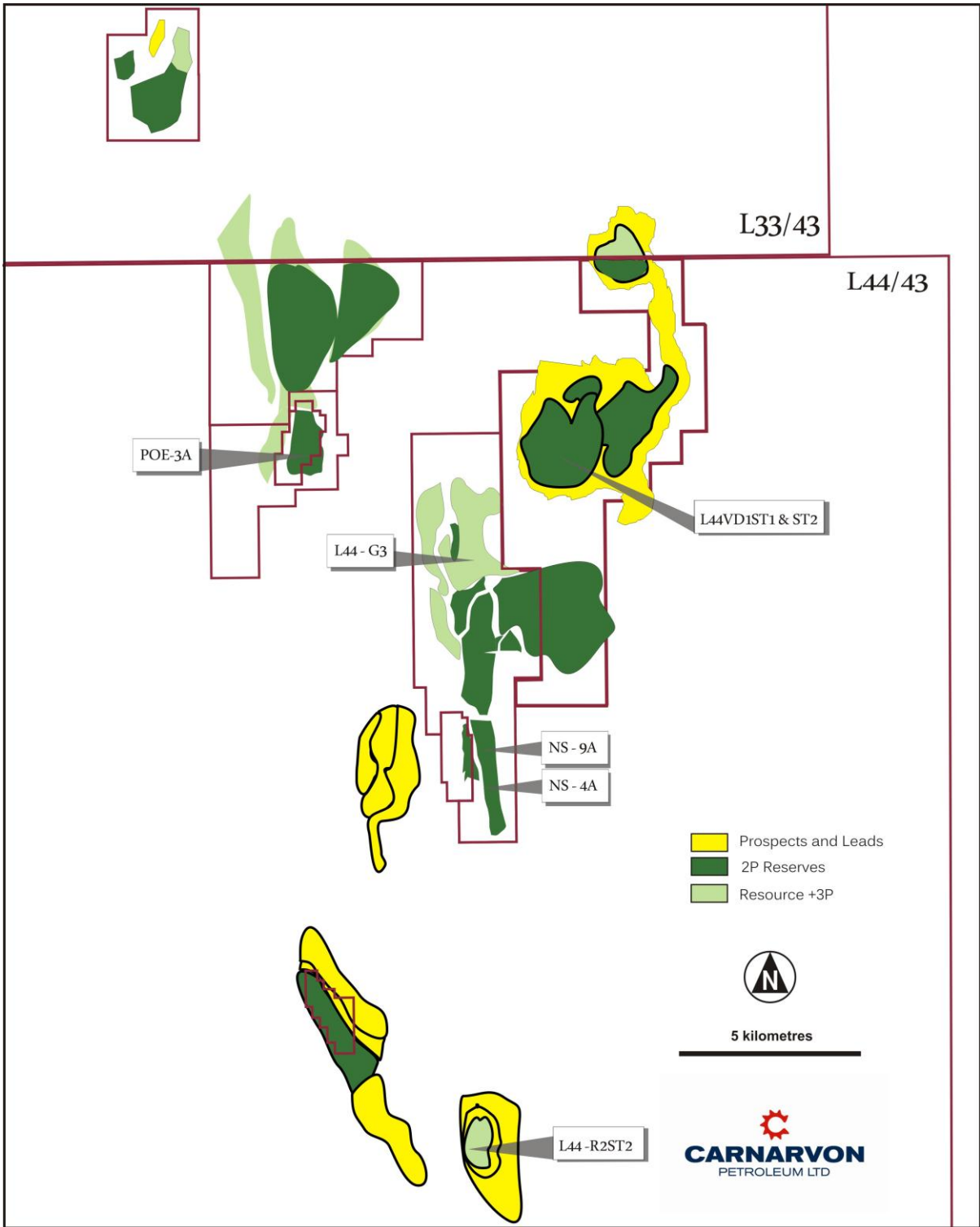
The **L44-R2ST2** exploration well was drilled to test the potential of two volcanic intervals below the proven oil bearing uppermost volcanic. Both zones initially flowed oil on test but quickly went to a 100% water cut.

The **L44-G3** appraisal well was designed to target one proven volcanic reservoir and one deeper unproven potential volcanic reservoir within the NSE North field. The deeper unproven volcanic proved to be tight upon test. The upper volcanic zone, which exhibited good oil and gas shows while drilling, will be perforated and tested when the service rig becomes available during the current quarter.

NS-4A has recently been drilled as a development well targeting a volcanic interval below the main volcanic reservoir of the Na Sanun oil field. Over 3,000 barrels of drilling fluid losses were reported at the very top of the target interval. The well has been completed and testing has commenced and will be reported in the June 2012 Quarterly Report.

In addition, 4 metres of net oil pay was encountered in sand at a depth of 860 meters in the NS-4A well.

The **NS-9A** appraisal well is currently drilling ahead at a depth of 150 metres. This well is designed to horizontally intersect the main Na Sanun field volcanic.



Wells drilled in the last quarter

EXPLORATION IN THAILAND

(a) L20/50 Concession – Thailand (Carnarvon Petroleum 55% and Operator, Sun Resources 45%)

The L20/50 structural and basin model has been updated, combining the drilling results with a reinterpretation of the 2D seismic data. The data shows that the generation of hydrocarbons is likely within the basin. The new model also explains the results from the two wells drilled in 2011 and highlights new areas for investigation. The revised mapping has identified several new structures with potential to contain significant hydrocarbon reserves.

The joint venture continues to review 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.

During the quarter, Carnarvon has continued efforts toward farming out a portion of its interests to assist in funding ongoing exploration in the block. Further commitments during the second obligation period include a 3D survey and an exploration well. The joint venture continues to carry forward a credit for a commitment well after exceeding the commitments during the '1st Obligation Period'.

Application for relinquishment of 50% of the concession area, in accordance with concession commitment, has been completed. The joint venture has retained all of the prospective acreage.

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

Processing of the recently acquired 315 km of 2D seismic data across the combined L52/50 & L53/50 Concessions was completed last quarter. Interpretation and integration of the data is now underway and nearing completion. The joint venture is currently working toward farming out a portion of its interest to assist in funding ongoing exploration in the block.

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 joint venture continued the farm out process for the WA-435-P & WA-437-P exploration permits, containing the Phoenix 3D, Phoenix 1 gas discovery and the Phoenix South and Roc prospects. Several parties have expressed strong interest in farming into the permits. Outcomes from the farm out process are expected in the third quarter, 2012.

During the quarter Carnarvon commissioned an independent assessment of the WA-435-P & WA-437-P permits which confirmed the likelihood of multi Tcf gas prospects at Phoenix South and Roc.

A ~4,289 km² new seismic survey by Fugro is underway across WA-435-P and WA-436-P. The seismic vessel acquired 76% of the data before it was demobilised to assist with another seismic acquisition. The joint venture is expecting a replacement vessel to complete the survey in the second quarter, 2012. The data is expected to be available to Carnarvon in the third quarter of 2012 on a multi-client basis, although at this stage Carnarvon has not committed to licence the data.

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

The multi-client 3D seismic survey being undertaken across WA-435-P and WA-437-P also extends into WA-443-P. The seismic acquisition will cover the Salamander lead, identified in a regional technical review, in the north-western section of the block.

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 and is approximately 83% complete. 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.

EXPLORATION IN INDONESIA

Rangkas PSC – Onshore Indonesia

(Carnarvon Petroleum 33%, Lundin Petroleum 67% and Operator)

After a strategic and technical review, Carnarvon have begun the process of withdrawing from the Rangkas PSC. An assessment of the seismic data gathered in 2011 identified several prospects however the prospects have a low chance of success and do not have sufficient volume to warrant further exploration activities.

CORPORATE

Carnarvon’s consolidated cash at the end of the March 2012 quarter was \$10.0 million compared to \$10.3 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 31 March 2012 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 \$7.4 million generating an operating cash flow before tax of \$5.4 million from the L44/33 and L33/43 Concessions in Thailand.

Separate from the above, \$4.4 million was spent on drilling activities in the L44/33 and L33/43 Concessions in Thailand, \$1.0 million on non-operated technical work, new venture and corporate costs and \$0.3 million on further technical work on the Phoenix blocks including farm out costs.

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 inwhich 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