CARNARVON
PETROLEUM
LIMITED
ABN 60 002 688 851

CARNARVON PETROLEUM LIMITED

ABN 60 002 688 851

HALF-YEAR FINANCIAL REPORT
31 DECEMBER 2004

CORPORATE DIRECTORY

Directors
AG Shelton (Chairman)
NC Fearis (Non-Executive Director)
DJ Orth (Executive Director & COO)

Company Secretary
RA Pullia (Chief Financial Officer)

Auditors
Ernst & Young

Solicitors
Freehills

Bankers
Australia and New Zealand Banking Group Limited

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Share Registry - Australia
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Yarra Falls
452 Johnston Street
Abbotsford Victoria 3067 Australia
Telephone: +61 3 9415 5000
Facsimile: +61 3 9473 2500
Investor Enquiries: 1300 850 505

Stock Exchange Listing
Securities of Carnarvon Petroleum Limited are listed on the Australian Stock Exchange.

ASX Codes: CVN - ordinary shares
CVNO - options expiring 31 December 2005, exercisable at 6 cents

CONTENTS

DIRECTORS' REPORT

Your directors submit their report for the half-year ended 31 December 2004.

DIRECTORS

The names of the directors of the Company in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Andrew G Shelton	*Chairman*
Neil C Fearis	*Non-Executive Director*
David J Orth	*Executive Director & Chief Operating Officer*

REVIEW AND RESULTS OF OPERATIONS

Revenue from oil and gas operations for the half-year ended 31 December 2004 was $429,555 compared to $517,936 in the previous corresponding period, a reduction of $88,381. The consolidated entity's loss, after income tax, for the half-year ended 31 December 2004 was $312,846, a 55% reduction on the previous corresponding period's loss of $689,045.

The decrease in operating revenue was mainly due to a reduction in the number of barrels sold during the half-year and the appreciation of the A$. The decline in oil production, and resultant sales, in the half-year was in line with the normal decline profile of the existing wells.

During the half-year the Company received $260,490 from the sale of shares in Ausam Energy Corporation.

Corporate administration costs for the half-year totalled $419,987, compared to $801,737 in the previous corresponding period. This comparative reduction of $381,750 in the half-year reflects the financial benefit of the cost reduction initiatives undertaken by the Company in the 2004 financial year, after allowing for an increase in legal fees of $41,000 arising from litigation in Canada against its joint venture partner, Tiger Petroleum Inc.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration to the directors as required under section 307C of the Corporations Act 2001 is set out on page 5.

Signed in accordance with a resolution of the directors.

AG Shelton
Director

Melbourne
15 March 2005

ERNST & YOUNG

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Auditor's Independence Declaration to the Directors of Carnarvon Petroleum Limited

In relation to our review of the financial report of Carnarvon Petroleum Limited for the half-year ended 31 December 2004, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

R C Piltz

R C Piltz
Partner
Melbourne

15 March 2005

Liability limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW).

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE
For the half-year ended 31 December 2004

	Notes	31 Dec 2004 $	31 Dec 2003 $
Revenue from ordinary activities	2(a)	696,772	520,255
Cost of sales	2(b)	(375,602)	(412,544)
General administration		(124,204)	(318,457)
Directors' emoluments		(106,550)	(258,768)
Salaries and employee benefits		(78,974)	(156,894)
Legal and consulting fees		(110,259)	(67,618)
Other expenses from ordinary activities	2(c)	(162,551)	1,827
Other gains/(losses)	2(d)	(30,787)	13,999
Exploration project costs		(20,691)	(10,845)
Loss from ordinary activities before income tax expense		(312,846)	(689,045)
Income tax expense relating to ordinary activities		-	-
Loss from ordinary activities after income tax expense		(312,846)	(689,045)
Net Loss attributable to members of Carnarvon Petroleum Limited		(312,846)	(689,045)
Share issue costs		-	(66,537)
Total revenues, expenses and valuation adjustments attributable to members of Carnarvon Petroleum Limited and recognised directly in equity		-	(66,537)
Total changes in equity other than those resulting from transactions with owners as owners		(312,846)	(755,582)
Basic earnings per share (cents per share)		(0.1)	(0.4)
Diluted earnings per share (cents per share)		(0.1)	(0.4)

The above consolidated statement of financial performance should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2004

	Notes	31 Dec 2004 $	30 June 2004 $
CURRENT ASSETS			
Cash assets		401,420	527,882
Receivables		178,626	246,191
Inventories		104,841	104,841
Other financial assets		142,724	282,876
Other		44,111	76,225
TOTAL CURRENT ASSETS		871,722	1,238,015
NON-CURRENT ASSETS			
Receivables		61,265	61,265
Other financial assets		-	-
Plant and equipment		177,987	190,188
Deferred exploration, evaluation and development costs		5,685,199	5,722,278
TOTAL NON-CURRENT ASSETS		5,924,451	5,973,731
TOTAL ASSETS		6,796,173	7,211,746
CURRENT LIABILITIES			
Payables		151,196	259,322
Provisions		6,279	880
TOTAL CURRENT LIABILITIES		157,475	260,202
TOTAL LIABILITIES		157,475	260,202
NET ASSETS		6,638,698	6,951,544
EQUITY			
Contributed equity		45,318,074	45,318,074
Accumulated losses		(38,679,376)	(38,366,530)
TOTAL EQUITY		6,638,698	6,951,544

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the half-year ended 31 December 2004

	Notes	31 Dec 2004 $	31 Dec 2003 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		455,867	522,612
Payments to suppliers and employees		(776,149)	(1,083,149)
Interest received		6,196	2,319
Exploration costs		(20,691)	(10,845)
Net Cash Flows Used In Operating Activities		**(334,777)**	**(569,063)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Exploration and development expenditure		(30,440)	(493,153)
Purchase of plant and equipment		(19,253)	(14,310)
Proceeds from sale of equity investments		260,490	-
Net Cash Flows Used In Investing Activities		**210,797**	**(507,463)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of securities		-	1,018,788
Share issue costs		-	(66,537)
Net Cash Flows From Financing Activities		-	**952,251**
Net Increase/(Decrease) In Cash Held		(123,980)	(124,725)
Cash at beginning of period		527,882	357,112
Effects of foreign exchange rate changes on cash		(2,482)	3,539
CASH AT END OF PERIOD		**401,420**	**236,376**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2004

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the Annual Financial Report of Carnarvon Petroleum Limited as at 30 June 2004 and any public announcements made by Carnarvon Petroleum Limited during the half-year ended 31 December 2004 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of accounting
The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

The half-year financial report has been prepared in accordance with the historical cost convention. For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

Going concern

The consolidated financial report has been prepared on a going concern basis, which contemplates continuity of normal business activities and realisation of assets and discharge of liabilities in the ordinary course of business.

The consolidated entity has incurred a loss of $312,846 for the half-year ended 31 December 2004. The ability of the consolidated entity to continue as a going concern, including the ability of the consolidated entity to pay its debts as and when they fall due, is dependent upon:

- oil sales revenue derived from the SW1A Joint Venture;
- generation of future profits from the SW1A Joint Venture; and
- injection of capital

Without the generation of future profits and the injection of capital, there is significant uncertainty as to whether the consolidated entity will be able to continue as a going concern and therefore whether it will be able to pay its debts as and when they fall due and realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The directors believe that the consolidated entity will generate profits in the future from oil sales derived from the SW1A Joint Venture and an injection of capital will occur to cover future exploration and development expenditure, and accordingly, the directors have prepared the report on a going concern basis. Consequently, no adjustments have been made relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

(b) Changes in accounting policies
The accounting policies adopted are consistent with those of the previous annual reporting period.

(c) Tax consolidation
As at the date of this report, the Carnarvon Petroleum Ltd Group has not yet decided whether and when it will be consolidating for tax purposes. However, as there are no provisions for deferred tax liabilities or future income tax benefits brought to account in this financial report, the decision about tax consolidation is not expected to have a material effect.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2004

		31 Dec 2004 $	31 Dec 2003 $
2. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES			
Loss from ordinary activities before income tax is arrived at after taking into account:			
(a) Revenue from ordinary activities			
Revenue from operating activities:			
Oil and gas operations			
Oil revenue - SW1A joint venture		429,555	517,936
Total revenue from operating activities		429,555	517,936
Revenue from non-operating activities:			
Interest – other persons/corporations		6,196	2,319
Other income		531	-
Proceeds from sale of equity investments	(1)	260,490	-
Total revenue from non-operating activities		267,217	2,319
Total revenue from ordinary activities		696,772	520,255
(b) Cost of sales			
Production		(129,700)	(156,439)
Royalty and excise		(68,757)	(28,666)
Amortisation of exploration and development costs		(39,215)	(9,186)
Depreciation of production assets		(30,009)	(20,000)
Transportation		(27,237)	(38,250)
Selling, general and administration		(80,684)	(160,003)
Total cost of sales		(375,602)	(412,544)
(c) Other expenses from ordinary activities			
Depreciation – plant & equipment		(1,444)	(6,532)
Rental premises – operating lease		(19,750)	(27,506)
Reversal of employee share loan provision		-	35,865
Carrying value of equity investments sold	(1)	(140,152)	-
Interest expense		(1,205)	-
Total other expenses from ordinary activities		(162,551)	1,827
(d) Other gains/(losses)			
Unrealised foreign exchange gain/(loss) on translation of integrated subsidiary		(30,787)	13,999
Total other gains/(losses)		(30,787)	13,999

(1) Relates to sale of shares in Ausam Energy Corporation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2004

3. SEGMENT INFORMATION

Geographical Segments

	Australia		Thailand		Papua New Guinea		Consolidated	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Revenue								
Sales to customers outside the consolidated entity	-	-	429,555	517,936	-	-	429,555	517,936
Total segment revenue	-	-	429,555	517,936	-	-	429,555	517,936
Non-segment Revenue								
Interest revenue	6,196	2,319	-	-	-	-	6,196	2,319
Other income	531	-	-	-	-	-	531	-
Proceeds on sale of equity investments	260,490	-	-	-	-	-	260,490	-
Total non-segment revenue	267,217	2,319	-	-	-	-	267,217	2,319
Total consolidated Revenue	267,217	2,319	429,555	517,936	-	-	696,772	520,255
Results								
Segment result	(366,799)	(794,437)	53,953	105,392	-	-	(312,846)	(689,045)

The consolidated entity operated predominantly in oil and gas exploration and development in Australia, Thailand and Papua New Guinea.

4. CONTINGENT ASSETS AND LIABILITIES

There have been no changes in the description of contingent liabilities or contingent assets since the last annual reporting date of a material nature.

5. EVENTS SUBSEQUENT TO 31 DECEMBER 2004

In November 2004 the Company through its wholly owned subsidiary, Strategic Exploration (Asia) Limited ("SEAL"), was successful in its legal action in Canada against its joint venture partner, Pacific Tiger Energy (Thailand) Limited ("PTET"), for breaches of provisions of the agreements governing relations between the two partners in the Wichian Buri SW1A Concession joint venture in Thailand. The court made various orders in favour of SEAL. However, in late December the Company was not satisfied that the court orders had been complied with and took further action against PTET, alleging contempt of the previous court order. This application has been adjourned to give PTET the opportunity to achieve full compliance with the court's order. PTET has now complied with most of the provisions of the court order but has failed to provide a Work Program & Budget for 2005. Discussions are continuing with PTET on this matter.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2004

5. EVENTS SUBSEQUENT TO 31 DECEMBER 2004 (continued)

In February 2005, the Company issued a claim for US$107,000 against Pacific Tiger Energy (Thailand) Limited and Tiger Petroleum Inc. in respect of the unauthorized use of funds which had been contributed by SEAL to the joint venture for approved seismic acquisition purposes only. As at the date of this report, US$68,000 had been repaid to SEAL. This matter is currently before the Canadian courts.

The Company, through SEAL, has provided notice to PTET that PTET is in default of the Joint Operating Agreement ("JOA") for underfunding its share of joint venture expenditure. That default continued for a period of 90 days, and accordingly SEAL gave notice to PTET under Article 8.4(D) of the JOA requiring PTET to withdraw from the JOA and the Farmin Agreement and transfer its joint venture interest to SEAL. PTET does not accept this position. The Company and SEAL are in discussions with Tiger Petroleum and PTET with a view to reaching a commercial settlement of these matters.

In a news release dated February 3, 2005 Tiger Petroleum Inc. announced that it was evaluating potential opportunities and strategic alternatives. On March 9, 2005, Tiger Petroleum opened a data room for qualified parties to investigate the opportunity of entering into a mutually beneficial commercial transaction with Tiger Petroleum Inc. The Company is currently reviewing the data and will consider its options.

6. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Australian Accounting Standards Board (AASB) is adopting IFRS for application to reporting periods beginning on or after 1 January 2005. The adoption of Australian equivalents to IFRS will be first reflected in the consolidated entity's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

Entities complying with Australian equivalents to IFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of IFRS to that comparative period. Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The Company will manage the transition to Australian equivalents to IFRS, including evaluating the key differences in accounting policies, identifying the changes to the Company's financial reporting systems and commencing evaluation of the financial impact arising from key differences in accounting policies that are expected to arise from adopting Australian equivalents of IFRS.

Set out below are the key areas where accounting policies will change and may have an impact on the financial report of the company.

Impairment of Assets
Under AASB 136 *Impairment of Assets,* the recoverable amount of an asset is determined as the higher of fair value less costs to sell and value in use which is required to be determined using a pre-tax discount rate which is assets specific . Additionally, AASB 136 requires entities to look at impairment indicators to determine if assets are required to be impairment tested. This will result in a change in the group's current accounting policy. Under the new policy it is likely that impairment of assets will be recognised sooner and that the amount of write-downs will be greater.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2004

6. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Deferred Development Expenditure
AASB 6 *Exploration for and Evaluation of Mineral Resources,* will require the consolidated entity to apply "area of interest" accounting to exploration and evaluation expenditures, effectively grandfathering the treatment currently used by the consolidated entity under AASB 1022 *Accounting for Extractive Industries.* Under AASB 6, if facts and circumstances suggest that the carrying amount of any recognised exploration and evaluation assets may be impaired, the consolidated entity must perform impairment tests on those assets in accordance with AASB 136 *Impairment of Assets.* Impairment of exploration and evaluation assets is to be assessed at a cash generating unit or group of cash generating units level provided this is no larger than an area of interest. Any impairment loss is to be recognised as an expense in accordance with AASB 136. It is expected at this stage that the adoption of AASB 6 will not have a material impact on the consolidated entity's financial performance or financial position.

Income Taxes
Under AASB 112 *Income Taxes,* the company will be required to use a balance sheet liability method which focuses on the tax effects of transactions and other events that affect amounts recognised in either the Statement of Financial Position or a tax-based balance sheet. It is not expected that there will be a material impact as a result of adoption of this standard.

Functional Currency
Under AASB 121 *The Effects of Changes in Foreign Exchange Rates,* each entity in the reporting entity is required to determine its functional currency and measure its results and financial position in that currency. Furthermore, the results and financial position of each individual entity included in the reporting entity are to be translated into the currency in which the reporting entity presents its financial statements. This may result in a change in the group's current accounting policy where a controlled entity currently measures its results and financial position in US$. At this stage, the directors have not assessed and determined the functional currencies of each entity in the reporting entity, however, it is not expected that there will be a material impact as a result of adoption of this standard.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Carnarvon Petroleum Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity:

(i) give a true and fair view of the financial position as at 31 December 2004 and the performance for the half-year ended on that date of the consolidated entity; and

(ii) comply with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

AG Shelton
Director

Melbourne, 15 March 2005

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Independent review report to members of Carnarvon Petroleum Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows and accompanying notes to the financial statements for the consolidated entity comprising both Carnarvon Petroleum Limited (the company) and the entities it controlled during the half-year, and the directors' declaration for the company, for the period ended 31 December 2004.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 1029 "Interim Financial Reporting", in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration a copy of which is included in the Directors' Report. In addition to our review of the financial report, we were engaged to undertake other non-audit services. The provision of these services has not impaired our independence.

Liability limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW).

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising Carnarvon Petroleum Limited and the entities it controlled during the half-year is not in accordance with:

(a) the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2004 and of its performance for the half-year ended on that date; and

  (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

Inherent uncertainty regarding going concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1 of the financial report relating to going concern, there is significant uncertainty whether Carnarvon Petroleum Limited and the consolidated entity will be able to continue as a going concern without obtaining further funds to continue its exploration and development activities and therefore whether it will be able to pay its debts as and when they fall due and realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the entity not continue as a going concern.

Ernst & Young

Ernst & Young

R C Piltz

R C Piltz

Partner
Melbourne

15 March 2005