CARNARVON PETROLEUM LTD

ABN 60 002 688 851

FINANCIAL REPORT 2005

CORPORATE DIRECTORY

Directors
PJ Leonhardt (Non-executive Chairman)
NC Fearis (Non-executive Director)
KP Judge (Non-executive Director)
DJ Orth (Executive Director & COO)
AG Shelton (Non-executive Director)

Company Secretary
RA Pullia (Chief Financial Officer)

Auditors
Ernst & Young

Solicitors
Freehills

Bankers
Australia and New Zealand Banking Group Limited

Registered Office
Level 50
120 Collins Street
Melbourne Victoria 3000
Telephone: +61 3 9225 5400
Facsimile: +61 3 9225 5050
Email: admin@carnarvonpetroleum.com
Website: www.carnarvonpetroleum.com

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

CONTENTS

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2005.

DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are shown below. Directors were in office for this entire period unless otherwise stated.

Peter J Leonhardt
Non-Executive Chairman
FCA, FAICD
Age 58. Appointed director 17 March 2005 and Chairman on 1 April 2005. Mr Leonhardt is an independent company director and adviser with extensive business, financial and corporate experience. He is a Chartered Accountant, former Senior Partner with PricewaterhouseCoopers and Managing Partner of Coopers & Lybrand in Western Australia.

During the past three years Mr Leonhardt has served as a director of the following listed companies: CTI Logistics Limited (from 1999); Voyager Energy Limited (from 2001 to September 2005), and Titan Resources Limited (from June 2005). He is also a director of Alliance Finance Corporation Limited, the Western Australian Institute for Medical Research and a member of the Advisory Board of the Perth International Arts Festival.

Neil C Fearis
Non-Executive Director
LL.B(Hons), MAICD, ASIA
Age 54. Appointed director 30 November 1999. Mr Fearis has 28 years' experience as a commercial lawyer in the UK and Australia.

During the past three years Mr Fearis has served as a director of the following listed companies: Kresta Holdings Limited (from 1997) and Perseus Mining Limited (from 2004). Mr Fearis is also a member of several professional bodies associated with commerce and law. Member of the Audit Committee and member of the Remuneration & Nomination Committee.

Kenneth P Judge
Non-Executive Director
B.Com, LL.B
Age 50. Appointed director 1 April 2005. Mr. Judge has extensive legal and business management experience having held a number of public company directorships and has been engaged in the establishment or corporate restructure of technology, mining and oil and gas companies in Australia, the UK, US, Brazil, Argentina, Mexico and the Philippines.

Mr. Judge is Chairman of Brazilian Diamonds Limited which is listed on the Toronto Stock Exchange and on the AIM market of the London Stock Exchange Plc. and is also Chairman of Hidefield Gold plc and a director of Block Shield Corporation, both of which are listed on AIM. Mr Judge is also Chairman of Alto Ventures Ltd and a director of Piper Capital Limited, Forum Developments Limited and Latin American Minerals Ltd which are listed on the TSX Venture Exchange and Chairman of Columbus Gold Corporation and Empire Mining Ltd.

David J Orth
Executive Director & Chief Operating Officer
B.Sc; DipGeoSc.
Age 56. Appointed Executive Director 14 December 2000. Appointed Chief Operating Officer July 2003. A geologist with in excess of 25 years' industry experience having worked for Amoco and BHP Petroleum as well as a number of independent oil companies throughout North America, Europe, Africa, the Middle East and Australasia. Member of the Petroleum Exploration Society of Australia.

Andrew G Shelton
Non-Executive Director
B.A., M.A(Cantab.), FAICD

Age 58. Appointed director and Chairman on 1 April 2002 and was Chairman until 1 April 2005. Independent corporate finance adviser specializing in strategic and corporate finance advice, capital raisings, mergers and acquisitions, valuations and financial analysis. Principal and director of Andrew Shelton & Company Pty Ltd and Chairman of Whise Acoustics Limited. Past President & CEO of JP Morgan Canada. Chairman of the Audit Committee and Chairman of the Remuneration & Nomination Committee.

COMPANY SECRETARY

Mr Rick A Pullia, B.Bus CA, was appointed to the position of company secretary and Chief Financial Officer in May 2004. Mr Pullia has over 17 years finance, accounting and secretarial experience with locally-listed and overseas-based companies and has held senior management, commercial and finance roles with companies in the manufacturing and technology sectors. Mr Pullia has been a Chartered Accountant for over 14 years.

Interests in the shares and options of the Company and related bodies corporate

Relevant interest in the shares and options of the Company as at the date of this report:

Directors	Ordinary Shares	Options over Ordinary Shares
PJ Leonhardt	2,010,504	589,128
NC Fearis	4,871,400	300,000
KP Judge	11,168,596	-
DJ Orth	1,569,127	47,428
AG Shelton	9,208,906	1,600,743

CORPORATE INFORMATION

Corporate structure

Carnarvon Petroleum Ltd is a limited liability company incorporated and domiciled in Australia. Carnarvon Petroleum Ltd has prepared a consolidated financial report incorporating the following entities:

Entity Name	% Ownership
Carnarvon Petroleum Ltd	100
S.R.L. Exploration Pty Ltd	100
Lassoc Pty Ltd	100
Strategic Exploration (Asia) Limited	100

Principal activities

During the course of the 2005 financial year the consolidated entity's principal activities continued to be directed towards oil and gas exploration, development and production.

Employees

The consolidated entity employed 2 employees as at 30 June 2005 (2004: 2 employees).

EARNINGS PER SHARE	**Cents**
Basic earnings per share	(0.4)
Diluted earnings per share	(0.4)

DIVIDENDS

The directors have not recommended the payment of any dividend in respect of the financial year ending 30 June 2005. No dividends were declared or paid during the financial year.

REVIEW AND RESULTS OF OPERATIONS

A review of the operations during the financial year of the consolidated entity and the results of those operations is set out on pages 10 to 12 and the directors adopt and endorse that review which is to be regarded as incorporated herein.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

SIGNIFICANT EVENTS AFTER BALANCE DATE

There were no significant events that occurred subsequent to year end other than as disclosed in note 26 to the financial statements.

LIKELY DEVELOPMENTS

The review of operations outlines likely developments in the operations of the consolidated entity. The directors are not presently in a position to predict the results of those developments.

The directors are of the opinion that further information as to the likely developments in the operations of the consolidated entity would prejudice the interests of the Company and the consolidated entity and it has accordingly not been included.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The consolidated entity's oil and gas exploration and development activities are concentrated in Western Australia, Thailand and Papua New Guinea. Environmental obligations are regulated under both State and Federal Law in Western Australia, under the Department of Mineral Fuels regulations in Thailand, and under the Oil and Gas Act in Papua New Guinea. No significant environmental breaches have been notified by any government agency during the year ended 30 June 2005.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has arranged Directors and Officers insurance to cover losses or liabilities incurred by a person as an officer of the Company or of a related body corporate as permitted by law. Full details of the cover and premium are not disclosed as the insurance policy prohibits the disclosure.

SHARE OPTIONS

Unissued shares

As at the date of this report, there were 38,492,101 options to subscribe for shares in the Company exercisable at 6 cents and expiring on 31 December 2005.

Option holders are entitled to participate in any new pro-rata issue of securities of the Company only on the prior exercise of the options.

Shares issued as a result of exercise of options

There have been no options exercised during or since the end of the financial year.

Expiry of options

There have been no options that have expired during or since the end of the financial year.

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and executives of Carnarvon Petroleum Limited (the Company).

The Remuneration and Nomination Committee of the Board of Directors of the Company advises the Board on remuneration policies and practices, evaluates the performance of senior management and makes recommendations to the Board on the nature and amount of remuneration of directors and senior management.

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain quality directors and senior management appropriate to the needs of the Company, whilst incurring a cost which is acceptable to shareholders.

Total non-executive directors' fees are approved by shareholders and the Board is responsible for the allocation of those fees amongst the individual members of the Board. Remuneration of executive directors and senior management is in the form of cash remuneration and superannuation contributions. The Board assesses the appropriateness of the nature and amount of remuneration on an annual basis by reference to industry and market conditions, and with regard to the Company's financial and operational performance. The Company paid no bonuses during the financial year ended 30 June 2005.

All directors and senior management have the opportunity to qualify for participation in the Carnarvon Employee Share Plan, details of which are disclosed in note 17 to the financial statements. The issue and allotment of shares under this Plan is at the discretion of the Board. No equity-based remuneration was paid to directors and 1,000,000 shares were allotted to a senior manager under the Plan during the year.

The Company has an agreement with a controlled entity of DJ Orth for a term expiring on 31 October 2005. The Company has an employment agreement with RA Pullia for an unspecified term with a one month notice period and, in the event of redundancy, payment of two months' gross salary plus two weeks' salary for every year of service. The agreement provides for an annual salary review. There are no formal retainer agreements with non-executive directors.

REMUNERATION REPORT (Cont'd)

Details of the nature and amount of each major element of the remuneration provided to each director and executive officer of the Company during the financial year are as follows:

Remuneration of directors of Carnarvon Petroleum Ltd

	Primary Benefits Salary & Fees $	Post Employment Superannuation $	Total $
Non-Executive Directors			
PJ Leonhardt (1)	11,250	-	11,250
NC Fearis	27,000	3,000	30,000
KP Judge (1)	7,500	-	7,500
AG Shelton	42,167	4,500	46,667
Executive Director			
DJ Orth (1)	95,717	25,000	120,717

(1) Paid or payable to a director related entity.

There are no performance bonus plans offered to directors of the Company. In addition, an amount of $189,734 was paid or is payable to a director related entity, details of which are set out in note 20 to the financial statements.

Remuneration of executive officers of Carnarvon Petroleum Ltd

	Primary Benefits Salary & Fees $	Post Employment Superannuation $	Total $
RA Pullia	123,750	23,400	147,150

The terms 'director' and 'officer' have been treated as mutually exclusive for the purposes of this disclosure.

The value of remuneration has been determined on the basis of cost to the Company and consolidated entity. Executive officers are those directly accountable and responsible for the operational management and strategic direction of the Company and the consolidated entity.

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

Director	Directors' Meetings		Audit Committee Meetings		Remuneration & Nomination Committee Meetings	
	A	B	A	B	A	B
PJ Leonhardt	4	4	-	-	-	-
NC Fearis	15	15	2	2	2	2
KP Judge	2	3	-	-	-	-
DJ Orth	15	15	-	-	-	-
AG Shelton	15	15	2	2	2	2

A – Number of meetings attended.
B – Number of meetings held during the time the director held office during the year.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Carnarvon Petroleum Ltd support and have adhered to the principles of good corporate governance. The Company's corporate governance statement is contained in the Annual Report.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

A copy of the Auditor's Independence Declaration to the directors as required under section 307C of the Corporations Act is set out on page 9.

Non-audit Services

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Taxation advice and compliance services	$26,282
Accounting advice	$1,000

Signed in accordance with a resolution of the directors.

PJ Leonhardt
Director

Melbourne, 29 September 2005

ERNST & YOUNG

120 Collins Street
Melbourne VIC 3000
Australia

GPO Box 67
Melbourne VIC 3001

Tel 61 3 9288 8000
Fax 61 3 9654 6166
DX 293 Melbourne

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

In relation to our audit of the financial report of Carnarvon Petroleum Limited for the financial year ended 30 June 2005, 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
29 September 2005

REVIEW AND RESULTS OF OPERATIONS

The operating results of the consolidated entity is summarised as follows:

	Consolidated 2005 $	Consolidated 2004 $
Revenue from oil and gas operations	942,840	974,501
Revenue from non-operating activities	426,136	17,328
Total revenue	1,368,976	991,829
Cost of sales	(818,763)	(984,346)
Corporate administration costs	(1,139,129)	(1,327,774)
Other expenses including carrying value of assets disposed	(240,084)	(66,991)
Exploration project costs	(78,681)	(6,194)
Other gains/(losses)	(37,418)	93,591
Exploration, evaluation and development expenditure written-off	-	(117,159)
Loss before income tax expense	(945,099)	(1,417,044)
Income tax expense	-	-
Loss after income tax	(945,099)	(1,417,044)

Total revenue for the year ended 30 June 2005 was $1,368,976 compared to $991,829 in the previous corresponding period, an increase of $377,147. The consolidated entity's loss, after income tax, for the year ended 30 June 2005 was $945,099, a 33% improvement on the previous corresponding period's loss of $1,417,044.

SW1A JOINT VENTURE, THAILAND
(Carnarvon Petroleum Ltd 40% / Tiger Petroleum Inc 60%)

Carnarvon has a 40% interest in the SW1A Joint Venture which includes the Wichian Buri oilfield, Si Thep oilfield and Exploration Block license L44/43. The joint venture produced 62,184 barrels of oil during the year. The average price achieved per barrel sold over the year was US$30.87 compared to US$23.78 in 2004. Carnarvon's share of revenue from oil and gas operations was $942,840. The decrease in revenue of $31,661 was mainly due to a reduction in the number of barrels sold during the year and the appreciation of the A$ throughout 2005. In the previous financial year 76,945 barrels of oil were produced by the joint venture. However, the increase in world oil prices resulted in the joint venture achieving higher sales prices per barrel, which helped offset the decline in barrels produced and sold in 2005.

Oil production continued to decline at expected rates during 2005 and additional in-fill drilling would be required to increase production. At year's end production is at approximately 170 BOPD.

During the year the operator, Pacific Tiger Energy (Thailand) Limited, a wholly owned subsidiary of Tiger Petroleum, continued with normal operations at the oilfields with Carnarvon's agreement. The operator focused on reducing overhead costs and improving gross margins resulting in an increase in Carnarvon's share of cash operating profit of the joint venture to $248,466 in the current year compared to $133,245 in 2004.

No exploration or development activity was undertaken during the year by the operator, as its focus was on existing operations following an internal restructure. As a result, no Work Program & Budget for further exploration and development of the Wichian Buri oilfield and environs was put forward.

During the year Carnarvon, through its subsidiary, Strategic Exploration (Asia) Limited ("SEAL"), was successful in legal proceedings against Pacific Tiger and Tiger for beaches of the joint venture agreements, including failure to pay Carnarvon its share of sales proceeds, and unauthorized use of funds.

This result has clearly established under Alberta law the obligations of Pacific Tiger, as operator, to SEAL. However, Carnarvon does not believe that Pacific Tiger has fully complied with all of the directions of the court order and therefore SEAL has made further application to the Alberta court.

In May 2005, Carnarvon, through its subsidiary SEAL, issued further legal proceedings in Alberta, Canada, against Pacific Tiger and Tiger, which seeks specific performance of the Joint Operating Agreement (“JOA”), including an order that Pacific Tiger transfer all its interests in the joint venture to SEAL, a declaration that the joint venture properties include Exploration Block L33/43, damages of US$2.2 million for negligence, breach of contract and breach of fiduciary duties, and ancillary relief. Carnarvon commenced this legal action as Pacific Tiger had been in default of the JOA for more than ninety days for underfunding its share of joint venture expenditure, and as various commercial issues remain unresolved.

In April 2005 Tiger Petroleum announced that it had entered into an agreement with Calgary-based Pan Orient Energy Corp. (formerly Welwyn Resources Ltd), pursuant to which Pan Orient agreed, subject to certain conditions, to make an offer to acquire all of the outstanding common shares of Tiger for consideration consisting of one common share of Pan Orient for each four and one quarter common shares of Tiger. The mailing of the offer and accompanying take-over bid circular to Tiger Petroleum shareholders occurred in late August 2005 and the offer is expected to close by late October 2005.

Pan Orient has announced that it is preparing a new exploration and development drilling program including 3D seismic for the 2005-06 financial year. Pan Orient is an energy company listed on the Toronto Stock Exchange’s Venture Exchange, with a strong, international management team and directors with extensive oil and gas industry experience.

In the prior year completion of the Phase III drilling campaign in the SW1A Concession area proved up the existence of an extensive accumulation that allowed Carnarvon to confirm earlier reserve estimates provided by Helix RDS.

	P90 (PROVEN)	**P50 (PROVEN + PROBABLE)**	**P10 (PROVEN + PROBABLE + POSSIBLE)**
SW1A Concession area	11 MMBO	23 MMBO	45 MMBO

The Estimated Ultimate Recovery (EUR) of oil over the life of the Field has a most likely or ‘P50’ value of some 23 million barrels of oil (MMBO) within the confines of PLs 1 and 2 and L44/43. The EUR ranges from a Proved volume of 11 MMBO (P90) to a Proved plus Probable plus Possible of 45 MMBO (P10).

To date approximately 0.8 MMBO has been produced from the Field so that the most likely remaining volume of oil that can be recovered from the Field is approximately 22 MMBO. These estimates compare favorably to those prepared in 2005 by Gaffney, Cline and Associates on behalf of Tiger Petroleum, given the different methodologies and purpose of the studies.

Engineering studies indicate that the key to successful development of Wichian Buri is to drill wells quickly and inexpensively, on a continuous basis, so as to reduce unit cost and offset normal production decline. The actual recovery of oil over the life of the Field will depend on a variety of factors including the scale of the development and in particular the number of wells drilled. The volume of recoverable oil can sustain a much higher level of oil production which can only be achieved by drilling many wells to build production.

OTHER EXPLORATION INTERESTS

Carnarvon has been monitoring available opportunities within the region. They comprise open acreage both in Asia and in Australia, fields in decline that no longer meet large company hurdle rates and divestitures resulting from mergers and consolidations. The corporate objective is for a well balanced spread of assets in terms of the nature of the projects, the number of countries in which they reside, and their upside potential both for the hydrocarbon potential and the access to additional projects.

PAPUA NEW GUINEA
PRL 4 and PRL 5 including the Stanley, Elevala and Ketu discoveries
(Carnarvon Petroleum Limited 15%/Santos 35%/InterOil 20%/AWE 15%/TransOrient 7.5%/Horizon 7.5%)

Petroleum Retention Licences 4 and 5, operated by Santos, are located in the foreland of the Papuan Basin adjacent to the Irian Jayan border in western PNG. The permits contain three gas/condensate discoveries, Elevala-1, Ketu-1 and Stanley-1. The joint venture is considering a condensate stripping and gas re-injection project to develop the Elevala field. Apart from the known fields, as established by the gas-condensate discovery wells, there are several other large targets in the areas. PRL 5 has been renewed for a further five years and renewal documents for PRL 4 have been lodged with the PNG Department of Petroleum and Energy.

CARNARVON BASIN
EP 110/EP 424
(Carnarvon 35%/Strike Oil 40%/Pancontinental 25%)

Carnarvon has a 35% interest in the consolidated permits EP 110 and EP 424 in the Carnarvon Basin. Strike Oil is the operator of both permits and the joint venture partners have approved a work program for 2005-06. A seismic program is to be undertaken within EP 424 to delineate identified leads and prospects. It is expected to commence in the December 2005 quarter.

A good lead at the Birdrong Sandstone level has been mapped within EP 424 and will be delineated with the acquisition of some 100 km of new seismic data as part of a larger program being conducted in the area. The timing of the survey will be dependent on other operators in the area with a view to saving costs on mobilization/demobilization, but it is likely to begin during the 4th quarter of 2005.

The onshore portion of the EP110 permit is adjacent to the producing Tubridgi Gas Field. Evaluations suggest that some topographic highs may overlie subsurface structuring. This concept will be further examined by making use of digital elevation modelling which, if successful, will guide future assessments of the block.

AUSAM ENERGY CORPORATION

Carnarvon is a shareholder in Ausam Energy Corporation, a company listed on the Canadian TSX Venture Exchange. During the year Carnarvon realized a portion of its investment in Ausam at prices ranging from C$0.75 to C$1.50 per share, raising a total of A$396,000 net of selling costs. The market value of Carnarvon's remaining investment, based on the Ausam closing price at 30 June 2005 of C$0.92 per share, was approximately A$175,000. As at the date of this report the value of this investment has increased to A$200,000.

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Consolidated 2005 $	Consolidated 2004 $	Carnarvon Petroleum Ltd 2005 $	Carnarvon Petroleum Ltd 2004 $
REVENUE FROM ORDINARY ACTIVITIES	2(a)	1,368,976	991,829	405,209	17,328
Cost of sales	2(b)	(818,763)	(984,346)	-	-
General administration		(342,388)	(554,865)	(342,388)	(554,865)
Directors' remuneration		(216,134)	(408,146)	(216,134)	(408,146)
Salaries and employee benefits		(157,860)	(183,934)	(157,860)	(183,934)
Legal and consulting fees		(383,207)	(144,736)	(383,207)	(144,736)
Other expenses from ordinary activities	2(c)	(279,624)	(103,084)	(226,313)	(103,084)
Other gains/(losses)	2(d)	(37,418)	93,591	(486,655)	95,333
Exploration project costs		(78,681)	(6,194)	(78,681)	(6,194)
Exploration, evaluation and development expenditure written-off	2(e)	-	(117,159)	-	-
LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		(945,099)	(1,417,044)	(1,486,029)	(1,288,298)
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES	3	-	-	-	-
LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE		(945,099)	(1,417,044)	(1,486,029)	(1,288,298)
NET LOSS ATTRIBUTABLE TO MEMBERS OF CARNARVON PETROLEUM LTD		(945,099)	(1,417,044)	(1,486,029)	(1,288,298)
Capital raising costs		-	(232,756)	-	(232,756)
TOTAL REVENUES, EXPENSES AND VALUATION ADJUSTMENTS ATTIBUTABLE TO MEMBERS OF CARNARVON PETROLEUM LTD AND RECOGNISED DIRECTLY IN EQUITY		-	(232,756)	-	(232,756)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS ATTRIBUTABLE TO MEMBERS OF CARNARVON PETROLEUM LTD		(945,099)	(1,649,800)	(1,486,029)	(1,521,054)
Basic earnings per share (cents per share)	25	(0.4)	(0.6)		
Diluted earnings per share (cents per share)	25	(0.4)	(0.6)		

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2005

	Notes	Consolidated		Carnarvon Petroleum Ltd	
		2005	2004	2005	2004
		$	$	$	$
CURRENT ASSETS					
Cash assets		301,454	527,882	134,102	504,556
Receivables	4	114,297	246,191	1,398	44,771
Inventories	5	108,576	104,841	-	-
Other financial assets	7	91,474	282,876	91,474	282,876
Other	6	26,496	76,225	12,759	6,200
TOTAL CURRENT ASSETS		642,297	1,238,015	239,733	838,403
NON-CURRENT ASSETS					
Receivables	4	72,220	61,265	2,772,366	3,593,282
Other financial assets	7	-	-	1,482,962	1,482,962
Plant and equipment	9	50,692	121,294	3,532	6,089
Deferred exploration, evaluation and development costs	10	5,712,063	5,791,172	-	-
TOTAL NON-CURRENT ASSETS		5,834,975	5,973,731	4,258,860	5,082,333
TOTAL ASSETS		6,477,272	7,211,746	4,498,593	5,920,736
CURRENT LIABILITIES					
Payables	11	459,237	259,322	210,056	156,880
Provisions	12	11,590	880	11,590	880
TOTAL CURRENT LIABILITIES		470,827	260,202	221,646	157,760
TOTAL LIABILITIES		470,827	260,202	221,646	157,760
NET ASSETS		6,006,445	6,951,544	4,276,947	5,762,976
EQUITY					
Contributed equity	13	45,318,074	45,318,074	45,318,074	45,318,074
Accumulated losses	14	(39,311,629)	(38,366,530)	(41,041,127)	(39,555,098)
TOTAL EQUITY		6,006,445	6,951,544	4,276,947	5,762,976

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Consolidated		Carnarvon Petroleum Ltd	
		2005	2004	2005	2004
		$	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		932,870	994,871	-	-
Payments to suppliers and employees		(1,569,385)	(2,421,370)	(1,048,117)	(1,381,490)
Interest received		9,036	17,328	9,036	17,328
Exploration project costs		(78,681)	(6,194)	(78,681)	(6,194)
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	15(a)	(706,160)	(1,415,365)	(1,117,762)	(1,370,356)
CASH FLOWS FROM INVESTING ACTIVITIES					
Exploration and development expenditure		(645)	(1,583,967)	-	-
Proceeds on disposal of plant & equipment		19,814	-	-	-
Purchase of plant & equipment		(30,586)	(17,312)	-	(4,713)
Proceeds from sale of equity investments		395,999	-	395,999	-
Purchase of equity investments		(2,348)	-	(2,348)	-
Repayment from SW1A joint venture		99,778	-	-	-
Advances to controlled entities		-	-	(93,748)	(1,635,738)
Repayments from controlled entities		-	-	447,405	-
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		482,012	(1,601,279)	747,308	(1,640,451)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares & options		-	3,426,736	-	3,426,736
Capital raising costs		-	(232,756)	-	(232,756)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		-	3,193,980	-	3,193,980
NET INCREASE/(DECREASE) IN CASH HELD		(224,148)	177,336	(370,454)	183,173
Add opening cash brought forward		527,882	357,112	504,556	321,383
Effects of foreign exchange rate changes on cash		(2,280)	(6,566)	-	-
CLOSING CASH CARRIED FORWARD	15(b)	301,454	527,882	134,102	504,556

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report has been prepared in accordance with the historical cost convention.

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 an operating loss of $945,099 for the financial period ended 30 June 2005. 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 realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

It is on the basis 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, that the directors have prepared the financial 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 year.

(c) Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments at call readily convertible to cash.

(d) Recoverable amount

Non-current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount, the asset is written down. In determining recoverable amount, the expected net cash flows have been discounted to their present value.

(e) Investments

Listed shares are classified as current investments and valued at the lower of cost and recoverable amount. Other non-current investments are carried at the lower of cost and recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(f) Plant and equipment

Cost and valuation

All classes of plant and equipment are measured at cost.

Depreciation

Depreciation is provided on a straight-line basis on all plant and equipment. Major depreciation periods for plant and equipment are between 2 and 5 years (2004: 2 and 5 years).

(g) Joint ventures

Interest in the joint venture operation is recognised by including in the respective classifications, the share of individual assets employed and share of liabilities and expenses incurred.

(h) Exploration, evaluation and development costs

Costs carried forward

Costs arising from exploration and evaluation activities are carried forward provided such costs are expected to be recouped through successful development, or by sale, or where exploration and evaluation activities have not, at reporting date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves.

Amortisation

Costs on productive areas are amortised over the life of the area of interest to which such costs relate on the production output basis.

(i) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries and annual leave. Sick leave is not accrued as it is not of a material nature and any entitlement is not vested on termination of employment.

Liabilities arising in respect of wages and salaries, annual leave and any other employee entitlements expected to be settled within twelve months of the reporting date are measured at their nominal amount based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave and other leave entitlements; and
- other types of employee benefits

are recognised against profits on a net basis in their respective categories.

The value of the employee share scheme described in note 17 is not being charged as an employee benefits expense. Any contributions made to superannuation plans are recognized against profits when due.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(j) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Control of the goods has passed to the buyer.

Interest

Control of the right to receive the interest payment.

(k) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

(l) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

(m) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Carnarvon Petroleum Ltd (the parent company) and all entities that Carnarvon Petroleum Ltd controlled from time to time during the year and at reporting date.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

(n) Foreign currencies

Translation of foreign currency transactions

Transactions in foreign currencies of entities within the consolidated entity are converted to local currency at the rate of exchange ruling at the date of the transaction. Foreign currency monetary items that are outstanding at reporting date are translated using the spot rate at the end of the financial year.

All exchange differences arising from the translation of assets and liabilities are recognised as revenues and expenses for the financial year.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(n) Foreign currencies (cont'd)

Translation of financial reports of overseas operations

Strategic Exploration (Asia) Limited ("SEAL"), a wholly owned subsidiary, is accounted for in its functional currency, being the US dollar. SEAL is an integrated operation with its financial report being translated using the temporal rate method and any exchange differences are taken directly to the Statement of Financial Performance.

(o) Taxes

Income taxes

Tax effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being recognised.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(p) Earnings per share

Basic EPS is calculated as net profit or loss attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit or loss attributable to members, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenue or expenses during the period that would result from the dilution of potential ordinary shares

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(q) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(r) Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

(s) Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

(t) Provision for rehabilitation

The provision for rehabilitation is recognised when the liability arises from production. The directors believe that the rehabilitation provision is not material at this stage of production and therefore a provision for restoration has not been recorded in the financial statements.

(u) Employee share loans

The carrying value of advances made to eligible employees is the lower of the equivalent market value of the shares from time to time or the price of the shares at the time the shares were issued to eligible employees.

(v) Inventories

Inventories relate to warehouse stores and materials. These represent consumable supplies and maintenance spares expected to be used in production and are valued at the lower of cost and net realisable value. Cost comprises purchase, inspection and transportation costs.

NOTES TO THE FINANCIAL STATEMENTS

	Notes	Consolidated 2005 $	Consolidated 2004 $	Carnarvon Petroleum Ltd 2005 $	Carnarvon Petroleum Ltd 2004 $
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		942,840	974,501	-	-
Total revenue from operating activities		942,840	974,501	-	-
Revenue from non-operating activities					
Interest – other persons/corporations		9,036	17,328	9,036	17,328
Other income		1,287	-	174	-
Proceeds from disposal of plant & equipment	(i)	19,814	-	-	-
Proceeds from sale of equity investments	(ii)	395,999	-	395,999	-
Total revenue from non-operating activities		426,136	17,328	405,209	17,328
Total revenue from ordinary activities		1,368,976	991,829	405,209	17,328
(b) Cost of sales					
Production		(283,529)	(301,907)	-	-
Royalty and excise		(158,124)	(162,406)	-	-
Transportation		(49,149)	(69,429)	-	-
Depreciation of production assets		(47,600)	(49,944)	-	-
Amortisation		(76,789)	(93,146)	-	-
Selling, general and administration		(203,572)	(307,514)	-	-
Total cost of sales		(818,763)	(984,346)	-	-

NOTES TO THE FINANCIAL STATEMENTS

	Notes	Consolidated 2005 $	Consolidated 2004 $	Carnarvon Petroleum Ltd 2005 $	Carnarvon Petroleum Ltd 2004 $
2. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES (Cont'd)					
(c) Other expenses from ordinary activities					
Depreciation – plant & equipment		(2,557)	(7,849)	(2,557)	(7,849)
Rental premises – operating lease		(39,540)	(36,093)	(39,540)	(36,093)
Carrying value of plant & equipment sold	(i)	(53,311)	(10,174)	-	(10,174)
Carrying value of equity investments sold	(ii)	(193,750)	-	(193,750)	-
Provision for non-recovery of employee share loans		10,955	(47,820)	10,955	(47,820)
Interest expense		(1,421)	(1,148)	(1,421)	(1,148)
Total other expenses from ordinary activities		(279,624)	(103,084)	(226,313)	(103,084)
(i) Net gain/(loss) on disposal of plant & equipment		(33,497)	(10,174)	-	(10,174)
(ii) Net gain/(loss) on disposal of equity securities		202,249	-	202,249	-
(d) Other gains/(losses)					
Increment/(decrement) in value of investment		-	70,179	-	70,179
Unrealised foreign exchange gain/(loss) on:					
Translation of integrated subsidiary		(28,977)	23,412	-	-
Loan to subsidiary		-	-	(478,214)	25,154
Other		(8,441)	-	(8,441)	-
Total other gains/(losses)		(37,418)	93,591	(486,655)	95,333
(e) Specific item					
Exploration, evaluation and development expenditure written-off	(iii)	-	(117,159)	-	-

(iii) During the prior financial year the directors determined that estimated ultimate recoverable (EUR) barrels of oil in the fields in which production licences had been granted was a more appropriate basis to amortise carried forward exploration, evaluation and development expenditure, compared to EUR barrels of oil in the joint venture concession area resulting in a write-off of $117,159.

NOTES TO THE FINANCIAL STATEMENTS

	Notes	Consolidated 2005 $	Consolidated 2004 $	Carnarvon Petroleum Ltd 2005 $	Carnarvon Petroleum Ltd 2004 $
3. INCOME TAX					
The prima facie income tax on operating loss differs from the income tax provided in the financial statements as follows:					
Prima facie income tax benefit on operating loss		283,530	425,113	445,809	386,489
Tax effect of permanent differences:					
Foreign sourced income/(loss)		27,508	(2,954)	-	-
Foreign sourced exploration project costs		(9,208)	(1,550)	(9,208)	(1,550)
Exploration, evaluation & development expenditure written-off		-	(35,148)	-	-
Increment/(decrement) in value of investment		-	21,054	-	21,054
Unrealized foreign exchange gains/(losses)		(11,225)	7,024	(145,996)	7,546
Non-assessable income		60,675	-	60,675	-
Non-deductible expenditure		(82,018)	(22,196)	(82,018)	(22,196)
Current year tax benefit not brought to account		(269,262)	(391,343)	(269,262)	(391,343)
Income tax benefit attributable to operating loss		-	-	-	-

Income tax losses

Future income tax benefit arising from tax losses not brought to account at balance date as realisation of the benefit is not regarded as virtually certain	2,067,507	1,798,245	2,238,233	1,968,971

This future income tax benefit will only be obtained if:

(a) future assessable income is derived of a nature and an amount sufficient to enable the benefit to be realised;

(b) the conditions for deductibility imposed by tax legislation continue to be complied with; and

(c) no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

Tax Consolidation

Effective 1 July 2003, for the purposes of income taxation, Carnarvon Petroleum Ltd (“Carnarvon”) and its 100% owned subsidiaries formed a tax consolidated group. The head entity of the tax consolidated group is Carnarvon. The impact of consolidating for tax purposes is that Carnarvon’s Australian subsidiaries will be treated as divisions of Carnarvon rather than as separate entities for tax purposes. The members of the group will enter into a tax sharing arrangement in order to allocate group tax related liabilities to contributing members on a reasonable basis. The agreement will provide for the allocation of income tax liabilities between entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote.

Carnarvon Petroleum Ltd will formally notify the Australian Tax Office of its adoption of the tax consolidation regime when lodging its 30 June 2004 tax return.

NOTES TO THE FINANCIAL STATEMENTS

	Notes	Consolidated 2005 $	Consolidated 2004 $	Carnarvon Petroleum Ltd 2005 $	Carnarvon Petroleum Ltd 2004 $
4. RECEIVABLES					
CURRENT					
Trade debtors	4(a)	110,307	96,097	-	-
Other debtors		3,990	50,316	1,398	44,771
Receivable from SW1A joint venture		-	99,778	-	-
		114,297	246,191	1,398	44,771
NON-CURRENT					
Permit security deposits		1,490	1,490	1,490	1,490
Amounts receivable from controlled entities	4(a)	-	-	3,393,495	4,225,366
Provision for non-recovery	4(a)	-	-	(693,349)	(693,349)
		-	-	2,700,146	3,532,017
Employee share loans	17(a)	211,850	478,900	211,850	478,900
Provision for non-recovery	17(a)	(141,120)	(419,125)	(141,120)	(419,125)
		70,730	59,775	70,730	59,775
		72,220	61,265	2,772,366	3,593,282

(a) Terms and Conditions

Terms and conditions relating to the above financial assets:
- (i) Trade debtors are generally settled in the month after invoicing.
- (ii) Details of the terms and conditions of related party receivables are set out in note 22.

5. INVENTORIES

	Notes	Consolidated 2005 $	Consolidated 2004 $	Carnarvon Petroleum Ltd 2005 $	Carnarvon Petroleum Ltd 2004 $
CURRENT					
Production materials – at lower of cost and net realisable value		108,576	104,841	-	-

NOTES TO THE FINANCIAL STATEMENTS

	Notes	Consolidated 2005 $	Consolidated 2004 $	Carnarvon Petroleum Ltd 2005 $	Carnarvon Petroleum Ltd 2004 $
6. OTHER CURRENT ASSETS					
Prepayments and other current assets		26,496	76,225	12,759	6,200
7. OTHER FINANCIAL ASSETS					
CURRENT					
Investments at cost:					
Listed shares		91,474	282,876	91,474	282,876
NON-CURRENT					
Shares in controlled entities – at cost	24	-	-	1,482,962	1,482,962

8. JOINT VENTURES

The economic entity has the following interests in joint venture operations:

Joint Venture	Principal Activities	Ownership Interest %	Related Party %
Thailand SW1A Concession, Exploration Block L44/43	Exploration, development, production and marketing of crude oil	40%	-
Western Australia (Carnarvon Basin) EPs110 & 424	Exploration for hydrocarbons	35%	-
Papua New Guinea (Papuan Basin) PRLs 4 & 5 including the Stanley, Elevala and Ketu discoveries	Exploration for hydrocarbons	15%	-

NOTES TO THE FINANCIAL STATEMENTS

8. JOINT VENTURES (Cont'd)

Assets and liabilities relating to the joint ventures are included in the financial statements as follows:

	Notes	Consolidated 2005 $	Consolidated 2004 $	Carnarvon Petroleum Ltd 2005 $	Carnarvon Petroleum Ltd 2004 $
CURRENT ASSETS					
Cash assets		167,352	23,305	-	-
Receivables		112,899	101,642	-	-
Inventories		108,576	104,841	-	-
Prepayments and other		13,737	70,025	-	-
TOTAL CURRENT ASSETS		402,564	299,813	-	-
NON-CURRENT ASSETS					
Plant and equipment		47,160	115,205	-	-
Exploration, evaluation and development costs		5,712,063	5,791,172	-	-
TOTAL NON-CURRENT ASSETS		5,759,223	5,906,377	-	-
TOTAL ASSETS		6,161,787	6,206,190	-	-
CURRENT LIABILITIES					
Payables		99,862	79,952	-	-
TOTAL LIABILITIES		99,862	79,952	-	-
NET ASSETS		6,061,925	6,126,238	-	-

Capital expenditure commitments and contingent liabilities in respect of the joint venture are disclosed in Notes 16 and 18 respectively.

9. PLANT AND EQUIPMENT

	Notes	Consolidated 2005 $	Consolidated 2004 $	Carnarvon Petroleum Ltd 2005 $	Carnarvon Petroleum Ltd 2004 $
Plant and equipment at cost		209,353	229,798	11,316	11,316
Accumulated depreciation		(158,661)	(108,504)	(7,784)	(5,227)
	9(a)	50,692	121,294	3,532	6,089

(a) Reconciliation

Reconciliation of the carrying amount of plant and equipment at the beginning and end of the current financial year

	Consolidated 2005	Consolidated 2004
Plant and equipment		
Carrying amount at beginning	121,294	171,950
Additions	32,866	17,312
Disposals	(53,311)	(10,175)
Depreciation expense	(50,157)	(57,793)
Carrying amount at end of financial year	50,692	121,294

NOTES TO THE FINANCIAL STATEMENTS

	Notes	Consolidated 2005 $	Consolidated 2004 $	Carnarvon Petroleum Ltd 2005 $	Carnarvon Petroleum Ltd 2004 $
10. DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE					
Exploration, evaluation and development costs carried forward in respect of the SW1A Concession:					
Production phase		6,039,028	6,041,348		
Less: accumulated amortisation		(326,965)	(250,176)	-	-
		5,712,063	5,791,172	-	-

The ultimate recoupment of costs carried forward is dependent on the successful development and commercial exploitation or sale of the SW1A Concession.

11. PAYABLES

	Notes	Consolidated 2005 $	Consolidated 2004 $	Carnarvon Petroleum Ltd 2005 $	Carnarvon Petroleum Ltd 2004 $
CURRENT					
Trade creditors	11(a)	54,040	59,642	-	-
Other creditors	11(a)	190,710	199,680	110,056	156,880
Owing to related parties	20, 22	214,487	-	100,000	-
		459,237	259,322	210,056	156,880

(a) Terms and Conditions

Terms and conditions relating to the above financial liabilities:

(i) Trade and other creditors are non-interest bearing and are normally settled on 30 day terms

12. PROVISIONS

	Notes	Consolidated 2005 $	Consolidated 2004 $	Carnarvon Petroleum Ltd 2005 $	Carnarvon Petroleum Ltd 2004 $
CURRENT					
Employee leave entitlements	17	11,590	880	11,590	880

NOTES TO THE FINANCIAL STATEMENTS

	Notes	Consolidated 2005 $	Consolidated 2004 $	Carnarvon Petroleum Ltd 2005 $	Carnarvon Petroleum Ltd 2004 $
13. CONTRIBUTED EQUITY					
(a) Issued and paid up capital					
Ordinary shares fully paid		45,318,074	45,318,074	45,318,074	45,318,074

(b) Movements in shares on issue

	2005 Number of Shares	2005 $	2004 Number of Shares	2004 $
Beginning of the financial year	272,312,513	45,318,074	171,591,623	42,124,094
Issued during the year				
-public equity raising	-	-	100,720,890	3,426,736
less transaction costs	-	-	-	(232,756)
End of the financial year	272,312,513	45,318,074	272,312,513	45,318,074

(c) Share options

During the financial year 1,000,000 options over ordinary shares were issued.

Unissued ordinary shares of the Company under option:

Expiry Date	Grant Date	Exercise Price $	Number of Options 2005	Number of Options 2004
31 December 2005	22/03/2004	0.06	38,492,101	37,492,101 -

(d) Terms and conditions of contributed equity

Ordinary Shares

Ordinary shares have the right to receive dividends as declared and, in the event of a winding-up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of, and amounts paid up on, shares held.

	Notes	Consolidated 2005 $	Consolidated 2004 $	Carnarvon Petroleum Ltd 2005 $	Carnarvon Petroleum Ltd 2004 $
14. ACCUMULATED LOSSES					
Balance at the beginning of the year		(38,366,530)	(36,949,486)	(39,555,098)	(38,266,800)
Operating loss attributable to members of Carnarvon Petroleum Ltd		(945,099)	(1,417,044)	(1,486,029)	(1,288,298)
Balance at the end of the year		(39,311,629)	(38,366,530)	(41,041,127)	(39,555,098)

NOTES TO THE FINANCIAL STATEMENTS

15. STATEMENT OF CASH FLOWS

	Notes	Consolidated		Carnarvon Petroleum Ltd	
		2005	2004	2005	2004
		$	$	$	$
(a) Reconciliation of the operating loss after tax to the net cash flows used in operations					
Loss from ordinary activities after tax		(945,099)	(1,417,044)	(1,486,029)	(1,288,298)
Provision for diminution – employee share loans		(10,955)	47,820	(10,955)	47,820
Amortisation and write-off of deferred exploration, evaluation and development costs		79,754	210,305	-	-
Depreciation – plant & equipment		50,157	57,793	2,557	7,849
Net loss on disposal of plant & equipment		33,497	10,174	-	10,174
Unrealised foreign exchange (gain)/loss		37,418	(23,412)	486,655	(25,154)
(Increment)/decrement in value of investment		-	(70,179)	-	(70,179)
Net (gain) on disposal of equity investments		(202,249)	-	(202,249)	-
Changes in assets and liabilities:					
(Increase)/decrease in receivables		32,116	(56,513)	43,373	20,468
(Increase)/decrease in inventories		(3,735)	(31,482)	-	-
(Increase)/decrease in other current assets		49,729	(7,419)	(6,559)	800
Increase/(decrease) in payables		162,497	(110,476)	44,735	(48,904)
Increase/(decrease) in employee entitlements		10,710	(24,932)	10,710	(24,932)
Net cash flows used in operating activities		(706,160)	(1,415,365)	(1,117,762)	(1,370,356)
(b) Reconciliation of cash					
Cash balance comprises:					
Cash at bank and at call		301,454	527,882	134,102	504,556
Closing cash balance		301,454	527,882	134,102	504,556

NOTES TO THE FINANCIAL STATEMENTS

16. EXPENDITURE COMMITMENTS

	Consolidated		Carnarvon Petroleum Ltd	
	2005	2004	2005	2004
	$	$	$	$
(a) Capital expenditure commitments				
Estimated capital expenditure contracted for at balance date, but not provided for, payable:				
Not later than one year				
Joint venture	-	-	-	-
(b) Lease expenditure commitments				
Operating lease (non cancellable)				
Not later than one year	3,150	9,450	3,150	9,450
Aggregate lease expenditure contracted for at balance date	3,150	9,450	3,150	9,450
Aggregate expenditure commitments comprise:				
Amounts not provided for at balance date				
Rental commitments	3,150	9,450	3,150	9,450

Operating lease refers to rental of office space which has a term of less than one year.

Due to the nature of the consolidated entity's operations in exploring and evaluating areas of interest, it is difficult to accurately forecast the nature or amount of future expenditure, although it will be necessary to incur expenditure in order to retain the entity's present permit interests. Expenditure commitments on exploration permits can be reduced by selective relinquishment of exploration tenure, by the renegotiation of expenditure commitments, or by farming out portions of the entity's equity. The Company forecasts its expenditure for exploration commitments for the year ending 30 June 2006 to be approximately $180,000 (actual 2005: $58,214).

NOTES TO THE FINANCIAL STATEMENTS

17. EMPLOYEE ENTITLEMENTS

	Notes	Consolidated		Carnarvon Petroleum Ltd	
		2005	2004	2005	2004
		$	$	$	$
Aggregate employee entitlements, including on-costs					
The aggregate employee entitlement liability comprises:					
Provisions (Current)	12	11,590	880	11,590	880

(a) Employee share plan

At the Annual General Meeting held on 16 October 1997 the shareholders approved the Carnarvon Employee Share Plan and a loan arrangement scheme to assist in funding the acquisition of Plan Shares.

Under the terms of the Plan:
(i) the Company may, in its absolute discretion, make an offer of ordinary fully paid shares in Carnarvon Petroleum Ltd to any eligible employee;
(ii) an eligible employee is any person who is a director or employee of Carnarvon Petroleum Ltd or any of its subsidiaries;
(iii) the issue price is determined by the directors and is not to be less than the weighted average market price of the Company's shares on the five trading days prior to the proposed date of offer;
(iv) transfer of shares is limited within the first two years;
(v) eligible employees receive an interest free advance to acquire the shares;
(vi) the maximum liability of the advance is the market value of the shares from time to time;
(vii) the carrying value of advances made to eligible employees is the lower of the equivalent market value of the shares from time to time or the price of the shares at the time the shares were issued to eligible employees;
(viii) the eligible employee is the legal owner of the shares subject to the provisions of the loan agreement between the Company and the eligible employee;
(ix) Australian Stock Exchange Listing Rules require the Company to obtain shareholder approval for the issue of shares to directors; and
(x) the Company is empowered to sell, as agent, any shares held under the Plan by an eligible employee upon the cessation of his employment, and to apply the net sale proceeds in discharging the employee's loan from the Company.

At balance date there were 3,985,000 (2004: 3,985,000) shares on issue under the Plan, with a market value of $71,730 (2004: $59,775). Of this amount, 2,200,000 (2004: 1,200,000) shares were held by 3 (2004: 2) eligible employees and 1,785,000 (2004: 2,785,000) shares, which had not been sold on the cessation of employment of 5 (2004: 8) former eligible employees in previous years, were held by the Company as agent.

During the financial year the Company transferred 1,000,000 shares from its holding as agent, and allotted these shares to an eligible employee at an issue price of 1.7 cents. During the financial year, no (2004: nil) shares were issued under the Plan.

During the year, a loan of $17,000 (2004: nil) was advanced and no amounts (2004: $nil) were repaid under the loan arrangement scheme. Loans with an original value of $284,050 (2004: nil) for which $269,050 (2004: nil) had been provided for, were extinguished during the financial year as a result of the transfer and allotment of the 1,000,000 shares described above.

NOTES TO THE FINANCIAL STATEMENTS

17. EMPLOYEE ENTITLEMENTS (Cont'd)

(b) Superannuation Commitments

Employees make contributions to individual superannuation plans based on various percentages of their salary and wage. The consolidated entity has a legal obligation to contribute to the plans to the extent of the superannuation guarantee legislation and the specific terms of individual employment contracts.

	Consolidated		Carnarvon Petroleum Ltd	
	2005	2004	2005	2004
	$	$	$	$
Employer contributions to the plans	55,900	46,127	55,900	46,127

18. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Controlled Entities

(a) In accordance with normal petroleum industry practice, the consolidated entity has entered into joint ventures and farmin agreements with other parties for the purpose of exploring and developing its petroleum permit interests. If a party to a joint venture defaults and does not contribute its share of joint venture obligations, then the other joint venturers are liable to meet those obligations. In this event, the interest in the permit held by the defaulting party may be redistributed to the remaining joint venturers.

(b) Securities have been placed in favour of the Independent State of Papua New Guinea in respect of the compliance with the conditions of Petroleum Prospecting Licences (PPL's) granted to the Company and its joint venturers, totalling $1,490 (2004: $1,490).

(c) If a discovery is made within an Australian exploration permit in which a Native Title claim has been made and a production licence is sought in respect of that exploration permit, the issue of the production licence may be subject to the right to negotiate procedures set out in the Native Title Act. If no agreement is reached with the claimants, the National Native Title Tribunal will conduct a hearing to determine whether the licence can be granted, and if so on what conditions. A condition of the grant may be the payment of compensation.

19. SEGMENT INFORMATION

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

Segment accounting policies

Segment accounting policies are the same as the consolidated entity's policies as described in note 1. During the financial year, there were no changes in segment accounting policies that had a material effect on the segment information.

NOTES TO THE FINANCIAL STATEMENTS

19. SEGMENT INFORMATION (Cont'd)

Geographical Segments

	Australia		Thailand		Papua New Guinea		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	$	$	$	$	$	$	$	$
Revenue								
Sales to customers outside the consolidated entity	-	-	942,840	974,501	-	-	942,840	974,501
Other revenue from outside the consolidated entity	405,209	17,328	20,927	-	-	-	426,136	17,328
Total segment revenue	405,209	17,328	963,767	974,501	-	-	1,368,976	991,829
Results								
Operating result	(1,036,792)	(1,290,040)	91,693	(9,845)	-	-	(945,099)	(1,299,885)
Specific item	-	-	-	(117,159)	-	-	-	(117,159)
Total segment result	(1,036,792)	(1,290,040)	91,693	(127,004)	-	-	(945,099)	(1,417,044)
Assets								
Exploration and development costs	-	-	5,712,063	5,791,172	-	-	5,712,063	5,791,172
Other	313,995	904,267	449,724	514,817	1,490	1,490	765,209	1,420,574
Total segment assets	313,995	904,267	6,161,787	6,305,989	1,490	1,490	6,477,272	7,211,746
Liabilities								
Total segment liabilities	221,646	157,760	249,181	102,442	-	-	470,827	260,202
Other segment information:								
Acquisitions of plant and equipment	-	4,713	32,866	12,599	-	-	32,866	17,312
Depreciation	2,557	7,849	47,600	49,944	-	-	50,157	57,793
Amortisation	-	-	76,789	210,305	-	-	76,789	210,305
Other non-cash expenses	(10,955)	47,820	33,497	-	-	-	24,542	47,820

NOTES TO THE FINANCIAL STATEMENTS

20. DIRECTOR AND EXECUTIVE DISCLOSURES

Specified Directors

The following persons were directors of Carnarvon Petroleum Limited during the financial year:

P J Leonhardt – Non-executive Chairman
N C Fearis – Non-executive director
K P Judge - Non-executive director
D J Orth – Executive director and Chief Operating Officer
A G Shelton – Non-executive director

Specified Executives

R A Pullia - Chief Financial Officer and Company Secretary.

Remuneration of Specified Directors and Specified Executives

The Remuneration and Nomination Committee advises the Board on remuneration policies and practices, evaluates the performance of senior management and makes recommendations to the Board on remuneration for senior managers. Remuneration is in the form of cash remuneration and superannuation contributions. The Board assesses the appropriateness of the nature and amount of remuneration on an annual basis by reference to industry and market conditions, and with regard to the Company's financial and operational performance. The Company paid no bonuses during the financial year ended 30 June 2005.

All specified directors and specified executives have the opportunity to qualify for participation in the Carnarvon Employee Share Plan. The issue of shares under this Plan is at the discretion of the Board. No equity-based remuneration was paid to specified directors and 1,000,000 shares were allotted to a specified executive under the Plan during the year.

The Company has an agreement with a controlled entity of DJ Orth for a term expiring on 31 October 2005. The Company has an employment agreement with RA Pullia for an unspecified term with a one month notice period and, in the event of redundancy, payment of two months' gross salary plus two weeks' salary for every year of service. The agreement provides for an annual salary review. There are no formal retainer agreements with non-executive directors.

		Primary	**Post Employment**		**Total**
		Salary & Fees	Superannuation	Termination Benefits	
Specified Directors		$	$	$	**$**
P J Leonhardt	2005	11,250	-	-	11,250
(appointed 17 March 2005)	2004	-	-	-	-
N C Fearis	2005	27,000	3,000	-	30,000
	2004	27,000	3,000	-	30,000
K P Judge	2005	7,500	-	-	7,500
(appointed 1 April 2005)	2004	-	-	-	-
D J Orth	2005	95,717	25,000	-	120,717
	2004	160,750	25,000	-	185,750
A G Shelton	2005	42,167	4,500	-	46,667
	2004	45,200	4,800	-	50,000
Total remuneration	**2005**	**183,634**	**32,500**	**-**	**216,134**
	***2004**	**282,950**	**44,357**	**80,839**	**408,146**

NOTES TO THE FINANCIAL STATEMENTS

20. DIRECTOR AND EXECUTIVE DISCLOSURES (Cont'd)

		Primary	Post Employment	Total
		Salary & Fees	Superannuation	
Specified Executives		$	$	$
R A Pullia	2005	123,750	23,400	147,150
	2004	16,450	1,481	17,931
Total remuneration	**2005**	**123,750**	**23,400**	**147,150**
	***2004**	**195,409**	**11,126**	**206,535**

*Total in respect of the financial year ended 2004 does not equal the sum of amounts disclosed for 2004 for individuals specified in 2005, as different individuals were specified in 2004.

Equity instruments disclosures relating to directors and executives

The movement during the reporting period in the number of ordinary shares of, and options over ordinary shares in, Carnarvon Petroleum Limited held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities, is as follows:

<u>Shareholdings</u>

	Held at 1 July 2004 (or when appointed)	Acquired/ (Sold/Cancelled, Disassociated)	Employee Share Plan	Held at 30 June 2005
Specified directors				
P J Leonhardt	2,010,504	-	-	2,010,504
N C Fearis	3,871,400	1,000,000	-	4,871,400
K P Judge	11,168,596	-	-	11,168,596
D J Orth	1,569,127	-	-	1,569,127
A G Shelton	9,208,906	-	-	9,208,906
Specified executives				
R A Pullia	-	-	1,000,000	1,000,000

<u>Option holdings</u>

	Held at 1 July 2004 (or when appointed)	Acquired/ (Sold/Cancelled, Disassociated)	Employee Share Plan	Held at 30 June 2005
Specified Directors				
P J Leonhardt	589,128	-	-	589,128
N C Fearis	300,000	3,393,700	-	3,693,700
K P Judge	-	-	-	-
D J Orth	47,428	-	-	47,428
A G Shelton	1,600,743	-	-	1,600,743

Specified executives
nil

All equity transactions with specified directors and specified executives, other than those arising from shares allotted pursuant to the Employee Share Plan, have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

NOTES TO THE FINANCIAL STATEMENTS

20. DIRECTOR AND EXECUTIVE DISCLOSURES (Cont'd)

Other transactions with specified directors

Mr AG Shelton is a director of Andrew Shelton & Company Pty Ltd. That company provided financial consulting services to the consolidated entity in relation to various strategic, commercial and corporate finance matters concerning the Company, the SW1A Concession in Thailand and the Company's joint venture partner, Tiger Petroleum Inc. The total value of consulting fees incurred during the year was $189,734 (2004: $117,000), of which $89,734 was paid at balance date. The outstanding balance payable is to be satisfied by an issue of 5,500,000 ordinary shares to Andrew Shelton & Company Pty Ltd, or nominee, which is subject to the approval of shareholders.

The terms and conditions of the above transactions were no more favourable to the counterparties than those available, or which might reasonably be expected to be available, in respect of similar transactions entered into with non-personally related entities on an arm's length basis.

21. REMUNERATION OF AUDITORS

	Consolidated		Carnarvon Petroleum Ltd	
	2005 $	2004 $	2005 $	2004 $
Amounts received or due and receivable by the auditors of Carnarvon Petroleum Ltd and the consolidated entity for an audit and review of the financial report of the Company and any other entity in the consolidated entity.	69,175	66,120	69,175	66,120
Other services in relation to the entity and any other entity in the consolidated entity.	27,282	39,964	27,282	39,964
Audit of overseas operations by an overseas office of the auditors of Carnarvon Petroleum Ltd.	20,875	19,694	-	-
	117,332	125,778	96,457	106,084

22. RELATED PARTY DISCLOSURES

Ultimate parent

Carnarvon Petroleum Limited is the ultimate parent company.

Wholly owned group transactions

During the reporting period there have been transactions between the Company and its controlled entities. The Company provided accounting and administrative services to its controlled entities for which it did not charge a management fee.

The Company was repaid net $353,657 from its controlled entities during the year. In the prior financial year the Company provided interest-free funding for exploration and development expenditure to its controlled entities amounting to $1,635,738. The outstanding balance of loans made by Carnarvon Petroleum Ltd to its controlled entities at 30 June 2005 was $3,393,495 (2004: $4,225,366), of which $693,349 (2004: $693,349) has been provided for. These loans are unsecured and have no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

22. RELATED PARTY DISCLOSURES (Cont'd

Other related party balances

An amount of $114,487 arising on consolidation of the Company's 40% interest in the SW1A joint venture less amounts paid to the joint venture pursuant to approved cash calls.

23. FINANCIAL INSTRUMENTS

(a) Interest rate risk

The consolidated entity's exposure to interest rate risk is considered minimal and the effective interest rates of financial assets and liabilities at the reporting date are as follows:

2005	Floating interest rate $	Non-interest bearing $	Total carrying amount as per the statement of financial position $	Weighted average effective interest rate
Financial assets				
Cash	301,454	-	301,454	2.6%
Receivables	-	186,517	186,517	
Investments – listed shares	-	91,474	91,474	
Total financial assets	301,454	277,991	579,445	
Financial Liabilities				
Trade and other creditors	-	459,237	459,237	
Total financial liabilities	-	459,237	459,237	

2004	Floating interest rate $	Non-interest bearing $	Total carrying amount as per the statement of financial position $	Weighted average effective interest rate
Financial assets				
Cash	527,822	-	527,822	4.8%
Receivables	-	307,456	307,456	
Investments – listed shares	-	282,876	282,876	
Total financial assets	527,822	590,332	1,118,154	
Financial Liabilities				
Trade and other creditors	-	259,322	259,322	
Total financial liabilities	-	259,322	259,322	

(b) Net fair values

All financial assets and financial liabilities have been recognised in the statement of financial position at balance date at their net fair values except for investments which are recognised at cost. The following methods and assumptions are used to determine the net fair values of financial assets and liabilities.
Cash: The carrying amount approximates fair value.
Receivables and trade and other creditors: The carrying amount approximates fair value.
Investments: The carrying amount is at cost. Fair value is market price which at 30 June 2005 was $177,902 (2004:$282,876).

NOTES TO THE FINANCIAL STATEMENTS

23. FINANCIAL INSTRUMENTS (Cont'd)

(c) Credit risk exposures

The consolidated entity's maximum exposures to credit risk at reporting date in relation to each class of recognised financial assets, is the carrying amount of those assets as indicated in the statement of financial position.

Concentrations of credit risk

The consolidated entity considers its exposure to credit risk as minimal. Amounts receivable by the Company relate to either:

(i) costs charged to related entities for which the Company awaits reimbursement; or
(ii) amounts advanced to employees, which are repayable under the terms of the Carnarvon Employee Share Plan, which requires repayment on sale of the shares.

24. CONTROLLED ENTITIES AND CONTRIBUTION TO CONSOLIDATED ENTITY PROFIT/(LOSS)

Name	Country of Incorporation	% held by parent entity		Book value of shares held		Contribution to consolidated entity profit/(loss)	
		2005	2004	2005 $	2004 $	2005 $	2004 $
Carnarvon Petroleum Ltd						(1,036,792)	(1,290,040)
Controlled entities of Carnarvon Petroleum Ltd:							
Lassoc Pty Ltd	Australia	100	100	20	20	-	-
SRL Exploration Pty Ltd	Australia	100	100	10	10	-	-
Strategic Exploration (Asia) Ltd	British Virgin Islands	100	100	1,482,932	1,482,932	91,693	(127,004)
				1,482,962	1,482,962	(945,099)	(1,417,044)

25. EARNINGS PER SHARE

	2005	2004
(a) Basic earnings per share (cents per share)	(0.4)	(0.6)
(b) Diluted earnings per share (cents per share)	(0.4)	(0.6)
(c) Weighted average number of ordinary shares on issue used in the calculation of earnings per share	272,312,513	215,422,141
(d) Earnings used in calculating basic and diluted earnings per share	($945,099)	($1,417,044)

All potential ordinary shares, being options to acquire ordinary shares are not considered dilutive as the exercise of the options would not decrease the basic loss per share.

26. SUBSEQUENT EVENTS

On 22 July 2005, Carnarvon completed a share placement by issuing 39,833,333 fully paid ordinary shares at 1.8 cents per share that raised $717,000 for working capital.

NOTES TO THE FINANCIAL STATEMENTS

27. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS

Carnarvon Petroleum Ltd is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS) which will be applicable for the financial year ended 30 June 2006. During the financial year the company allocated internal resources to conduct impact assessments to identify key areas that would be impacted by the transition to AIFRS. Priority has been given to the preparation of an opening balance sheet in accordance with AIFRS as at 1 July 2004, the Company's transition date to AIFRS. This will form the basis of accounting for AIFRS in the future, and is required when the Company prepares its first fully AIFRS compliant financial report for the year ended 30 June 2006.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS and our best estimate of the quantitative impact of the changes on total equity as at the date of transition and 30 June 2005 and on net profit for the year ended 30 June 2005.

The figures disclosed are management's best estimates of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to AIFRS may differ from the estimates disclosed due to (a) ongoing work being undertaken by management; (b) potential amendments to AIFRSs and Interpretations thereof being issued by the standard-setters and IFRIC; and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG interpretations.

(a) Financial statements of foreign operations

Under current Australian GAAP, the assets and liabilities of operations that are integrated are translated using the temporal method. Monetary assets and liabilities are translated at rates of exchange at reporting date, while non-monetary items and revenue and expense items are translated at exchange rates current when the transactions occurred. Exchange differences arising on translation are brought to account in the statement of financial performance.

Under AASB 121 The Effects of Changes in Foreign Exchange Rates each entity in the consolidated entity determines its functional currency, the currency of the of the economic environment in which the entity operates reflecting the underlying transactions, events and conditions that are relevant to the entity.

The assets and liabilities of foreign operations are translated from the entity's functional currency to the consolidated entity's presentation currency of Australian dollars at foreign exchange rates ruling at reporting date. The revenues and expenses of foreign operations are translated to Australian dollars at the exchange rates approximating the exchange rates ruling at the date of the transactions. Foreign exchange differences arising on translation are recognised directly in a separate component of equity.

All foreign operations are translated into Australian dollars using the method described above, the concepts of 'self-sustaining' and 'integrated' operations do not exist in the AIFRS framework.

On disposal of a foreign operation, the amount recognized in the foreign currency translation reserve attributable to the foreign operation is included in the calculation of gain or loss on disposal and recycled through the current year income statement.

The functional currency of all entities in the consolidated entity is the Australian dollar, except for Strategic Exploration (Asia) Limited, for which the US dollar is its functional currency.

NOTES TO THE FINANCIAL STATEMENTS

27. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (Cont'd)

Reconciliation of equity as presented under AGAAP to that under AIFRS

	Notes	Consolidated		Carnarvon Petroleum Ltd	
		30 June 2005 (i) $	1 July 2004 (ii) $	30 June 2005 (i) $	1 July 2004 (ii) $
Total equity under AGAAP		6,006,445	6,951,544	4,276,947	5,762,976
Adjustments to retained earnings (net of tax)					
Derecognition of unrealised foreign exchange loss on translation of integrated subsidiary	(a)	40,341	11,364	-	-
Adjustments to foreign currency translation reserve					
Recognition of exchange difference on translation of foreign operation	(a)	(1,890,975)	(1,245,072)	-	-
Total equity under AIFRS		4,155,811	5,717,836	4,276,947	5,762,976

(i) This column represents the cumulative adjustments as at the date of transition to AIFRS and those for the year ended 30 June 2005.
(ii) This column represents the adjustments as at the date of transition to AIFRS.

Reconciliation of net profit under AGAAP to that under AIFRS

YEAR ENDED 30 JUNE 2005	Notes	Consolidated $	Carnarvon Petroleum Ltd $
Net loss as reported under AGAAP		(945,099)	(1,486,029)
Derecognition of unrealised foreign exchange loss on translation of integrated subsidiary	(a)	28,977	-
Net loss under AIFRS		(916,122)	(1,486,029)

Restated AIFRS Statement of Cash Flows for the year ended 30 June 2005

No material impacts are expected to the cash flows presented under AGAAP on adoption of AIFRS.

DIRECTORS' DECLARATION

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

(1) In the opinion of the directors:

(a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

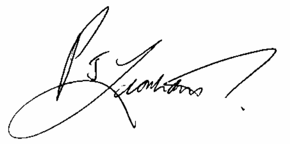
(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards and 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.

(2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2005.

On behalf of the Board



PJ Leonhardt
Director

Melbourne,
29 September 2005

ERNST & YOUNG

120 Collins Street
Melbourne VIC 3000
Australia

GPO Box 67
Melbourne VIC 3001

Tel 61 3 9288 8000
Fax 61 3 9654 6166
DX 293 Melbourne

Independent audit 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, accompanying notes to the financial statements, and the directors' declaration for Carnarvon Petroleum Limited (the company) and the consolidated entity, for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

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 company and the consolidated entity, and that complies with Accounting Standards in Australia, 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.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

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 audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion, the financial report of Carnarvon Petroleum Limited is in accordance with:

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

(i) giving a true and fair view of the financial position of Carnarvon Petroleum Limited and the consolidated entity at 30 June 2005 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards in Australia 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 to the financial statements relating to going concern, there is significant uncertainty whether Carnarvon Petroleum Limited and the consolidated entity will be able to continue as going concerns without the generation of future profits and obtaining further funds to continue its exploration and development activities and therefore whether they will be able to pay their debts as and when they fall due and realise their assets and extinguish their 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 company and consolidated entity not continue as going concerns.

Ernst & Young

Ernst & Young

R C Piltz

R C Piltz
Partner

Melbourne
29 September 2005