CARNARVON
PETROLEUM
LIMITED
ABN 60 002 688 851

CARNARVON PETROLEUM LIMITED

ABN 60 002 688 851

AND CONTROLLED ENTITIES

INTERIM FINANCIAL REPORT

31 DECEMBER 2005

CORPORATE DIRECTORY

Directors

PJ Leonhardt (Non-Executive Chairman)
EP Jacobson (Chief Executive Officer)
NC Fearis (Non-Executive Director)
KP Judge (Non-Executive Director)
DJ Orth (Non-Executive Director)

Company Secretary

RA Anderson

Auditors

Grant Thornton Western Australian Partnership

Bankers

Australia and New Zealand Banking Group Limited

Registered Office

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West Perth WA 6005
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Email: admin@carnarvonpetroleum.com
Website: www.carnarvonpetroleum.com

Share Registry

Computershare Investor Services Pty Limited
Level 2
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Perth, WA 6840 Australia
Investor Enquiries: 1300 557 010 (within Australia)
Investor Enquiries: +61 3 9415 4000 (outside Australia)
Facsimile: +61 8 9323 2033

Stock Exchange Listing

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

ASX Code: CVN - ordinary shares

CONTENTS

DIRECTORS' REPORT

Your directors submit the financial report of the economic entity for the half-year ended 31 December 2005.

DIRECTORS

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

Peter Leonhardt
Edward (Ted) Jacobson (appointed 5 December 2005)
Neil Fearis
Kenneth Judge
David Orth
Andrew Shelton (resigned 30 November 2005)

CORPORATE DEVELOPMENTS

A number of significant corporate events occurred in the half year under review:

- Carnarvon restructured its Board and management with the appointment of Ted Jacobson as Chief Executive Officer and the relocation of its corporate office to Perth. Mr Jacobson is a petroleum geologist with 35 years' experience in international petroleum exploration. He was a co-founder of Discovery Petroleum NL and more recently Tap Oil Ltd which grew to a market capitalization of over $400 million under his technical leadership.

- The Company's SW1A Joint Venture partner in Thailand, Tiger Petroleum Inc, was acquired by Calgary-based Pan Orient Energy Corp ("POE"). During the half-year settlement was reached on outstanding litigation between Carnarvon's subsidiary Strategic Exploration (Asia) Limited ("SEAL") and Tiger Petroleum Inc.

- On the basis of extensive technical work, as operator POE has scheduled a comprehensive programme of development and exploration work at SW1A which has been endorsed by Carnarvon.

- Carnarvon is proceeding to sell its interests in Petroleum Retention Licences 4 & 5 which contain discovered gas and condensate in Papua New Guinea. Discussions are continuing with the PNG joint venture partners as to the exercise of their pre-emptive rights.

- On 22 July 2005 Carnarvon completed a placement of 39.8 million shares at 1.8 cents per share, raising approximately $699,000 after deducting issue costs, for working capital purposes.

REVIEW AND RESULTS OF OPERATIONS

Revenue from oil and gas operations for the half-year ended 31 December 2005 was $647,570 compared to $429,555 in the previous corresponding period, an increase of 50.8%. The consolidated entity's profit for the half-year ended 31 December 2005 was $166,071, compared to the previous corresponding period's loss of $263,828. The current half-year result includes a $500,000 profit from the sale of the consolidated entity's Papua New Guinea licences.

Oil production fell to 28,061 barrels from 32,130 barrels in the previous corresponding period, in line with the normal decline profile of the existing wells. This, however, was offset by an increase in average sale price from US$26.09 to US$45.61 per barrel over the same period.

Corporate and administration costs for the half-year totalled $451,372, compared to $446,330 in the previous corresponding period.

DIRECTORS' REPORT (continued)

ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ('IFRS")

This interim financial report has been prepared under Australian equivalents to IFRS. A reconciliation of differences between previous Australian Generally Accepted Accounting Principles ("AGAAP") and Australian equivalents to IFRS has been included in Note 2 of this report.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's Independence Declaration to the directors, as required under section 307C of the Corporations Act 2001, is set out on page 6.

Signed in accordance with a resolution of the directors.

PJ Leonhardt
Director

Perth
16 March 2006

Grant Thornton Western Australian Partnership
ABN 21 965 022 882
Chartered Accountants, Business Advisers and Consultants

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Carnarvon Petroleum Limited for the half-year ended 31 December 2005, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

GRANT THORNTON WESTERN AUSTRALIAN PARTNERSHIP

GREG LEGUIER
Partner

Dated 16 March 2006

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CONSOLIDATED INCOME STATEMENT
For the half-year ended 31 December 2005

	Notes	31 December 2005 $	31 December 2004 $
Revenue from continuing operations		660,767	436,282
Other income		9,931	120,338
Cost of sales		(417,096)	(353,427)
Administrative expenses		(144,924)	(124,204)
Directors' emoluments		(110,000)	(106,550)
Exploration expenditure written off		(107,242)	(20,691)
Employee benefits expense		(69,377)	(78,974)
Consulting fees		(85,930)	(43,200)
Legal fees		(25,793)	(67,059)
Share based payments	3	(108,437)	-
Finance costs		(1,128)	-
Other expenses		(14,220)	(26,343)
Reversal of impairment loss on employee share plan loans		79,520	-
Loss before income tax		(333,929)	(263,828)
Income tax expense		-	-
Loss from continuing operations		(333,929)	(263,828)
Profit from discontinued operations		500,000	-
Profit / (loss) attributable to members of the parent entity		166,071	(263,828)
Basic earnings per share from continuing operations (cents per share)		(0.11)	(0.10)
Diluted earnings per share from continuing operations (cents per share)		(0.11)	(0.10)

The above consolidated income statement should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET
As at 31 December 2005

	31 December 2005 $	30 June 2005 $
CURRENT ASSETS		
Cash and cash equivalents	678,184	301,454
Trade and other receivables	647,804	114,297
Available-for-sale financial assets	97,005	178,214
Inventories	130,175	75,682
Other current assets	36,749	26,496
TOTAL CURRENT ASSETS	1,589,917	696,143
NON-CURRENT ASSETS		
Receivables	134,740	55,220
Property, plant and equipment	4,254,870	4,034,010
TOTAL NON-CURRENT ASSETS	4,389,610	4,089,230
TOTAL ASSETS	5,979,527	4,785,373
CURRENT LIABILITIES		
Trade and other payables	397,829	459,237
Provisions	-	11,590
TOTAL CURRENT LIABILITIES	397,829	470,827
NON-CURRENT LIABILITIES		
Provisions	81,494	77,984
TOTAL NON-CURRENT LIABILITIES	81,494	77,984
TOTAL LIABILITIES	479,323	548,811
NET ASSETS	5,500,204	4,236,562
EQUITY		
Contributed equity	46,258,121	45,421,074
Reserves	(1,536,522)	(1,797,046)
Accumulated losses	(39,221,395)	(39,387,466)
TOTAL EQUITY	5,500,204	4,236,562

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

“Property, plant and equipment” includes deferred exploration, evaluation and development costs in the production phase

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the half-year ended 31 December 2005

	\$ Contributed Equity	\$ Accumulated Losses	\$ Reserves	\$ Total
Balance at 1 July 2004	45,318,074	(38,380,141)	(1,245,072)	5,692,861
Exchange differences on translation of foreign operations	-	-	(785,716)	(785,716)
Available-for-sale financial assets	-	-	212,225	212,225
Loss attributable to members of parent entity	-	(263,828)	-	(263,828)
Balance at 31 December 2004	45,318,074	(38,643,969)	(1,818,563)	4,855,542
Balance at 1 July 2005	45,421,074	(39,387,466)	(1,797,046)	4,236,562
Contributions of equity, net of transaction costs	799,112	-	-	799,112
Exchange differences on translation of foreign operations	-	-	263,481	263,481
Available-for-sale financial assets	-	-	(73,459)	(73,459)
Share based payments	37,935	-	70,502	108,437
Profit attributable to members of parent entity	-	166,071	-	166,071
Balance at 31 December 2005	46,258,121	(39,221,395)	(1,536,522)	5,500,204

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the half-year ended 31 December 2005

	31 December 2005 $	31 December 2004 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	660,901	455,867
Payments to suppliers and employees	(906,182)	(776,149)
	(245,281)	(320,282)
Interest received	12,572	6,196
Finance costs	(1,128)	-
Net Cash Flows (Used In) Operating Activities	(233,837)	(314,086)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration expenditure	(107,242)	(20,691)
Payments for property, plant and equipment	(14,025)	(49,693)
Proceeds from disposal of plant and equipment	7,766	-
Proceeds from sale of available-for-sale financial assets	17,680	260,490
Net Cash Flows (Used In)/Provided By Investing Activities	(95,821)	190,106
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of securities	717,000	-
Security issue costs	(17,888)	-
Net Cash Flows Provided By Financing Activities	699,112	-
Net Increase/(Decrease) In Cash and Cash Equivalents	369,454	(123,980)
Cash and cash equivalents at beginning of the half-year	301,454	527,882
Effects of exchange rate changes on cash and cash equivalents	7,276	(2,482)
Cash and cash equivalents at end of the half year	678,184	401,420

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 2005

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

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standard AASB 134: "Interim Financial Reporting", Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2005 and any public announcements made by Carnarvon Petroleum Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

As this is the first interim financial report prepared under Australian equivalents to IFRS ("AIFRS"), the accounting policies applied are inconsistent with those applied in the 30 June 2005 annual report as that report was presented under previous Australian GAAP ("AGAAP"). In preparing this report, certain accounting, valuation and consolidation methods applied in the previous AGAAP have been amended to comply with AIFRS. Comparative figures have been restated to reflect these adjustments. Accordingly, a summary of the significant accounting policies under AIFRS has been included below. A reconciliation of equity and profit and loss between previous AGAAP and AIFRS has been provided in Note 2.

The half-year report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the consolidated entity as in the full financial report.

The half-year report has been prepared on a historical cost basis, except for available-for-sale financial assets which are measured at fair value.

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 from continuing operations of $333,929 for the half-year ended 31 December 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:

- profitability of the SW1A Joint Venture; and/or
- availability of capital (refer Note 6)

Without the generation of future profits and / or the raising 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 / or capital will be available 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

Accounting Policies

(a) Principles of Consolidation

Subsidiaries

The consolidated financial report comprises the financial statements of Carnarvon Petroleum Limited and its controlled entities. A controlled entity is any entity controlled by Carnarvon Petroleum Limited whereby Carnarvon Petroleum Limited has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities. All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Joint venture operations

The economic entity's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the financial statements under the appropriate headings.

(b) Income Tax

The charge for current income tax expense is based on the result for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and tax losses.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law. The carrying amount of deferred tax assets is reviewed at each balance date and only recognised to the extent that sufficient future assessable income is expected to be obtained.

Carnarvon Petroleum Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime. Carnarvon Petroleum Limited is the head entity of the tax consolidated group and is responsible for recognising the current and deferred tax assets and liabilities for group. The group notified the ATO on 14 October 2005 that it had formed an income tax consolidated group to apply from 1 July 2003. The members of the group will, if required, enter into a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Property, Plant and Equipment

All property, plant and equipment is stated at historical cost less depreciation and impairment losses. The cost of an item also includes the initial estimate of the costs of dismantling and removing an item and restoring the site on which it is located.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Impairment

The carrying amount of property, plant and equipment is reviewed at each balance date to determine whether there are any objective indicators of impairment that may indicate the carrying values may not be recoverable in whole or in part. Impairment testing is carried out in accordance with Note 1(f).

Where an asset does not generate cash flows that are largely independent it is assigned to a cash generating unit and the recoverable amount test applied to the cash generating unit as a whole.

If the carrying value of the asset is determined to be in excess of its recoverable amount, the asset or cash generating unit is written down to its recoverable amount.

Depreciation and amortisation

Depreciation on plant and equipment is calculated on a straight line basis over expected useful life to the economic entity commencing from the time the asset is held ready for use. The major depreciation rates used for each class of depreciable assets are:

Plant and equipment	20% to 50%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

Amortisation of development costs is calculated on a unit of production basis so as to write off the cost of each asset in proportion to the depletion of the proved and probable reserves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(d) Inventories

Inventories, which are measured at the lower of cost and net realisable value, relate to warehouse stores and materials and represent consumable supplies and maintenance spares expected to be used in production.

Cost includes those costs incurred in bringing each component of inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less any estimated selling costs.

(e) Exploration, Evaluation and Development expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that the consolidated entity's rights of tenure to the area are current and that the costs are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised in accordance with Note 1(c).

(f) Recoverable Amount of Assets and Impairment Testing

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The consolidated entity assesses at each reporting date whether any objective indications of impairment are present. Where such an indicator exists, a formal assessment of recoverable amount is then made and where this is in excess of carrying amount, the asset is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from the asset or cash generating unit. In estimating value in use, a pre-tax discount rate is used which reflects the current market assessments of the time value of money and the risks specific to the asset. Any resulting impairment loss is recognised immediately in the income statement.

(g) Trade Receivables

Trade receivables are recognised at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(h) Investments and Other Financial Assets

The consolidated entity classifies its investments into the four categories set out below. The classification depends on the purpose for which the investments were acquired. The consolidated entity determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

Fair value is the measurement basis, with the exception of held-to-maturity investments and loans and receivables which are measured at amortised cost. Fair value is inclusive of transaction costs. Changes in fair value are either taken to the income statement or to an equity reserve (refer below).

Fair value is determined based on current bid prices for all quoted investments. If there is not an active market for a financial asset fair value is measured using established valuation techniques.

The consolidated entity assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets are impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists the cumulative loss is removed from equity and recognised in the income statement.

(i) Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

(iii) Held-to-maturity investments

These investments have fixed maturities, and it is the group's intention to hold these investments to maturity. Held-to-maturity investments are stated at amortised cost using the effective interest rate method.

(iv) Available-for-sale financial assets

Available for sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not included in any of the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity in an available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

(i) Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments that are operating in other economic environments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(j) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates (the "functional" currency). The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Translation differences arising on non-monetary items, such as equities held at fair value through profit and loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

Group companies

The financial results and position of foreign operations whose functional currency is different from the consolidated entity's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date.
- income and expenses are translated at average exchange rates for the period

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

(k) 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

A lease where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments in relation to operating leases are charged to the income statement on a straight-line basis over the period of the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(l) Employee Benefits

Wages and salaries, annual leave

Provision is made for the consolidated entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Share based payments – Share and share options

The fair value of shares and share options granted is recognised as an expense with a corresponding increase in equity. Fair value is measured at grant date and recognised over the period during which the grantees become unconditionally entitled to the shares or share options.

The fair value of share grants at grant date is determined by the share price at that time.

The fair value of share options at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, any vesting and performance criteria, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option.

Share based payments – Employee Share Scheme

Share based compensation has been provided to employees via the Carnarvon Employee Share Plan ("CESP"), financed by means of interest free limited recourse loans. Under AASB 2 "Share-based payments", the CESP shares are deemed to be equity settled, share based remuneration and treated as an in-substance grant of options.

(i) CESP shares allocated prior to 7 November 2002 and/or vested before 1 January 2005

The consolidated entity has made an election in relation to the transitional exemptions allowed by AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" not to apply AASB 2 "Share Based Payment" to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005. Accordingly, no AIFRS adjustment has been made in respect of these shares.

(ii) *CESP shares vesting subsequent to 1 January 2005*

For new limited recourse loans issued to employees on or after 1 January 2005, the consolidated entity is required to recognise within the income statement a remuneration expense measured at the fair value of the "share option" inherent in the issue to the employees, with a corresponding increase to a share-based payments reserve in equity. The fair value is measured at grant date and recognised when the employees become unconditionally entitled to the shares (i.e. on grant). A loan receivable will not be recognised.

The fair value at grant date is determined using a pricing model that factors in the share price at grant date, the expected price volatility of the underlying share, and the risk free rate for the assumed term of the "option".

Upon the exercise of the "option", the balance of the share-based payments reserve relating to the "options" is transferred to contributed equity.

(m) Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(n) Earnings Per Share

Basic earnings per share (“EPS”) is calculated by dividing the profit attributable to equity holders of the Company by the weighted number of shares outstanding during the half-year.

Diluted EPS adjusts the figures used in the calculation of basic EPS to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed or known to have been issued in relation to dilutive potential ordinary shares.

(o) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(p) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(q) Revenue

Revenue from the sale of goods is recognised upon control of the goods passing to the buyer.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of any goods and services tax (GST).

(r) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(s) Trade and Other Payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial period which are unpaid. The amounts are unsecured and usually paid within 60 days of recognition.

(t) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Reconciliation of Consolidated Equity at the date of transition, 1 July 2004

	Notes	1 July 2004 Previous AGAAP $	Adjustments on introduction of Australian equivalents to IFRS $	Australian equivalents to IFRS at 1 July 2004 $
CURRENT ASSETS				
Cash and cash equivalents		527,882	-	527,882
Trade and other receivables		246,191	-	246,191
Available-for-sale financial assets		282,876	-	282,876
Inventories	2(b)	104,841	(25,150)	79,691
Other current assets		76,225	-	76,225
TOTAL CURRENT ASSETS		1,238,015	(25,150)	1,212,865
NON-CURRENT ASSETS				
Receivables		61,265	-	61,265
Property, Plant and equipment	2(d)	5,912,466	(1,161,988)	4,750,478
TOTAL NON-CURRENT ASSETS		5,973,731	(1,161,988)	4,811,743
TOTAL ASSETS		7,211,746	(1,187,138)	6,024,608
CURRENT LIABILITIES				
Trade and other payables		259,322	-	259,322
Provisions		880	-	880
TOTAL CURRENT LIABILITIES		260,202	-	260,202
NON-CURRENT LIABILITIES				
Provisions	2(g)	-	71,545	71,545
TOTAL NON-CURRENT LIABILITIES		-	71,545	71,545
TOTAL LIABILITIES		260,202	71,545	331,747
NET ASSETS		6,951,544	(1,258,683)	5,692,861
EQUITY				
Contributed equity		45,318,074	-	45,318,074
Reserves	2(e)	-	(1,245,072)	(1,245,072)
Accumulated losses	2(f)	(38,366,530)	(13,611)	(38,380,141)
TOTAL EQUITY		6,951,544	(1,258,683)	5,692,861

"Property, plant and equipment" includes deferred exploration, evaluation and development costs in the production phase

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Reconciliation of Consolidated Equity at the end of the last half-year reporting period, 31 December 2004

	Notes	31 December 2004 Previous AGAAP $	Adjustments on introduction of Australian equivalents to IFRS $	Australian equivalents to IFRS at 31 December 2004 $
CURRENT ASSETS				
Cash and cash equivalents		401,420	-	401,420
Trade and other receivables		178,626	-	178,626
Available-for-sale financial assets	2(a)	142,724	212,225	354,949
Inventories	2(b)	104,841	(34,279)	70,562
Other current assets		44,111	-	44,111
TOTAL CURRENT ASSETS		871,722	177,946	1,049,668
NON-CURRENT ASSETS				
Receivables		61,265	-	61,265
Property, plant and equipment	2(d)	5,863,186	(1,886,337)	3,976,849
TOTAL NON-CURRENT ASSETS		5,924,451	(1,886,337)	4,038,114
TOTAL ASSETS		6,796,173	(1,708,391)	5,087,782
CURRENT LIABILITIES				
Trade and other payables		151,196	-	151,196
Provisions		6,279	-	6,279
TOTAL CURRENT LIABILITIES		157,475	-	157,475
NON-CURRENT LIABILITIES				
Provisions	2(g)	-	74,765	74,765
TOTAL NON-CURRENT LIABILITIES		-	74,765	74,765
TOTAL LIABILITIES		157,475	74,765	232,240
NET ASSETS		6,638,698	(1,783,156)	4,855,542
EQUITY				
Contributed equity		45,318,074	-	45,318,074
Reserves	2(e)	-	(1,818,563)	(1,818,563)
Accumulated losses	2(f)	(38,679,376)	35,407	(38,643,969)
TOTAL EQUITY		6,638,698	(1,783,156)	4,855,542

"Property, plant and equipment" includes deferred exploration, evaluation and development costs in the production phase

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Reconciliation of Consolidated Equity at the last reporting period under previous AGAAP, 30 June 2005

	Notes	30 June 2005 Previous AGAAP $	Adjustments on introduction of Australian equivalents to IFRS $	Australian equivalents to IFRS at 30 June 2005 $
CURRENT ASSETS				
Cash and cash equivalents		301,454	-	301,454
Trade and other receivables		114,297	-	114,297
Available-for-sale financial assets	2(a)	91,474	86,740	178,214
Inventories	2(b)	108,576	(32,894)	75,682
Other current assets		26,496	-	26,496
TOTAL CURRENT ASSETS		642,297	53,846	696,143
NON-CURRENT ASSETS				
Receivables	2(c)	72,220	(17,000)	55,220
Property, plant and equipment	2(d)	5,762,755	(1,728,745)	4,034,010
TOTAL NON-CURRENT ASSETS		5,834,975	(1,745,745)	4,089,230
TOTAL ASSETS		6,477,272	(1,691,899)	4,785,373
CURRENT LIABILITIES				
Trade and other payables		459,237	-	459,237
Provisions		11,590	-	11,590
TOTAL CURRENT LIABILITIES		470,827	-	470,827
NON-CURRENT LIABILITIES				
Provisions	2(g)	-	77,984	77,984
TOTAL NON-CURRENT LIABILITIES		-	77,984	77,984
TOTAL LIABILITIES		470,827	77,984	548,811
NET ASSETS		6,006,445	(1,769,883)	4,236,562
EQUITY				
Contributed equity	2(h)	45,318,074	103,000	45,421,074
Reserves	2(e)	-	(1,797,046)	(1,797,046)
Accumulated losses	2(f)	(39,311,629)	(75,837)	(39,387,466)
TOTAL EQUITY		6,006,445	(1,769,883)	4,236,562

“Property, plant and equipment” includes deferred exploration, evaluation and development costs in the production phase

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Reconciliation of Loss for the half year to 31 December 2004

	Notes	Previous AGAAP $	Effect of transition to Australian equivalents to IFRS $	Australian equivalents to IFRS $
Revenue from continuing operations	2(i)	696,772	(260,490)	436,282
Other income	2(i)	-	120,338	120,338
Cost of sales	2(f)	(375,602)	22,175	(353,427)
Administrative expenses		(124,204)	-	(124,204)
Directors' emoluments		(106,550)	-	(106,550)
Employee benefits expense		(78,974)	-	(78,974)
Consulting fees		(43,200)	-	(43,200)
Legal fees		(67,059)	-	(67,059)
Other expenses from ordinary activities	2(f),(i)	(162,551)	136,932	(25,619)
Other gains/(losses)	2(f)	(30,787)	30,063	(724)
Exploration expenditure written off		(20,691)	-	(20,691)
Loss before income tax		(312,846)	49,018	(263,828)
Income tax expense		-	-	-
Loss attributable to members of the parent entity		(312,846)	49,018	(263,828)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Reconciliation of Loss for the full year to 30 June 2005

	Notes	Previous AGAAP $	Effect of transition to Australian equivalents to IFRS $	Australian equivalents to IFRS $
Revenue from continuing operations	2(i)	1,368,976	(415,813)	953,163
Other income	2(i)	-	168,752	168,752
Cost of sales	2(f)	(818,763)	42,425	(776,338)
Administrative expenses		(342,388)	-	(342,388)
Directors' emoluments		(216,134)	-	(216,134)
Employee benefits expense		(157,860)	-	(157,860)
Consulting fees		(189,734)	-	(189,734)
Legal fees		(193,473)	-	(193,473)
Other expenses from ordinary activities	2(f),(i)	(279,624)	120,622	(159,002)
Other gains/(losses)	2(f)	(37,418)	21,788	(15,630)
Exploration expenditure written off		(78,681)	-	(78,681)
Loss before income tax		(945,099)	(62,226)	(1,007,325)
Income tax expense		-	-	-
Loss attributable to members of the parent entity		(945,099)	(62,226)	(1,007,325)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Notes to the reconciliations of equity and profit and loss at 1 July 2004, 31 December 2004 and 30 June 2005.

		30 June 2005	31 Dec 2004	1 July 2004
		$	$	$
(a)	*Available-for-sale financial assets* Under AASB 139 the consolidated entity has categorised certain financial instruments as available-for-sale financial assets fair valued through equity.	86,740	212,225	-
(b)	*Inventories* Under AASB 121, 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.	(32,894)	(34,279)	(25,150)
(c)	*Receivables* Under AASB 2 "Share-based payments", the consolidated entity's Employee Share Plan are deemed to be equity settled, share based remuneration and treated as an in-substance grant of options.	(17,000)	-	-
(d)	*Property, plant and equipment* Under AASB 121, 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.	(1,780,198)	(1,938,232)	(1,214,325)
	In accordance with AASB 137, restoration and other clean up obligations are to be recognised when the liability arises; under AGAAP such provisions could be accrued over the life of the asset.	51,453	51,895	52,337

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Notes to the reconciliations of equity and profit and loss at 1 July 2004, 31 December 2004 and 30 June 2005.

		30 June 2005	31 Dec 2004	1 July 2004
		$	$	$
(e)	*Reserves*			
	Under AASB 121, 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.	(1,890,975)	(2,030,788)	(1,245,072)
	Under AASB 139 the consolidated entity has categorised certain financial instruments as available-for-sale financial assets fair valued through equity.	86,740	212,225	-
	Under AASB 2 "Share-based payments", the consolidated entity's Employee Share Plan are deemed to be equity settled, share based remuneration and treated as an in-substance grant of options.	7,189	-	-
(f)	*Accumulated losses*			
	Under AASB 2 "Share-based payments", the consolidated entity's Employee Share Plan are deemed to be equity settled, share based remuneration and treated as an in-substance grant of options.	(7,189)	-	-
	Under AASB 121, 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.	77,883	58,277	5,597
	In accordance with AASB 137, restoration and other clean up obligations are to be recognised when the liability arises; under AGAAP such provisions could be accrued over the life of the asset.	(26,531)	(22,870)	(19,208)
	Under AASB 2 "Share-based payments", the consolidated entity is required to reflect the cost of equity settled share based transactions with employees that are subject to an approval process at a fair value at the time that approval was obtained.	(120,000)	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Notes to the reconciliations of equity and profit and loss at 1 July 2004, 31 December 2004 and 30 June 2005.

		30 June 2005	31 Dec 2004	1 July 2004
		$	$	$
(g)	*Provisions*			
	In accordance with AASB 137, restoration and other clean up obligations are to be recognised when the liability arises; under AGAAP such provisions could be accrued over the life of the asset.	77,984	74,765	71,545
(h)	*Equity*			
	Under AASB 2 “Share-based payments”, the consolidated entity is required to reflect the cost of equity settled share based transactions with employees that are subject to an approval process at a fair value at the time that approval was obtained.	120,000	-	-
	Under AASB 2 “Share-based payments”, the consolidated entity’s Employee Share Plan are deemed to be equity settled, share based remuneration and treated as an in-substance grant of options.	(17,000)	-	-
(i)	Under the former AGAAP the proceeds from the sale of non-current assets were included in other revenue and the net gain on disposal was treated as profit. Under AIFRS, the net gain on disposal is included in other income.			
	Revenue	(415,813)	(260,490)	-
	Other income	168,752	120,338	-
	Other expenses from ordinary activities	247,061	140,152	-

The adoption of AIFRS has not resulted in any material adjustments to the preparation of the cash flow statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

	Notes	31 Dec 2005 $	31 Dec 2004 $
3. (LOSS) FROM CONTINUING OPERATIONS			
Loss for the half-year before income tax includes the following gains and expenses that are unusual because of their nature, size or incidence:			
(a) Gains			
Profit on the de-recognition of available-for-sale financial assets		9,931	120,338
(b) Expenses			
Exploration and evaluation expenditure written off		(107,242)	(20,691)
Share based payments		(108,437)	-

Share based payment expense is subject to shareholder approval, which is to be sought at a general meeting of the Company to be held on 3 April 2006.

4. SEGMENT INFORMATION

During the half-year the consolidated entity operated predominantly in three geographical segments for primary reporting, being Australia, Thailand and Papua New Guinea.

The geographical segments operate predominately in one business segment, oil and gas exploration, evaluation, development, and production.

Primary reporting format – geographical segments

	Australia		Thailand		Papua New Guinea		Consolidated	
	2005 $	2004 $	2005 $	2004 $	2005 $	2004 $	2005 $	2004 $
Revenue								
Total segment revenue	12,572	6,727	648,195	429,555	-	-	660,767	436,282
Results from continuing operations								
Segment result	(565,028)	(336,736)	231,099	72,908	-	-	(333,929)	(263,828)

5. CONTINGENT ASSETS AND LIABILITIES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

6. EVENTS OCCURING AFTER THE BALANCE SHEET DATE

On 15 February 2006 the Company announced that it intended to place 88,900,000 shares, in two tranches, at 4.5 cents per share, to raise approximately $4 million.

The first tranche, comprising 47,500,000 shares, was completed on 20 February 2006. The second tranche of 41,400,000 shares is subject to shareholder approval, which is to be sought at a general meeting of the Company to be held on 3 April 2006.

7. EQUITY SECURITIES ISSUED

	Half-year		Half-year	
	2005 Shares	**2004 Shares**	**2005 $**	**2004 $**
Issues of ordinary shares during the half-year				
Placement, net of transaction costs	39,833,333	-	699,112	-
Issue of shares as consideration for services rendered	5,500,000	-	100,000	-
	45,333,333	-	799,112	-

8. DISCONTINUED OPERATION

On 28 October 2005 the Company announced that it had accepted a $500,000 unconditional offer from New Guinea Energy Limited ("NGE") to acquire the Company's interest in Petroleum Retention Licences 4 and 5 in Papua New Guinea. The Company is currently in negotiations with its other joint ventures partners who have exercised their pre-emptive rights in respect of the sale.

The consolidated entity's financial performance and cash flow information for these licences is as follows:

	Half-year	
	2005 $	**2004 $**
Revenue	-	-
Expenses	-	(10,227)
(Loss) before income tax	-	(10,227)
Income tax	-	-
(Loss) after income tax from discontinued operation	-	(10,227)
Gain on the sale of the licences before income tax	500,000	-
Income tax provided	-	-
Gain on the sale of the licences after income tax	500,000	-
Profit / (loss) from discontinued operation	500,000	(10,227)
Net cash flows (used) in investing activities	-	(10,227)
Net (decrease) in cash from the discontinued operation	-	(10,227)

The carrying amount of the net assets sold at 31 December 2004, 30 June 2005, and 28 October 2005 was nil.

DIRECTORS' DECLARATION

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity as set out on pages 7 to 28:

(i) give a true and fair view of the financial position as at 31 December 2005 and the performance for the half-year ended on that date of the consolidated entity; and

(ii) comply with Accounting Standard AASB 134 "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.

PJ Leonhardt
Director

Perth
16 March 2006

Grant Thornton Western Australian Partnership
ABN 21 965 022 882
Chartered Accountants, Business Advisers and Consultants

INDEPENDENT REVIEW REPORT
TO THE MEMBERS OF CARNARVON PETROLEUM LIMITED

Scope

The half-year financial report and directors' responsibility

The half-year financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, notes to the financial statements and the directors' declaration for the consolidated entity, for the half-year ended 31 December 2005. The consolidated entity comprises both Carnarvon Petroleum Limited (the company) and the entities it controlled during that half-year.

The directors of the company are responsible for the preparation and true and fair presentation of the half-year financial report 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 half-year financial report.

Review approach

We conducted an independent review of the half-year financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the half-year financial report is not presented fairly in accordance with Accounting Standard AASB 134: Interim Financial Reporting and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the consolidated entity's financial position and performance as represented by the results of its operations and its cash flows, and in order for the company to lodge the half-year financial report with the Australian Securities & Investments Commission/Australian Stock Exchange Limited.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. 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 provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

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Grant Thornton

INDEPENDENT REVIEW REPORT
TO THE MEMBERS OF CARNARVON PETROLEUM LIMITED (cont)

Independence

In conducting our review, we followed the applicable independence requirements of Australian professional and ethical pronouncements and the Corporations Act 2001.

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration has not changed as at the date of providing our review opinion.

Statement

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

(a) the Corporations Act 2001, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and

   (ii) complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

GRANT THORNTON WESTERN AUSTRALIAN PARTNERSHIP

GREG LEGUIER
Partner

Dated 16 March 2006