

**CARNARVON PETROLEUM LIMITED
ABN 60 002 688 851
AND CONTROLLED ENTITIES**

**INTERIM FINANCIAL REPORT
31 DECEMBER 2007**

CORPORATE DIRECTORY

Directors

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

Company Secretary

RA Anderson

Auditors

WHK Horwath Perth Audit Partnership

Bankers

Australia and New Zealand Banking Group Limited

Registered Office

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Share Registry

Computershare Investor Services Pty Limited
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Stock Exchange Listing

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

ASX Code: CVN - Ordinary shares

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DIRECTORS' REPORT

The directors present their report together with the consolidated financial report for the half-year ended 31 December 2007, and the independent review report thereon.

Directors

The directors of the Company in office at any time during or since the end of the half-year are as follows. Directors were in office for this entire period unless otherwise stated.

Peter Leonhardt
Edward (Ted) Jacobson
Neil Fearis
Kenneth Judge

Review of operations

The consolidated entity's share of revenue from oil sales for the half-year ended 31 December 2007 was \$14,929,215 (2006: \$536,962), a significant increase from the previous corresponding period.

Phetchuban Basin Joint Venture oil sales during the half-year increased to 466,266 bbls (2006: 22,267bbls), due to new production coming on stream towards the end of the half-year. The average sale price achieved increased to US\$70 per bbl from US\$46 per bbl in the previous corresponding period as a result of an increase in world crude oil prices.

The consolidated entity's net profit after tax from continuing operations for the half-year ended 31 December 2007 was \$5,126,289 (2006: loss of \$862,199). The profit reflects both the increase in oil revenues and a substantial reduction in operating costs per barrel as a significant portion of Thailand operating costs are fixed.

Due to the growth in production mainly occurring late in the period the operating results were not fully reflected in cash flows. November and December sales proceeds were not received until 2008 and were included in trade and other receivables, which increased from \$1,684,019 to \$11,147,176 during the period. In addition, cash outlays included \$8,574,868 on exploration, evaluation and development expenditure. Accordingly there was a reduction in cash and cash equivalents of \$4,349,061 during the period.

Subsequent events

No matter or circumstance has arisen since 31 December 2007 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

- (i) the consolidated entity's operations, or
- (ii) the results of those operations, or
- (iii) the consolidated entity's state of affairs

Auditors' Independence Declaration

The lead auditors' Independence Declaration, as required under section 307C of the Corporations Act 2001, is set out on page 5 and forms part of the directors' report for the half-year ended 31 December 2007.

Signed in accordance with a resolution of the directors.



PJ Leonhardt
Director

Perth
14 March 2008

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 and its Controlled Entities (the consolidated entity) for the half year ended 31 December 2007, 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.

WHK HORWATH PERTH AUDIT PARTNERSHIP



SEAN MCGURK
Principal

Perth, WA
Dated this 14th day of March 2008

CARNARVON PETROLEUM LIMITED
31 DECEMBER 2007 INTERIM FINANCIAL REPORT

CONSOLIDATED INCOME STATEMENT
For the half-year ended 31 December 2007

	31 December 2007	31 December 2006
	\$	\$
Revenue from continuing operations	14,929,215	536,962
Other income	189,529	88,616
Cost of sales	(4,080,730)	(1,005,427)
Administrative expenses	(594,517)	(327,771)
Employee benefits expense	(236,119)	(24,034)
Unrealised foreign exchange gain	674,020	53,845
Other expenses	(50,052)	(44,616)
Exploration and new venture expenditure written off	(766,849)	(130,492)
Finance costs	(6,462)	(9,282)
	<hr/>	<hr/>
Profit / (loss) before income tax	10,058,035	(862,199)
Income tax expense	(4,931,746)	-
	<hr/>	<hr/>
Profit / (loss) attributable to members of the parent entity	5,126,289	(862,199)
	<hr/>	<hr/>
Basic and diluted earnings / (loss) per share from continuing operations (cents per share)	0.8	(0.2)

The consolidated income statement should be read in conjunction with the notes to the consolidated interim financial report as set out on pages 10 to 11.

CARNARVON PETROLEUM LIMITED
31 DECEMBER 2007 INTERIM FINANCIAL REPORT

CONSOLIDATED BALANCE SHEET
As at 31 December 2007

	31 December 2007	30 June 2007
	\$	\$
Current assets		
Cash and cash equivalents	4,349,061	8,927,018
Trade and other receivables	11,147,176	1,684,019
Inventories	1,529,137	1,110,661
Other assets	364,976	639,298
Total current assets	<u>17,390,350</u>	<u>12,360,996</u>
Non-current assets		
Property, plant and equipment	<u>18,284,990</u>	<u>12,233,722</u>
Total non-current assets	<u>18,284,990</u>	<u>12,233,722</u>
Total assets	<u>35,675,340</u>	<u>24,594,718</u>
Current liabilities		
Trade and other payables	4,074,546	3,027,539
Provisions	4,931,746	-
Employee benefits	5,425	4,280
Total current liabilities	<u>9,011,717</u>	<u>3,031,819</u>
Non-current liabilities		
Provisions	<u>121,356</u>	<u>105,440</u>
Total non-current liabilities	<u>121,356</u>	<u>105,440</u>
Total liabilities	<u>9,133,073</u>	<u>3,137,259</u>
Net assets	<u>26,542,267</u>	<u>21,457,459</u>
Equity		
Issued capital	65,838,450	65,040,943
Reserves	(2,734,646)	(1,895,658)
Accumulated losses	(36,561,537)	(41,687,826)
Total equity	<u>26,542,267</u>	<u>21,457,459</u>

The consolidated balance sheet should be read in conjunction with the notes to the consolidated interim financial report as set out on pages 10 to 11.

CARNARVON PETROLEUM LIMITED
31 DECEMBER 2007 INTERIM FINANCIAL REPORT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the half-year ended 31 December 2007

	Issued capital \$	Accumulated Losses \$	Translation reserve \$	Share based payments reserve \$	Total \$
Balance at 1 July 2006	50,219,815	(40,145,616)	(1,646,020)	278,111	8,706,290
Shares issued, net of transaction costs	3,295,194	-	-	-	3,295,194
Exchange differences on translation of foreign operations	-	-	(773,632)	-	(773,632)
Share based payments	7,189	-	-	9,811	17,000
(Loss) attributable to members of parent entity	-	(862,199)	-	-	(862,199)
Balance at 31 December 2006	53,522,198	(41,007,815)	(2,419,652)	287,922	10,382,653
Balance at 1 July 2007	65,040,943	(41,687,826)	(3,382,586)	1,486,928	21,457,459
Shares issued on exercise of options, net of transaction costs	496,326	-	-	-	496,326
Exchange differences on translation of foreign operations	-	-	(537,807)	-	(537,807)
Share based payments	301,181	-	-	(301,181)	-
Profit attributable to members of parent entity	-	5,126,289	-	-	5,126,289
Balance at 31 December 2007	65,838,450	(36,561,537)	(3,920,393)	1,185,747	26,542,267

The consolidated statement of changes in equity should be read in conjunction with the notes to the consolidated interim financial report as set out on pages 10 to 11.

CARNARVON PETROLEUM LIMITED
31 DECEMBER 2007 INTERIM FINANCIAL REPORT

CONSOLIDATED STATEMENT OF CASH FLOWS
For the half-year ended 31 December 2007

	31 December 2007	31 December 2006
	\$	\$
Cash flows from operating activities		
Receipts from customers	5,615,989	519,662
Payments to suppliers and employees	(2,158,834)	(1,371,499)
Interest received	171,999	78,437
Interest paid	(32)	(733)
Net cash flows provided by / (used in) operating activities	<u>3,629,122</u>	<u>(774,133)</u>
Cash flows from investing activities		
Exploration, evaluation and development expenditure	(8,574,868)	(2,351,806)
Acquisition of property, plant and equipment	(53,049)	(367,522)
Proceeds from repayment of Employee Share Plan loans	-	60,000
Net cash flows (used in) investing activities	<u>(8,627,917)</u>	<u>(2,659,328)</u>
Cash flows from financing activities		
Proceeds from issue of share capital	500,000	3,500,000
Payment of share issue costs	(3,674)	(204,806)
Net cash flows from financing activities	<u>496,326</u>	<u>3,295,194</u>
Net (decrease) in cash and cash equivalents	(4,502,469)	(138,267)
Cash and cash equivalents at beginning of the half-year	8,927,018	1,897,846
Effects of exchange rate fluctuations on cash and cash equivalents	(75,488)	(25,153)
Cash and cash equivalents at end of the half-year	<u>4,349,061</u>	<u>1,734,426</u>

The consolidated statement of cash flows should be read in conjunction with the notes to the consolidated interim financial report as set out on pages 10 to 11.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting entity

Carnarvon Petroleum Limited ("Carnarvon") is a company domiciled in Australia.

The consolidated interim financial report of the Company as at and for the six months ending 31 December 2007 comprises the Company and its subsidiaries (together referred to as the "consolidated entity") and the consolidated entity's interests in jointly controlled entities and operations.

2. Statement of compliance

The consolidated interim financial report is a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standard AASB 134: "*Interim Financial Reporting*", Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with AASB 134 ensures compliance with IAS 34 in its entirety.

The consolidated interim financial report does not include all of the information required 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 annual financial report. It is recommended that this financial report be read in conjunction with the annual financial report as at and for the year ended 30 June 2007 and any public announcements made by Carnarvon Petroleum Limited.

3. Significant accounting policies

The accounting policies applied by the consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 30 June 2007.

4. 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.

5. Property plant and equipment

Capital commitments

As at 31 December 2007 the consolidated entity had entered into capital commitments for \$382,543 (31 December 2006: \$175,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Segment information

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

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

Primary reporting format – geographical segments

	Australia		Thailand		Consolidated	
	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$
Segment revenue	138,237	86,299	14,980,507	539,279	15,118,744	625,578
Segment result, continuing operations	(1,507,939)	(443,914)	6,634,228	(418,285)	5,126,289	(862,199)

7. Related parties

Arrangements with related parties continue to be in place. For details of these arrangements, refer to the 30 June 2007 annual financial report.

8. Subsequent events

No matter or circumstance has arisen since 31 December 2007 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

- (i) the consolidated entity's operations, or
- (ii) the results of those operations, or
- (iii) the consolidated entity's state of affairs

9. Equity securities issued

	31 Dec 2007		31 Dec 2006	
	Shares	\$	Shares	\$
<i>Issues of ordinary shares during the half-year</i>				
Placement, net of transaction costs	-	-	50,000,000	2,323,359
Shares issued on exercise of options, net of transaction costs	5,000,000	496,326	20,000,000	971,835
	<u>5,000,000</u>	<u>496,326</u>	<u>70,000,000</u>	<u>3,295,194</u>

DIRECTORS' DECLARATION

In the opinion of the directors of Carnarvon Petroleum Limited (the "Company"):

- (a) the financial statements and notes as set out on pages 6 to 11 are in accordance with the Corporations Act 2001 including:
 - (i) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2007 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) 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
14 March 2008

**INDEPENDENT REVIEW REPORT
TO THE MEMBERS OF CARNARVON PETROLEUM LIMITED AND ITS CONTROLLED ENTITIES**

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Carnarvon Petroleum Limited and its Controlled Entities (the consolidated entity), which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the consolidated entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410: *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with the Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Carnarvon Petroleum Ltd and its Controlled Entities, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

Conclusion

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 and its Controlled Entities is not in accordance with the Corporations Act 2001, including:

- a) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

WHK HORWATH PERTH AUDIT PARTNERSHIP



SEAN MCGURK
Principal

Perth, WA
Dated this 14th day of March 2008

Total Financial Solutions

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