

CARNARVON PETROLEUM LTD

ABN 60 002 688 851

ANNUAL REPORT

30 JUNE 2003

CORPORATE DIRECTORY

Directors

AG Shelton (Non-Executive Chairman)
KC Tregonning (Managing Director & Chief Executive Officer)
DJ Orth (Executive Director and Chief Operating Officer)

NC Fearis (Non-Executive Director)

Company Secretary

T Irwin

Auditors

Ernst & Young

Solicitors

Freehills

Legal Counsel

Agricola, Wunderlich & Associates

Bankers

Australia and New Zealand Banking Group Limited

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Stock Exchange Listing

Carnarvon Petroleum LTD is listed on both the
Australian and New Zealand Stock Exchanges.
ASX Code: CVN
NZSE Code: CVN

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CHAIRMAN'S REPORT

This last year has been another challenging one. During the year the Company has solidified its presence in Thailand and refocused its energies towards achieving satisfactory returns to shareholders.

The Phase II development of the Wichian Buri Oil Field was completed in January 2003 further proving up an extensive oil accumulation that confirmed an increase in P50 estimates of recoverable oil from 11 MMBO to 23 MMBO.

Completion of the Phase II wells took longer than expected resulting in delayed production, higher than expected costs, and delayed cash flows. The upside from these difficulties is that we now have a greater understanding of the reservoir characteristics from testing and seismic surveys undertaken, and consequently a firmer view as to the field's potential and how best to extract maximum value.

In June 2003, the Joint Venture Partners were formally awarded Exploration Block L44/43 surrounding the existing production licenses. This area covers nearly 4,000 square kilometers containing numerous leads and prospects.

Carnarvon Petroleum Limited and its controlled entities recorded a loss for the year ended 30th June 2003 of \$1,508,169 and a net cash decrease of \$109,481. Net proceeds from the issue of shares during the year was \$1,830,501. The Company invested \$1,920,397 in Exploration and Development activities, predominantly in the SW1A Concession in Thailand in which the Company has a 40% interest. The amount of \$1,473,704 was raised through an innovative royalty arrangement to fund Phase II development. The company's profit from investments including the SW1A Joint Venture was \$286,351.

Corporate overhead incurred in 2003 is considered to be unsustainable while the company continues to rely heavily on the SW1A Joint Venture for cash flow to fund its corporate operations. As previously announced, The Board has acted to reduce corporate overhead on an ongoing basis. An intensive review of our cost base has led to all non-core expenditure being cut, leading to a 50 per cent reduction of corporate overhead costs going forward into the 2004 fiscal year. As a result of this review, the Company's Perth Office has now closed with administrative functions located to one site in Melbourne and a further reduction in overhead will be achieved with the retirement of the Managing Director, Dr Ken Tregonning. The Company continues to have access to a wide range of expertise as required through its network of consultants.

Reducing the Company's corporate overhead by 50 per cent will bring the Company to a position of being cash flow positive and profitable with only a nominal increase in SW1A Joint Venture production. Further drilling in Thailand is part of a long term plan in which Carnarvon intends to establish itself as a player in Asia through building a balanced portfolio of high quality production and exploration assets. The Board is of the view, as is the oil and gas industry, that the Company's asset in Thailand has significant growth potential and that the company's share of the Wichian Buri oil field continues to be a valuable asset. Further investment in the Wichian Buri Oil Field promises positive cash flow to be reinvested for further growth. As joint venture costs are largely fixed, any increase in production will flow through to the bottom line. The Company looks forward to continuing good relations and alignment of interests with its SW1A joint venture partner Pacific Tiger Energy Inc. as it exploits the full potential of this region.

To optimally evaluate and exploit the reserves identified during completion of Phase II development, the SW1A Joint Venture has agreed in principle to the Phase III Field Development Program. Phase III involves an aggressive field development campaign over the course of this financial year to actively bring on stream a number of wells in an effort to bolster oil production and the resultant cash flow. There are a number of low risk prospects adjacent to the existing producing fields that are included in the expanded production license that will be investigated. The first of these to be drilled will be Huai Phai, as announced on September 25th 2003.

The Company obtained funding for Phase II development of the SW1A joint venture by entering an agreement with Gemini Oil & Gas Limited for US\$2 million to the joint venture in exchange for future payments from oil sales proceeds from the F Sandstone in Production Licenses 1 & 2. The Company will continue to seek innovative funding solutions, together with its Joint Venture partner, and separately, on the most attractive terms for shareholders. The Company is currently reviewing funding alternatives for Phase III development and will keep shareholders informed of developments as they occur. The Company can fund each Phase separately. This allows the Company to identify the best option at the lowest cost to shareholders.

In recognition of the "Principles of Good Corporate Governance and Best Practice Recommendations" released by the Corporate Governance Council in March and reflecting the Board's desire to improve its risk minimization measures and overall effectiveness, the Company has reviewed its governance practices and has expanded its Remunerations Committee to also include 'Nominations', and has also established a Governance Committee, as noted on pages 43 and 46 of this annual report.

I'd like to take this opportunity to thank employees for their support and dedication. In particular, I would like to take this opportunity to thank Dr Tregonning on behalf of the Board and shareholders for his contribution in bringing the Company to its current level of promise.

Following the transfer of Head Office activities to Melbourne, Mr Len Troncone, Chief Financial Officer and Company Secretary, left the Company. I would also like to take this opportunity to thank Mr Troncone on behalf of the Board and shareholders for his contribution over the last three years. I would like to welcome Mr Trevor Irwin who replaced Mr Troncone as Carnarvon's Chief Financial Officer and Company Secretary beginning with the Company on the 1st July 2003. He brings a wealth of experience gained in the Oil and Gas, IT and diversified Engineering industries.

I believe the Company is positioned to take the next step towards achieving a level of return expected by its shareholders and moves into the new year with a sense of purpose and positive expectations.

Your Board thanks you for your continued support.



Andrew Shelton
Chairman

MILESTONES ACHIEVED IN 2003

Major milestones for the year ending 30th June 2003

Operational

- The SW1A Joint Venture drilled three wells all of which encountered hydrocarbons
- The SW1A Joint Venture completed the Wichian Buri Oil Field Phase II development in Thailand in January.
- Phase II development confirmed an increase in P50 estimates of recoverable oil from 11 MMBO to 23 MMBO.
- In June 2003, the Joint Venture Partners were formally awarded Exploration Block L44/43 surrounding the existing production licenses
- The SW1A Joint Venture agrees in principle to Phase III Field Development Program of the Wichian Buri Oil Field.

Corporate

- Corporate overhead cost base going forward have been reduced which is expected to lead to a 50 per cent reduction in overheads for fiscal year 2004
- Shareholders approved certain capital raising initiatives at an extraordinary general meeting in September 2002, namely:
 - a) The issue to existing shareholders of up to 18,750,000 ordinary shares at 4.2 cents per share pursuant to a share purchase plan
 - b) The issue of up to 30,000,000 ordinary shares at 4.2 cents per share to professional investors pursuant to a placementOverall, the Company raised a net \$1,830,501 after allowing for costs associated with the capital raising.
- In September 2002 the SW1A Joint Venture partners drew-down US\$2 million in funding provided by Gemini Oil & Gas Limited. The funding is a royalty arrangement whereby Gemini funded the majority of the costs for the Phase II Development program for the Wichian Buri Oil Field in exchange for future royalty payments.

- At the Company’s Annual General Meeting in November 2002, shareholders approved the conversion of the Company to a company limited by shares, approved the change in the name of the Company to ‘Carnarvon Petroleum Limited’, and approved the adoption of a modernised constitution.

Review of Operations

Completion by the SW1A Joint Venture of Phase II Development of the Wichian Buri Oil Field
(Pacific Tiger 60%/Carnarvon Petroleum Limited 40%)

The SW1A Joint Venture in total produced 86,324 barrels of oil during the year. The average price achieved per barrel sold was US\$24.32. Carnarvon’s 40% share of Joint Venture revenue was \$1,366,253.

Completion of the Phase II development of the Wichian Buri Oil Field occurred in January. The drilling of WB-N4, N5, and N6, which successfully completed the Phase II development, proved up the existence of an extensive accumulation that allowed Carnarvon to confirm an estimate of increase in P50 recoverable oil from 11 MMBO to 23 MMBO. These latest resource estimates, which have been independently verified by Helix RDS covering the Concession area, are as follows:

PL1 & PL2	P90 (Proven)	P50 (Proven plus Probable)	P10 (Possible)
Approx 8 km2	11 MMBO	23 MMBO	45 MMBO

Phase II confirmed the northern extension of the field but also highlighted the variable nature of the reservoir.

WB-N4 and N6 both had significant initial flow rates but have experienced decline since coming on stream, a steeper decline than had been anticipated. Unfortunately WB-N5 has not produced at the expected rate despite confirming the presence of oil in an expanded area, the Wichian Buri 3 fault block immediately adjacent to the main Wichian Buri structure.

The operational problems encountered in the field have been addressed by the Operator. The Wichian Buri Field continues to produce approximately 250 BOPD from seven wells. The wells WB-N4 and N6 are producing at a combined rate of 90 to 100 BOPD. WB-N5 is not producing. WB-N2 is currently producing at about 30 BOPD after being stimulated via hydraulic fracturing. The currently producing wells will continue to experience normal decline in production however this decline will be more than offset by production from additional wells to be drilled in the planned Phase III Development (noted below).

Well Name	Permit	Basin	Interest	Meters	Comment
WB-N4	SW1A	Thailand	40%	1131 tvd	Discovery
WB-N5	SW1A	Thailand	40%	1090 tvd	Discovery
WB-N6	SW1A	Thailand	40%	1091 tvd	Discovery

Review of Greater Wichian Buri Oilfield

Following completion of Phase II development of the Wichian Buri oilfield, a detailed study of the geology and engineering of the Field and the surrounding exploration area, Block L44/43 was undertaken. The study incorporated results from the recent Phase I and Phase II development programs for the Oil Field. The review supported announcements by the Company which indicated significant volumes of producible oil remain at Wichian Buri and that the resource is presently under-developed. Key results of the review are:

Oil is ubiquitous – Oil has been found in all ‘valid’ wells drilled in the area and is extensive throughout Greater Wichian Buri. To this point in time 19 wells have been drilled in the Wichian Buri sub-basin of which all 15 drilled on valid structures have found oil or gas.

A large resource – The most likely size of the resource is estimated to be in the order of 200 million barrels of oil in place. 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). The EUR ranges from a Proved volume of 11 MMBO (P90) to a Possible 45 MMBO (P10). To date approximately 0.6 MMBO has been produced from the Field so that the most likely remaining volume of oil that can be recovered from the Field is 22 MMBO. Oil production will increase with further drilling.

Development Potential - The engineering studies indicate that the key to successful development of Wichian Buri is to drill wells quickly and inexpensively, on a continuous basis, to reduce unit cost and offset normal production decline with the addition of new wells. 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.

Award of Exploration Block L44/43

During the course of the year Production License 2 was awarded and the long awaited award of Exploration License L44/43 was granted by the Thailand government to the Joint Venture partners in June 2003. The Block covers 3935 sq km and encompasses all of the southern part of the Wichian Buri sub-basin portion of the Phetchabun Basin.

L44/43 surrounds the 8 sq km of the existing producing areas of the Wichian Buri Oil Field in Production Licenses PL 1 and PL 2. To date 580,000 barrels of oil has been produced from PL 1 and PL 2. Oil appears ubiquitous in the Wichian Buri sub-basin and, by extension, is expected throughout L44/43. The area is however under-explored and to this point in time only 19 wells have been drilled in the Wichian Buri sub-basin. Nonetheless all 15 wells drilled on valid structures have found oil or gas. Block L44/43 has both existing oil and gas discoveries with current production as well as exploration potential. The Block has demonstrated all the elements needed for oil discoveries including source, reservoir, seal and structure.

In addition to the Wichian Buri Oil Field, L44/43 encompasses the existing oil discoveries at the producing Si Thep Oil Field and the Na Sanun Oil Field as well as the gas discovery at Bo Rang. Consideration is currently being given to develop the Bo Rang Gas Field for the local energy market and both Si Thep and Na Sanun have adjoining structures with potential for further discoveries. There are also eight identified leads and prospects in the relatively small area of approximately 100 sq km within the Block that has been reviewed to date. Substantial additional exploration potential exists in the Block as has been demonstrated by the oil discoveries.

Exploration will commence in this Block during the latter part of this year and will continue into next year with the acquisition of a 3D seismic survey and the drilling of at least one well. Drilling this exploration well will entitle the Joint Venture to formally apply for Production License 3, which will enable the Joint Venture to further expand its production base. Several additional prospects within L44/43 were delineated this year by 2D seismic acquisition. The award of L44/43 has significantly expanded the company's area and exploration potential.

The SW1A Joint Venture agrees in principle to a Phase III Field Development Program of the Wichian Buri Oil Field.

To optimally evaluate and exploit the reserves identified during completion of Phase II development, the SW1A Joint Venture has agreed in principle to the Phase III Field Development Program. Phase III involves an aggressive field development campaign over the course of the next financial year to actively bring on stream a number of wells in an effort to bolster oil production and the resultant cash flow. There are a number of low risk prospects adjacent to the existing production fields that have been included in the expanded production license that will be investigated. The first of these to be drilled will be Huai Phai, as announced September 25th 2003.

Well Name	Permit	Basin	Interest	Est. Spud Date	Depth in Meters	Comment
WB-N7	L44/43	Thailand	40%	Q1 04	1,000	Extension
WB-N8	PL2	Thailand	40%	Q1 04	1,000	Development
WB-N9	PL2	Thailand	40%	Q1 04	1,000	Development
Huai Phai	PL2	Thailand	40%	OCT 03	1,000	Exploration

HP-2	PL2	Thailand	40%	Q4 03	1,000	Development
HP-3	PL2	Thailand	40%	Q4 03	1,000	Development
HP-4	PL2	Thailand	40%	Q4 03	1,000	Development

Huai Phai is a four way dip closed anticlinal structure delineated by a 2D and 3D seismic grid and lies two kilometers immediately to the west of the producing Wichian Buri oil field. The well will be drilled to approximately 1050 meters to test the regionally extensive F Sandstone as the primary target with the G Sandstone providing a secondary target. A mature hydrocarbon source is known to exist in the adjacent fault block and oils shows have been encountered up dip from Huai Phai suggesting that it is within the migration fairway. Huai Phai has an areal closure of 2.2 square kilometers (550 acres) and the Operator has indicated that Huai Phai could contain some 14 MMBO in place based on locally derived reservoir parameters with 2.5 MMBO recoverable, which if correct would increase the size of the overall resource and the inherent value of the company's investment in Thailand. The Huai Phai-1 site location is fully constructed and consumables have been purchased. Discussions are ongoing with drilling and service contractors but it is likely that the well will be spudded late October or early November 2003 and will take about 11 days to drill plus additional time to complete.

Other Exploration Interests

Over the past 18 months the Company has been pursuing its strategy of creating a balanced portfolio of production and exploration assets. This involves building a new portfolio of assets capable of being brought into production in the short term and with upside potential through the introduction of technological enhancements. 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 the magnitude of their upside potential both for the hydrocarbon potential and the access to additional projects.

Papua New Guinea

(Santos 35.35%/InterOil 20%/AWE 15%/Tras Orient 7.5%/Horizon 7.5%/Carnarvon Petroleum Limited 15%)

Petroleum Retention Licenses (PRLs) 4 & 5 have been retained by the Joint Venture partners in Papua New Guinea. These PRLs have been excised from the original PPL 157 area which was relinquished. These PRLs are located in the foreland of the Papuan Basin in Papua New Guinea near the port town of Kiunga on the Fly River. The Joint Venture partners have recently conducted an economic study on the feasibility of commercializing one or more of the three discoveries in the licenses. Reaching a definitive conclusion as to be most appropriate means of commercialising one or more these discoveries relies on additional seismic re-interpretation, which will be ongoing throughout the next twelve months.

Carnarvon Basin

EP 110

(Carnarvon 25.8585%/PanPacific 37.9%/PanContinental 10.4%)

This permit is located onshore/offshore near Onslow, Western Australia, and is adjacent to the Tubridgi Gas Field. Discussions are under way with the Joint Venture partners as to how best to progress the exploration of the block. The minimum work requirements of the permit renewal conditions require one well to be drilled in 2005.

Perth Basin

Carnarvon owns 8% of AusAm Resources Limited and retains a royalty of 2.5% by virtue of a sales agreement completed in 2000 over a number of Perth Basin blocks. Their interests are shown below:

EP 413	9.44%
EP 407	42.50%
EP 23	14.38%
EP 321	38.25%
EP 414	18.89%

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2003.

DIRECTORS

The names of the directors of the Company in office during the financial year and until the date of this report are:

Andrew Shelton	Appointed director and Chairman on 1 April 2002
Ken Tregonning	Appointed director 14 December 2000
Neil Fearis	Appointed director 30 November 1999
David Orth	Appointed director 14 December 2000

The details of the directors of the Company are:

AG Shelton

Non-Executive Chairman

Bachelor of Arts (Economics and Politics), Master of Arts (Cantab)

Age 56. Appointed Director and Chairman on 1st April 2002. Member of the Audit Committee, Remuneration and Nominations Committee and Governance Committee. 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 & Co Pty Limited, Non-Executive Director of Capricorn Development Fund Limited, Member of the Australian Institute of Company Directors, past President & CEO of JP Morgan Canada.

Dr KC Tregonning

Managing Director and Chief Executive Officer

Bachelor of Science (Hons), Ph.D.

Age 51. Appointed Managing Director 14 December 2000. He has 22 years' experience in the oil and gas industry in Europe, where he worked with Shell, as well as in Australasia, Asia and North America as a consultant. He is a member of the Australian Institute of Company Directors and the Society of Petroleum Engineers (SPE) and the South East Asian Petroleum Exploration Society (SEAPEX).

DJ Orth

Executive Director and Chief Operating Officer

Bachelor of Science, Diploma of GeoSci.

Age 54. Appointed Executive Director 14th 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 American Association of Petroleum Geologists (AAPG) and member of the Australian Institute of Company Directors.

NC Fearis

Non-Executive Director

Bachelor of Laws (Hons)

Age 52. Appointed a Director 30 November 1999. Member of the Audit Committee, Remuneration and Nominations Committee and Governance Committee. A commercial lawyer with 26 years' experience of legal practice in London, Sydney and Perth. Principal of the Western Australian-based law firm, Fearis Salter Power Shervington. Chairman of Kresta Holdings Ltd and a non-executive director of Capital Growth Corp Limited. Member of the Australian Institute of Company Directors and the Securities Institute of Australia

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	20 cents Options 31/12/2003
AG Shelton	4,567,421	-
KC Tregonning	6,388,067	5,000,000
DJ Orth	2,858,067	5,000,000
NC Fearis	1,771,400	-

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:

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

Principal activities

The principal activity during the year was exploration, development and production of oil and gas. There was no significant change in the nature of this activity during the year.

Employees

The consolidated entity employed 2 employees as at 30 June 2003 (2002: 2 employees).

EARNINGS PER SHARE

Cents

Basic earnings per share	(0.9)
Diluted earnings per share	(0.9)

DIVIDENDS

The directors have recommended that no dividend be paid in respect of the financial year ending 30 June 2003. No dividends were declared or paid during the financial year.

REVIEW OF OPERATIONS

A review of the operations during the financial year of the Carnarvon Petroleum Consolidated Entity is contained in pages 5 to 7 of this Annual Report and the directors adopt and endorse that review which is to be regarded as incorporated herein.

OPERATING RESULTS

The loss of the consolidated entity after providing for income tax was	\$(1,508,169)
This included exploration costs written off amounting to	\$ (62,526)
The loss of the parent entity after providing for income tax was	\$(2,364,956)
This included exploration costs written off amounting to	\$ (62,526)

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.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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 Department of Mineral Resources 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 2003.

SHARE OPTIONS

Unissued shares

As at the date of this report, there were 10,000,000 unissued ordinary shares under options as follows:

- 10,000,000 options to take up one ordinary share in Carnarvon Petroleum Ltd at an issue price of 20 cents. The options expire on 31 December 2003.

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

On 31 July 2002, 43,953,645 options exercisable at 20 cents each expired.

On 31 December 2002, 37,485,577 options exercisable at 20 cents each expired.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has arranged Directors and Officers insurance to cover losses or liabilities incurred by that 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. The amount of the premium however is included as part of directors' remuneration in note 20 to the financial statements.

DIRECTORS' BENEFITS

Disclosure of benefits provided to directors during the financial year is made in notes 20 and 23 to the financial statements. Directors are eligible to participate in the Company's Employee Share Plan, details of which are disclosed in note 17(a) to the financial statements.

DIRECTORS' AND OTHER OFFICERS' EMOLUMENTS

The Remuneration and Nominations Committee advises the Board on remuneration policies and practices, evaluates the performance of senior management against pre-agreed goals and makes recommendations to the Board on remuneration for senior managers. The Committee considers independent advice on policies and practices to attract, motivate, reward and retain strong performers. It is also this committee's role to consider the appropriate size and composition of the Board, criteria for Board membership, candidates for Board membership and the terms and conditions of appointment to and retirement from the Board.

The Composition of the Board is determined in accordance with the following principles and guidelines:

- the Board should comprise a majority of non-executive directors;
- the chairperson should be a non-executive director;
- the Board should comprise of directors with an appropriate range of qualifications and expertise; and
- the Board shall meet at least bi-monthly and follow meeting guidelines set down to ensure all directors are made aware of, and have available all necessary information, to participate in an informed discussion of all agenda items.

Member of the Remuneration and Nominations Committee are Mr. A Shelton (Chairman) and Mr. N Fearis. The Chief Financial Officer attends Committee meetings by invitation. The Committee was formed August 2003.

Details of the nature and amount of each element of the emolument of each director and each of the executive officers of the Company during the financial year are as follows:

Emoluments of directors of Carnarvon Petroleum Ltd

	Emoluments Paid	Long Term Emoluments	Total
	Base Fee	Superannuation	
	\$	\$	\$
<u>Non-Executive Directors</u>			
AG Shelton	34,002	3,498	37,500
NC Fearis	24,900	2,415	27,315
<u>Executive Directors</u>			
KC Tregonning	200,004	25,007	225,011
DJ Orth	117,096	24,997	142,093

There are no performance bonus plans offered to directors of the Company.

Emoluments of executive officers of Carnarvon Petroleum Ltd

	Emoluments Paid	Long Term Emoluments	Total
	Base Salary	Superannuation	
	\$	\$	\$
L Troncone	206,000	19,263	225,263

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

The elements of emoluments have 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

During the year 11 Board meetings were held with all Directors in attendance.

Director	Number of Board Meetings held while in Office	Number of Board Meetings Attended
AG Shelton	11	11
KC Tregonning	11	11
NC Fearis	11	11
DJ Orth	11	11

The Audit Committee was established in September 2002 and has met once with all members and invitees present to consider and approve the 2003 accounts.

The Remuneration Committee was established in December 2002 and was expanded in August 2003 to include Board nomination matters. The Remuneration and Nomination committee has met twice with all members and invitees present.

The Governance Committee was established in August 2003 and has met once with all members and invitees present.

CORPORATE GOVERNANCE

In recognizing the need for the highest standards of corporate governance and accountability, the Directors of Carnarvon Petroleum Limited support the Principles of Good Corporate Governance and Best Practice Recommendations of the ASX Corporate Governance Council. The Company's corporate governance statement is contained on pages 43 to 46 of this report.

Signed in accordance with a resolution of the directors.



AG Shelton
Director

Melbourne 23 September 2003

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2003

	Notes	Consolidated		Carnarvon Petroleum Ltd	
		2003 \$	2002 \$	2003 \$	2002 \$
REVENUES FROM ORDINARY ACTIVITIES	2(a)	1,366,253	986,763	-	-
Cost of sales	2(b)	(1,079,902)	(847,450)	-	-
Other revenues from ordinary activities	2(c)	37,937	233,231	37,937	233,231
Exploration expenses		(62,526)	(111,686)	(62,526)	(111,686)
Unrealised foreign exchange gain/(loss)	2(e)	(68,815)	(154,088)	(639,251)	(152,737)
Other expenses from ordinary activities	2(d)	(1,701,116)	(1,570,671)	(1,701,116)	(1,569,725)
LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		(1,508,169)	(1,463,901)	(2,364,956)	(1,600,917)
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES	3	-	-	-	-
LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE ATTRIBUTABLE TO MEMBERS OF CARNARVON PETROLEUM LTD		(1,508,169)	(1,463,901)	(2,364,956)	(1,600,917)
Share Issue Costs		(146,574)	-	(146,574)	-
TOTAL REVENUES, EXPENSES AND VALUATION ADJUSTMENTS ATTRIBUTABLE TO MEMBERS OF CARNARVON PETROLEUM LTD AND RECOGNISED DIRECTLY IN EQUITY		(146,574)	-	(146,574)	-
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS ATTRIBUTABLE TO MEMBERS OF CARNARVON PETROLEUM LTD		(1,654,743)	(1,463,901)	(2,511,530)	(1,600,917)
Basic earnings per share (cents per share)	26(a)	(0.9)	(1.4)		
Diluted earnings per share (cents per share)	26(b)	(0.9)	(1.4)		

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2003

	Notes	Consolidated		Carnarvon Petroleum Ltd	
		2003	2002	2003	2002
		\$	\$	\$	\$
CURRENT ASSETS					
Cash assets		357,112	466,928	321,383	498,593
Receivables	4	140,603	107,963	16,164	32,226
Inventories	5	73,359	65,558	-	-
Prepayments and other assets	6	68,806	55,495	7,000	14,931
TOTAL CURRENT ASSETS		639,880	695,944	344,547	545,750
NON-CURRENT ASSETS					
Receivables	4	158,160	222,565	2,029,285	2,232,725
Other financial assets	7	212,697	282,876	1,695,659	1,765,838
Plant and equipment	9	171,950	90,007	19,399	13,096
Deferred exploration evaluation and development costs	10	4,387,531	3,964,997	-	-
TOTAL NON-CURRENT ASSETS		4,930,338	4,560,445	3,744,343	4,011,659
TOTAL ASSETS		5,570,218	5,256,389	4,088,890	4,557,409
CURRENT LIABILITIES					
Payables	11	369,798	399,099	205,784	160,646
Provisions	12	25,812	5,014	25,812	5,014
TOTAL CURRENT LIABILITIES		395,610	404,113	231,596	165,660
TOTAL LIABILITIES		395,610	404,113	231,596	165,660
NET ASSETS		5,174,608	4,852,276	3,857,294	4,391,749
EQUITY					
Contributed equity	13	42,124,094	40,293,593	42,124,094	40,293,593
Accumulated losses	14	(36,949,486)	(35,441,317)	(38,266,800)	(35,901,844)
TOTAL EQUITY		5,174,608	4,852,276	3,857,294	4,391,749

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2003

	Notes	Consolidated		Carnarvon Petroleum Ltd	
		2003	2002	2003	2002
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		1,318,422	1,019,602	-	-
Payments to suppliers and employees		(2,641,243)	(2,690,923)	(1,506,000)	(1,685,291)
Interest received		10,740	28,413	10,740	27,377
Exploration costs		(62,526)	(111,686)	(62,526)	(111,686)
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	15(a)	(1,374,607)	(1,754,594)	(1,557,786)	(1,769,600)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payment for purchase of interests in permits		(19,075)	-	(19,075)	-
Payments for exploration and development expenditure		(1,920,397)	(854,921)	-	-
Contributions for development expenditure		1,473,704	-	1,473,704	-
Proceeds from sale of permits		-	204,828	-	204,828
Purchase of plant & equipment		(126,804)	(93,250)	(17,831)	(8,951)
Proceeds from sale of plant & equipment		-	7,094	-	7,094
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		(592,572)	(736,249)	1,436,798	202,971
CASH FLOWS FROM FINANCING ACTIVITIES					
Advances to controlled entities		-	-	(1,913,920)	(557,445)
Proceeds from issue of shares & options		1,977,075	2,294,278	1,977,075	2,294,278
Capital raising costs		(146,574)	(134,810)	(146,574)	(134,810)
Proceeds from sale of employee shares disposed of by the company agent		27,197	-	27,197	-
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		1,857,698	2,159,468	(56,222)	1,602,023
NET INCREASE/(DECREASE) IN CASH HELD		(109,481)	(331,375)	(177,210)	35,394
Add opening cash brought forward		466,928	788,519	498,593	463,199
Effects of foreign exchange rate changes on cash		(335)	9,784	-	-
CLOSING CASH CARRIED FORWARD	15(b)	357,112	466,928	321,383	498,593

**NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2003**

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 \$1,508,169 for the financial period ended 30 June 2003. 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 except for accounting policies with respect to the provision for employee benefits.

Employee benefits

The consolidated entity has adopted the revised Accounting Standard AASB 1028 "Employee Benefits", which has resulted in a change in the accounting policy for the measurement of employee benefit liabilities. Previously, the consolidated entity measured the provision for employee benefits based on remuneration rates at the date of the recognition of the liability. In accordance with the revised requirements of the Standard, the provision for employee benefits is now measured based on the remuneration rates expected to be paid when the liability is settled. The effect of the revised policy on the financial report is immaterial for the year ended 30 June 2003.

(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.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2003

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

(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 not been discounted to their present value, except where specifically stated.

(e) **Investments**

Non-current investments are carried at the lower of cost and recoverable amount.

(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 (2002: 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 and long service 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.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2003

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

(i) Employee benefits (cont'd)

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

- wages and salaries, non-monetary benefits, annual leave, long service 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.

In respect of the consolidated entity's defined benefits superannuation plans, any contributions made to the superannuation plans by entities within the consolidated entity are recognised against profits when due.

(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.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2003

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

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2003

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

(p) **Earnings per share (cont'd)**

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.

(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 rehabilitation 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 weighted average cost. Cost comprise purchase, inspection and transportation costs.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2003

	Notes	Consolidated		Carnarvon Petroleum Ltd	
		2003	2002	2003	2002
		\$	\$	\$	\$
2. REVENUES FROM ORDINARY ACTIVITIES					
Loss from ordinary activities before income tax is arrived at after taking into account:					
(a) Revenues from oil and gas operations					
Sales revenue					
Oil-SW1A Concession		1,366,253	986,763	-	-
Total revenues from oil and gas operations		1,366,253	986,763	-	-
(b) Cost of sales					
Production		(354,225)	(355,055)	-	-
Royalty and excise		(224,538)	(49,106)	-	-
Transportation		(95,204)	(80,321)	-	-
Depreciation of production assets		(33,333)	(20,000)	-	-
Amortisation		(15,342)	(24,529)	-	-
Selling, general and administration		(357,260)	(318,439)	-	-
Total cost of sales		(1,079,902)	(847,450)	-	-
(c) Other revenues from ordinary activities					
Interest – other persons/corporations		10,740	27,375	10,740	27,375
Proceeds from sale of exploration permits		-	205,828	-	205,828
Other		-	28	-	28
Proceeds from the sale of employee shares disposed of by the company agent		27,197	-	27,197	-
Total other revenues from ordinary activities		37,937	233,231	37,937	233,231

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2003

	Notes	Consolidated		Carnarvon Petroleum Ltd	
		2003	2002	2003	2002
		\$	\$	\$	\$
2. REVENUE FROM ORDINARY ACTIVITIES (Cont'd)					
(d) Other expenses from ordinary activities					
Corporate administration costs					
Administration		(584,262)	(546,692)	(584,262)	(545,746)
Depreciation – plant & equipment		(11,528)	(8,032)	(11,528)	(8,032)
Rental premises – operating lease		(133,544)	(139,243)	(133,544)	(139,243)
Provision for diminution of investment		(70,179)	-	(70,179)	-
Directors fees		(442,160)	(447,507)	(442,160)	(447,507)
Legal fees		(132,915)	(156,768)	(132,915)	(156,768)
Salaries		(227,858)	(212,879)	(227,858)	(212,879)
Carrying value of employee loans sold		(42,500)	-	(42,500)	-
Provision for non-recovery of: Employee share loans		(56,170)	(59,550)	(56,170)	(59,550)
Total other expenses from ordinary activities		(1,701,116)	(1,570,671)	(1,701,116)	(1,569,725)
(e) Gains/(Losses)					
Unrealised foreign exchange loss on:					
Translation of integrated subsidiary		(68,815)	(154,088)	-	-
Loan to subsidiary		-	-	(639,251)	(152,737)
Total losses		(68,815)	(154,088)	(639,251)	(152,737)

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2003

	Notes	Consolidated		Carnarvon Petroleum Ltd	
		2003	2002	2003	2002
		\$	\$	\$	\$
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		452,451	439,170	709,487	480,275
Tax effect of permanent differences					
Foreign sourced income		85,905	41,510	-	-
Foreign sourced exploration expenditure		(5,603)	(16,382)	(5,603)	(16,382)
Receipt from Gemini		(409,347)	-	(409,347)	
Provision for diminution of investment		(21,054)	-	(21,054)	
Expenditure of a capital nature		(40,468)	(39,384)	(40,468)	(39,384)
Current year tax benefit not brought to account		(61,884)	(424,914)	(233,015)	(424,509)
Income tax benefit attributable to operating loss		-	-	-	-
Income tax losses					
Future income tax benefit arising from tax losses of a controlled entity not brought to account at balance date as realisation of the benefit is not regarded as virtually certain		1,406,902	1,345,018	1,577,628	1,344,613

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

At the time of printing this report, Carnarvon Petroleum Ltd Group have not yet decided whether it will be consolidating for tax purposes in the following income year. Based on a high level review to date of the tax consolidation regime for the Carnarvon Petroleum Ltd Group, it is expected that there will not be a significant impact on the carrying tax timing balances of the Carnarvon Petroleum Group as a result of entering into tax consolidation.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2003

	Notes	Consolidated		Carnarvon Petroleum Ltd	
		2003	2002	2003	2002
		\$	\$	\$	\$
4. RECEIVABLES					
CURRENT					
Trade debtors	4(a)	116,466	64,374	-	-
Other debtors	4(a)	24,137	28,399	16,164	17,036
		<u>140,603</u>	<u>92,773</u>	<u>16,164</u>	<u>17,036</u>
Employee share loans	17(a)	-	177,800	-	177,800
Provision for non-recovery	17(a)	-	(162,610)	-	(162,610)
		<u>-</u>	<u>15,190</u>	<u>-</u>	<u>15,190</u>
		<u>140,603</u>	<u>107,963</u>	<u>16,164</u>	<u>32,226</u>
NON-CURRENT					
Permit security deposits		<u>50,565</u>	<u>31,490</u>	<u>50,565</u>	<u>31,490</u>
Amounts receivable from controlled entities		-	-	2,564,474	2,703,509
Provision for non-recovery		-	-	(693,349)	(693,349)
		<u>-</u>	<u>-</u>	<u>1,817,125</u>	<u>2,010,160</u>
Employee share loans	17(a)	478,900	343,600	478,900	343,600
Provision for non-recovery	17(a)	(371,305)	(152,525)	(371,305)	(152,525)
		<u>107,595</u>	<u>191,075</u>	<u>107,595</u>	<u>191,075</u>
		<u>158,160</u>	<u>222,565</u>	<u>2,029,285</u>	<u>2,232,725</u>
(a) Terms and Conditions					
Terms and conditions relating to the above financial instruments					
(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 23.					
5. INVENTORIES					
CURRENT					
Production materials – at cost		<u>73,359</u>	<u>65,558</u>	-	-

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2003

	Notes	Consolidated		Carnarvon Petroleum Ltd	
		2003	2002	2003	2002
		\$	\$	\$	\$
6. PREPAYMENTS AND OTHER CURRENT ASSETS					
Prepayments and other current assets		68,806	55,495	7,000	14,931
7. OTHER FINANCIAL ASSETS					
NON-CURRENT					
Shares in controlled entities – at cost	25	-	-	1,482,962	1,482,962
Shares in AusAm Resources Limited – at cost	(i)	282,876	282,876	282,876	282,876
Provision for diminution of investment		(70,179)	-	(70,179)	-
		212,697	282,876	1,695,659	1,765,838

(i) AusAm Resources Limited (“AusAM”) is an unlisted public company. Its main activity is the exploration and development of oil and gas. Carnarvon Petroleum Ltd holds a 6.7% (2002: 7.7%) ownership interest in AusAm.

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, development, production and marketing of crude oil	40%	-
Western Australia (Carnarvon Basin) EP110	Exploration for hydrocarbons	25.8585%	-
Papua New Guinea (Papuan Basin) PRLs 4 & 5 (ex PPL157) including the Stanley, Elevala and Ketu discoveries	Exploration for hydrocarbons	15%	-

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2003

8. JOINT VENTURES (Cont'd)

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

	Notes	Consolidated		Carnarvon Petroleum Ltd	
		2003	2002	2003	2002
		\$	\$	\$	\$
CURRENT ASSETS					
Cash assets		35,729	919	-	-
Receivables		124,440	75,737	-	-
Inventories		73,359	65,558	-	-
Prepayments and other		61,806	40,565	-	-
TOTAL CURRENT ASSETS		295,334	182,779	-	-
NON-CURRENT ASSETS					
Plant and equipment		150,556	96,911	-	-
Exploration, evaluation and development costs		4,387,531	1,555,868	-	-
TOTAL NON-CURRENT ASSETS		4,538,087	1,652,779	-	-
TOTAL ASSETS		4,833,421	1,835,558	-	-
CURRENT LIABILITIES					
Payables		92,635	111,811	-	-
TOTAL LIABILITIES		92,635	111,811	-	-
NET ASSETS		4,740,786	1,723,747	-	-

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

9. PLANT AND EQUIPMENT

Plant and equipment at cost		257,483	130,679	51,599	33,768
Accumulated depreciation		(85,533)	(40,672)	(32,200)	(20,672)
	9(a)	171,950	90,007	19,399	13,096

Consolidation
2003

Consolidated
2002

(a) Reconciliation

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

Plant and equipment

Carrying amount at beginning		90,007	31,903
Additions		126,804	93,250
Disposals		-	(7,114)
Depreciation expense		(44,861)	(28,032)
		171,950	90,007

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2003

	Notes	Consolidated		Carnarvon Petroleum Ltd	
		2003	2002	2003	2002
		\$	\$	\$	\$
10. DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE					
Exploration, evaluation and development costs carried forward in respect of the SW1A Concession:					
Pre-production					
Exploration & development phases		4,387,531	3,964,997	-	-
The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful further development and commercial exploitation or sale of the SW1A Concession.					
11. PAYABLES					
CURRENT					
Trade creditors	11(a)	25,865	22,575	-	-
Other creditors	11(a)	283,933	376,524	145,784	160,646
Payables to controlled entities		-	-	60,000	-
Cash calls payable to SW1A JV		60,000	-	-	-
		369,798	399,099	205,784	160,646
(a) Terms and Conditions					
Terms and conditions relating to the above financial instruments:					
(i) Trade and other creditors are non-interest bearing and are normally settled on 30 day terms					
12. PROVISIONS					
CURRENT					
Employee leave entitlements	17	25,812	5,014	25,812	5,014

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2003

	Notes	Consolidated		Carnarvon Petroleum Ltd	
		2003	2002	2003	2002
		\$	\$	\$	\$
13. CONTRIBUTED EQUITY					
(a) Issued and paid up capital					
Ordinary shares fully paid		42,124,094	40,293,593	42,124,094	40,293,593
(b) Movements in shares on issue					
		2003		2002	
		Number of Shares	\$	Number of Shares	\$
Beginning of the financial year		124,518,423	40,293,593	80,532,846	38,111,125
Issued during the year					
-employee share scheme		-	-	500,000	23,000
-public equity raising		47,073,200	1,977,075	43,485,577	2,294,278
less transaction costs		-	(146,574)	-	(134,810)
End of the financial year		171,591,623	42,124,094	124,518,423	40,293,593

(c) Share options

No options over ordinary shares were issued during the financial year.

Unissued ordinary shares of the Company under option:

Expiry Date	Grant Date	Exercise Price	Number of Options	
			2003	2002
		\$		
31 July 2002 (since expired)	7/12/2000	0.25	-	43,953,645
31 December 2002 (since expired)	7/12/2000	0.20	-	37,485,577
31 December 2003	7/12/2000	0.20	10,000,000	10,000,000

(d) Terms and conditions of contributed equity

Ordinary Shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up 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		Carnarvon Petroleum Ltd	
		2003	2002	2003	2002
		\$	\$	\$	\$
14. ACCUMULATED LOSSES					
Balance at the beginning of the year		(35,441,317)	(33,977,416)	(35,901,844)	(34,300,927)
Operating loss attributable to members of Carnarvon Petroleum Ltd		(1,508,169)	(1,463,901)	(2,364,956)	(1,600,917)
Balance at the end of the year		(36,949,486)	(35,441,317)	(38,266,800)	(35,901,844)

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2003

15. STATEMENT OF CASH FLOWS

(a) Reconciliation of the operating loss after tax to the net cash flows used in operations

Loss from ordinary activities after tax	(1,508,169)	(1,463,901)	(2,364,956)	(1,600,917)
Provision for diminution – employee share loans	56,170	59,550	56,170	59,550
Write down of employee loans	15,303	-	15,303	-
Amortisation of deferred exploration evaluation and development costs	15,342	24,529	-	-
Depreciation – plant & equipment	44,861	28,032	11,528	8,032
Unrealised foreign exchange (gain)/loss	68,815	-	639,251	152,737
Profit on sale of exploration permits	-	(204,778)	-	(204,778)
Provision for diminution of investment	70,179	-	70,179	-

Changes in assets and liabilities:

Receivables	(47,831)	103,336	872	28,743
Inventories	(7,801)	(65,558)	-	-
Prepayments	(13,311)	(22,815)	7,931	(8,029)
Accounts payable	(88,963)	(207,467)	(14,862)	(199,416)
Employee entitlements	20,798	(5,522)	20,798	(5,522)

Net cash flows used in operating activities	<u>(1,374,607)</u>	<u>(1,754,594)</u>	<u>(1,557,786)</u>	<u>(1,769,600)</u>
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(b) Reconciliation of cash

Cash balance comprises:

Cash at bank and at call	357,112	466,928	321,383	498,593
Closing cash balance	<u>357,112</u>	<u>466,928</u>	<u>321,383</u>	<u>498,593</u>

(c) Financing facilities available

At reporting date, the following financing facilities has been negotiated and were available:

Bank overdraft	30,000	30,000	30,000	30,000
Letter of credit Facility	60,000	60,000	60,000	60,000

All facilities are unused at balance date.

(d) Non-cash financing and investment activities

Issue of shares under the employee share scheme	-	23,000	-	23,000
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NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2003

16. EXPENDITURE COMMITMENTS

	Consolidated		Carnarvon Petroleum Ltd	
	2003	2002	2003	2002
	\$	\$	\$	\$
(a) Capital expenditure commitments				
Estimated capital expenditure contracted for at balance date, but not provided for, payable:				
Not later than on year				
Joint venture	-	89,205	-	-
(b) Lease expenditure commitments				
Operating leases (non cancellable)				
Not later than one year	33,600	69,272	33,600	69,272
Aggregate lease expenditure contracted for at balance date				
	33,600	69,272	33,600	69,272
Aggregate expenditure commitments comprise:				
Amounts not provided for at balance date				
Rental commitments	33,600	69,272	33,600	69,272

Due to the nature of 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 and by farming out portions of the entity's equity. The company forecasts its exploration commitments for its Australian and PNG commitments for 2003/04 to be approximately \$30,000 (Actual 2002/2003 \$30,000).

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2003

17. EMPLOYEE ENTITLEMENTS

	Notes	Consolidated		Carnarvon Petroleum Ltd	
		2003	2002	2003	2002
		\$	\$	\$	\$
Aggregate employee entitlements, including on-costs					
The aggregate employee entitlement liability is comprised of:					
Provisions (Current)	12	25,812	5,014	25,812	5,014

(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; and
- (ix) Australian Stock Exchange Listing Rules require the Company to obtain shareholder approval for the issue of shares to directors.

At balance date there were 10 (2002: 9) eligible participant employees.

During the financial year, no (2002: 500,000) shares were issued under the loan arrangement scheme with the Company.

In respect to the eligible employees who ceased employment during the year, no (2002: Nil) shares were disposed of by the Company Secretary as agent. During last year, no amount (2002: \$Nil) was used to repay the advances under the loan arrangement scheme. During the year no (2002: 310,000) shares being held by the Company Secretary as agent for employees who have ceased employment with a market value of nil (2002: \$15,190).

During the year the Company Secretary as agent sold 500,000 shares (2002: Nil) on market for employees who ceased employment in previous years. These were disposed of on market for a consideration of \$27,197.

At balance date, there were 3,985,000 (2002: 4,485,000) shares on issue in respect to eligible employees with a market value of \$107,595 (2002: \$219,765).

**NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2003**

17. EMPLOYEE ENTITLEMENTS (Cont'd)

The advances in respect to the shares on issue or being held have been written down to market value as at balance date.

The following amounts were recognised in the financial statements in relation to shares issued during the financial year under the Carnarvon Employee Share Plan:

	Consolidated		Carnarvon Petroleum Ltd	
	2003	2002	2003	2002
	\$	\$	\$	\$
Share capital	-	23,000	-	23,000

(b) Superannuation Commitments

Employees make contributions to employee 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	
	2003	2002	2003	2002
	\$	\$	\$	\$
Employer contributions to the plans	55,917	55,510	55,917	55,510

18. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Controlled Entities

- (a) Carnarvon Petroleum Ltd has agreed not to recall the loans owing by its controlled entities where it would result in the controlled entity not being able to meet its debts and commitments as they fall due.
- (b) 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.
- (c) 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 \$31,490 (2002: \$31,490).
- (d) If a discovery is made within an 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.
- (e) During June, the operator of the SW1A Joint Venture, Pacific Tiger Inc. made a cash call to Carnarvon for \$218,000 which represents the unbudgeted cost over runs associated with the phase 2 development costs. The Directors believe this is outside the guidelines of the Joint Venture Operating Agreement. Therefore Carnarvon have only booked \$60,000 of this amount which represents 5% of the total phase 2 development budgeted costs which is consistent with the Joint Venture Operating Agreement. Resolution is expected shortly.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2003

19. SEGMENT INFORMATION

Geographical Segments

	Australia		Thailand		Papua New Guinea		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue								
Sales to customers outside the consolidated entity	-	-	1,366,253	986,763	-	-	1,366,253	986,763
Other revenue from customers outside the consolidated entity	37,937	233,231	-	-	-	-	37,937	233,231
Total segment revenue	37,937	233,231	1,366,253	986,763	-	-	1,404,190	1,219,994
Results								
Segment result	(1,692,372)	(1,583,229)	184,203	138,367	-	(19,039)	(1,508,169)	(1,463,901)
Assets								
Exploration and development costs	-	-	4,327,531	3,964,997	-	-	4,327,531	3,964,997
Other	630,905	1,032,797	501,217	227,105	50,565	31,490	1,182,687	1,291,392
Total segment assets	630,905	1,032,797	4,828,748	4,192,102	50,565	31,490	5,510,218	5,256,389
Liabilities								
Total segment liabilities	171,596	165,660	164,014	238,453	-	-	335,610	404,113
Other segment information:								
Acquisition of property, plant and equipment and other non-current assets	17,831	8,951	108,973	939,220	-	-	126,804	948,171
Depreciation	11,528	8,032	33,333	20,000	-	-	44,861	28,032
Amortisation	-	-	15,342	24,529	-	-	15,342	24,529
Other non-cash expenses	126,349	59,550	-	-	-	-	126,349	59,550

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

**NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2003**

20. REMUNERATION OF DIRECTORS

	Consolidated		Carnarvon Petroleum Ltd	
	2003	2002	2003	2002
	\$	\$	\$	\$
Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of each entity in the consolidated entity, directly or indirectly, by the entities of which they are directors or any related party.	431,919	434,346		
Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of Carnarvon Petroleum Ltd, directly or indirectly, from the entity or any related party.			431,919	434,346

The number of directors of Carnarvon Petroleum Ltd whose income (including superannuation contributions) falls within the following bands is:

\$	2003	2002
	No	No
0 – 9,999	-	3
10,000 – 19,999	-	1
20,000 – 29,999	1	1
30,000 – 39,999	1	-
140,000 – 149,999	1	-
150,000 – 159,999	-	1
210,000 – 219,999	-	1
220,000 – 229,999	1	

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2003

21. REMUNERATION OF EXECUTIVES

	Consolidated		Carnarvon Petroleum Ltd	
	2003	2002	2003	2002
	\$	\$	\$	\$
Remuneration received or due and receivable by executive officers of the consolidated entity whose remuneration is \$100,000 or more, from entities in the consolidated entity or a related party, in connection with the management of the affairs of the entities in the consolidated entity whether as an executive officer or otherwise.	592,367	580,259		
Remuneration received or due and receivable by executive officers of the Company whose remuneration is \$100,000 or more, from the Company or any related party, in connection with the management of the affairs of the Company or any related party whether as an executive officer or otherwise.			592,367	580,259

The number of executive officers of Carnarvon Petroleum Ltd whose income (including superannuation contributions) falls within the following bands is:

\$	2003	2002
	No	No
140,000 – 149,999	1	-
150,000 – 159,999	-	1
210,000 – 219,999	-	2
220,000 – 229,999	2	-

22. REMUNERATION OF AUDITORS

	Consolidated		Carnarvon Petroleum Ltd	
	2003	2002	2003	2002
	\$	\$	\$	\$
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.	41,500	52,874	41,500	52,874
Other services in relation to the entity and any other entity in the consolidated entity.	59,150	17,750	59,150	17,750
Audit of overseas operations by an overseas branch of the auditors of Carnarvon Petroleum Ltd.	9,000	9,000	-	-
	<u>109,650</u>	<u>79,624</u>	<u>100,650</u>	<u>70,624</u>

Other services relate to taxation and other accounting assistance.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2003

23. RELATED PARTY DISCLOSURES

(a) The directors of Carnarvon Petroleum Ltd during the financial year were:

AG Shelton
 KC Tregonning
 DJ Orth
 NC Fearis

(b) Carnarvon Petroleum Ltd is the ultimate parent entity.

(c) Equity instruments of directors

Interests in the equity instruments of entities in the consolidated entity held by directors of the reporting entity and their director-related entities at balance date are as follows:

	Notes	1 July 2002	Acquired/ (Sold, Cancelled, Disassociated)	30 June 2003
<i>Ordinary shares</i>				
AG Shelton		2,796,021	1,771,400	4,567,421
KC Tregonning		5,516,667	1,071,400	6,588,067
NC Fearis		1,200,000	571,400	1,771,400
DJ Orth		2,666,667	191,400	2,858,067
TOTAL		12,179,355	3,605,600	15,784,955
<i>31 July 2003 Options (since expired)</i>				
KC Tregonning		100,610	(100,610)	-
TOTAL		100,610	(100,610)	-
<i>31 December 2003 Options</i>				
KC Tregonning		5,000,000	-	5,000,000
DJ Orth		5,000,000	-	5,000,000
TOTAL		10,000,000	-	10,000,000

All directors shares were purchased on market.

**NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2003**

23. RELATED PARTY DISCLOSURES (Cont'd)

The above holdings are calculated according to the provisions of the Corporations Act 2001. Under that Act, a shareholder may have a relevant interest in, or an entitlement to, certain shares without having any beneficial interest in those shares.

(d) Wholly owned group

The following related party transactions occurred during the financial year within the wholly owned group. 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 also provided interest free funding for exploration and development expenditure to its controlled entities during the year amounting to \$1,913,920 (2002: \$557,445). The outstanding balance of loans made by Carnarvon Petroleum Ltd to its controlled entities at 30 June 2003 was \$3,978,178 (2002: \$2,703,509) of which \$639,349 (2002: \$693,349) has been provided for. These loans are unsecured and have no fixed terms of repayment.

(e) Other transactions

Mr AG Shelton is a director of Andrew Shelton & Co Pty Ltd. That company provided financial consulting services to the consolidated entity in relation to the SW1A Concession in Thailand. The total value of consulting fees paid or payable was \$42,000 (2002: \$45,000).

Mr NC Fearis is a director of Pendomer Investments Pty Ltd. That company provided services to the consolidated entity in relation to general corporate matters. The total value of fees paid was \$1,200 (2002: \$16,362).

Dr KC Tregonning is a director of Winlen Pty Ltd. That company provided a Melbourne based fully serviced office to the consolidated entity. The total value of licence fees paid was \$79,700 (2002: \$82,787).

The terms and conditions of the above transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions with non-director related entities on an arms length basis.

**NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2003**

24. FINANCIAL INSTRUMENTS

(a) Interest rate risk

The consolidated entity's exposure to interest rate risk is considered minimal. The only financial asset or financial liability subject to fluctuations in interest rates is the cash balance, which is at a floating interest rate of 4.5% (2002: 4.75%)

(b) Net fair values

The aggregate net fair value of financial assets and financial liabilities, at balance date, is the same as or approximates the carrying amount disclosed in the statement of financial position.

(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 company 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.

25. 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)	
		2003	2002	2003 \$	2002 \$	2003 \$	2002 \$
Carnarvon Petroleum Ltd						(1,692,372)	(1,602,268)
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	Australia	100	100	1,482,932	1,482,932	184,204	138,367
				<u>1,482,962</u>	<u>1,482,962</u>	<u>(1,508,168)</u>	<u>(1,463,901)</u>

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2003

26. EARNINGS PER SHARE

	2003	2002
(a) Basic earnings per share (cents per share)	(0.9)	(1.4)
(b) Diluted earnings per share (cents per share)	(0.9)	(1.4)
(c) Weighted average number of ordinary shares on issue used in the calculation of earnings per share	162,305,169	107,429,976
(d) Earnings used in calculating basic and diluted earnings per share	\$(1,508,169)	\$(1,463,901)

Details of share issues made subsequent to the end of the financial year are contained in note 27 to the financial statements.

27. SUBSEQUENT EVENTS AFTER BALANCE DATE

No significant transactions occurred subsequent to balance date.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Carnarvon Petroleum Ltd, we state that:

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 2003 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.

On behalf of the Board



AG Shelton
Director

Melbourne, 30 September 2003

INDEPENDENT AUDIT REPORT

To the 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 and the consolidated entity, for the year ended 30 June 2003. 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*. 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:

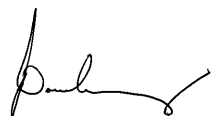
- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of Carnarvon Petroleum Limited and the consolidated entity at 30 June 2003 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia 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 of the financial report relating to going concern, there is significant uncertainty whether Carnarvon Petroleum Limited will be able to continue as a going concern without obtaining further funds to continue its exploration and development activities and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the entity not continue as a going concern.



Ernst & Young



J P Dowling
Partner
Perth
30 September 2003

Board and Governance

The Board's primary responsibility is to oversee the Company's business interests and management for the benefit of Carnarvon shareholders.

Corporate Governance Statement

This statement is a summary of the Board's governance practices in place during the year.

Shareholders

The Directors are subject to election by shareholders at the Annual General meeting. All Directors, apart from the Managing Director, are subject to re-election by rotation within every three years. A fundamental right of shareholders is to vote on the election of Directors.

The Board aims to ensure that shareholders are kept informed of all major developments affecting Carnarvon. Information is communicated to shareholders through:

- Annual and half yearly Reports to Shareholders
- The Chairman's Address delivered at the Annual General Meeting
- Notice of all meetings of shareholders and explanatory notes of proposed resolutions
- Shareholder Mailing list allowing each ASX release to be forwarded directly to every shareholder on the list
- Company website www.carnarvonpetroleum.com offering shareholders access to ASX releases, company media releases and other company data.

Shareholders are encouraged at Annual General Meetings to ask questions of Directors and senior management and also the Company's external auditors, who are required to be in attendance.

Information Disclosure

In accordance with the disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules, Carnarvon follows the following three main forms of information disclosure:

- Continuous disclosure – which is its core disclosure obligation and primary method of informing the market and shareholders
- Periodic disclosure – in the form of full-year, half-year reporting and quarterly reporting
- Specific information disclosure – as and when required, of administrative and corporate details, usually in the form of ASX releases.

Directors are committed to the promotion of investor confidence by ensuring that trade in the Company's securities takes place in an efficient, competitive and informed market. In compliance with ASX continuous disclosure requirements, Carnarvon has procedures in place to ensure that all price sensitive information is identified, reviewed by senior management and disclosed to the ASX in a timely manner and that all information provided to the ASX is immediately available to shareholders and the market on the Company's website.

Board Responsibilities

The Board's primary responsibility is to oversee Carnarvon's business activities and management for the benefit of Carnarvon shareholders. The Board also recognizes its responsibilities to Carnarvon's employees, the community and environs within which Carnarvon operates and, where appropriate, other stakeholders.

The key responsibilities of the Board include:

- Developing long-term corporate objectives and strategy with management and approving plans, new investments, major capital and operating expenditures and major funding activities proposed by management
- Defining and setting performance expectations for the Company and monitoring actual performance
- Appointing and reviewing the performance of senior management
- Assuring itself that there are effective health, safety, environmental and operational procedures in place. Carnarvon's Health and Safety Policy can be found on the Company's web-site.
- Satisfying itself that there are effecting reporting systems that will assure the Board that proper financial, operational, compliance, risk management and internal control processes are in place and function appropriately
- Satisfying itself that the annual financial statements of the Company fairly and accurately set out the financial position at year end, and the financial performance for the year;
- Reporting to and advising shareholders

Board Workings

External Auditor Policy

The Board's objective is to ensure that Carnarvon's financial reporting complies with applicable standards and reflects a true and fair view of the Company's financial performance and position; further, that the external auditor adds value beyond merely compliance auditing and acts, and is seen to act, free from bias, conflict and compromise.

Meetings

The Board held eleven scheduled meetings during the year ended June 2003 and in addition held unscheduled meetings. Directors are expected to bring independent judgment to bear on matters being considered and are encouraged to participate in debate.

Conflict of Interest

The Board has approved 'Conflict of Interest Guidelines' which apply if there is, or may be, a conflict between the personal or other interests of a Director and the business of Carnarvon. In that event the Director does not receive the Board papers relating to the matter involving actual or potential conflict and when the matter comes before the Board for discussion, the Director withdraws from the meeting for the period the matter is considered and takes no part in the discussions or decision-making process.

Independent Professional Advice

The Directors may, in carrying out their duties to the Company, seek external professional advice. They are entitled to re-imburement of all reasonable costs where such requests for advice is approved by the Chairman.

Risk management

The Board has as one of its main objectives, the oversight of the management of areas where risk to Carnarvon is perceived to be significant. Board papers and management presentations routinely

address the risks associated proposals submitted to the Board for approval.

Standard of Conduct and Business Ethics

The Company has a Standard of Conduct and Business Ethics, which applies to all Directors and employees within the Company.

Directors and Employee Share Dealings

The Company has a share trading policy, binding on Directors and employees, designed to assist Directors and employees to avoid insider trading, and provide guidelines for trading in Carnarvon securities. The policy stipulates that the only appropriate time for a Director or employee to acquire or sell Carnarvon shares is when he or she is not in possession of price-sensitive information that is not generally available to the market. Directors wishing to buy or sell Carnarvon shares in accordance with the policy may only do so after first having advised the Chairman of his or her intention. In the case of employees, there is a correspondence notification requirement.

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	20 cents Options 31/12/2003
AG Shelton	4,567,421	-
KC Tregonning	6,588,067	5,000,000
DJ Orth	2,858,067	5,000,000
NC Fearis	1,771,400	-

Audit Committee of the Board

The Audit Committee is the custodian of the external audit relationship and assists the board to ensure itself that there are effective accounting, auditing, internal control, business risk management, compliance and reporting systems, processes and practices. Members of the Audit Committee are Mr. A Shelton (Chairman) and Mr. N Fearis. The external auditors, the Chief Executive Officer, the Chief Operating Officer and The Chief Financial Officer attend Committee meetings by invitation. The Committee was formed December 2002.

Remuneration and Nominations Committee

The Remuneration and Nominations Committee advises the Board on remuneration policies and practices, evaluates the performance of senior management against pre-agreed goals and makes recommendations to the Board on remuneration for senior managers. The Committee considers independent advice on policies and practices to attract, motivate, reward and retain strong performers. It is also this committee's role to consider the appropriate size and composition of the Board, criteria for Board membership, candidates for Board membership and the terms and conditions of appointment to and retirement from the Board.

The Composition of the Board is determined in accordance with the following principles and guidelines:

- the Board should comprise a majority of non-executive directors;
- the chairperson should be a non-executive director;
- the Board should comprise of directors with an appropriate range of qualifications and expertise; and
- the Board shall meet at least bi-monthly and follow meeting guidelines set down to ensure all directors are made aware of, and have available all necessary information, to participate in an informed discussion of all agenda items.

Member of the Remuneration and Nominations Committee are Mr. A Shelton (Chairman) and Mr. N Fearis. The Chief Financial Officer attends Committee meetings by invitation. The Committee was formed in December 2002 and expanded to include nomination matters in August 2003.

The Governance Committee

The Governance Committee has two roles. It advises on and monitors Carnarvon's governance practices and assists the Board to assure itself that there is an appropriate and effective process for the direction and control of the company. In particular it:

- Monitors the management systems and processes in place for compliance with laws and regulatory requirements, and
- Monitors the management systems in place for addressing significant business risks and the framework of internal management controls.

Members of the Remuneration and Nominations Committee are Mr. A Shelton (Chairman) and Mr. N Fearis. The Chief Financial Officer attends Committee meetings by invitation. The Committee was formed September 2003.

Shareholder Information

Annual General Meeting

The 2003 Annual General Meeting will be held..... Full details of the meeting are contained in the Notice of Annual General meeting sent with this Report.

Shareholder Enquiries

All enquiries should be directed to the Company's Share Registry at the following contact address:

Share Registry – Australia

Computershare Investor Services Pty Limited
Level 2
45 St. George's Terrace
Perth Western Australia 6000

Telephone: +61 8 9323 2000
Facsimile: +61 8 9323 2033

Share Registry – New Zealand

Computershare Registry Services Limited
Private Bag 92119
Auckland 1020

Telephone: +64 9 522 0022
Facsimile +64 9 522 0058

Internet Services For Shareholders

Our internet site, www.carnarvonpetroleum.com, is an important means of keeping shareholders continuously informed about the Company, including announcements to the ASX. The site also offers you regular updates of our share price as well as copies of news releases, financial presentations, half yearly and annual reports to shareholders.

Carnarvon's Annual Report

The 2003 Annual Report is available online in adobe acrobat PDF format.

Change of Address

It is very important that shareholders notify the Share Registry immediately in writing, of any change to their registered address.

Lost Holding Statements

Shareholders should inform the Share Registry immediately, in writing, so that a replacement statement can be arranged.

Change of Name

Shareholders should notify the Share Registry, in writing, and attach a certified copy of a relevant marriage certificate or deed poll.

Shareholders who do not wish to receive a Annual Report

Shareholders who no longer wish to receive an Annual Report should notify the Share Registry, Computershare Investor Services Pty Limited in writing.

Privacy

Carnarvon respects the privacy of individuals. A copy of our privacy policy is available on our internet site, www.carnarvonpetroleum.com

Information about Carnarvon

Requests for specific information on the Company can be directed to the Company Secretary at the following address:

Carnarvon Petroleum Limited

Level 50, 120 Collins Street

Melbourne Victoria 3000

Australia

Telephone: +61 3 9225 5400

Facsimile: +61 3 9225 5050

Website: www.carnarvonpetroleum.com

ASX Additional Information

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is made up to 22nd September 2003

1. Analysis of Shareholding

Size of Holdings	Number of Shareholders
1 -1,000	1,886
1,001 – 5,000	1,397
5,001 – 10,000	439
10,001 – 100,000	854
100,000 – and over	289
Total Number of Holders	4,865

2. The number of shareholders holding less than a marketable parcel was 3,774

3. Voting Rights – no restriction apply. On a show of hands every member or by proxy shall have one vote and upon a poll each share shall have one vote

4. The names of the twenty largest holders of securities

Shareholders	Number of Shares	%
Hamilton Capital Partners Limited	9,175,250	5.35
Oasis International General Trading LLC	5,333,205	3.11
John Lyndon Usmar	4,681,143	2.73
Arne Investments Pty Ltd	4,567,421	2.66
Jeffrey Frank Fradd	4,500,000	2.62
Dr Kenneth Tregonning & Brenda Leung Tregonning	3,650,000	2.12
Resource Management Associates Pty Ltd	2,738,067	1.60
Alakor Corporation Inc	2,487,703	1.45
Upora Pty Ltd	2,178,190	1.27
CNW (Explorations) Pty Ltd	2,049,282	1.19
Desmond Joseph Keegan	1,993,039	1.16
Lawrence Crowe Consulting Pty Ltd	1,900,000	1.11
John Bernard Porteous	1,861,500	1.08
William Douglas Goodfellow	1,771,400	1.03
ANZ Nominees Limited	1,714,217	1.00
Robyn Fitzgerald	1,600,000	0.93
Massif Limited	1,600,000	0.93
Commodity Traders (NZ) Limited	1,500,000	0.87
Pendomer Investments Pty Ltd	1,500,000	0.87
Dolly Viona Thom	1,004,732	0.59
Bruce Birnie Pty Ltd	1,000,000	0.58

Option holders (31 December 2003)

	Number of Options	%
Kenneth Tregonning	5,000,000	50.0
David Orth	5,000,000	50.0
Total	10,000,000	100.0