

26 February 2010

Company Announcements Office
ASX Limited

Via ASX Online

Dear Sirs,

DECEMBER 2009 HALF-YEAR REPORT AND APPENDIX 4D

The directors of Carnarvon are pleased to present the Company's consolidated interim financial report for the half-year ended 31 December 2009.

The Company's activities during the period focused on exploration drilling in the L44/33 permit in Thailand, which resulted in the discovery of two new oil pools from nine successful wells. These are very positive results by industry standards and are expected underpin the Company's reserves position when reported on by Gaffney, Cline and Associates in March 2010.

In the attached, the Company reported a net profit after tax of \$7.4 million for the half-year ended 31 December 2009.

The result primarily reflects the impact of a lower Australian dollar equivalent oil price derived during the period and a decrease in production compared to the half-year ended 31 December 2008. The decrease in production was as a consequence of an exploration focused drilling programme during the period. The drilling programme will be more focused to development wells for the remainder of the calendar year in order to build on current production levels.

The production operations in Thailand provide the Company with high margin cash flows that also support the exploration activities in Carnarvon's other exploration permits, namely in Thailand, Indonesia and Australia. Carnarvon is currently preparing an exciting exploration programme in these regions in 2010 and 2011 that will be announced to shareholders in more detail as that programme is finalised.

Yours faithfully,
Carnarvon Petroleum Limited



Ted Jacobson
Chief Executive Officer

**ASX APPENDIX 4D
RESULTS FOR ANNOUNCEMENT TO THE MARKET
LISTING RULE 4.2A.3
HALF YEAR FINANCIAL REPORT TO 31 DECEMBER 2009**

| | 6 months to 31 December 2009 | 6 months to 31 December 2008 (Restated) | % change |
|------------------------------------|---------------------------------|---|----------|
| | \$000 | \$000 | |
| Sales revenue | 31,642 | 60,096 | (47.3%) |
| Net profit for the period | 7,440 | 20,798 | (64.2%) |
| Net profit attributable to members | 7,440 | 20,798 | (64.2%) |

Explanation of results

Please refer to the commentary included in the Director's Report in the 31 December 2009 interim financial report for an explanation of results.

Dividends

| | 6 months to 31 December 2009 | 6 months to 31 December 2008 |
|----------------------------|---------------------------------|---------------------------------|
| Interim dividend per share | Nil | Nil |
| Franked amount per share | Not applicable | Not applicable |

Net tangible assets per share

| | As at 31 December 2009 | As at 31 December 2008 (Restated) |
|---|---------------------------|---|
| Net tangible assets per share (cents per share) | 5.0 | 4.0 |

Details of associates and joint venture assets

| <i>Joint venture</i> | <i>Principal activities</i> | <i>31 December 2009 Ownership interest %</i> | <i>31 December 2008 Ownership interest %</i> | <i>31 December 2009 Net profit \$000</i> | <i>31 December 2008 Net profit \$000 (Restated)</i> |
|--|---|--|--|--|---|
| <i>Thailand</i> | | | | | |
| Phetchabun Basin Concession, Exploration Blocks L44/43 and L33/43, 3/2546/60 and 5/2546/62 Concessions | Exploration, development and production of hydrocarbons | 40% | 40% | 12,026 | 17,947 |
| Exploration Block L20/50, 7/2551/98 Concession | Exploration for hydrocarbons | 50% | 50% | - | - |
| <i>Indonesia</i> | | | | | |
| Rangkas Block West Java | Exploration for hydrocarbons | 25% | - | - | - |
| <i>Western Australia</i> | | | | | |
| WA-399-P, Carnarvon Basin | Exploration for hydrocarbons | 50% | 50% | - | - |
| WA-435-P, WA-346-P, WA-347-P, WA-348-P Roebuck Basin | Exploration for hydrocarbons | 50% | - | - | - |

The Company withdrew from its interest in EP110 and EP424 in November 2009.

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

**INTERIM FINANCIAL REPORT
31 DECEMBER 2009**

CORPORATE DIRECTORY

Directors

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

Company Secretary

RA Anderson

Auditors

WHK Horwath Perth Audit Partnership

Bankers

Australia and New Zealand Banking Group Limited
HSBC (Thailand)

Registered Office

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Email: admin@carnarvonpetroleum.com
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Share Registry

Computershare Investor Services Pty Limited
Level 2
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Perth, WA 6000 Australia

Investor Enquiries: 1300 557 010 (within Australia)
Investor Enquiries: +61 3 9415 4000 (outside Australia)
Facsimile: +61 8 9323 2033

Stock Exchange Listing

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

ASX Code: CVN - Ordinary shares

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DIRECTORS' REPORT

The directors present their report together with the consolidated financial report for the half-year ended 31 December 2009, and the independent review report thereon.

Directors

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

Peter Leonhardt
Edward (Ted) Jacobson
Neil Fearis
Kenneth Judge

Review of operations

The Group's primary assets are the six producing oil fields in central Thailand (at Wichian Buri, Na Sanun, Si Thep, Na Sanun East, Bo Rang and L44-W) which, together with associated exploration and appraisal opportunities, make up the Phetchabun Basin Joint Venture ("Joint Venture"). Carnarvon has a 40%, non-operator, interest in these assets which are located in six separate production licenses arising from the SW1A, L33/43 and L44/43 exploration permits.

The Joint Venture's drilling activities during the period included two new oil pool discoveries (at Bo Rang "A" and Bo Rang "B") from nine successful wells (at Bo Rang-1RD, L44-V-D2, NSE-J1, NSE-J2, Bo Rang-2, Bo Rang-3D1, Bo Rang-4D1, L44-W4 and NSE-G2). During the period the Joint Venture's focus away from development drilling impacted production levels. The focus, however, on exploration and appraisal wells is expected to result in an increase in reportable reserves when these are released in March 2010.

Joint Venture oil sales during the half-year decreased to 1,075,985 bbls (2008: 1,728,477 bbls) as a result of natural field declines exceeding production from new development wells.

The Group's share of revenue from oil sales was \$31,642,000 (2008: \$60,096,000). The decrease from the previous corresponding period was the result of the reduction in oil sales volume outlined above together with a lower average sale price achieved of US\$64.02 bbl (2008: US\$69.37 bbl) and a strengthening Australian dollar against the US dollar, from an average 0.78 in the corresponding period to 0.87 in the half-year.

The Group's net profit after tax from continuing operations for the half year ending 31 December 2009 was \$7,440,000 (2008: \$20,798,000). The decrease in net profit was a direct consequence of the reduction in revenue outlined above. Net profit was also impacted by a charge to profit of \$1,144,000 (2008: included a gain of \$2,410,000) resulting predominantly from the translation of Carnarvon's US dollar denominated cash reserves. The Group's net profit will be impacted by the translation of US dollar denominated cash holdings at each reporting period.

It is the Company's policy to naturally hedge those commitments which are expected to be in Thai Baht and US dollars.

As outlined at the Company's Annual General Meeting, the business is building its organisational capabilities in preparation for its planned future activities. These initiatives have had and will continue to have an impact on net profit before the benefits of the initiatives result in commercial discoveries.

During the period Carnarvon acquired interests in the North West Shelf area off Western Australia with the granting of four significant and large exploration permits in which it now holds a 50% interest in joint venture with Finder Exploration. It also acquired a 25% interest in the Rangkas block onshore Indonesia with respected operator Lundin Petroleum.

CARNARVON PETROLEUM LIMITED
31 DECEMBER 2009 INTERIM FINANCIAL REPORT

Carnarvon, as operator, acquired 550 km of 2D seismic data in August 2009 in the L20/50 permit onshore Thailand and has overseen the subsequent processing and interpretation of these data. Carnarvon holds a 50% interest in this permit and is planning to undertake exploration drilling in 2010 based on the results of the interpretation of the 2D seismic data.

The December 2009 half year has been an active period for the Company. The Company is in a strong position with its substantial cash and cash flows from Thailand production and its forward exploration, appraisal and development drilling programme across multiple permits and licences in three diverse geographic regions.

Subsequent events

No matter or circumstance has arisen since 31 December 2009 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

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

Rounding of amounts

The company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission. Amounts in the Directors' Report and the interim financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order unless otherwise indicated.

Auditors' Independence Declaration

The lead auditors' Independence Declaration, as required under section 307C of the Corporations Act 2001, is set out on page 5 and forms part of this directors' report for the half-year ended 31 December 2009.

Signed in accordance with a resolution of the directors.



PJ Leonhardt
Director

Perth
26 February 2010

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Carnarvon Petroleum Limited and its controlled entities (the consolidated entity) for the half year ended 31 December 2009, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

WHK HORWATH PERTH AUDIT PARTNERSHIP



CYRUS PATELL
Principal

Perth, WA

Dated this 26th day of February 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Half-year 31 December 2009 \$000 | (Restated) Half-year 31 December 2008 \$000 |
|---|---|--|
| Continuing operations | | |
| Revenue | 31,642 | 60,096 |
| Cost of sales | (9,960) | (14,187) |
| Gross profit | 21,682 | 45,909 |
| Administrative expenses | (914) | (871) |
| Employee benefits expense | (644) | (345) |
| Directors' fees | (112) | (100) |
| Foreign exchange (loss) / gain | (1,144) | 2,410 |
| Other expenses | (112) | (132) |
| Share based payments | (631) | (122) |
| New venture expenditure written off | (656) | (524) |
| Exploration expenditure written off | (384) | - |
| Results from operating activities | 17,085 | 46,225 |
| Finance income | 33 | 510 |
| Finance costs | (2) | - |
| Net finance income | 31 | 510 |
| Profit before taxes | 17,116 | 46,735 |
| Taxes | | |
| Special remuneratory benefit | (1,649) | (10,409) |
| Income tax expense | (8,027) | (15,528) |
| Net profit for the period from continuing operations | 7,440 | 20,798 |
| Other comprehensive income | | |
| Exchange differences arising in translation of foreign operations | (6,865) | 15,105 |
| Income tax on other comprehensive income | - | - |
| Other comprehensive (loss) / income net of taxes | (6,865) | 15,105 |
| Total comprehensive income for the period | 575 | 35,903 |
| Basic earnings per share from continuing operations (cents per share) | 1.1 | 3.1 |
| Diluted earnings per share from continuing operations (cents per share) | 1.1 | 3.0 |

The consolidated statement of comprehensive income should be read in conjunction with the notes to the consolidated interim financial report.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | 31 December | (Restated) | (Restated) |
|---|--------------------|-------------------|-------------------|
| | 2009 | 30 June | 30 June |
| | \$000 | 2009 | 2008 |
| | | \$000 | \$000 |
| Current assets | | | |
| Cash and cash equivalents | 28,566 | 31,099 | 28,281 |
| Trade and other receivables | 10,254 | 11,904 | 12,443 |
| Inventories | 4,116 | 3,865 | 1,586 |
| Other assets | 482 | 677 | 299 |
| Total current assets | 43,418 | 47,545 | 42,609 |
| Non-current assets | | | |
| Property, plant and equipment | 340 | 353 | 172 |
| Exploration and evaluation | 4,718 | 1,219 | 379 |
| Oil and gas assets | 55,538 | 49,701 | 22,078 |
| Total non-current assets | 60,596 | 51,273 | 22,629 |
| Total assets | 104,014 | 98,818 | 65,238 |
| Current liabilities | | | |
| Trade and other payables | 6,383 | 6,901 | 3,368 |
| Income tax provision | 5,526 | 5,656 | 9,304 |
| Provisions | 4,501 | 3,122 | 14,848 |
| Employee benefits | 40 | 49 | 13 |
| Total current liabilities | 16,450 | 15,728 | 27,533 |
| Non-current liabilities | | | |
| Deferred tax | 17,780 | 14,516 | 3,215 |
| Total non-current liabilities | 17,780 | 14,516 | 3,215 |
| Total liabilities | 34,230 | 30,244 | 30,748 |
| Net assets | 69,784 | 68,574 | 34,490 |
| Equity | | | |
| Issued capital | 68,098 | 68,090 | 66,738 |
| Reserves | (8,453) | (2,215) | (6,211) |
| Retained profits / (accumulated losses) | 10,139 | 2,699 | (26,037) |
| Total equity | 69,784 | 68,574 | 34,490 |

The consolidated balance sheet should be read in conjunction with the notes to the consolidated interim financial report.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Issued capital \$000 | Retained profits / (accumulated losses) \$000 | Translation reserve \$000 | Share based payments reserve \$000 | Total \$000 |
|---|----------------------------|---|---------------------------------|--|----------------|
| Balance at 1 July 2008 (restated) | 66,738 | (26,037) | (7,437) | 1,226 | 34,490 |
| Share based payments | - | - | - | 122 | 122 |
| Total comprehensive income | - | 20,798 | 15,105 | - | 35,903 |
| Balance at 31 December 2008 (restated) | 66,738 | (5,239) | 7,668 | 1,348 | 70,515 |
| Balance at 1 July 2009 (previously reported) | 68,090 | 10,386 | (3,346) | 1,131 | 76,261 |
| Prior period error | - | (7,687) | - | - | (7,687) |
| Balance at 1 July 2009 (restated) | 68,090 | 2,699 | (3,346) | 1,131 | 68,574 |
| Share based payments | 8 | - | - | 627 | 635 |
| Total comprehensive income | - | 7,440 | (6,865) | - | 575 |
| Balance at 31 December 2009 | 68,098 | 10,139 | (10,211) | 1,758 | 69,784 |

The consolidated statement of changes in equity should be read in conjunction with the notes to the consolidated interim financial report.

CONSOLIDATED STATEMENT OF CASH FLOWS

| | Half-year 31 December 2009 \$000 | Half-year 31 December 2008 \$000 |
|--|---|---|
| Cash flows from operating activities | | |
| Receipts from customers and GST recovered | 33,827 | 69,637 |
| Payments to suppliers and employees | (12,301) | (20,069) |
| Income and special remuneratory benefit taxes paid | (4,591) | (10,682) |
| Interest received | 45 | 594 |
| Net cash flows provided by operating activities | <u>16,980</u> | <u>39,480</u> |
| Cash flows from investing activities | | |
| Exploration, evaluation and development expenditure | (17,232) | (12,164) |
| Acquisition of property, plant and equipment | (121) | (211) |
| Net cash flows (used in) investing activities | <u>(17,353)</u> | <u>(12,375)</u> |
| Cash flows from financing activities | | |
| Proceeds from repayment of Employee Share Plan loans | 10 | - |
| Sale of property, plant, and equipment | 19 | 1 |
| Payment of share issue costs | (7) | - |
| Net cash flows from financing activities | <u>22</u> | <u>1</u> |
| Net (decrease) / increase in cash and cash equivalents | (351) | 27,106 |
| Cash and cash equivalents at beginning of the half-year | 31,099 | 28,281 |
| Effects of exchange rate fluctuations on cash and cash equivalents | (2,182) | 10,851 |
| Cash and cash equivalents at end of the half-year (*) | <u>28,566</u> | <u>66,238</u> |

(*) In addition, the Group has \$3,250,000 (June 2009: \$3,586,000) of restricted cash held as security and classified under trade and other receivables

The consolidated statement of cash flows should be read in conjunction with the notes to the consolidated interim financial report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting entity

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

The consolidated interim financial report of the Company as at and for the six months ending 31 December 2009 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled assets.

2. Statement of compliance

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

The consolidated interim financial report does not include all of the information required in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Group as in the annual financial report. It is recommended that this financial report be read in conjunction with the annual financial report as at and for the year ended 30 June 2009 and any public announcements made by Carnarvon Petroleum Limited during or since the end of the half year in accordance with continuous disclosure requirements arising under the Corporations Act.

The Group has reviewed all new and revised accounting standards and interpretations issued by the Australian Accounting Standards Board ("AASB"). It has been concluded that the Presentation of Financial Statements (AASB 101), Interim Financial Reporting (AASB 134), and Operating Segments (AASB 8) standards have had a disclosure impact on the half-year report. However, there are no new and revised standards that are relevant to and effective for the current reporting period and accordingly there have been no changes to the Group's accounting policies.

3. Contingent assets and liabilities

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

4. Property plant and equipment

Capital commitments

As at 31 December 2009 the Group had entered into capital commitments for \$965,000 (December 2008: \$5,436,000).

5. Related parties

Arrangements with related parties continue to be in place. For details of these arrangements, refer to the 30 June 2009 annual financial report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Prior period error

The year ended 30 June 2009 financial statements included a deferred tax liability of \$8,964,000 and current income tax liability of \$3,521,000 in respect of the Group's interest in the Phetchabun Basin Joint Venture ("Joint Venture") in Thailand, of which the Group is non-operator. The calculation of these liabilities include as an input the tax written down value of Joint Venture expenditure and associated tax depreciation.

In February 2010 the Company was advised by the Joint Venture operator that there was an error in the calculation of the tax written down value of Joint Venture expenditure and tax depreciation as at and for the 6 months ending 30 June 2009. As a result the consolidated financial statements for the year ended 30 June 2009 require restatement as follows:

| | | \$000 |
|---|----------------|--------------|
| <i>Balance Sheet:</i> | | |
| Income tax provision | Understated by | 2,135 |
| Current liabilities | Understated by | 2,135 |
| Deferred tax liability | Understated by | 5,552 |
| Total non-current liabilities | Understated by | 5,552 |
| Total liabilities | Understated by | 7,687 |
| Net assets | Overstated by | 7,687 |
| Accumulated profits | Overstated by | 7,687 |
| Total equity | Overstated by | 7,687 |
| <i>Statement of Comprehensive Income:</i> | | |
| Income tax expense | Understated by | 7,687 |
| Net profit from continuing operations | Overstated by | 7,687 |
| Net profit attributable to members of the Company | Overstated by | 7,687 |

| | Cents per share | |
|---|--------------------------|-----------------|
| | Previously stated | Restated |
| Basic and diluted earnings per share from continuing operations | 5.4 | 4.3 |

The 30 June 2009 comparatives in these financial statements have been restated to reflect the above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Significant accounting policies

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2009.

Change in accounting policy from the corresponding half-year

The consolidated entity changed its accounting policy relating to the depreciation of oil and gas assets for the financial year ending 30 June 2009.

With effect from 1 July 2008 depreciation is calculated using a units of production method which amortises capitalised costs carried forward plus the estimated future field development costs required to recover proved and probable ("2P") reserves over the life of the 2P reserves. Previously only capitalised costs were included in the depreciation calculation. This change reflects the future costs of maintaining current production and provides more relevant information and a more accurate carrying value of oil and gas assets at balance date.

Changes in future field development costs or estimates of proved and probable ("2P") reserves will impact the quantum of the depreciation cost in a given period but will not constitute a change in accounting policy.

The aggregate effect of the change in accounting policy on the corresponding half-year financial statements ending 31 December 2008 is as follows:

| | Previously stated \$000 | Adjusted \$000 | Restated \$000 |
|--|--|---------------------------|---------------------------|
| Consolidated | | | |
| <i>Statement of Comprehensive Income</i> | | | |
| Cost of sales | 12,454 | 1,733 | 14,187 |
| Profit before income tax | 48,468 | (1,733) | 46,735 |
| Profit after income tax | 21,665 | (867) | 20,798 |
| <i>Balance sheet</i> | | | |
| Oil and gas assets | 47,075 | (1,733) | 45,342 |
| Deferred tax liability | 9,485 | (867) | 8,618 |
| Opening retained earnings | (25,514) | - | (25,514) |
| | Cents | Cents | Cents |
| Basic earnings per share | 3.2 | (0.1) | 3.1 |
| Diluted earnings per share | 3.2 | (0.2) | 3.0 |

8. Equity securities issued

| | 31 December 2009 Shares | \$000 | 31 December 2008 Shares | \$000 |
|--|------------------------------------|--------------|------------------------------------|--------------|
| <i>Issue of ordinary shares during the half-year</i> | | | | |
| Shares issued under the Employee Share Plan | 1,425,000 | 8 | 750,000 | - |
| | <u>1,425,000</u> | <u>8</u> | <u>750,000</u> | <u>-</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Segment information

The Group reports one segment, oil and gas exploration, development and production, to the chief operating decision maker, being the board of Carnarvon Petroleum Limited, in assessing performance and determining the allocation of resources. The financial information presented in the statement of cashflows is the same basis as that presented to chief operating decision maker.

Basis of accounting for purposes of reporting by operating segments

Unless otherwise stated, all amounts reported to the chief operating decision maker are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

This is the first reporting period in which AASB 8 *Operating Segments* has been adopted. Comparative information has been restated to confirm to the requirements of the standard.

Revenue by geographical region

Revenue, including interest income, is disclosed below based on the location of the external customer:

| | Half-year ending 31 December 2009 \$000 | Half-year ending 31 December 2008 \$000 |
|-----------|--|--|
| Thailand | 31,652 | 60,478 |
| Australia | 23 | 128 |
| | <u>31,675</u> | <u>60,606</u> |

The Group derives 100% of its sales revenue from one customer in the oil and gas exploration, development and production segment.

Assets by geographical region

The location of segment assets is disclosed below by geographical location of the assets:

| | As at 31 December 2009 \$000 | As at 30 June 2009 \$000 |
|-----------|---|---|
| Thailand | 88,894 | 91,985 |
| Australia | 15,120 | 6,833 |
| | <u>104,014</u> | <u>98,818</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Subsequent events

No matter or circumstance has arisen since 31 December 2009 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

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

11. Subsidiaries

The Company incorporated a new 100% owned subsidiary, Carnarvon Petroleum (Indonesia) Pty Ltd, during the half-year.

DIRECTORS' DECLARATION

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

- (a) the financial statements and notes as set out on pages 6 to 14 are in accordance with the Corporations Act 2001 including:
 - (i) giving a true and fair view of the financial position of the Group as at 31 December 2009 and of its performance for the half-year ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 "*Interim Financial Reporting*" and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



PJ Leonhardt
Director

Perth
26 February 2010

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

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Carnarvon Petroleum Limited and its controlled entities (the consolidated entity), which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a description of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410: *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with the Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Carnarvon Petroleum Ltd and its controlled entities, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Carnarvon Petroleum Limited and its controlled entities is not in accordance with the Corporations Act 2001, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

WHK HORWATH PERTH AUDIT PARTNERSHIP



CYRUS PATELL
Principal

Perth, WA

Dated this 26th day of February 2010

Total Financial Solutions

Member Horwath International

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