CARNARVON PETROLEUM LTD
1322 Hay Street, West Perth
Western Australia 6005
Telephone: 08 9321 2665
Facsimile: 08 9321 8867
Email: admin@cvn.com.au
www.carnarvon.com.au
ABN: 60 002 688 851

25 September 2008

Company Announcements Office
ASX Limited

Via ASX Online

Dear Sirs,

JUNE 2008 ANNUAL FINANCIAL REPORT

The directors of Carnarvon are pleased to announce a consolidated net profit after tax of $16.2 million for the financial year ended June 2008.

This result reflects the dedicated efforts by the Carnarvon team and its joint venture partner, Pan Orient Energy Corp., to realise the potential of our Phetchabun Basin Joint Venture in Thailand. Oil sales of 1,755,000 bbls (100% basis) during the year, compared to 148,000 in the prior period, are testament to these efforts and have been achieved in a very short period of time.

I believe we have the fundamentals in place to continue this growth and look forward to the next 12 months of activity.

Yours faithfully

Ted Jacobson
Chief Executive Officer

CARNARVON PETROLEUM LIMITED

ABN 60 002 688 851

AND ITS CONTROLLED ENTITIES

ANNUAL REPORT

30 JUNE 2008

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

Ground Floor
1322 Hay Street
West Perth WA 6005
Telephone: +61 8 9321 2665
Facsimile: +61 8 9321 8867
Email: admin@carnarvonpetroleum.com
Website: www.carnarvonpetroleum.com

Share Registry

Computershare Investor Services Pty Limited
Level 2
45 St Georges Terrace
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 ASX Limited.

ASX Code: CVN - ordinary shares

CONTENTS

I am pleased to report that the 2008 financial year has been another exciting period of growth for Carnarvon. The ground work undertaken over the previous two years to establish a strong platform for growth has been translated into very significant operating achievements both in the field and financially. Sales revenue jumped from $3.7 million to $63 million and, together with our first profit after tax of $16.7 million, these results illustrate the scale of the transformation taking place.

Carnarvon is now well established in the mid-cap rankings of the Australian stock market as a well capitalised oil producer with growing production, reserves and cash flow. Growth has been underpinned by the strong performance of our joint venture interest in the Phetchabun Basin field in Central Thailand.

We have continued the excellent working relationship with our partner and operator, Pan Orient Energy Corp. The development programme and results achieved over a relatively short time frame have been impressive particularly in such a competitive environment for skilled people and physical resources in the oil industry.

While our primary Thai interests provide significant further growth potential Carnarvon has added to its small but highly skilled technical team and augmented our physical presence and representation in Bangkok. This has enabled us to accelerate our new venture activities. In Thailand we have successfully developed our regional knowledge, added to our exploration acreage and built relationships with highly regarded regional operators. Elsewhere, in South East Asia particularly, we have actively continued to review opportunities.

Over the last twelve months the oil and gas industry has experienced extremely buoyant conditions with record high oil prices. At the same time there has been a significant shortage of experienced people and intense competition for access to oil and gas properties in many cases resulting in commercially unrealistic prices.

More recently we have entered a period of uncertain and highly volatile financial markets and commodity prices. Our share price has been adversely affected along with many of our peer companies. While we are mindful of the challenges in effectively deploying valuable cash resources in this climate, Carnarvon is well positioned to take advantage of the opportunities that we are now starting to see emerge.

Carnarvon's success is largely dependent on the efforts of the people involved. We are fortunate to have an experienced and dedicated team. I thank my fellow directors, Chief Executive Officer Ted Jacobson and all of the staff for their outstanding contribution. I am confident that with the Company's strong position and their enthusiasm and efforts we can look forward to another rewarding year.

Peter Leonhardt
Chairman

Carnarvon has grown significantly in the past twelve months to become a well respected mid-tier Australian oil exploration and producing company. In recognition of the success we have achieved in our onshore Thailand assets, the company was awarded "Explorer of the Year" by the recent Good Oil Conference in Perth.

Carnarvon's oil production now comes from four fields within the Phetchabun Basin in which it has a 40% interest: at Wichian Buri, Na Sanun East, Na Sanun and Si Thep. At the close of the 2007/2008 financial year, on the back of drilling over 20 wells in Thailand the company has significantly increased its net average monthly production to approximately 2,600 bopd, booked reserves of 11.38 mmbls of oil, discovered valuable contingent resources of 31 mmbbls of oil, and realised tangible results with a consolidated cash balance of $31.4 million, including deposits lodged to secure exploration commitments, at year end.

Full scale development of the Na Sanun East Oil Field has commenced following the grant of a production licence and environmental approvals. Carnarvon is planning for anticipated 2008 calendar year end net production of around 6,000 bopd. Appraisal and development drilling will continue throughout the remainder of this year and into next year with the next exploration wells planned to commence in early 2009.

Significant exploration and appraisal oil upside has also been identified throughout the permits. Further appraisal and development of the Wichian Buri Oil Field has commenced and appraisal of the Si Thep Oil Field, Bo Rang gas discovery and L44-R oil discovery will be undertaken in 2009.

The Carnarvon team has considerable knowledge of onshore Thailand geology, and has successfully applied for and been granted operatorship and 50% equity in exploration concession L20/50. This permit lies immediately south of the large Sirikit Oil Field within the Phitsanulok Basin. Carnarvon is committed to acquiring 2D seismic in 2009 and the drilling of at least one well by 2010. An aeromagnetic survey will commence soon, once approvals are finalised.

Carnarvon has also applied for two other concessions onshore Thailand as part of an equal partnership with Pearl Oil (Petroleum) Ltd.

The company will continue to progress new business opportunities, with a current focus in and around Thailand, concentrating on opportunities that could provide further near-term cash flow.

Carnarvon is also actively looking for further opportunities to add to its existing acreage in Australia, where the Company has three permits in the offshore Carnarvon Basin and a 2.5% ORRI interest in the Perth Basin tight gas field at Warro. If successfully developed, Warro would lead to a positive cash flow to Carnarvon from 2009 or 2010.

As your Chief Executive Officer, on behalf of all shareholders, I would like to thank the Board of Directors, management and staff of Carnarvon in helping to achieve this transformation of the company, laying the foundation for continued growth in the years to come. Carnarvon's technical team, with international experience and proven oil finding capabilities, provides the base from which we will continue to grow.

On behalf of Carnarvon I would like to express my gratitude to our joint venture partners, in particular the very active and committed Pan Orient Energy Corp., for their hard work in helping Carnarvon achieve these excellent results.

As a shareholder of the company I am pleased at our past progress. I believe we have the fundamentals in place to continue this growth and eagerly look forward to the next twelve months of activity.

Ted Jacobson
Chief Executive Officer

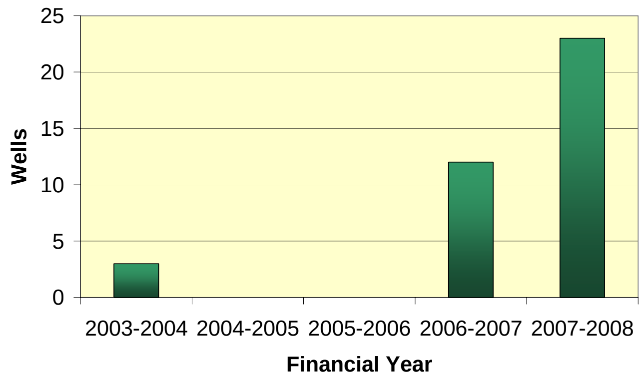
COMPANY PERFORMANCE

Key Performance Indicators

Carnarvon tracks several key performance indicators to provide a relative measure of the company's growth, as shown below.

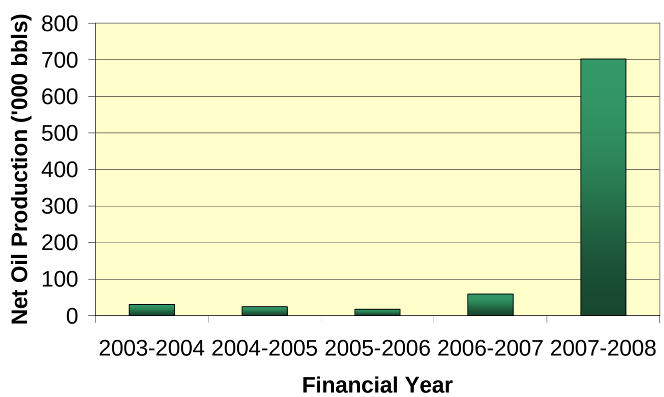
Wells Drilled

Period: 1 July 2007 – 30 June 2008
Measure: 23 Wells
Period Change: + 92%



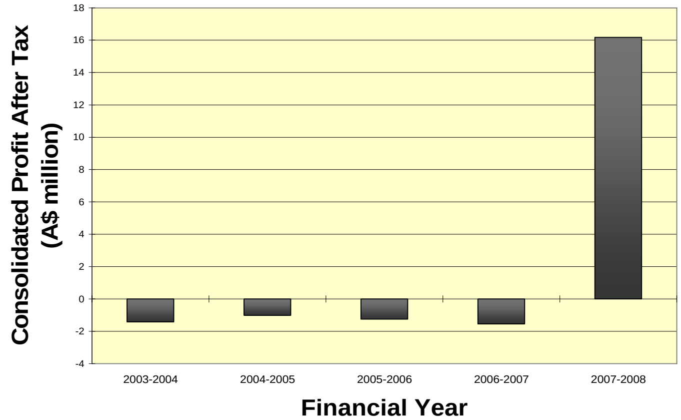
Annual Net Sales

Period: 1 July 2007 – 30 June 2008
Measure: 702,084 bbls
Period Change: + 1000%



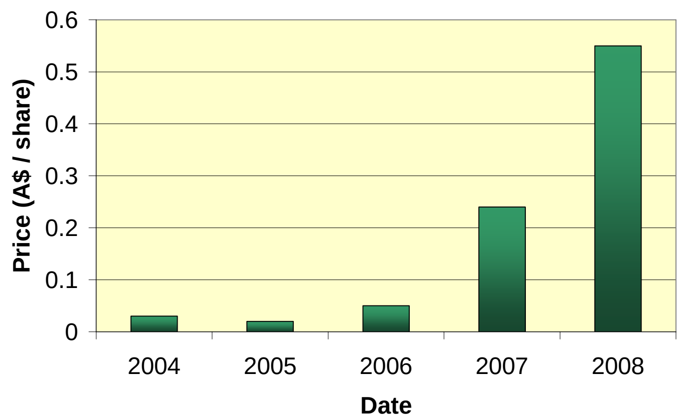
Consolidated Profit After Tax

Period: 1 July 2007 – 30 June 2008
Measure: $16.2 million
Period Change: N/A



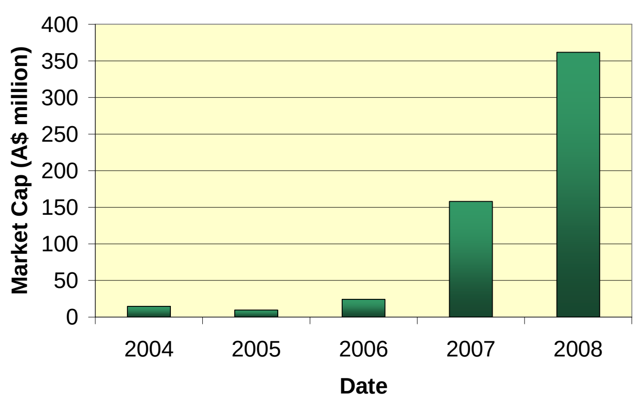
Share Price

Period: As at 30 June 2008
Measure: A$0.53
Period Change: + 121%



Market Capitalisation

Period: As at 30 June 2008
Measure: A$361 million
Period Change: + 129%

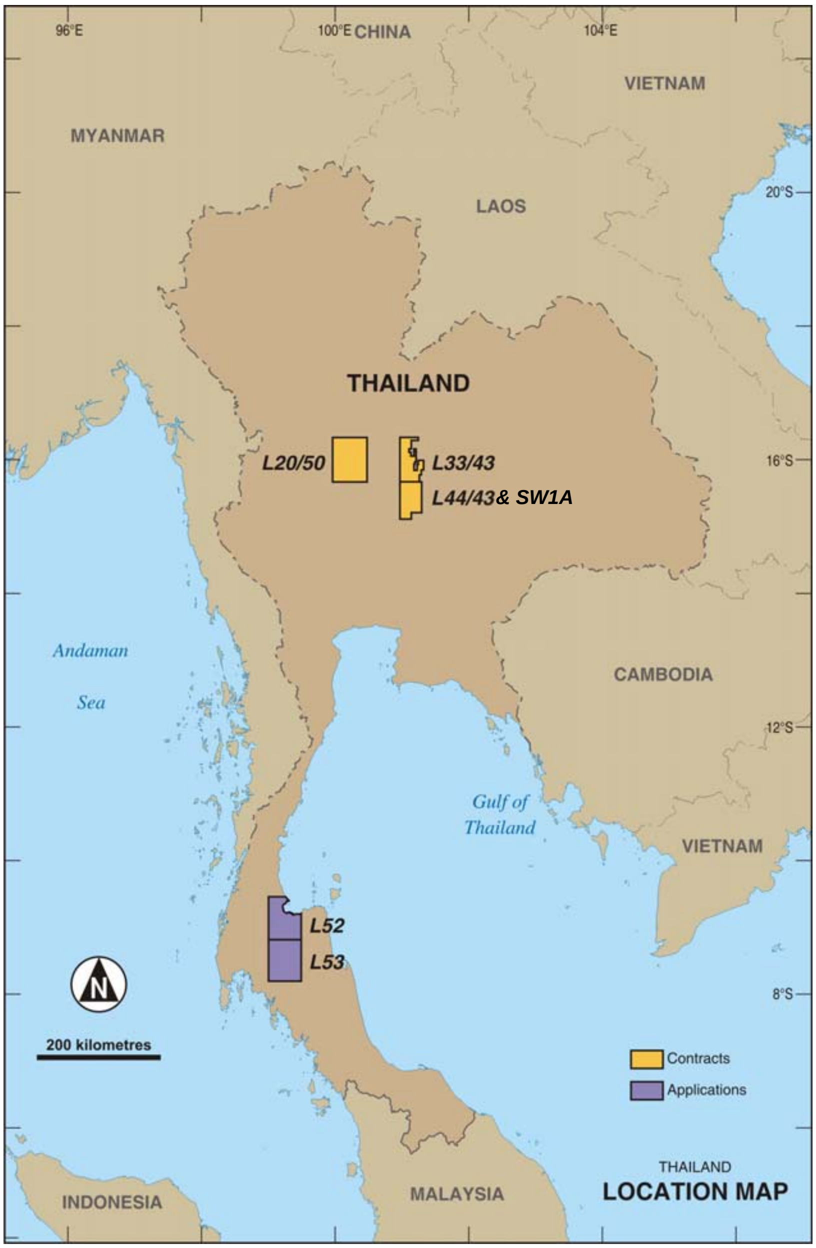


OPERATIONS REVIEW

" Over the course of the financial year Carnarvon Petroleum has increased net production from 500 bopd to 3,000 bopd, converted 9 mmbbls of contingent resources to 2P reserves, and significantly increased overall resources through a constant drilling and testing campaign."

(1) THAILAND

Carnarvon's cornerstone assets are the producing fields in the L44/43 and SW1A licences in the Phetchabun Basin onshore Thailand in which the Company has a 40% interest.



Permit Map of Thailand

L44/43, SW1A & L33/43 Thailand Phetchabun Basin
(Carnarvon Petroleum 40%, Pan Orient Energy Corp. 60% and operator)

Exploration

Successful exploration and appraisal drilling has led to the delineation of the central and northern compartments of the Na Sanun East ("NSE") oil field, as well as the discovery of a new separate oil pool at L44-R.

An exploration well, WB-1 (Deep), which was drilled into the volcanics beneath the producing Wichian Buri sandstone reservoir, proved the existence of reservoir quality volcanics but failed to recover commercial flows of oil. It is interpreted that structure may be present updip of this location and further work is planned to evaluate this potential.

Exploration drilling in the northern exploration block L33/43 failed to intersect commercial volumes of hydrocarbons. Further exploration is planned to be undertaken in the southern part of this permit closer to the proved petroleum system existing around the Wichian Buri oil field.

Another 3 to 4 exploration wells are planned for 2009, with timing dependent primarily on rig availability and development well requirements. These wells are planned to target volcanic reservoirs south of the Wichian Buri field and also sandstone reservoirs north of the Wichian Buri field.

Appraisal

The successful appraisal of NSE in late 2007 led to independent certification of 2P reserves in that field of 20.6 million bbls (gross to joint venture), the application for a production license over NSE, and implementation of a development plan that is detailed below.

Further appraisal drilling is anticipated for later in 2008 and 2009 to appraise the L44-R oil discovery, the volcanic reservoir potential at the Si Thep and Wichian Buri structures, further delineation of the sandstone oil reservoir at Wichian Buri, and investigation of a potential oil leg under the Bo Rang gas discovery.

Development

A production license over the NSE oil field was granted early in 2008. Environmental approval to drill was delayed for a further six months, in turn delaying the start of the development drilling.

The development plan for NSE incorporates 20 to 25 development wells being drilled from mid 2008 through to mid 2010. The first of these wells, NSE-A1, was drilled and successfully completed in mid 2008 with positive results.

The wells will be drilled from a total of 5 or 6 well cluster locations, with each location being designed and built to accommodate a maximum of four wells. Each location will have oil treatment, storage and offloading capacity. Five locations have been completed, with the sixth location optional depending upon individual well performance.

The development plan is designed for plateau production of 15,000 bopd gross for 1 to 2 years before natural decline. There is sufficient capacity in existing infrastructure to cater for delivery of the oil from the field to the refinery in Bangkok.

Successful appraisal of the Wichian Buri and other discoveries could lead to further development drilling in 2009, ultimately targeting 4,000 bopd gross from the SW1A concession incorporating Na Sanun, Wichian Buri and Si Thep, with peak production anticipated in 2010.

Production

Exploration and appraisal wells within the onshore Thailand permits are extensively tested, with produced volumes being sold at commercial rates. Consequently, due to the high success rate of exploration and production over the 2007/2008 financial year, production rates have been substantially increased during that period. Average rates for June 2008 were over 2,600 bopd net to Carnarvon compared to approximately 500 bopd in June 2007.

With the commencement of development drilling in June 2008, production rates are anticipated to increase to 6,000 bopd net by the end of the year. Further development drilling in 2009 will ensure an extended plateau rate of around 6,000 bopd net and consistent daily rates.

L20/50 Thailand Phitsanulok Basin
(Carnarvon Petroleum 50% and operator, Sun Resources NL 50%)

The L20/50 concession is situated approximately 30 kms to the southeast and on trend with the largest onshore oil field in Thailand at Sirikit. Previous drilling has demonstrated that oil has been generated within the L20/50 concession.

One previously drilled well in 1982 at Nong Bua-1 intersected significant oil shows which Carnarvon believes were not fully tested. Carnarvon is continuing to investigate the possibility of twinning or re-drilling this well, however the earliest date to gain required environmental approvals would delay the spudding until 2009.

Carnarvon has commenced reprocessing available seismic data within the permit, which, combined with a planned imminent high resolution aeromagnetic survey, will provide a 3 dimensional view of the subsurface. This will enable the recording of new seismic in the most prospective part of the concession during 2009 and the drilling of at least one exploration well within the first three year obligation period.

L52/50 and L53/50 Thailand Surat-Khiensa Basin
(Carnarvon Petroleum 50%, Pearl Oil (Petroleum) Limited 50% and operator)

The Company has applied to the Department of Mineral Fuels (“DMF”) in Thailand for concession rights in petroleum exploration and production for two areas described as Blocks L52/50 and L53/50 (“the Concessions”) onshore Thailand within the Surat-Khiensa Basin.

Pearl Oil (Petroleum) Ltd (“Pearl”), an independent oil and gas company with exploration and production (“E&P”) activities focused exclusively in South East Asia, submitted the bid as operator on behalf of Pearl and Carnarvon, each company participating at a 50% equity level.

The combined area of the two blocks is large, comprising approximately 6,950 km^2. However, both are lightly explored, with only two deep wells and limited seismic data available.

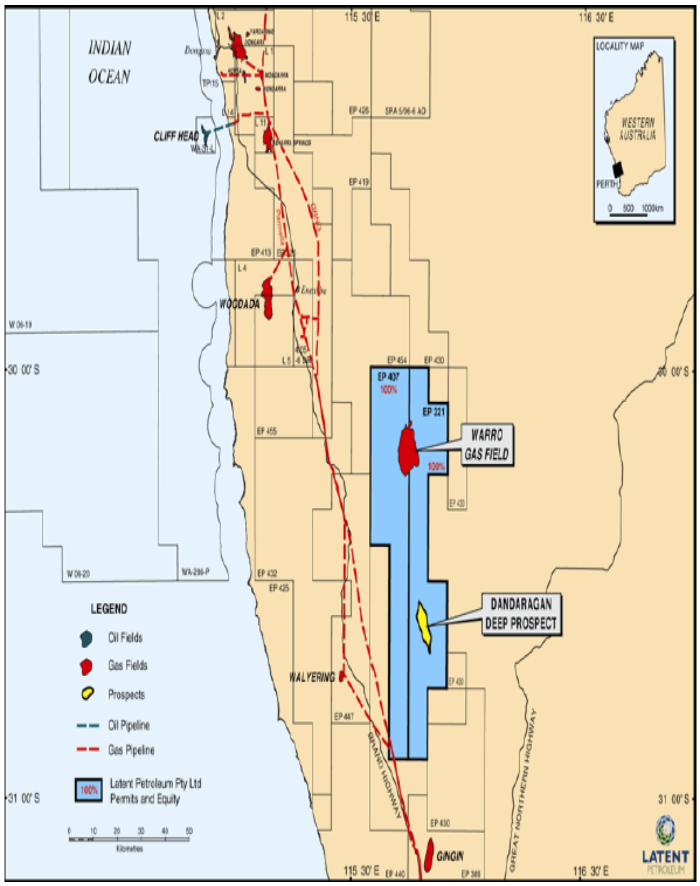
There has been minimal exploration over the area and little public knowledge is available about the Surat-Khiensa Basin. Work completed to date and Carnarvon’s regional knowledge suggests this is an area with good potential for hydrocarbon exploration.

Carnarvon and Pearl were together the sole bidders for this block and anticipate the block being formally awarded in late 2008 or early 2009.

(2) AUSTRALIA

EP 321, EP 407 Australia onshore Perth Basin
(Carnarvon Petroleum 2.5% overriding royalty - ORRI)

The Warro Gas Field is located in the EP 321 and EP 407 permits, within the onshore part of the Perth Basin, Western Australia. Carnarvon holds a 2.5% overriding royalty of net well head value from any production within the permits. Carnarvon is not required to commit to any expenditure in development, production, appraisal and exploration operations. The operator of the permits, Latent Petroleum, is planning to bring the Warro Gas field into production during 2009. The operator, who has estimated the field contains approximately 7 Tcf of gas in place, has announced plans for the field to commence production at an initial rate of 20 mmcfgd, peaking at 100 mmcfgd.



Onshore Perth Basin – location map

WA 399 P – Australia offshore North West Shelf
(Carnarvon Petroleum 50% and operator, Rialto Energy Limited 50%)

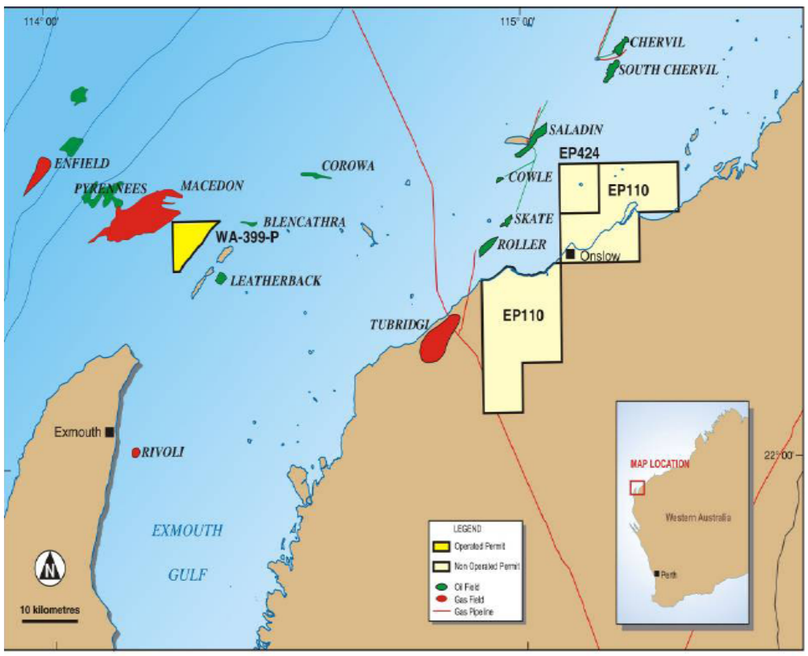
WA-399-P was awarded on 7 May 2007. The permit covers an area of 50km² located between the Pyrenees and Macedon oil and gas fields and the Leatherback oil accumulation. The minimum guaranteed work programme (Years 1 -3) comprises geotechnical studies and 315km new 2D seismic data.

Carnarvon has completed the reprocessing of all available seismic over the permit (550 km²) and is incorporating the results into a revised structural interpretation of the permit. Once finalized this is expected to determine the optimum location for the new 2D seismic programme.

EP 424 / EP 110 - Australia Offshore Northwest Shelf
(Carnarvon Petroleum 35%, Strike Oil Limited 40% and operator, Pancontinental Oil and Gas Limited 25%)

A variation to the permit terms of EP 424 has been requested from the Department of Industry and Resources ("DOIR") under which the drilling of one well is now required by 13 April 2009. The outcome is awaited.

Further detailed seismic analysis of 'amplitude versus offset' was carried out by the operator over the Baniyas Prospect to refine the nature of hydrocarbons expected. The Baniyas Prospect is situated on the downthrown side of the Flinders Fault, the eastern bounding fault of the Carnarvon Basin. Bright seismic amplitudes on the crest of the structure are similar to the Cyrano and Nasutus discoveries elsewhere along this fault trend which encountered a gas cap on oil leg. Baniyas is estimated to have potential for Pmean prospective resources of 26 million barrels oil and 56 Bcf gas (34 million Barrels of Oil Equivalent). These prospective resources are of a speculative nature until the prospect has been evaluated by drilling. EP-110 is operated in conjunction with EP-424 and an application to renew the permit was submitted to the DOIR in July 2006. The outcome is also awaited.

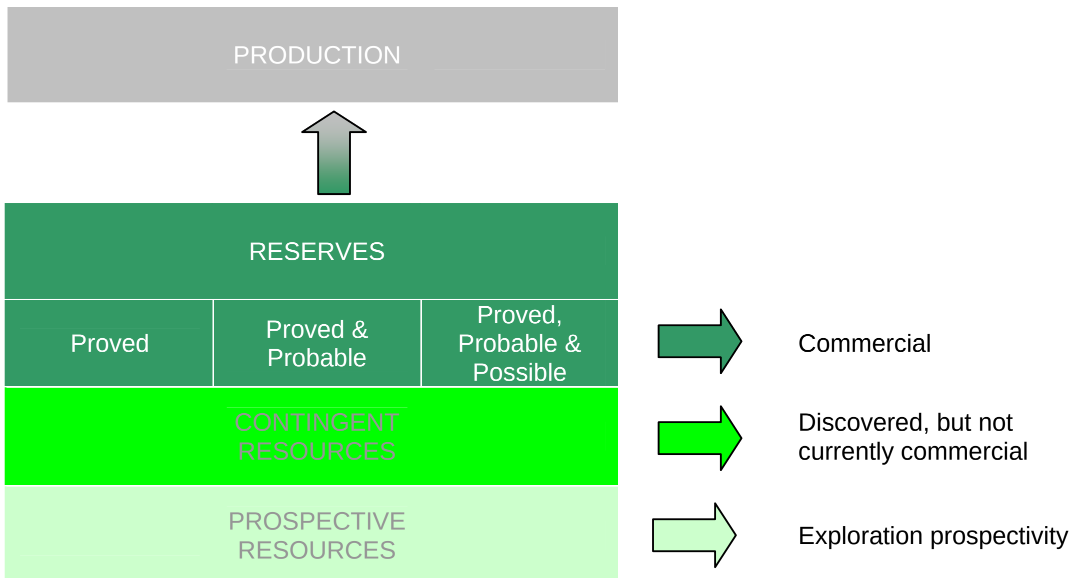


North West Shelf permits – location map

RESERVE ASSESMENT

Petroleum Resource Classification, Categorisation and Definitions

Carnarvon calculates reserves and resources according to the SPE/WPC/AAPG/SPEE [1] Petroleum Resource Management System ("SPE-PRMS") definition of petroleum resources. This definition was first published in 1997 by the SPE, and in an effort to standardise reserves reporting has been further clarified by the SPE-PRMS in 2007.



Proved and Probable (2P) Reserves

Reserves are defined as those quantities of petroleum which are anticipated to be commercially recovered from known accumulations from a given date forward. Estimation of reserves is inherently uncertain and to express an uncertainty range, reserves are subdivided in Proved, Probable and Possible categories. Carnarvon reports its reserves as Proved plus Probable reserves, also abbreviated as 2P.

Carnarvon's reserves are calculated using forward projections of production levels, work programmes and the associated capital investment and operating cost levels. From these projections the last year of economic production is calculated, given an assumed oil price scenario. The aggregate production until this economic cut off point constitutes the reserves.

1 Society of Petroleum Engineers ("SPE"); World Petroleum Council ("WPC"); American Association of Petroleum Geologist ("AAPG") & Society of Petroleum Evaluation Engineers ("SPEE")

Carnarvon's reserves base has been certified by an independent reserves auditor. Over the last few years Gaffney, Cline and Associates ("GCA") has performed this service in line with end of calendar year requirements for the Department of Mineral Fuels ("DMF") in Thailand. GCA is one of the largest independent reserves certifiers in the world and this year GCA certified 11.38 million barrels of oil of 2P oil reserves net to Carnarvon as at 1 January 2008, which is an increase of over 300% compared to December 2006 reserves. In particular, 2P reserves increased as a result of successful appraisal drilling in the NSE oil field.

	Net Carnarvon Reserves		
	Proved	Proved + Probable	Proved + Probable + Possible
	1P (million bbls)	2P (million bbls)	3P (million bbls)
GCA 31 Dec 2007	2.59	11.38	45.69

The information in this Reserves Statement has been compiled by Philip Huizenga, a full-time employee of the Company. Philip Huizenga is qualified in accordance with ASX listing rule 5.11 and has consented to the form and context in which this statement appears.

Contingent Resources

In addition to its certified reserves, Carnarvon has a number of discovered oil and gas resources which do not currently classify as reserves. According to the SPE-PRMS, these classify as contingent resources. Contingent resources are those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from known accumulations, but which are not currently considered to be commercially recoverable. In addition, a viable development strategy has to be developed to allow contingent resources to be categorised as reserves.

Carnarvon has an estimated 31 million barrels of contingent oil resources. These resources are not reserves because further work is required to mature them, most notably appraisal drilling. During 2007 / 2008 around 9 million bbls of contingent resources were converted into 2P reserves. Contingent resources have been replenished by the recent L44-R oil discovery and further analysis of volcanics in wells at Bo Rang, Si Thep and NSE.

Carnarvon has an active work programme to convert further contingent resources into reserves. However, this would require drilling additional appraisal wells and potentially acquiring further 3D seismic. Study work is underway to identify additional development targets. Appraisal drilling in Wichian Buri and NSE is scheduled for late 2008 and 2009. The timing of these wells will dictate the amount of resources that may be converted into reserves before the next GCA reserves audit scheduled for calendar year end 2008.

Carnarvon estimates its contingent resources in a similar manner as its reserves, requiring forward projections of production levels and work programmes and the associated capital investment and operating cost levels. There is a chance that identified resources will not convert into reserves.

	Net Carnarvon Contingent Resource
	Proved + Probable 2C (million bbls)
NSE	14
Bo Rang	7
Si Thep	7
L44-R	3
CVN 30 Jun 2008	31

For the remainder of 2008 Carnarvon is planning to drill a further 8 development / appraisal wells and 2 or 3 exploration wells. The appraisal and exploration wells will be targeting 18 million bbls of unrisked contingent resources net. Carnarvon estimates that more than 13 million bbls of unrisked contingent resources, plus 34 million bbls of possible reserves, will be targeted by appraisal drilling work programmes in 2009 and beyond.

Prospective Resources

Carnarvon's contingent resources are not the same as its prospective resources. Under the SPE-PRMS definitions prospective resources can also be classified as exploration resources. Prospective resources are those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations.

Carnarvon has a number of exploration licences. These exploration licences are evaluated using techniques like gravity and magnetic surveys, geochemical surveys, seismic surveys and basin analysis. This analysis results in a long list of leads and drillable prospects. Only drillable prospects which have been included on drilling schedules are categorised as prospective resources by Carnarvon. Leads are identified as potential hydrocarbon accumulations that will require additional study before they are matured to prospects and appear in drilling plans. Prospects and leads carry exploration risks which result in the possibility of not finding commercial hydrocarbons. These risks are identified by Carnarvon and help management in ranking exploration activities.

Exploration wells scheduled for 2009 will target prospective resources which have yet to be calculated.

NEW VENTURES

Organic Growth

As an integrated exploration and production company, Carnarvon is continuously aiming to grow the business by identifying exploration targets and maturing them into drillable prospects, thus increasing its prospective resource base. Successful exploration discoveries result in prospective resources moving into contingent resources. Successful appraisal drilling, in combination with a development strategy and demonstrating commerciality, result in contingent resources being moved into reserves.

Other

Carnarvon has continued to achieve significant growth from its successful exploration and development efforts in its Thailand assets, L44/43 and SW1A. These areas continue to be a primary focus for the Company and they are now delivering significant sustained oil production and revenues as predicted. Cash flow from these producing fields facilitates Carnarvon's pursuit of other new venture opportunities to grow the company.

Identifying and successfully negotiating these opportunities requires a concentrated effort. Carnarvon has recruited a New Ventures Manager to lead this endeavour who is a geologist/geophysicist with significant industry experience in South East Asia, Australia and globally. The new ventures team is currently implementing a strategy to acquire quality exploration acreage and appraisal projects with preference for the following:

- Near-term production and revenue
- Producing fields with potential upside via infill drilling, near-field exploration or workovers
- Low cost, non-operated interests with competent partner operators
- On trend with commercial oil discoveries
- Necessary infrastructure and markets in place
- Leveraging Carnarvon's knowledge and expertise to develop healthy, long-term relationships with larger operators
- Organic growth as well as growth via mergers and acquisitions

Carnarvon is progressing at an advanced stage with several exploration and appraisal opportunities to deliver on this strategy. A new exploration block in onshore Thailand, L20/50, was awarded to Carnarvon in the recent bid round. This block lies within the same proven basin as the Sirikit and S1 oil fields. Bids have also been made for two further blocks onshore Thailand.

FINANCIAL SUMMARY

The Group's revenue from continuing operations for the year ended 30 June 2008, being its share of the Phetchabun Basin Joint Venture ("Joint Venture") in Thailand, was $63,033,000 (2007: $3,674,000).

The higher A$ oil revenue resulted from higher Joint Venture oil sales of 1,755,209 bbls (2007: 147,904 bbls) complemented by an improvement in the achieved oil sale price to US$82.19 per bbl (2007: US$50.24), partly offset by an appreciation in the A$ from US$0.85 to US$0.96 over the reporting period. The increase in oil sales is explained earlier in this operating and financial review.

The Group's profit after income tax for the year ended 30 June 2008 was $16,174,000 (2007: $1,542,000 loss), however its share of the pre tax (income and special remuneratory benefit) cash operating profit of the Phetchabun Basin Joint Venture in Thailand increased to $52,734,000 (2007: $882,000) as a result of significantly improved production and the low variable operating, transportation, royalty and selling cost of per barrel of $13.87 (2007 $48.26).

Corporate and administration costs for the year were $2,129,000 excluding share-based payments (2007: $966,000). This increase reflects a general increase in corporate costs as well as staff costs associated with expanding the Company's technical capability.

The directors present their report together with the financial report of Carnarvon Petroleum Limited ("Company") and of the Group, being the Company, its controlled entities, and the Group's interest in jointly controlled assets, for the financial year ended 30 June 2008, and the auditor's report thereon.

Carnarvon Petroleum Limited is a listed public company incorporated and domiciled in Australia.

Directors

The names and details of the Company's directors in office at any time during or since the end of the financial year are as follows. Directors were in office for this entire period unless otherwise stated.

Peter J Leonhardt
Chairman

FCA, FAICD (Life)
Age 61. Appointed as a director on 17 March 2005 and appointed Chairman in April 2005.

Mr Leonhardt is an independent company director and adviser with extensive business, financial and corporate experience. He is a Chartered Accountant and a former Senior Partner with PricewaterhouseCoopers and Managing Partner of Coopers & Lybrand in Western Australia.

During the past three years Mr Leonhardt has served as a director of the following listed companies: Centrepoint Alliance Limited (from May 2002); CTI Logistics Limited (from August 1999); Voyager Energy Limited (from March 2001 to September 2005); Titan Resources Limited (from June 2005 to June 2006). He is also a director of the Western Australian Institute for Medical Research.

Mr Leonhardt is Chairman of the Audit Committee.

Edward (Ted) P Jacobson
Chief Executive Officer

B.Sc (Hons Geology)
Age 59. Appointed as a director on 5 December 2005.

Mr Jacobson is a petroleum geophysicist with 38 years' experience in petroleum exploration principally in the European North Sea, South East Asia, South America and Australia. Within Australia he has been responsible for initiating a number of petroleum discoveries within the Cooper Basin, Barrow Sub Basin and Timor Sea. In 1986, Ted established the consulting company Exploration Study Projects Pty Ltd which advised companies on new venture opportunities in Australia and South East Asia and assisted in capital raisings and corporate activity. In 1991Ted was co-founder of Discovery Petroleum NL and from 1996 co-founder and technical director of Tap Oil Ltd which grew to a market capitalisation of over $400 million under his technical leadership. Ted retired from Tap in September 2005.

During the past three years Mr Jacobson has served as director of the following listed companies: Rialto Energy Limited (from July 2006); Tap Oil Ltd (from September 1996 to September 2005). Mr Jacobson was also a director of Smart Rich Energy Finance (Holdings) Ltd (from January 2007 to November 2007), listed on the Hong Kong Stock Exchange.

Neil C Fearis
Non-Executive Director

LL.B (Hons), MAICD, F Fin
Age 57. Appointed as a director on 30 November 1999.

Mr Fearis has over 30 years' experience as a commercial lawyer in the UK and Australia.

During the past three years Mr Fearis has served as a director of the following listed companies: Kresta Holdings Limited (from 1997); Perseus Mining Limited (from 2004); Liberty Resources Limited (from 25 June 2007). Mr Fearis is also a member of several professional bodies associated with commerce and law.

Mr Fearis is a member of the Audit Committee.

Directors (continued)

Kenneth P Judge
Non-Executive Director

B.Com, B. Juris, LL.B
Age 53. Appointed as a director on 1 April 2005.

Mr. Judge has extensive legal and business management experience having held a number of public company directorships and has been engaged in the establishment or corporate restructure of technology, mining, and oil and gas companies in Australia, United Kingdom, USA, Brazil, Argentina, Mexico and the Philippines.

Mr. Judge is a director and Chairman of Brazilian Diamonds Limited (from February 2001), which is listed on both the Toronto Stock Exchange and the AIM market of the London Stock Exchange Plc. He is a director of Block Shield Corporation Plc (from February 2004), director and Chairman of Hidefield Gold Plc (from October 2003) and a director of Gulfsands Petroleum Plc. (from October 2006), all of which are listed on AIM.

He is also a director and Chairman of Alto Ventures Ltd (from April 2004), Columbus Gold Corporation (from September 2004), Columbus Silver Corporation (from May 2007) and Empire Mining Ltd (from January 2005), all of which are listed on the TSX Venture Exchange.

Company Secretary

Mr Robert Anderson was appointed Company Secretary in November 2005. Mr Anderson is a Chartered Accountant who has previously held company secretarial positions in both ASX-listed companies and private entities.

Directors' meetings

The number of directors' meetings and the number of meetings attended by each of the directors of the Company during the financial year are as follows:

	(a)	(b)
Peter Leonhardt	5	5
Ted Jacobson	5	5
Neil Fearis	5	5
Ken Judge	5	5

(a) Number of meetings held during period of office
(b) Number of meetings attended

Audit Committee

Names and qualifications of Audit Committee members

The Committee is to include at least 2 members. Current members of the committee are Mr Peter Leonhardt and Mr Neil Fearis. Qualifications of Audit Committee members are provided in the Directors section of this directors' report.

Audit Committee meetings

The number of Audit Committee meetings and the number attended by each of the members during the reporting period were as follows:

	(a)	(b)
Peter Leonhardt	3	3
Neil Fearis	3	3

(a) Number of meetings held during period of office
(b) Number of meetings attended

Remuneration Committee

In August 2008 the Board determined the Company was of a size to justify the existence of a Remuneration Committee that now comprises Mr Leonhardt, Mr Judge and Mr Fearis. There were no Remuneration Committee meetings during the reporting period.

The Remuneration Committee is responsible for the remuneration arrangements for directors and executives of the Company.

The Remuneration Committee considers remuneration packages and policies applicable to the executive directors, senior executives, and non-executive directors. It is also responsible for share option schemes, the Employee Share Plan, incentive performance packages, and retirement and termination entitlements.

Principal activities

During the course of the 2008 financial year the Group's principal activities continued to be directed towards oil and gas exploration, development and production.

Identification of independent directors

The independent directors are identified in the Corporate Governance Statement section of this Annual Report as set out on pages 70 to 72.

Remuneration report

During the reporting period the Board determined remuneration policies and practices, evaluated the performance of senior management, and considered remuneration for those senior managers.

The Remuneration Committee now assesses the appropriateness of the nature and amount of remuneration on an annual basis by reference to industry and market conditions, and with regard to the Company's financial and operational performance.

Total non-executive directors' fees are approved by shareholders and the Board is responsible for the allocation of those fees amongst the individual members of the Board.

The value of remuneration is determined on the basis of cost to the Company and the Group.

Principles of compensation

Remuneration of directors and executives is referred to as compensation throughout this report.

Compensation levels for key management personnel of the Company and the Group are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The directors obtain, when required, independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally.

Compensation arrangements include a mix of fixed and performance based compensation. A component of share-based compensation is awarded at the discretion of the Board, subject to shareholder approval when required.

Compensation structures take into account the overall level of compensation for each director and executive, the capability and experience of the directors and senior executives, the executive's ability to control the financial performance of the relative business segment, the Group's performance (including earnings and the growth in share price), and the amount of any incentives within each executive's remuneration.

On 1 August 2008 the Board adopted a policy that prohibits those that are granted share-based payments as part of their remuneration from entering into other arrangements that limit their exposure to losses that would result from share price decreases. The Company requires all executives and directors to sign annual statements of compliance with this policy throughout the preceding year.

Remuneration report (continued)

Principles of compensation (continued)

In considering the Group's performance and benefits for shareholder wealth, the Board has had regard to the following indices in respect of the current financial year and the previous four years. No dividends have been paid or declared during this period.

	30 June 2004	30 June 2005	30 June 2006	30 June 2007	30 June 2008
Share price	$0.015	$0.018	$0.052	$0.24	$0.53
Consolidated net profit / (loss) from continuing operations ($000)	($1,417)	($1,007)	($1,246)	($1,542)	$16,174

The directors believe the increase in share price since June 2004 reflects a number of factors, including the appointment of Ted Jacobson as Chief Executive Officer in February 2006. The development of the Group's oil and gas interests in Thailand since his appointment has resulted in a substantial increase in production and operational revenues, as evidenced by the operating profit in the period under review.

Fixed compensation

Fixed compensation consists of base compensation as well as employer contributions to superannuation funds. Base compensation may be supplemented by an element of share-based compensation.

There was no share-based compensation in the period under review, other than that set out in the Employee Share Plan section of this remuneration report.

Non-executive directors

Total remuneration for all non-executive directors, last voted upon by shareholders at a General Meeting in November 2005, is not to exceed $200,000 per annum.

A non-executive director's base fee is currently $55,000 per annum. The Chairman receives $90,000 per annum. Non-executive directors do not receive any performance-related remuneration. Directors' fees cover all main Board activities and membership of Board committees. The Company does not have any terms or schemes relating to retirement benefits for non-executive directors.

Service contracts

The contract duration, period of notice and termination conditions for key management personnel are as follows:

(i) Ted Jacobson, Chief Executive Officer, is engaged through a rolling 12 month Employment Agreement. Termination by the Company is with 3 months' notice (or payment in lieu thereof) and payment of 9 months remuneration. Termination by Mr Jacobson is with 3 months' notice.

(ii) Robert Anderson, Company Secretary and Chief Financial Officer, is engaged through a rolling 12 month Consultancy Agreement. Termination by the Company is with 6 months' notice or payment in lieu thereof. Termination by the consultant is with 3 months' notice.

(iii) Philip Huizenga, Chief Operating Officer, is engaged as an employee. Termination by the Company is with 4 weeks' notice or payment in lieu thereof. Termination by Mr Huizenga is with 4 weeks' notice.

Remuneration report (continued)

Employee Share Plan

Shares are issued under an Employee Share Plan ("ESP"), which has been approved by shareholders in Annual General Meeting ("AGM").

The purpose of the ESP is to attract, retain and motivate those who have been invited to participate in the ESP and thereby align their interests with those of other shareholders as a means of encouraging them to ensure that Company performance increases shareholder wealth through long term growth. Shares are issued based upon the assessed performance of each person against their job specifications and the recommendations of the Chief Executive Officer, and in the case of directors, with the approval of shareholders. The following ESP shares were issued to directors and key management personnel:

2008

Executive Officers	Number of shares issued	Issue date	Issue price per share	Loan
RA Anderson	100,000	07/01/2008	$0.701	$70,100
PP Huizenga	100,000	07/01/2008	$0.701	$70,100

2007

Directors	Number of shares issued	Issue date	Issue price per share	Loan
EP Jacobson	6,000,000	30/04/2007	$0.09	$540,000
PJ Leonhardt	3,000,000	30/04/2007	$0.09	$270,000

These issues were not subject to a performance condition. The issue price was calculated based on the 5 day weighted average closing price prior to the date of offer. The purchases were funded by interest-free loans with a limited recourse security over the plan shares and subject to the detailed rules of the ESP.

Analysis of bonuses included in remuneration

All cash bonuses awarded during the period and included in remuneration, as set out on page 21, fully vested to each of the directors, named Company executives, and key management personnel during the period.

Directors' and executive officers' remuneration (Company and consolidated)

Details of the nature and amount of each major element of the remuneration of each director of the Company and each of the named Company and Group executives receiving the highest remuneration are set out on the following page.

The fair value of options, including ESP shares treated in principle as an option over the Company's shares, is calculated at the date of grant using the Black-Scholes Option Pricing Model. Shares issued under the ESP vest immediately and their fair value recognised as an expense in the current period. The following factors and assumptions were used in determining the fair value of ESP shares at grant date, being the date of shareholder approval, in the current and previous reporting period:

Grant date	Assumed Expiry date	Fair value per option	Exercise price	Price of shares at grant date	Expected volatility	Risk free interest rate	Dividend yield
2008							
07/01/2008	06/01/2011	$0.31	$0.701	$0.701	55%	7.5%	0%
2007							
30/04/2007	30/04/2010	$0.07	$0.09	$0.135	55%	5.5%	0%

Remuneration report (continued)
Directors' and executive officers' remuneration, Company and consolidated (continued)

	Short Term		Post Employment	Share-based payments			
Name	Salary and fees ($)	Short term cash bonus($)	Superannuation contributions ($)	Shares ($)	Options ($)	Total ($)	Value of options as a % of remuneration
Directors							
Non-Executive							
Mr PJ Leonhardt (Chairman)							
2008	$82,500	-	-	-	-	$82,500	-
2007	$60,000	-	-	-	$222,263	$282,263	78.7%
Mr NC Fearis							
2008	$50,000	-	-	-	-	$50,000	-
2007	-	-	$37,500	-	-	$37,500	-
Mr KP Judge							
2008	$50,000	-	-	-	-	$50,000	-
2007	$37,500	-	-	-	-	$37,500	-
Executive							
Mr EP Jacobson (Chief Executive Officer)							
2008	$315,367	$50,000	$9,633	-	-	$375,000	-
2007	$250,000	-	-	-	$444,527	$694,527	64.0%
Executives							
Mr RA Anderson (CFO/Company Secretary)							
2008	$225,000	$26,214	-	-	$30,734	$281,948	10.9%
2007	$149,936	-	-	-	-	$149,936	-
Mr Philip Huizenga (Chief Operating Officer, from 1 January 2008)							
2008	$137,200	-	$12,348	-	$30,734	$180,282	17.0%
Total compensation: key management personnel (Company and Consolidated)							
2008	$860,067	$76,214	$21,981	-	$61,468	$1,019,730	
2007	$497,436	-	$37,500	-	$666,790	$1,201,726	

Mr Peter Leonhardt, the Chairman, is currently acting in a part time executive capacity to support the Chief Executive Officer. Mr Leonhardt's fulfillment of this role going forward will be monitored relative to the Company's stage of development. Directors' fees are paid or payable to the director or a director related entity.

None of the remuneration in the current or prior period was performance related.

Remuneration report (continued)

Equity instruments

(i) Shares

There were no shares in the Company granted as compensation to key management personnel during the reporting period, other than the ESP shares treated in principle as an option over the Company's shares as described under (ii) below.

(ii) Options and ESP shares

There were no options over shares in the Company granted as compensation during the reporting period. No options have been granted since the end of the financial year.

Share issues under the Company's ESP are treated in principle as an option over the Company's shares and are included in the option tables below. These options are assumed to have a life of 3 years.

Details of options, including ESP shares treated in principle as options, granted and vested to directors and executives are as follows. All options were issued for nil cash consideration, vest immediately, and have been recognised as an expense in the current period.

2008 Executive Officers	Number of ESP shares issued	Issue date	Fair value per option at issue date	Exercise price per option	Assumed Expiry date
RA Anderson	100,000	07/01/2008	$0.31	$0.701	06/01/2011
PP Huizenga	100,000	07/01/2008	$0.31	$0.701	06/01/2011

2007 Directors	Number of ESP shares issued	Issue date	Fair value per option at issue date	Exercise price per option	Assumed Expiry date
EP Jacobson	6,000,000	30/04/2007	$0.074	$0.09	29/04/2010
PJ Leonhardt	3,000,000	30/04/2007	$0.074	$0.09	29/04/2010

The following shares were issued on the exercise of options granted as compensation in prior periods:

2008

Directors	Number of shares	Amount paid per share
EP Jacobson	4,000,000	$0.07
PJ Leonhardt	3,000,000	$0.07
KP Judge	2,000,000	$0.07
KP Judge	1,000,000	$0.10

2007

Directors	Number of shares	Amount paid per share
NC Fearis	2,000,000	$0.07

There are no amounts unpaid on shares issued as a result of the exercise of options in the reporting period.

During the reporting period there was no forfeiture or vesting of options granted in previous periods. At the end of the reporting period there were no unvested options on issue.

All options expire on the expiry date but do not expire as a result of the termination of the holder's engagement with the Company.

Remuneration report (continued)

Equity instruments (continued)

(ii) Options and ESP shares (continued)

The movement during the reporting period, by value, of options over ordinary shares, including shares issued under the Company's ESP, for each company director and company executive and granted as part of remuneration is detailed below:

	Value of Options			
Directors	Granted in year ($)	Exercised in year ($)	Forfeited in year ($)	Total value in year ($)
EP Jacobson	-	1,720,000	-	1,720,000
PJ Leonhardt	-	1,290,000	-	1,290,000
KP Judge	-	1,540,000	-	1,540,000

	Value of Options			
Executive Officers	Granted in year ($)	Exercised in year ($)	Forfeited in year ($)	Total value in year ($)
PP Huizenga	30,734	-	-	30,734
RA Anderson	30,734	1,141,373	-	1,172,107

The value of options granted in the year is the fair value of the options at grant date using the Black-Scholes Option Pricing Model.

The value of options exercised during the year is calculated as the market price of shares of the Company on ASX Limited as at close of trading on the date the options were exercised or the ESP loan repaid, after deducting the price paid to exercise the options or repay the loan.

Non-audit services

The auditors have not performed any non-audit services over and above their statutory duties during the current reporting period.

Details of the amounts paid or payable to the auditor of the Group for audit services provided during the year are set out below:

Audit Services	Consolidated 2008 ($)
Auditors of the Company:	
Audit and review of financial reports	78,428

Directors' interests

At the date of this report, the relevant interests of the directors in securities of the Company are as follows:

Name	Ordinary Shares	Options over ordinary Shares
PJ Leonhardt	14,900,000	3,000,000
EP Jacobson	28,917,335	4,000,000
NC Fearis	6,400,000	2,000,000
KP Judge	14,332,855	1,000,000

Shares issued under the Company's ESP are included under the heading Ordinary Shares.

Share options

Options granted to directors and executives of the Company

There were no options over shares in the Company granted as compensation to directors or named executives during or since the end of the financial year.

Share issues under the Company's ESP are treated in principle as an option over the Company's shares and are included in the table below. These options are assumed to have a life of 3 years.

Details of ESP shares issued to directors and named executives during the reporting period, and treated as options for valuation purposes, are as follows. These shares were issued for nil cash consideration, vest immediately, and have been recognised as an expense in the current period.

Executive Officers	Number of ESP shares granted	Exercise price per share	Assumed Expiry date
RA Anderson	100,000	$0.701	06/01/2011
PP Huizenga	100,000	$0.701	06/01/2011

Shares under option

The following unissued ordinary shares of the Company are under option. These exclude share issues made under the Company's ESP.

Expiry Date	Exercise price	1 July 2007	Issued	Number Exercised	Expired	30 June 2008
31/03/2008	$0.07	9,000,000	-	9,000,000	-	-
31/03/2009	$0.10	16,000,000	-	6,000,000	-	10,000,000
		25,000,000	-	15,000,000	-	10,000,000

All options expire on the expiry date but do not expire as a result of the termination of the holder's engagement with the Company. Option holders do not have any right, by virtue of the option, to vote or to participate in any share issue of the Company or any related body corporate.

No shares have been issued as a result of the exercise of options since the end of the financial year. There are no amounts unpaid on the shares issued as a result of the exercise of options in the reporting period.

During the reporting period there was there was no forfeiture or vesting of options granted in previous periods. At the end of the reporting period there were no unvested options on issue.

Likely developments

The likely developments for the 2009 financial year are contained in the operating and financial review as set out on pages 5 to 15.The directors are of the opinion that further information as to the likely developments in the operations of the Group would prejudice the interests of the Company and the Group and it has accordingly not been included.

Environmental regulation and performance

The Group's oil and gas exploration and development activities are concentrated in Thailand and Western Australia. Environmental obligations are regulated under both State and Federal Law in Western Australia and under the Department of Mineral Fuels regulations in Thailand. No significant environmental breaches have been notified by any government agency during the year ended 30 June 2008.

Dividends

No dividends were paid during the year and the directors do not recommend payment of a dividend in respect of the current financial year.

Auditor's independence declaration

The auditor's Independence Declaration under Section 307C of the Corporations Act is set out on page 26 and forms part of the directors' report for the financial year ended 30 June 2008.

Significant changes in state of affairs

In the opinion of the directors no significant changes in the state of affairs of the Group occurred during the current financial year other than as outlined in the operating and financial review as set out on pages 5 to 15.

Indemnification and insurance of directors and officers

During the period the Company paid a premium to insure the directors and officers of the Company and its controlled entities. The policy prohibits the disclosure of the nature of the liabilities covered and the amount of the premium paid.

Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of the proceedings. The Company was not a party to any such proceedings during the year.

Operating and financial review

An operating and financial review of the Group for the financial year ended 30 June 2008 is set out on pages 5 to 15 and forms part of this report.

Indemnity of directors and company secretary

It is intended that Deeds of Access and Indemnity will shortly be executed by the Company with each of the directors and Company Secretary. The deeds will require the Company to indemnify each director and Company Secretary against any legal proceedings, to the extent permitted by law, made against, suffered, paid or incurred by the directors or Company Secretary pursuant to, or arising from or in any way connected with the director or Company Secretary being an officer of the Company.

Events subsequent to reporting date

No matter or circumstance has arisen since 30 June 2008 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 off

The Company is an entity to which ASIC Class Order 98/100 dated 10 July 1998 applies. In accordance with that Class Order amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors.

PJ Leonhardt
Director

Perth, 25 September 2008

WHK Horwath

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Carnarvon Petroleum Limited for the year ended 30 June 2008, 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 audit; and

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

WHK HORWATH PERTH AUDIT PARTNERSHIP

SEAN MCGURK
Principal

Dated this 25th day of September 2008

Perth, WA

Member Horwath International
WHK Horwath Perth Audit Partnership ABN 96 844 819 235
Level 6, 256 St Georges Terrace Perth WA 6000 Australia
GPO Box P1213 Perth WA 6844 Australia
Telephone +61 8 9481 1448 Facsimile +61 8 9481 0152
Email perth@whkhorwath.com.au www.whkhorwath.com.au
A WHK Group firm

INCOME STATEMENTS

For the year ended 30 June 2008

		Consolidated		Company	
	Notes	2008 $000	2007 $000	2008 $000	2007 $000
Sales revenue from continuing operations		63,033	3,674	-	-
Other income	4	318	247	251	240
Cost of sales	5	(11,346)	(3,162)	-	-
Administrative expenses		(1,032)	(628)	(1,032)	(628)
Directors' fees		(183)	(135)	(183)	(135)
Employee benefits expense		(637)	(145)	(637)	(145)
Travel related costs		(311)	(38)	(311)	(38)
Unrealised foreign exchange (loss) / gain		(656)	54	(1,851)	(1,416)
Exploration expenditure written off		-	(75)	-	(75)
New ventures		(973)	(380)	(973)	(380)
Share-based payments		(119)	(934)	(119)	(934)
Finance costs		34	(20)	-	(1)
Profit / (loss) before income tax		48,128	(1,542)	(4,855)	(3,512)
Taxes					
Income tax expense	9	16,975	-	-	-
Special remuneratory benefit		14,979	-	-	-
Total taxes		31,954	-	-	-
Profit / (loss) from continuing operations		16,174	(1,542)	(4,855)	(3,512)
Profit / (loss) attributable to members of the Company		16,174	(1,542)	(4,855)	(3,512)
Basic earnings / (loss) per share from continuing operations (cents per share)	8	2.4	(0.3)		
Diluted earnings / (loss) per share from continuing operations (cents per share)	8	2.4	(0.3)		

The above income statements should be read in conjunction with the accompanying notes to the financial statements.

BALANCE SHEETS

As at 30 June 2008

		Consolidated		Company	
	Notes	2008 $000	2007 $000	2008 $000	2007 $000
Current assets					
Cash and cash equivalents	21(b)	28,281	8,927	570	6,520
Trade and other receivables	10	12,443	1,684	2,788	123
Inventories	12	1,586	1,111	-	-
Other assets	13	299	639	96	34
Total current assets		42,609	12,361	3,454	6,677
Non-current assets					
Trade and other receivables	10	-	-	12,713	13,024
Property, plant and equipment	11	172	104	49	70
Exploration and evaluation	14	379	-	379	-
Oil and gas assets	15	23,124	12,129	-	-
Other investments	16	-	-	1,483	1,483
Total non-current assets		23,675	12,233	14,624	14,577
Total assets		66,284	24,594	18,078	21,254
Current liabilities					
Trade and other payables	17	3,368	3,028	531	297
Employee benefits	24	13	4	13	4
Provisions	18	24,152	-	-	-
Total current liabilities		27,533	3,032	544	301
Non-current liabilities					
Deferred tax	19	3,738	-	-	-
Provisions	18	-	105	-	-
Total non-current liabilities		3,738	105	-	-
Total liabilities		31,271	3,137	544	301
Net assets		35,013	21,457	17,534	20,953
Equity					
Issued capital		66,738	65,041	66,738	65,041
Reserves		(6,211)	(1,896)	1,226	1,487
Accumulated losses		(25,514)	(41,688)	(50,430)	(45,575)
Total equity		35,013	21,457	17,534	20,953

The above balance sheets should be read in conjunction with the accompanying notes to the financial statements.

STATEMENTS OF CHANGES IN EQUITY

Group

For the year ended 30 June 2008

	Issued capital $000	Accumulated losses $000	Translation reserve $000	Share-based payments reserve $000	Total $000
Balance at 1 July 2006	50,220	(40,146)	(1,646)	278	8,706
Shares issued, net of transaction costs	14,778	-	-	-	14,778
Exchange differences on translation of foreign operations	-	-	(1,737)	-	(1,737)
Share based payments	43	-	-	1,209	1,252
Loss attributable to members of Company	-	(1,542)	-	-	(1,542)
Balance at 30 June 2007	65,041	(41,688)	(3,383)	1,487	21,457
Shares issued net of transaction costs	1,226	-	-	-	1,226
Exchange differences on translation of foreign operations	-	-	(4,054)	-	(4,054)
Share based payments	471	-	-	(261)	210
Profit attributable to members of Company	-	16,174	-	-	16,174
Balance at 30 June 2008	66,738	(25,514)	(7,437)	1,226	35,013

The above statements of changes in equity should be read in conjunction with the accompanying notes to the financial statements.

STATEMENTS OF CHANGES IN EQUITY

Company

For the year ended 30 June 2008

	Issued capital $000	Accumulated losses $000	Share-based payments reserve $000	Total $000
Balance at 1 July 2006	50,220	(42,063)	278	8,435
Shares issued, net of transaction costs	14,778	-	-	14,778
Share based payments	43	-	1,209	1,252
Loss attributable to members of the Company	-	(3,512)	-	(3,512)
Balance at 30 June 2007	65,041	(45,575)	1,487	20,953
Shares issued, net of transaction costs	1,226	-	-	1,226
Share based payments	471	-	(261)	210
Loss attributable to members of the Company	-	(4,855)	-	(4,855)
Balance at 30 June 2008	66,738	(50,430)	1,226	17,534

The above statements of changes in equity should be read in conjunction with the accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

For the year ended 30 June 2008

	Notes	Consolidated 2008 $000	Consolidated 2007 $000	Company 2008 $000	Company 2007 $000
Cash flows from operating activities					
Receipts from customers and GST recovered		56,145	2,782	275	139
Payments to suppliers and employees		(13,616)	(3,794)	(3,153)	(1,345)
Income tax paid		(3,666)	-	-	-
Interest received		236	213	204	206
Interest paid		(8)	(1)	-	(1)
Net cash flows generated from / (used in) operating activities	21(a)	39,091	(800)	(2,674)	(1,001)
Cash flows from investing activities					
Exploration and development expenditure		(17,399)	(7,188)	(628)	(334)
Cash held as security		(3,156)	-	(2,656)	-
Acquisition of property, plant and equipment		(218)	(87)	(13)	(26)
Net (advances to) controlled entities		-	-	(1,293)	(8,830)
Net cash flows (used in) investing activities		(20,773)	(7,275)	(4,590)	(9,190)
Cash flows from financing activities					
Proceeds from issue of share capital		1,230	15,960	1,230	15,960
Payment of share issue costs		(3)	(881)	(3)	(881)
Proceeds from repayment of Employee Share Plan loans		90	77	90	77
Net cash flows from financing activities		1,317	15,156	1,317	15,156
Net increase in cash and cash equivalents		19,635	7,081	(5,947)	4,965
Cash and cash equivalents at the beginning of the financial year		8,927	1,898	6,520	1,559
Effect of exchange rate fluctuations on cash and cash equivalents		(281)	(52)	(3)	(4)
Cash and cash equivalents at the end of the financial year	21(b)	28,281	8,927	570	6,520

The above statements of cash flows should be read in conjunction with the accompanying notes to the financial statements.

1. Reporting entity

The consolidated financial report of the Company for the financial year ended 30 June 2008 comprises the Company and its controlled entities (the "Group") and the Group's interest in jointly controlled assets.

The financial report was authorised for issue by the directors on 25 September 2008.

2. Basis of preparation of the financial report

Statement of compliance

The financial report is a general purpose financial report prepared in accordance with Australian Accounting Standards ("AASBs"), including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board ("AASB"), and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards ("IFRSs"). Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

Basis of measurement

The financial report is prepared on a historical cost basis, except for available-for-sale financial assets and financial instruments at fair value through profit and loss which are measured at fair value.

Functional and presentation currency

The consolidated financial statements are stated in Australian dollars, which is the Company's functional and presentation currency.

Use of estimates and judgements

The preparation of the financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

<u>Key estimate – impairment</u>

The Group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to the impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

There was not considered to be any impairment trigger over the carrying value of the Group's interest in the Phetchabun Basin Joint Venture at the date of this report.

<u>Key estimate – income and capital gains taxes</u>

Judgement is required in determining any provision for income and capital gains taxes. The Group recognizes liabilities of anticipated tax based on estimates of taxes due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax expenses, assets or provisions in the year in which such determination is made.

2. Basis of preparation of the financial report (continued)

Use of estimates and judgements (continued)

Key estimate – special remuneratory benefit tax and income tax

The Group's Phetchabun Basin Joint Venture is subject to Thai income tax at 50% and a special remuneratory benefit ("SRB") tax on profits, at sliding scale rates (0% - 75% by concession) in 2008 and beyond.

The SRB, which is tax deductible in the calculation of Thai income taxes, involves a highly detailed calculation done on a concession by concession basis. The basis of the calculation is petroleum profits, adjusted for capital spent, being subjected to a sliding scale SRB rate such that profits are not taxed until all capital has been recovered. The sliding scale rate is principally driven by production and pricing but is subject to other adjustments such as changes in Thailand's consumer price index, wholesale price index, cumulative metres drilled on the concession, and, for certain concessions, changes in the exchange rate between the Thai Baht and the USD.

The SRB calculation is performed and paid annually for each concession at the calculated annual rate at the end of each calendar year. Judgement is required in determining provisions which are based on estimates of amounts due. Where the final outcome of those matters is different from the amounts that were originally recognised, such difference may impact those provisions in the period in which such a determination is made.

Key estimate – functional currency

The determination of the functional currency of the Company's controlled entities requires consideration of a number of factors. These factors include the currencies that primarily influence their sales and costs and the economic environment in which the entities operate.

Key estimates – other

Other areas of judgement are in the determination of oil reserves, rehabilitation provisions, capitalisation of exploration and evaluation costs, determination of areas of interest, and the units of production method of depreciation.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report. The accounting policies have been applied consistently by all entities in the Group. Certain comparative amounts have been reclassified to conform to the current year's presentation.

(a) Basis of consolidation

Controlled entities

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

Where controlled entities enter or leave the economic entity during the year, their operating results are included or excluded from the date control was obtained or until the date control ceased. Investments in controlled entities are carried at cost in the Company's financial statements.

Jointly controlled assets

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

3. Significant accounting policies (continued)

(b) Income tax and special remuneratory benefit

Income tax

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

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

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is recognised in the income statement except where it relates to items recognised directly in equity, in which case it is recognised in equity. Deferred income tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and tax losses. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company / group intends to settle its current tax assets and liabilities on a net basis.

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

Special remuneratory benefit

The Group's Phetchabun Basin Joint Venture is subject to a special remuneratory benefit ("SRB") tax on profits, at sliding scale rates (0% - 75% by concession) in 2008 and beyond.

The SRB, which is tax deductible in the calculation of Thai income taxes, involves a highly detailed calculation done on a concession by concession basis. The basis of the calculation is petroleum profits, adjusted for capital spent, being subjected to a sliding scale SRB rate such that profits are not taxed until all capital has been recovered. The sliding scale rate is principally driven by production and pricing but is subject to other adjustments such as changes in Thailand's consumer price index, wholesale price index, cumulative metres drilled on the concession, and, for certain concessions, changes in the exchange rate between the Thai Baht and the USD. The SRB calculation is performed and paid annually for each concession at the calculated annual rate at the end of each calendar year.

The SRB is considered, for accounting purposes, to be a tax on income.

Tax consolidation

Carnarvon Petroleum Limited and its wholly-owned Australian resident controlled entities formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed a single entity from that date. Carnarvon Petroleum Limited is the head entity of the tax-consolidated group. In future periods the members of the group will, if required, enter into a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

3. Significant accounting policies (continued)

(c) Property, plant and equipment

Recognition and measurement

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

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

Impairment

The carrying amount of property, plant and equipment is reviewed at each balance date to determine whether there are any objective indicators of impairment that may indicate the carrying values may not be recoverable in whole or in part. Impairment testing is carried out in accordance with Note 3(f).

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

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

Depreciation

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

Plant and equipment: 20% to 33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at least annually.

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

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

(d) Oil and gas assets

Oil and gas assets include costs transferred from exploration and evaluation once technical feasibility and commercial viability of an area of interest are demonstrable, together with subsequent costs to develop the asset to the production phase.

Where the directors decide that specific costs will not be recovered from future development, those costs are charged to the income statement during the financial period in which the decision is made.

Depreciation of oil and gas assets is calculated on a unit of production basis so as to write off the costs in proportion to the depletion of the estimated recoverable reserves.

3. Significant accounting policies (continued)

(e) Exploration and evaluation

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

Each area of interest is assessed for impairment to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Impairment testing is carried out in accordance with Note 3(f).

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

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation costs attributable to that area of interest are first tested for impairment and then reclassified from exploration and evaluation to oil and gas assets.

(f) Recoverable amount of assets and impairment testing

Assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment by estimating their recoverable amount.

Assets that are subject to depreciation are reviewed annually to determine whether there is any indication of impairment. Where such an indicator exists, a formal assessment of recoverable amount is then made. Where this is in excess of carrying amount, the asset is written down to its recoverable amount.

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

For the purposes of impairment testing assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

(g) Trade receivables

Trade receivables are stated at fair value and subsequently measured at amortised cost, less impairment losses. Impairment testing is carried out in accordance with Note 3(f).

(h) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Restoration costs

The amount of the provision for future restoration and rehabilitation costs is capitalised and depreciated in accordance with the policy set out in Note 3(c). The unwinding of the effect of discounting on the provision is recognised as a finance cost.

3. Significant accounting policies (continued)

(i) Investments and other financial instruments

The Group determines the classification of its financial instruments at initial recognition and re-evaluates this designation at each reporting date.

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

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

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

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

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

(ii) Loans and receivables

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

(iii) Held-to-maturity investments

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

(iv) Available-for-sale financial assets

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

(j) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments.

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

3. Significant accounting policies (continued)

(k) Foreign currency

Functional and presentation currency

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

Transactions and balances

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

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

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

Foreign operations

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

- assets and liabilities are translated at exchange rates prevailing at balance sheet date.
- income and expenses are translated at average exchange rates for the period

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve as a separate component of equity. These differences are recognised in the income statement upon disposal of the foreign operation.

(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

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

(m) Share capital

Incremental costs directly attributable to an equity transaction are shown as a deduction from equity, net of any recognised income tax benefit.

(n) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less any estimated selling costs.

Cost includes those costs incurred in bringing each component of inventory to its present location and condition.

3. Significant accounting policies (continued)

(o) Employee benefits

Wages and salaries, annual leave

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

Share based payments – shares and share options

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

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

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

Share based payments – Employee Share Plan

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

For limited recourse loans issued to eligible persons on or after 1 January 2005, the Group is required to recognise within the income statement a remuneration expense measured at the fair value of the "share option" inherent in the issue to the eligible person, with a corresponding increase to a share-based payments reserve in equity. The fair value is measured at grant date and recognised when the eligible person become unconditionally entitled to the shares, effectively on grant. A loan receivable is not recognised.

The fair value at grant date is determined using a pricing model that factors in the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield, and the risk free rate for the assumed term of the "option". Upon the exercise of the "option", the balance of the share-based payments reserve relating to the "option" is transferred to issued capital.

(p) Earnings per share

The Group presents basic and diluted earnings per share ("ESP") for its ordinary shares.

Basic EPS is calculated by dividing the profit attributable to equity holders of the Company by the weighted number of shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all potential ordinary shares, which comprise share options granted.

3. Significant accounting policies (continued)

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term highly liquid investments.

(r) Revenue

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable.

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, and the amount of revenue can be measured reliably. For the sale of oil the transfer of risks and rewards occurs on delivery of oil to the refinery.

(s) Goods and services tax

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

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

(t) Trade and other payables

Trade and other payables are stated at amortised cost. The amounts are unsecured and usually paid within 60 days of recognition.

(u) Finance income and expenses

Interest revenue on funds invested is recognised as it accrues, using the effective interest rate method.

Finance expenses comprise interest expense on borrowings and the unwinding of the discount on provisions.

(v) Royalties

Royalties are treated as taxation arrangements when they have the characteristics of a tax. This is considered to be the case when they are imposed under government authority and the amount payable is calculated by reference to revenue derived (net of any allowable deductions) after adjustment for items comprising temporary differences. For such arrangements, current and deferred tax is provided on the same basis as described above for other forms of taxation.

Obligations arising from royalty arrangements that do not satisfy these criteria are recognised as current provisions and included in expenses.

(w) Comparative figures

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

3. Significant accounting policies (continued)

(x) New standards and interpretations not yet adopted

The AASB has issued a number of AASBs and amendments to AASBs which are available for early adoption.

The Company and Group have not early adopted any of these accounting standards or amendments as they are not expected to have a material impact on the financial results of the Company or Group. They may have an effect on the disclosures of the Company and Group, however a detailed assessment of the potential impact has not been undertaken at the date of this report.

The following Australian Accounting Standards have been issued or amended and are applicable to the parent and consolidated group but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

AASB Amendment	Standards Affected		Outline of Amendment	Application Date of Standard	Application Date for Group
AASB 2007-3 Amendments to Australian Accounting Standards	AASB 5	Non current Assets held for Sale and Discontinued Operations	The disclosure requirement of AASB 114: Segment Reporting have been replaced by the issue of AASB 8: Segment Reporting in February 2007. These amendments will involve changes to segment reporting disclosures within the financial report. However, it is anticipated that there will be no direct impact on recognition and measurement criteria amounts included in the financial report.	1.1.2009	1.7.2009
	AASB 6	Exploration for and Evaluation of Mineral Resources			
	AASB 102	Inventories			
	AASB 107	Cash Flow Statements			
	AASB 119	Employee Benefits			
	AASB 127	Consolidated and Separate Financial Statements			
	AASB 134	Interim Financial Reporting			
	AASB 136	Impairment of Assets			
	AASB 1023	General Insurance Contracts			
	AASB 1038	Life Insurance Contracts			
AASB 8 Operating Segments	AASB 114	Segment reporting	As above	1.1.2009	1.7.2009

3. Significant accounting policies (continued)

(x) New standards and interpretations not yet adopted (continued)

AASB Amendment	Standards Affected		Outline of Amendment	Application Date of Standard	Application Date for Group
AASB 2007-6 Amendments to Australian Accounting Standards	AASB 1	First Time adoption of AIFRS	The revised AASB 123: Borrowing Costs issued in June 2007 has removed the option to expense all borrowing costs. This amendment will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production go a qualifying asset. However, there will be no direct impact to the amounts included in the financial group as there are currently no borrowing costs.	1.1.2009	1.7.2009
	AASB 101	Presentation of Financial Statements			
	AASB 107	Cash Flow Statements			
	AASB 111	Construction Contracts			
	AASB 116	Property, Plant and Equipment			
	AASB 138	Intangible Assets			
AASB 123 Borrowing Costs	AASB 123	Borrowing Costs	As above	1.1.2009	1.7.2009
AASB 2007-8 Amendments to Australian Accounting Standards	AASB 101	Presentation of Financial Statements	The revised AASB 101: Presentation of Financial Statements issued in September 2007 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity.	1.1.2009	1.7.2009
AASB 101	AASB 101	Presentation of Financial Statements	As above	1.1.2009	1.7.2009

	Consolidated		Company	
	2008 $000	**2007 $000**	**2008 $000**	**2007 $000**

4. Other income

Finance income on bank deposits	283	240	251	233
Reversal of provision for non-recovery of Employee Share Plan loans	-	7	-	7
Other	35	-	-	-
	318	247	251	240

5. Cost of sales

Production	(1,800)	(1,386)	-	-
Royalty and excise	(4,374)	(410)	-	-
Transportation	(1,920)	(168)	-	-
Depreciation - development costs and producing assets	(1,605)	(307)	-	-
Selling, general and administration	(1,647)	(891)	-	-
	(11,346)	(3,162)	-	-

6. Other expenses

Depreciation – other plant and equipment	(37)	(28)	(34)	(28)
Rental premises – operating leases	(131)	(60)	(66)	(60)

7. Auditors' remuneration

Audit services:				
Auditors of the Company	78	48	78	48

8. Earnings per share

The calculation of basic and diluted earnings per share was based on a weighted average number of shares calculated as follows:

	Number of shares	
Issued ordinary shares at 1 July	657,537,134	411,787,134
Effect of shares issued	186,849	95,027,860
Effect of share options exercised	6,979,452	98,630
Weighted average number of ordinary shares 30 June (basic)	664,703,435	506,913,624
Effect of share options on issue	19,163,014	22,750,685
Weighted average number of ordinary shares 30 June (diluted)	683,866,449	529,664,309

Profit / (loss) used in calculating basic and diluted earnings / (loss) per share from continuing operations	$16,174,000	($1,542,000)

9. Income tax expense

	Consolidated 2008 $000	Consolidated 2007 $000	Company 2008 $000	Company 2007 $000
Numerical reconciliation between pre-tax profit / (loss) and income tax expense / (benefit):				
Prima facie income tax expense / (benefit) on pre-tax profit / (loss) at 30% (2007: 30%)	14,438	(463)	(1,457)	(1,054)
Tax effect of:				
Foreign sourced income	-	(167)	-	-
Special remuneratory benefit	(7,552)	-	-	-
Effect of higher overseas tax rate	10,438	-	-	-
Unrealized foreign exchange gains / (losses)	-	(16)	554	425
Non-assessable income	-	(2)	-	(2)
Non-deductible expenditure	322	295	277	295
Prior year losses recognised	(3,064)	-	-	-
Prior year temporary differences recognised	1,814	-	-	-
Current year tax benefit not brought to account	579	353	626	336
Income tax expense on pre tax profit / (loss)	16,975	-	-	-
Current income tax	13,237	-	-	-
Deferred tax	3,738	-	-	-
	16,975	-	-	-

Tax Consolidation

Effective 1 July 2003, for the purposes of Australian income taxation, Carnarvon and its 100%-owned controlled entities formed a tax consolidated group. The head entity of the tax consolidated group is Carnarvon.

The impact of consolidating for tax purposes is that Carnarvon's Australian controlled entities are treated as divisions of Carnarvon rather than as separate entities for tax purposes. The members of the group will, if required, enter into a tax sharing arrangement in order to allocate group tax related liabilities to contributing members on a reasonable basis. The agreement will provide for the allocation of income tax liabilities between entities should the head entity default on its tax payment obligations.

10. Trade and other receivables

	Consolidated 2008 $000	Consolidated 2007 $000	Company 2008 $000	Company 2007 $000
Current				
Trade and other receivables	8,995	1,534	132	123
Cash held as security	3,156	-	2,656	-
Owing by Phetchabun Basin Joint Venture partner	292	150	-	-
	12,443	1,684	2,788	123
Non-current				
Amounts receivable from controlled entities	-	-	13,406	13,717
Provision for non-recovery	-	-	(693)	(693)
	-	-	12,713	13,024

The Group's exposure to credit and currency risks is disclosed in Note 32.

11. Property, plant and equipment

	Consolidated		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
Plant and equipment				
Cost:				
Balance at beginning of financial year	89	65	-	-
Additions	56	27	-	-
Disposals	(63)	-	-	-
Effects of movements in foreign exchange	(8)	(3)	-	-
Balance at end of financial year	74	89	-	-
Depreciation and impairment losses:				
Balance at beginning of financial year	56	29	-	-
Disposals	(3)	-	-	-
Depreciation charge for year	14	27	-	-
Balance at end of financial year	67	56	-	-
Carrying amount opening	33	36	-	-
Carrying amount closing	7	33	-	-
Fixtures and fittings				
Cost:				
Balance at beginning of financial year	204	262	108	80
Additions	121	79	13	28
Transfers	-	(111)	-	-
Effects of movements in foreign exchange	(6)	(26)	-	-
Balance at end of financial year	319	204	121	108
Depreciation and impairment losses:				
Balance at beginning of financial year	133	119	38	10
Transfers	-	(22)	-	-
Depreciation charge for year	58	36	34	28
Balance at end of financial year	191	133	72	38
Carrying amount opening	71	143	70	70
Carrying amount closing	128	71	49	70
Land and buildings				
Cost:				
Balance at beginning of financial year	-	-	-	-
Additions	38	-	-	-
Balance at end of financial year	38	-	-	-
Depreciation and impairment losses:				
Balance at beginning of financial year	-	-	-	-
Depreciation charge for year	1	-	-	-
Balance at end of financial year	1	-	-	-
Carrying amount opening	-	-	-	-
Carrying amount closing	37	-	-	-

11. Property, plant and equipment (continued)

	Consolidated 2008 $000	Consolidated 2007 $000	Company 2008 $000	Company 2007 $000
Total				
Cost:				
Balance at beginning of financial year	293	327	108	80
Additions	215	106	13	28
Transfers	-	(111)	-	-
Disposals	(63)	-	-	-
Effects of movements in foreign exchange	(14)	(29)	-	-
Balance at end of financial year	431	293	121	108
Depreciation and impairment losses:				
Balance at beginning of financial year	189	148	38	10
Transfers	-	(22)	-	-
Disposals	(3)	-	-	-
Depreciation charge for year	73	63	34	28
Balance at end of financial year	259	189	72	38
Carrying amount opening	104	179	70	70
Carrying amount closing	172	104	49	70

12. Inventories

Current				
Raw materials and consumables	1,586	1,111	-	-

13. Other assets

Current				
Deposits and prepayments	299	639	96	34

14. Exploration and evaluation

Cost:				
Balance at beginning of financial year	-	-	-	-
Additions	379	-	379	-
Balance at end of financial year	379	-	379	-

15. Oil and gas assets

Cost:				
Balance at beginning of financial year	12,773	7,167	-	-
Additions	14,475	6,676	-	-
Transfers	-	111	-	-
Effects of movements in foreign exchange	(1,908)	(1,181)	-	-
Balance at end of financial year	25,340	12,773	-	-
Depreciation and impairment losses:				
Balance at beginning of financial year	644	350	-	-
Transfers	-	22		
Depreciation charge for year	1,572	272	-	-
Balance at end of financial year	2,216	644	-	-
Carrying amount opening	12,129	6,817	-	-
Carrying amount closing	23,124	12,129	-	-

	Consolidated		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
16. Other investments				
Non-current				
Investments in controlled entities – at cost	-	-	1,483	1,483

The Group has the following interests in joint venture assets:

Joint venture	*Principal activities*	*Ownership interest %*
Thailand		
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%
Exploration Block L20/50 7/2551/98 Concession	Exploration for hydrocarbons	50%
Western Australia		
EP 110 & 424, Carnarvon Basin	Exploration for hydrocarbons	35%
WA-399-P, Carnarvon Basin	Exploration for hydrocarbons	50%

Summary financial information for joint venture assets, as included in the consolidated balance sheet and income statement, is shown below:

	2008 $000	2007 $000
Current assets		
Cash and cash equivalents	28,130	2,407
Trade and other receivables	9,124	1,594
Inventories	1,586	1,111
Other assets	738	572
Total current assets	39,578	5,684
Non-current assets		
Property, plant and equipment	123	34
Exploration and evaluation	363	-
Oil and gas assets	24,037	12,129
Total non-current assets	24,523	12,163
Total assets	64,101	17,847
Current liabilities		
Trade and other payables	2,863	2,730
Provisions	24,152	-
Total current liabilities	27,015	2,730
Non-current liabilities		
Deferred tax	3,738	-
Provisions	-	105
Total non-current liabilities	3,738	105
Total liabilities	30,753	2,836
Net assets	33,348	15,011
Income	63,033	3,681
Expenses	(43,857)	(3,125)
Net profit after tax	19,176	556

Capital commitments and contingent liabilities for the joint ventures are disclosed in Notes 22 and 23 respectively.

	Consolidated		Company	
	2008	2007	2008	2007
	$000	$000	$000	$000

17. Trade and other payables

Current				
Trade payables	2,352	955	308	206
Non-trade payables and accrued expenses	948	2,073	155	91
Owing to related parties	68	-	68	-
	3,368	3,028	531	297

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 32.

Company trade payables denominated in currencies other than its functional currency comprise A$10,000 denominated in US$ (2007: A$84,000) and A$36,000 denominated in GBP (2007: A$Nil).

18. Provisions

Current				
Income tax	9,304	-	-	-
Special Remuneratory Benefit - Thailand	14,848	-	-	-
	24,152	-	-	-
Non-current				
Site restoration:				
Balance at beginning of financial year	105	68	-	-
Provision (reversed) / made during the year	(105)	37	-	-
Balance at end of financial year	-	105	-	-

There are no restoration provisions required in respect of the Group's activities. The unused provision of $105,000 at the previous year end has been reversed in full during the current period.

19. Deferred tax

Recognised deferred tax assets and liabilities

The net deferred tax liability is attributable to the following:

Oil and gas assets (liability)	5,918	-	-	-
Tax value of loss carry forwards recognised (asset)	(2,180)	-	-	-
Net tax liability	3,738	-	-	-

The movement in the deferred tax liability during the reporting period has all been recognized in income.

Unrecognised deferred tax assets and liabilities

Deferred tax assets have not been recognized in respect of the following items:

Deductible temporary differences	212	288	1,518	1,037
Tax loses	1,631	1,070	1,631	1,054
	1,843	1,358	3,149	2,091

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

20. Capital and reserves

	Company and consolidated 2008	2007
	Number of shares	
Issued capital		
Balance at beginning of financial year	657,537,134	411,787,134
Shares issued for cash	-	230,000,000
Employee Share Plan issues	387,500	13,750,000
Shares issued on exercise of share options	15,000,000	2,000,000
Balance at end of financial year	672,924,634	657,537,134

	Company and consolidated 2008	2007
	$000	
Issued capital		
Balance at beginning of financial year	65,041	50,220
Shares issued for cash	-	15,820
Transaction costs	(3)	(1,182)
Employee Share Plan related movements	380	43
Employee Share Plan loans repaid	90	-
Shares issued on exercise of share options	1,230	140
Balance at end of financial year	66,738	65,041

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

The Company does not have authorised capital or par value in respect of its issued shares.

Translation reserve

Movements in the translation reserve are set out in the Statement in Changes in Equity on page 29.

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity.

Share based payments reserve

Movements in the share based payments reserve are set out in the Statements of Changes in Equity on pages 29 and 30.

This reserve represents the fair value at grant of share options issued, including the value of shares issued under the Company's ESP. This reserve is reversed against issued capital when shares are issued on exercise of the options, or, in the case of the shares issued under the ESP, the loan is repaid.

21. Reconciliation of cash flows from operating activities

(a) Cash flows from operating activities

	Consolidated 2008 $000	Consolidated 2007 $000	Company 2008 $000	Company 2007 $000
After tax profit / (loss) for the period	16,174	(1,542)	(4,855)	(3,512)
Adjustments for:				
Equity settled share based payment expense	119	934	119	934
Deferred tax expense	3,738	-	-	-
Reversal of provision for impairment losses	-	(7)	-	(7)
Depreciation	1,642	335	34	28
Finance costs associated with rehabilitation provisions	(39)	19	-	-
Exploration expenditure written off	-	75	-	75
Foreign exchange losses / (gains)	656	(54)	1,851	1,416
Operating profit / (loss) before changes in working capital and provisions:	22,290	(240)	(2,851)	(1,066)
Changes in assets and liabilities:				
(Increase) in trade and other receivables	(7,789)	(1,292)	(9)	(76)
(Increase) in inventories	(604)	(908)	-	-
Decrease / (increase) in other assets	273	(683)	(62)	(15)
Increase in trade and other payables	760	2,319	239	152
Increase in provisions and employee benefits	24,161	4	9	4
Net cash flows generated from / (used in) operating activities	39,091	(800)	(2,674)	(1,001)

(b) Reconciliation of cash and cash equivalents

	Consolidated 2008 $000	Consolidated 2007 $000	Company 2008 $000	Company 2007 $000
Cash at bank and at call	28,281	8,927	570	6,520

The Group’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 32.

Restricted cash of $2,656,000 Company and $3,156,000 consolidated is included under trade and other receivables (2007: $Nil Company and consolidated), see Notes 10 and 23.

	Consolidated		Company	
	2008 $000	2007 $000	2008 $000	2007 $000

22. Capital and other commitments

(a) Joint venture commitments

	Consolidated 2008 $000	Consolidated 2007 $000	Company 2008 $000	Company 2007 $000
Share of capital commitments of joint venture assets:				
Within one year	1,721	204	-	-
Capital commitments of the Group to joint venture assets:				
Within one year	187	1,950	187	1,950

(b) Exploration expenditure commitments

Due to the nature of the Group's operations in exploring and evaluating areas of interest, it is difficult to accurately forecast the nature or amount of future expenditure, although it will be necessary to incur expenditure in order to retain the entity's present permit interests. Expenditure commitments on exploration permits can be reduced by selective relinquishment of exploration tenure, by the renegotiation of expenditure commitments, or by farming out portions of the entity's equity.

Exploration expenditure commitments forecast but not provided for in the financial statements are as follows:

	Consolidated		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
Less than one year	500	568	500	132
Between one and five years	3,000	213	3,000	213
	3,500	781	3,500	345

(c) Capital expenditure commitments

	Consolidated 2008 $000	Consolidated 2007 $000	Company 2008 $000	Company 2007 $000
Data licence commitments	96	107	96	107

23. Contingencies

The directors are of the opinion that provisions are not required in respect of these matters as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Contingent liabilities not considered remote

a) Under the terms of an Investment Agreement the Group is required to pay a percentage of sales proceeds from specified zones within the Wichian Buri Production Licences I and II in Thailand to Gemini Oil and Gas Limited, an independent oil and natural gas investment fund. The percentage is 12.5% to a maximum cumulative payment of US$800,000, after which the percentage falls to 7.5%.

The Group has expensed US$371,000 in the current period (2007: US$184,000). Cumulative amounts paid and payable at balance date under the terms of this agreement are US$820,000.

Contingent liabilities considered remote

a) The Phetchabun Basin Joint Venture operation, in which the Group has a 40% interest, has issued bank guarantees for an amount of 40.5 million Thai Baht as security in lieu of bonds. The Group's "trade and other receivables" include A$500,000 of restricted cash held by the bank as security for these guarantees.

b) The Company has provided a cash bond of US$2,125,000 to the Department of Mineral Fuels in Thailand in respect of its obligations for its 50% interest in the L20/50 concession in Thailand. The bond is secured by a cash deposit of A$2,656,000 held with Company's Australian bank. The Company and its joint venture partner, who has provided a similar guarantee to the Department of Mineral Fuels, are negotiating a Cross Deed of Indemnity in respect of their respective rights and interests.

c) In accordance with normal petroleum industry practice, the Group 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.

	Consolidated		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
24. Employee benefits				
Current:				
Liability for annual leave	13	4	13	4

Share options

The number and weighted average exercise price of employee share options is as follows:

	Weighted average exercise price 2008	Number of options 2008	Weighted average exercise price 2007	Number of options 2007
Outstanding 1 July	$0.09	20,000,000	$0.09	22,000,000
Exercised during the period	$0.07	10,000,000	$0.07	2,000,000
Outstanding 30 June	$0.10	10,000,000	$0.09	20,000000
Exercisable at 30 June	$0.10	10,000,000	$0.09	20,000000

All options on issue at 30 June 2008 have an exercise price of $0.10, expire on 31 March 2009, and are issued to directors or their related parties.

The weighted average share price at the date of exercise for employee share options exercised during the period was $0.53 (2007: $0.22)

Share based payments - Employee Share Plan

Under the terms of the Carnarvon Employee Share Plan ("ESP"), as approved by shareholders, the Company may, in its absolute discretion, make an offer of ordinary fully paid shares in the Company to any eligible person, to be funded by a limited recourse loan granted by the Company.

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 date of offer. Eligible persons receive an interest free advance to acquire the shares.

The movements in the ESP during the financial year, including those held by Key Management Personnel, were as follows:

	1 July 2007	Issued	Repaid	30 June 2008
Number of shares	16,250,000	387,500	1,785,000	14,852,500
Loan	$1,573,992	$271,638	$90,277	$1,755,353
Average issue price per share	$0.10	$0.70	$0.05	$0.12

In accordance with AASB 2 the issue of shares under the ESP are accounted for as an in principle option.

24. Employee benefits (continued)

The fair value of services received in return for options for both the Company and Group, including shares issued under the ESP and valued as options, is measured by reference to the fair value of share options granted using the Black-Scholes model, as set out below.

Fair value of share options and related assumptions	**Key management personnel 2008**	**Key management personnel 2007**	**Other employees 2008**	**Other employees 2007**
Fair value at measurement date (cents)	30.7	7.4	30.7	5.1 to 6.0
Share price at date of issue (cents)	70.1	13.5	70.1	12.2 to 14.3
Exercise price (cents)	70.1	9.0	70.1	12.2 to 14.3
Expected volatility	55%	55%	55%	55%
Actual / assumed option life	3 years	3 years	3 years	3 years
Expected dividends	Nil	Nil	Nil	Nil
Risk-free interest rate	7.5%	5.5%	7.5%	5.5%
Share-based expense recognised	$61,468	$666,790	$57,627	$267,029

The current year volatility approximates the Company's historic volatility over a 90 day period ending 30 June 2008 and is intended to reflect the movement of the Company's share price volatility towards its peers as its oil and gas interests mature.

Further details of shares and options issued to directors are set out in Note 27, and in the Remuneration Report set out on pages 18 to 23.

25. Related party disclosures

Ultimate parent

Carnarvon Petroleum Limited is the ultimate parent company.

Wholly-owned group transactions

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

During the financial year ended 30 June 2008 net loans to controlled entities totalled $1,293,000 (2007: $9,088,000).

The carrying value of loans to controlled entities at 30 June 2008 was $12,713,000 (2007: $13,024,000) after provisions of $693,000 (2007: $693,000). These loans are unsecured, non-interest bearing, and have no fixed terms of repayment.

Other related party balances

At 30 June 2008 an amount of $68,548 (2007: $Nil) is included in Company and consolidated trade and other payables for outstanding director fees and expenses.

26. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Consolidated		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
Less than one year	170	232	71	119
Between one and five years	12	149	-	64
	182	381	71	183

During the reporting period $344,000 was recognised as an expense in the consolidated income statement in respect of operating leases (2007: $240,000).

27. Segment information

Segment information is presented in respect of the Group's primary format, geographical segments, which is based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers, and segment assets are based on the geographical location of the assets.

The Group operated one business segment during the reporting period, being oil and gas exploration, development and production.

27. Segment information (continued)

Geographical Segments (A$000)	Australia		Thailand		Consolidated	
	2008	2007	2008	2007	2008	2007
Revenue						
Sales	-	-	63,033	3,674	63,033	3,674
Other	251	240	67	7	318	247
Total revenue	251	240	63,100	3,681	63,351	3,921
Segment result						
Result from continuing operations	(3,001)	(2,098)	19,195	556	16,174	(1,542)
Total segment result	(3,001)	(2,098)	19,175	556	16,174	(1,542)
Assets						
Oil and gas assets	-	-	23,124	12,129	23,124	12,129
Property, plant and equipment	49	70	123	34	172	104
Other	3,454	6,677	39,534	5,684	42,988	12,361
Total segment assets	3,503	6,747	62,781	17,847	66,284	24,594
Liabilities						
Total segment liabilities	544	301	30,727	2,836	31,271	3,137
Other segment information:						
Capital expenditure	13	285	14,614	6,915	14,627	7,200
Depreciation	34	28	1,608	307	1,642	335

28. Key management personnel disclosures

(a) Key management personnel compensation

Key management personnel compensation included in employee benefits expense, directors emoluments, share based payments and administration expenses is as follows:

	Consolidated		Company	
	2008 ($)	2007($)	2008 ($)	2007($)
Short term employee benefits	936,281	534,936	936,281	534,936
Post-employment benefits	21,981	-	21,981	-
Share-based payments	61,468	666,790	61,468	666,790
	1,019,730	1,201,726	1,019,730	1,201,726

Information regarding individual directors and executives' compensation and some equity instruments disclosures, as permitted by Corporations Regulation 2M.3.03, are provided in the Remuneration Report section of the directors' report as set out on pages 18 to 23.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

(b) Options and rights over equity instruments

The movement during the reporting period in the number of options over ordinary shares in the Company held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

Directors	Held at 1 July 2007	Exercised	Held at 30 June 2008
PJ Leonhardt	6,000,000	(3,000,000)	3,000,000
EP Jacobson	8,000,000	(4,000,000)	4,000,000
NC Fearis	2,000,000	-	2,000,000
KP Judge	4,000,000	(3,000,000)	1,000,000

Directors	Held at 1 July 2006	Exercised	Held at 30 June 2007
PJ Leonhardt	6,000,000	-	6,000,000
EP Jacobson	8,000,000	-	8,000,000
NC Fearis	4,000,000	(2,000,000)	2,000,000
KP Judge	4,000,000	-	4,000,000

Options granted as compensation vest immediately. During the financial year there was no forfeiture or vesting of options granted in previous periods. There were no options on issue that were still to vest at the end of the reporting period.

28. Key management personnel disclosures (continued)

(c) Loans to key management personnel and their related parties

Details of loans to key management personnel and their related parties, which are all interest free loans with limited recourse security over the plan shares provided in accordance with the Company's Employee Share Plan ("ESP"), are as follows:

	Balance 1 July 2007 ($)	Balance 30 June 2008 ($)	Highest balance in period ($)	Loaned in period ($)	Repaid in period ($)
Directors					
PJ Leonhardt	270,000	270,000	270,000	-	-
EP Jacobson	540,000	540,000	540,000	-	-
Executives					
PP Huizenga	244,000	314,100	314,100	70,100	-
RA Anderson	101,242	81,065	101,242	70,100	90,277

	Balance 1 July 2006 ($)	Balance 30 June 2007 ($)	Highest balance in period ($)	Loaned in period ($)	Repaid in period ($)
Directors					
PJ Leonhardt	-	270,000	270,000	270,000	-
EP Jacobson	-	540,000	540,000	540,000	-
NC Fearis	17,000	-	17,000	-	17,000
Executive					
RA Anderson	101,242	101,242	101,242	-	-

Details regarding the aggregate of loans, all of which are interest free, made by the Group to key management personnel and their related parties, and the number of individual in each group, are as follows:

	Opening balance ($)	Closing balance ($)	Number in group at 30 June
2008	911,242	1,205,162	4
2007	118,242	911,242	4

Mr Huizenga was only classified as a key management person effective 1 January 2008, and his loans are therefore not included in the 1 July 2007 opening balance.

(d) Other key management personnel transactions

Amounts payable to key management personnel or their related parties at reporting date in respect of outstanding director and consulting fees and expenses are as follows:

	Consolidated		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
Current				
Trade and other payables	68	-	68	-

28. Key management personnel disclosures (continued)

(e) Movements in shares

The movement during the reporting period in the number of ordinary shares in Carnarvon Petroleum Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2007	Net acquired/ (sold)	Award under Employee Share Plan	Received on exercise of options	Held at 30 June 2008
Directors					
PJ Leonhardt	11,900,000	-	-	3,000,000	14,900,000
EP Jacobson	24,313,793	300,000	-	4,000,000	28,613,793
NC Fearis	6,316,186	-	-	-	6,316,186
KP Judge	15,068,596	(2,500,000)	-	3,000,000	15,568,596
Executives					
PP Huizenga	2,000,000	-	100,000	-	2,100,000
RA Anderson	4,443,490	(1,439,049)	100,000	-	3,104,441

Mr Huizenga became a key management person effective 1 January 2008.

	Held at 1 July 2006	Net acquired/ (sold)	Award under Employee Share Plan	Received on exercise of options	Held at 30 June 2007
Directors					
PJ Leonhardt	7,510,504	1,389,496	3,000,000	-	11,900,000
EP Jacobson	13,189,307	5,124,486	6,000,000	-	24,313,793
NC Fearis	5,871,400	(1,555,214)	-	2,000,000	6,316,186
KP Judge	14,168,596	900,000	-	-	15,068,596
			-		
Executive					
RA Anderson	3,464,998	978,492	-	-	4,443,490

Shares allotted under the ESP were funded by interest-free loans with a limited recourse security over the plan shares and subject to the detailed rules of the ESP.

In accordance with AASB 2 the issue of shares under the ESP is accounted for as an in principle option. The fair value of share options, including ESP shares issued and valued as options, and their valuation assumptions are set out in Note 24.

Information regarding individual directors' and executives' compensation, including company loans used to finance the purchase of the ESP shares, is provided in the Remuneration Report section of the directors' report as set out on pages 18 to 23.

29. Non-key management personnel disclosures

Identity of related parties

The Group has a related party relationship with its controlled entities (see Note 30), joint venture assets (see Note 16), and with its key management personnel (see Note 28).

30. Consolidated entities

Name	Country of Incorporation	Ownership interest 2008	Ownership interest 2007
Company			
Carnarvon Petroleum Ltd			
Controlled entities			
Carnarvon Thailand Ltd	British Virgin Islands	100%	100%
Lassoc Pty Ltd	Australia	100%	100%
SRL Exploration Pty Ltd	Australia	100%	100%

Investments in controlled entities are measured at cost in the financial statements of the Company.

31. Subsequent events

No matter or circumstance has arisen since 30 June 2008 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

32. Financial risk management

The Group's activities expose it to market risk (including currency risk, commodity price risk and interest rate risk), credit risk and liquidity risk.

This note presents qualitative and quantitative information about the Company's and Group's exposure to each of the above risks, their objectives, policies and procedures for managing risk, and the management of capital. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

The Group's overall risk management approach focuses on the unpredictability of financial markets and seeks to minimize the potential adverse effects on the financial performance of the Group. The Group does not currently use derivative financial instruments to hedge financial risk exposures and therefore it is exposed to daily movements in the international oil prices, exchange rates, and interest rates.

The Group uses various methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange, and commodity price risk and ageing analysis for credit risk.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence and to sustain future development of the business. Given the stage of the Group's development there are no formal targets set for return on capital. There were no changes to the Group's approach to capital management during the year. Neither the Company nor any of its controlled entities are subject to externally imposed capital requirements.

(a) Commodity price risk

Commodity price risk is the risk of financial loss resulting from movements in the price of the Group's commodity output, being crude oil.

Revenues under the Group's contractual arrangements with its customer are denominated in US$, linked to the US$ prices of a basket of oil products, and paid in Thai Baht at the average monthly exchange rate. The Group does not currently use derivative financial instruments to hedge commodity price risk and therefore is exposed to daily movements in the prices of these oil products. The Company is not exposed to commodity price risk.

Sensitivity analysis

An increase of 10% in the achieved monthly oil sale price would have increased equity and pre tax profit and loss by the amounts shown below. This analysis assumes that all other variables other than royalties, which are directly related to oil revenues, remain constant. The analysis is performed on the same basis for 2007:

	Consolidated		Company	
	Equity $000	Profit and loss $000	Equity $000	Profit and loss $000
30 June 2008	5,867	5,867	-	-
30 June 2007	336	336	-	-

A decrease of 10% in the achieved monthly oil sale price would have decreased equity and pre tax profit and loss by the amounts shown below. This analysis assumes that all other variables other than royalties, which are directly related to oil revenues, remain constant. The analysis is performed on the same basis for 2007:

	Consolidated		Company	
	Equity $000	Profit and loss $000	Equity $000	Profit and loss $000
30 June 2008	(5,867)	(5,867)	-	-
30 June 2007	(336)	(336)	-	-

32. Financial risk management (continued)

(b) Interest rate risk

The significance and management of the risks to the Group and the Company is dependent on a number of factors including:

- Interest rates (current and forward) and the currencies that are held;
- Level of cash and liquid investments and their term;
- Maturity dates of investments;
- Proportion of investments that are fixed rate or floating rate.

The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate investments.

At the reporting date the effective interest rates of variable rate interest bearing financial instruments of the Company and the Group were as follows. There were no interest-bearing financial liabilities:

	Consolidated		Company	
	2008	2007	2008	2007
Carrying amount (A$000)				
Financial assets	28,281	8,927	570	6,520
Weighted average interest rate (%)				
Financial assets	0.25%	5.16%	6.14%	6.23%

Sensitivity analysis

An increase in 50 basis points from the weighted average year-end interest rates at 30 June would have increased equity and profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2007:

	Consolidated		Company	
	Equity $000	Profit and loss $000	Equity $000	Profit and loss $000
30 June 2008	141	141	3	3
30 June 2007	45	45	33	33

A decrease in 50 basis points from the weighted average year-end interest rates at 30 June would have decreased equity and profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2007:

	Consolidated		Company	
	Equity $000	Profit and loss $000	Equity $000	Profit and loss $000
30 June 2008	(141)	(141)	(3)	(3)
30 June 2007	(45)	(45)	(33)	(33)

32. Financial risk management (continued)

(c) Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in a financial loss to the Company or Group, and arises principally from the Group's receivables from customers and cash deposits. The Company has no trade receivables at June 2008 or June 2007 and has no significant concentration of credit risk.

The Group's trade receivables at both June 2008 and June 2007 are all due from an entity located in Thailand and controlled by its government. This entity has an appropriate credit history with the Group.

Cash transactions are limited to financial institutions considered to have a suitable credit rating.

Credit risk further arises in relation to financial guarantees given to certain parties, refer to Note 23.

Exposure to credit risk is considered minimal but is monitored on an ongoing basis. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	Consolidated		Company	
	2008 $000	**2007 $000**	**2008 $000**	**2007 $000**
Carrying amount:				
Cash and cash equivalents	28,281	8,927	570	6,520
Trade and other receivables	12,443	1,684	15,501	13,147
	40,724	10,611	16,071	19,667

The aging of the Group's trade receivables at reporting date was:

	Gross 2008 $000	**Impairment 2008 $000**	**Gross 2007 $000**	**Impairment 2007 $000**
Not past due	9,255	-	1,001	-
	9,255	-	1,001	-

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables.

32. Financial risk management (continued)

(d) Currency risk

Currency risk arises from sales, purchases, assets and liabilities that are denominated in a currency other than the functional currencies of the entities within the Group, being the A$ and US$.

The Group operates predominantly in Thailand and is exposed to currency risk arising from various foreign currency exposures, primarily with respect to the US$ and Thai Baht ("THB"). The functional currency of its Thai operations is considered to be the US$, however the cash receipts from those operations, which comprise 100% of the revenues of the Group, are received in Thai Baht. The majority of the Group's payments, including Thai SRB and income tax, are also payable in THB which effectively creates a natural hedge. The Company's foreign exchange risk predominantly resides in its US$ loan to one of its controlled entities.

The Group does not currently use derivative financial instruments to hedge foreign currency risk and therefore is exposed to daily movements in exchange rates. However, the Group intends to maintain sufficient THB cash balances to meet its THB obligations, in particular its SRB and income tax liabilities.

The Company and Group's exposure to foreign currency risk at balance date was as follows, based on carrying amounts.

	Thai Baht A$000	**USD A$000**	**GBP A$000**
Consolidated 2008			
Cash and cash equivalents	27,634	114	-
Trade receivables	9,255	-	-
Trade payables	(1,561)	(493)	(36)
SRB and income tax provisions	(24,152)	-	-
Gross balance sheet exposure	11,176	(379)	(36)
Company 2008			
Trade receivables	-	-	-
Trade payables	-	(10)	(36)
Gross balance sheet exposure	-	(10)	(36)
Consolidated 2007			
Cash and cash equivalents	2,181	234	-
Trade receivables	1,101	-	-
Trade payables	(669)	(165)	-
Gross balance sheet exposure	2,613	69	-
Company 2007			
Trade payables	-	(83)	-
Gross balance sheet exposure	-	(83)	-

The following significant exchange rates applied during the year:

	Average rate		**Reporting date spot rate**	
AUD to:	**2008**	**2007**	**2008**	**2007**
1 Thai baht	0.036	0.036	0.031	0.037
1 USD	1.12	1.27	1.04	1.18

32. Financial risk management (continued)

(d) Currency risk (continued)

Sensitivity analysis

A 10% strengthening of the AUD against the following currencies at 30 June would have decreased equity and pre tax profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates and the exchange rate between the Thai Baht and USD, remain constant. The analysis is performed on the same basis for 2007:

	Consolidated		Company	
	Equity $000	Profit and loss $000	Equity $000	Profit and loss $000
30 June 2008				
USD	(3,439)	(2,137)	(1,237)	(1,237)
30 June 2007				
USD	(1,553)	(89)	(1,289)	(1,289)

A 10% weakening of the AUD against the following currencies at 30 June would have increased equity and pre tax profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates and the exchange rate between the Thai Baht and USD, remain constant. The analysis is performed on the same basis for 2007:

	Consolidated		Company	
	Equity $000	Profit and loss $000	Equity $000	Profit and loss $000
30 June 2008				
USD	4,203	2,612	1,515	1,515
30 June 2007				
USD	1,895	108	1,573	1,573

(e) Fair values

The fair values of financial assets and financial liabilities, together with their carrying amounts shown in the balance sheet, are as follows:

	Carrying amount 2008 $000	Fair Value 2008 $000	Carrying amount 2007 $000	Fair Value 2007 $000
Consolidated				
Loans and receivables	12,443	12,443	1,684	1,684
Cash and cash equivalents	28,281	28,281	8,927	8,927
Trade and other payables	(3,368)	(3,368)	(3,028)	(3,028)
	37,356	37,356	7,583	7,583
Company				
Loans and receivables	15,501	15,501	13,147	13,147
Investment in controlled entities	1,483	1,483	1,483	1,483
Cash and cash equivalents	570	570	6,520	6,520
Trade and other payables	(486)	(486)	(297)	(297)
	17,068	17,068	20,853	20,853

The basis for determining fair values is disclosed in Note 3(i).

32. Financial risk management (continued)

(f) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The Group's approach to managing this risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due under a range of financial conditions. The net cashflows arising from its Thai assets are considered to generate sufficient working capital to adequately address this risk.

Neither the Company nor the Group currently has any available lines of credit.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of any netting agreements:

	Carrying amount $000	Contractual cashflows $000	6 months or less $000	6 to 12 months $000
Consolidated 2008				
Non-derivative financial liabilities				
Trade and other payables	3,368	3,368	3,368	-
SRB and income tax provisions	24,152	24,152	9,304	14,848
	27,520	27,520	12,672	14,848
Company 2008				
Non-derivative financial liabilities				
Trade and other payables	531	531	531	-
	531	531	531	-
Consolidated 2007				
Non-derivative financial liabilities				
Trade and other payables	3,028	3,028	3,028	-
	3,028	3,028	3,028	-
Company 2007				
Non-derivative financial liabilities				
Trade and other payables	297	297	297	-
	297	297	297	-

(1) In the opinion of the directors of Carnarvon Petroleum Limited:

(a) the financial statements and notes of the company and of the Group set out on pages 27 to 66 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and Group's financial position as at 30 June 2008 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) 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.

(2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2008

Signed in accordance with a resolution of the directors.

PJ Leonhardt
Director

Perth, 25 September 2008

INDEPENDENT AUDIT REPORT TO MEMBERS OF CARNARVON PETROLEUM LIMITED AND ITS CONTROLLED ENTITIES

We have audited the accompanying financial report of Carnarvon Petroleum Limited (the company) and Carnarvon Petroleum Limited and its Controlled Entities (the consolidated entity), which comprises the balance sheet as at 30 June 2008 and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the 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. In Note1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's Opinion

In our opinion, the financial report of Carnarvon Petroleum Limited (the company) and Carnarvon Petroleum Limited and its Controlled Entities (the consolidated entity) is in accordance with the Corporations Act 2001 including:

(a) (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Member Horwath International
WHK Horwath Perth Audit Partnership ABN 96 844 819 235
Level 6, 256 St Georges Terrace Perth WA 6000 Australia
GPO Box P1213 Perth WA 6844 Australia
Telephone +61 8 9481 1448 Facsimile +61 8 9481 0152
Email perth@whkhorwath.com.au www.whkhorwath.com.au
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INDEPENDENT AUDIT REPORT TO MEMBERS OF CARNARVON PETROLEUM LIMITED AND ITS CONTROLLED ENTITIES (CONT'D)

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 18 to 23 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Carnarvon Petroleum Limited (the company) and Carnarvon Petroleum Limited and its Controlled Entities (the consolidated entity) for the year ended 30 June 2008, complies with section 300A of the Corporations Act 2001.

WHK HORWATH PERTH AUDIT PARTNERSHIP

SEAN MCGURK
Principal

Dated this 25th day of September 2008

Perth, WA

Introduction

Carnarvon Petroleum Limited ("Carnarvon") has addressed the Essential Corporate Governance Principles as published by the ASX Corporate Governance Council and has adopted the Best Practice Recommendations which the Board considers to be relevant and essential for the efficient management of the Company and its business whilst safeguarding shareholder assets.

The following additional information about the Company's corporate governance practices is set out on the Company's website at www.carnarvonpetroleum.com:

- Corporate governance disclosures and explanations;
- Statement of Board and management functions;
- Composition of the Board and new appointments;
- Committees of the Board;
- Summary of code of conduct for directors;
- Summary of policy on securities trading;
- Audit Committee Charter;
- Summary of policy and procedures for compliance with ASX Listing Rule disclosure requirements;
- Summary of arrangements regarding communication with and participation of shareholders;
- Summary of Company's risk management policy and internal compliance and control system; and
- Corporate code of conduct.

Skills, experience, expertise and term of office of each director

A profile of each director containing the applicable information is set out in the directors' report.

Statement concerning availability of independent professional advice

If a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of his/her office as a director then, provided the director first obtains approval for incurring such expense from the chairman, the Company will pay the reasonable expenses associated with obtaining such advice.

Number of Audit Committee meetings and names of attendees

The number of Audit Committee meetings and names of attendees is set out in the directors' report.

Names and qualifications of Audit Committee members

The names and qualifications of Audit Committee members are set out in the directors' report.

Explanations for departures from best practice recommendations

From 1 July 2007 to 30 June 2008 (the "Reporting Period") the Company complied with each of the Essential Corporate Governance Principles (Note 1 below) and the corresponding Best Practice Recommendations (Note 2 below) as published by the ASX Corporate Governance Council ("ASX Principles and Recommendations"), other than in relation to the matters specified below:

Principle Reference	Recommendation Reference	Notification of Departure	Explanation for Departure
2	2.1	The Board did not comprise a majority of independent directors. The Board currently consists of two independent and two non-independent directors.	Mr Peter Leonhardt, the Chairman, is currently acting in a part time executive capacity as a non-independent director to support the Chief Executive Officer. Mr Leonhardt's fulfilment of this role going forward will be monitored relative to the Company's stage of development.
2	2.2	The Chairman is not an independent director.	Mr Peter Leonhardt, the Chairman, is currently acting in a part time executive capacity as a non-independent director to support the Chief Executive Officer. Mr Leonhardt's fulfilment of this role going forward will be monitored relative to the Company's stage of development.
2	2.4	A separate Nomination Committee has not been formed.	The Board considers that the Company is not currently of a size to justify the formation of a Nomination Committee. The Board as a whole undertakes the process of reviewing the skills base and experience of existing directors to enable identification or attributes required in new directors. Where appropriate independent consultants are engaged to identify possible new candidates for the Board.
4	4.3	Since February 2006 the Audit Committee has comprised two directors, one of whom is non-independent, operates in a part time executive capacity, and is the Chairman of the Board. This does not meet the criteria in Best Practice Recommendation 4.3.	In accordance with Listing Rule 12.7, the Company is not required to comply with Recommendation 4.3.
9	9.2	A separate Remuneration Committee has not been formed.	The Board considered that the Company was not of a size during the reporting period to justify the formation of a Remuneration Committee. The Board as a whole undertook the role of this committee. Since the end of the reporting period Board has determined that the Company is now of a size to justify the formation of a Remuneration Committee and one was formed on 1 August 2008.

Notes
(1) A copy of the Ten Essential Corporate Governance Principles is set out on the Company's website under the section entitled "Corporate Governance". (2) A copy of the Best Practice Recommendations is set out on the Company's website under the section entitled "Corporate Governance".

Existence and terms of any schemes for retirement benefits for non-executive directors

The Company does not have any terms or schemes relating to retirement benefits for non-executive directors.

Company's remuneration policies

The Company's remuneration policies are set out in the Remuneration Report on pages 18 to 23.

The Company has separate remuneration policies for executive and non-executive directors. Non-executive directors receive a fixed fee and, when appropriate, share options or participation in the Employee Share Scheme.

Executive directors receive a salary or fee and, when appropriate, shares, share options, or participation in the Employee Share Scheme.

Identification of independent directors

The Company's two independent directors are considered to be Mr Neil Fearis and Mr Ken Judge.

Neither of these directors was considered to have a material relationship with the Company or another group member during the Reporting Period as professional advisor, consultant, supplier, customer, or through any other contractual relationship, nor did they have any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

The Board considers "material" in this context to be where any director-related business relationship represents the lesser of at least 5% of the Company's or the director-related business's revenue.

Additional information required by the ASX Limited ("ASX") Listing Rules and not disclosed elsewhere in this report is set out below.

a) Shareholdings as at 18 September 2008

Substantial shareholders

There are no substantial shareholder notices lodged with the Company.

Voting Rights

The voting rights attaching to Ordinary Shares are governed by the Constitution. On a show of hands every person present who is a member or representative of a member shall have one vote and on a poll, every member present in person or by proxy or by attorney or duly authorised representative shall have one vote for each share held. No options have any voting rights.

Twenty Largest Shareholders

Name of Shareholder	Number of Shares	% held
J P Morgan Nominees Australia Limited	39,410,946	5.85
HSBC Custody Nominees (Australia) Limited	33,297,035	4.95
National Nominees Limited	24,783,893	3.68
Mr Edward Patrick Jacobson	14,917,903	2.22
ANZ Nominees Limited <Cash Income A/C>	12,796,128	1.90
Citicorp Nominees Pty Limited	10,143,800	1.51
Arne Investments Pty Ltd	8,916,906	1.32
Mr Peter James Leonhardt	7,700,000	1.14
Macquarie Bank Limited	7,199,379	1.07
Arne Investments Pty Ltd	6,710,493	1.00
Pendomer Investments Pty Ltd <Law Settlements Fund A/C>	6,400,000	0.95
Athol Steel Pty Ltd	6,100,000	0.91
HSBC Custody Nominees (Australia) Limited -	6,074,941	0.90
Mr Edward Patrick Jacobson	6,000,000	0.89
Mr Brett Steele Williamson + Ms Nicole Deanne Rockliff	5,838,657	0.87
Mr Gregory John Munyard + Mrs Maria Ann Munyard + Miss Carmen Helene Munyard <Riviera Super Fund A/C>	5,800,000	0.86
Citicorp Nominees Pty Limited <Cwlth Bank Off Super A/C>	5,271,720	0.78
Kaymac Nominees Pty Ltd <McMullan Super Fund A/C>	4,939,372	0.73
Mr Lawrence Addison Brown + Mrs Jill Brown	4,789,272	0.71
Bond Street Custodians Limited	4,636,199	0.69
	221,726,644	32.93

Distribution of equity security holders

Size of Holding			Number of shareholders	Number of fully paid shares
1	to	1,000	287	190,352
1,001	to	5,000	1,545	4,913,375
5,001	to	10,000	1,418	12,071,083
10,001	to	100,000	3,360	125,789,733
100,001	and over		759	530,360,091
			7,369	673,324,634

The number of shareholders holding less than a marketable parcel of ordinary shares is 492.

b) Unlisted option holdings as at 18 September 2008

Unlisted 10 cent options expiring 31 March 2009	
Number on issue	10,000,000
Number of holders	4

Those holding more than 20% of the class:	Number held
EP Jacobson	4,000,000
PJ Leonhardt	3,000,000

c) On-market buyback

There is no current on-market buyback.

d) Schedule of permits

PERMIT	BASIN/COUNTRY	JOINT VENTURE PARTNERS	EQUITY %	OPERATOR
SW1A	Phetchabun / Thailand	Carnarvon	40%	Pan Orient Energy
		Pan Orient Energy	60%	
L33/43	Phetchabun / Thailand	Carnarvon	40%	Pan Orient Energy
		Pan Orient Energy	60%	
L44/43	Phetchabun / Thailand	Carnarvon	40%	Pan Orient Energy
		Pan Orient Energy	60%	
L20/50	Phitsanulok / Thailand	Carnarvon	50%	Carnarvon
		Sun Resources	50%	
EP321 & EP407	Perth / Australia	Carnarvon	2.5% ORRI	Latent Petroleum
WA-399-P	Carnarvon / Australia	Carnarvon	50%	Carnarvon
		Rialto Energy	50%	
EP110 & EP 424	Carnarvon / Australia	Carnarvon	35%	Strike Oil
		Strike Oil	40%	
		Pancontinental Oil and Gas	25%	