CARNARVON
PETROLEUM LTD

2012
ANNUAL REPORT

ABN 60 002 688 851

CARNARVON
PETROLEUM LTD

www.carnarvonpetroleum.com.au

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CORPORATE DIRECTORY

Directors

PJ Leonhardt (Chairman)
AC Cook (Chief Executive Officer)
EP Jacobson (Non-Executive Director)
NC Fearis (Non-Executive Director)
WA Foster (Non-Executive Director)

Company Secretary

G Smith

Auditors

Crowe Horwath Perth

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National Australia Bank Limited
HSBC

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Stock Exchange Listing

Carnarvon Petroleum Limited's shares are quoted on the Australian Securities Exchange.

ASX Code

CVN - ordinary shares

Chairman's Review

Our results for the 2012 financial year reflect a difficult period in which we have worked hard to address several challenges, most particularly around our production assets in Thailand.

Last year in my review I touched on our plans to re-weight our production in Thailand from oil produced from volcanic reservoirs to oil produced from sandstone reservoirs. The commencement of this initiative was delayed as we awaited approvals from the Thai Government. The approvals were eventually received in June 2012 and we commenced the program in July with immediate and encouraging results.

Our production was also impacted by a number of wells being shut in for regulatory reasons. This matter is being addressed but has also taken longer than we had hoped.

On a more positive note, late in the financial year the 60% joint venture interest held by our former partner in Thailand, Pan Orient Energy, was acquired by Hong Kong and China Gas Company Limited (Towngas). Towngas are a substantial Hong Kong listed company and have, in a very short time since acquiring the asset, shown they have access to extensive resources that have not been applied to this asset before. Carnarvon welcomes Towngas and looks forward to working with them to enhance returns from the Thai assets.

For the year ended 30 June 2012 Carnarvon recorded sales revenue of $30.4 million, a profit before tax of $6.9 million and a loss after tax of $2.5 million. The earnings figures include a $3.4 million exploration expenditure write-off for the Rangkas PSC seismic acquisition program as the Company continues to maintain a prudent policy of expensing exploration costs.

During the year the Board of Directors undertook a review of its remuneration policies and introduced a number of changes in both the short and long term incentive programs. These included, for example, issuing employee share plan shares at a premium to market and extending vesting periods. Additional business performance hurdles were also put in place for the short term incentive program. I would note that this year no short term bonuses were paid and no employee share plan shares were issued to non-executive directors. There has also been no increase in fees to non-executive directors. Changes in remuneration noted in the Remuneration Report were solely on account of changes in management's roles and responsibilities following the retirement of Ted Jacobson as Managing Director in June 2011.

I am pleased to report that following the year-end our initiatives to increase production through the sandstone development program are starting to bear fruit. Our efforts to realise value from our interest in the Phoenix gas discovery in Western Australia are also close to fruition through the farm-out of two of our exploration permits and the acquisition of a significant new 3D seismic program that creates the opportunity to accelerate the next round of farm-outs in this area.

Despite difficult global economic conditions we believe the Company is well placed to re-build value through increasing its production in Thailand and drilling the potentially significant prospects around the Phoenix discovery.

We look forward to delivering on the above and new opportunities in 2013 and I can assure you that our team is fully committed to achieving these objectives.

Peter Leonhardt
Chairman

Chief Executive's Review

The past financial year was a busy year for Carnarvon as the company drilled 20 wells in the L33/43, L44/43 and SW1A Concessions, acquired 2D seismic data in the L52/50 and L53/50 Concessions, and completed post-well technical work in the L20/50 Concession, all onshore Thailand. The company was also busy completing technical work associated with the Phoenix 3D seismic program in the WA-435-P and WA-437-P blocks offshore Western Australia and the Rangkas block onshore Indonesia post the acquisition of 2D seismic in the previous year.

The results from drilling into volcanic reservoirs in the L33/43, L44/43 and SW1A Concessions were disappointing, resulting in a decrease in oil production, revenue and reserves. However, success in the discovery and appraisal of significant sandstone reservoirs bodes well for future development. The sandstone development program was delayed until environmental impact assessment approvals were granted in June 2012 but initial wells have delivered positive results and, importantly, in line with projections.

Since June 2012, we have been working extensively with Towngas, the new operator of the L44/43, L33/43 and SW1A Concessions in Thailand. As Mr Leonhardt outlined earlier, while Towngas have only been managing the field for a short time, their approach and multi-disciplinary approach to exploration, appraisal and development is refreshing and has already produced positive results. Carnarvon will continue to work closely with the Towngas management team, who are planning significant production increases in a very disciplined manner.

Also in Thailand, the 2D seismic program over the L52/50 and L53/50 Concessions was completed during the year, and after processing and interpretation several significant structures are evident which have the potential to contain 5-20 million barrels of oil. The Concessions are on trend and in a similar geological structure to the prolific Nuan – Nuan oil field that flowed up to 10,000 bopd. Carnarvon has previously indicated its desire to farm out a portion of its current 50% interest in these Concessions in order to fund further exploration activities, including the drilling of two exploration wells.

In Australia, we completed the technical work on the WA-435-P and WA-437-P permits that enabled us to commence the farm-out process as planned in February 2012. Carnarvon is seeking to secure a major oil and gas company to operate the permits and in particular drill exploration wells to test the significant Phoenix South and Roc prospects. These prospects are well defined on modern 3D seismic data, being the first 3D data to be completed in the Bedout Sub-Basin area. They are also close to two wells within the WA-435-P permit that intersected gas in sands over approximately a 700 metre interval of the well bore.

The Company's technical work is showing that there are a large number of play types warranting exploration covering gas, gas/condensate and oil

Following the acquisition of the first 3D seismic program covering 1,100 km², an additional 3,854 km² has been completed (although not yet licensed by Carnarvon), providing a very substantial and important 4,954 km² of modern 3D data over an area of approximately 28,000 km² covering five contiguous permits.

The Company's technical work is showing that there are a large number of play types warranting exploration covering gas, gas/condensate and oil. The shallow water depth and close proximity to shore and relevant infrastructure warrants a concerted focus by Carnarvon to participate in future exploration programs in this region.

Carnarvon is pleased to have secured this acreage on very low commitments ahead of a major push into the area by a number of major oil and gas companies who have collectively committed to an exploration program that includes a minimum of 20,000 km² of new 3D seismic data and around 23 exploration wells.

We are pleased to be working with Towngas as the new operator of the oil production facilities in Thailand and to have a clear and deliverable plan to increase production to a targeted 3,000 bopd gross before the end of the calendar year, with more detailed plans beyond this time currently being prepared. We are also looking forward to being able to explore the potential in the Phoenix area in Western Australia and the opportunities that could be generated in the greater Phoenix area.

Adrian Cook
Chief Executive Officer

Operating and Financial Review

Permits

Permit	Basin	Equity	Joint Venture Partner(s)	Partner Interest	Indicative Forward Program
Thailand					
SW1A	Phetchabun	40%	Pan Orient Energy[i,ii]	60%	Production, Appraisal
L33/43	Phetchabun	40%	Pan Orient Energy[i,ii]	60%	Production, Appraisal, Exploration
L44/43	Phetchabun	40%	Pan Orient Energy[i,ii]	60%	Production, Appraisal, Exploration
L20/50	Phitsanulok	55%	Sun Resources	45%	Post well G&G studies Seismic planning
L52/50	Surat-Khian Sa	50%	Mubudala[i]	50%	Seismic acquisition and Interpretation
L53/50	Surat-Khian Sa	50%	Mubudala[i]	50%	Seismic acquisition and Interpretation
Australia					
WA-435-P	Roebuck	50%	Finder Exploration[i]	50%	Interpretation, Farmout
WA-436-P	Roebuck	50%	Finder Exploration[i]	50%	G & G Studies
WA-437-P	Roebuck	50%	Finder Exploration[i]	50%	Interpretation, Farmout
WA-438-P	Roebuck	50%	Finder Exploration[i]	50%	G & G Studies
WA-443-P	Roebuck	100%			G & G Studies
EP321	Perth	2.50% of 38.25% [iii]			Appraisal
EP407	Perth	2.50% of 42.5% [ii]			Appraisal
WA-399-P	Carnarvon	13%	Apache [i] Rialto Energy Jacka Resources	60% 12% 15%	Interpretation

Note:
(i) Denotes operator where Carnarvon is non-operator partner
(ii) Post year end, Towngas purchased Pan Orient's Thailand assets
(iii) Carnarvon has an overriding royalty interest in these assets

Thailand

L44/43, L33/43 &, SW1A Phetchabun Basin ("SW1A") (Carnarvon Petroleum 40%, Pan Orient 60% operator)

Background

Carnarvon's producing asset is contained within the L33/43, L44/43 and SW1A Concessions. These Concessions are situated in Thailand, within the Phetchabun Basin.

Since 1995 oil has been produced from the sandstone reservoirs of the Wichian Buri oil field. In 2006, an exploration well (POE-9) flowed oil at 330 bopd from a fractured volcanic reservoir. Follow-up appraisal wells (NS-3 and NS-4) confirmed a significant oil discovery when they flowed at rates exceeding 400 bopd and 750 bopd respectively. The success sparked an aggressive exploration and development campaign which discovered the Bo Rang, L44W, Na Sanun, Na Sanun East, Wichian Buri Extension (WBEXT) and L33-2 oil fields. These fields contain multiple oil bearing reservoirs and have increased the discovered original oil in place (OOIP) within the concessions to over 400 million barrels.

Several of these oil fields consist of sandstone and fractured volcanic reservoirs. The volcanic reservoirs tend to produce at highly variable rates due to their fracturing, the initial rates tend to be high but drop rapidly after water encroaches into the wellbore. The sandstone reservoirs, in contrast, produce at lower rates with less variability making them easier to forecast.

2012 Drilling

The joint venture performed 20 drilling operations in the 2012 financial year targeting a combination of volcanic and sandstone reservoirs. A complete list of results can be found in the table on page 6.

Inflow Control Devices

Throughout the year, the Joint Venture began addressing the production variability of the volcanic reservoirs by installing inflow control devices (ICDs) in the horizontal development wells. An ICD is hardware that is deployed as a part of well completions aimed at distributing the inflow of fluids evenly across horizontal well sections, especially in instances where there is permeability contrasts along the wellbore. The joint venture aims to use this technology with the fractured volcanic reservoirs to reduce the production from water bearing fractures. Restricting flow from the water-bearing fractures reduces the water cut and allows the well to flow oil at higher production rates.

The first ICD was trialed in November 2011. The trial utilised an existing well, BR-1RDST1, to allow the comparison of production before and after the device was installed. The installation of the device reduced the water cut from 90% to 80% and as a result, the oil production increased from 50 bopd to over 200 bopd. Since then, ICDs have been installed in another 6 wells with encouraging results. It is expected that future development plans will incorporate this technology.

Exploration

The Concessions cover a substantial area of the prolific Phetchabun Basin and significant exploration potential remains. The Joint Venture has committed to a multi-year exploration program including seismic acquisition in the upcoming financial year with the intention to exploit this potential. The program includes 200 km of 2D in the L33/43 Concession and up to 200 km^2 of 3D seismic across the L33/43 and L44/43 Concessions, of which planning has commenced for 3D acquisitions in L33 for this financial year. The seismic data will be used to identify further oil prospects and better delineate the L33 oil field.

The Concessions cover a substantial area of the prolific Phetchabun Basin and significant exploration potential remains.

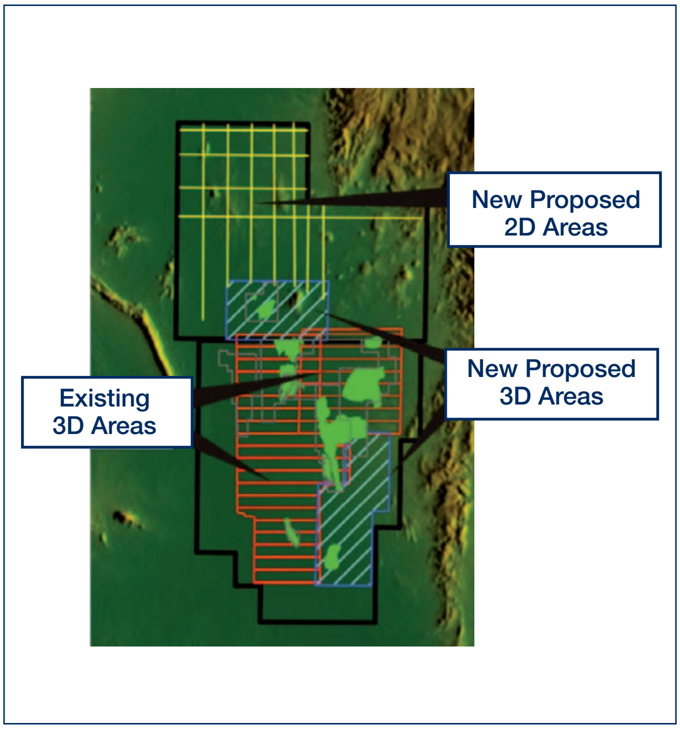


Figure 1: Carnarvon's Proposed Seismic Program within the Phetchabun Basin

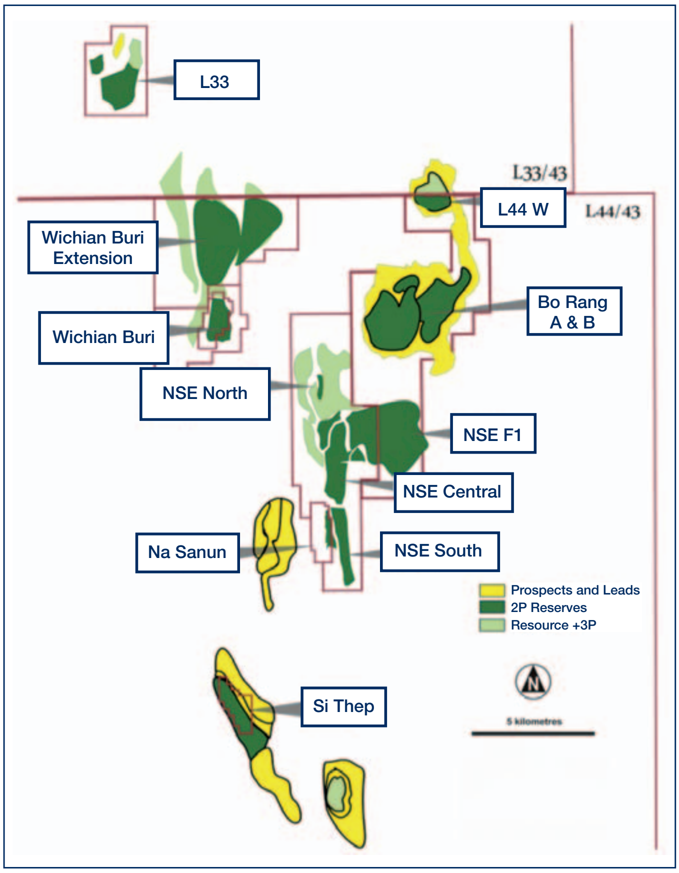


Figure 2: Carnarvon's Production Licenses within the Phetchabun Basin

Operating and Financial Review

Well		Spud Date
Q1		
NS-2A	Development well for the Na Sanun Field. The well produced over 300 BOPD on test from the Main Na Sanun Volcanic	5-Jul-11
NSW-A	Exploration well in L44/43. Encountered a tight primary volcanic objective with encouraging oil shows in sands below the volcanic zone. Well bore conditions did not allow wire line logging despite repeated attempts. This well has been suspended until the deeper sandstone potential is evaluated.	16-Jul-11
WBEXT-1DST1 & ST2	Designed to appraise the WBV2 volcanic in the WBEXT area. The well was drilled as a sidetrack from the WBEXT-1D well. Borehole stability issues required another sidetrack (WBEXT-1DST2) into the WBV1 volcanic. The well produced over 400 BOPD on test.	23-Jul-11
L44-G2 & ST1	Appraised the NSE North accumulation discovered in August 2007. The well was completed as a development well but initial testing did not flow commercial hydrocarbons.	21-Aug-11
POR-6B	Appraised the “G” sandstone reservoir. The well was completed as a production well.	9-Sep-11
NSE-F6	Development of the NSE-F field. The well was completed in the main volcanic reservoir and produced over 1000 BOPD on test.	20-Sep-11
Q2		
L33-2A	Exploration well in L33/43. The well targeted the unproven WBV2 volcanic zone below the producing WBV1 volcanic. Drilling fluid losses over the interval indicated excellent fracturing however, only water was recovered on test.	3-Oct-11
BR-2ST3	Development of the Bo Rang “A1” volcanic reservoir. The well tested at an initial rate of approximately 500 BOPD and no water	15-Oct-11
BR-4DST1	Development of the Bo Rang “A1” reservoir at a location approximately 850 meters east of BR-2ST3 development well. Issues with the steering equipment caused the well to miss the target. The well was suspended prior to drilling a second sidetrack.	23-Oct-11
NSE F7	Development of the NSE-F field. The well encountered extensive fracturing within the target volcanic formation with over 2,000 barrels of fluid losses observed while drilling. The well tested at 540 BOPD.	3-Nov-11
NSE F5	Development of the NSE-F field. The well was drilled as a horizontal well targeting the main volcanic unit approximately 1.4 kilometres east of the NSE-F7 well. It was put on test prior to running an ICD recompletion. The well tested at 690 BOPD after the ICD was installed.	18-Nov-11
NSE F9	Appraised the extent of the NSE-F field. The well recovered 38degree API oil however the well did not encounter the fracturing required for commercial production. The well was suspended in preparation for a sidetrack at a future date.	29-Nov-11
BR-4D1ST2	A sidetrack of BR-4ST1 that targeted the Bo Rang “A1” reservoir. The well was completed as a producer from the “A1” volcanic interval. Early production testing was dominated by fluid lost during the drilling process but oil production was eventually established at rates up to 200 BOPD.	16-Dec-11
L44-VD1ST1 & ST2	Appraised the Bo Rang “A2” volcanic interval. The well encountered oil but it did not encounter significant fracturing required for commercial production. The well has been placed on intermittent production while the “A2” volcanic is evaluated.	22-Dec-11
Q3		
POE-3A	Appraised the main F sand reservoir of the Wichian Buri field, down flank from the production wells. The sands encountered appeared to be depleted and the well was deemed unsuccessful after testing. The results of this well were incorporated into the year end 2011 reserve report.	21-Jan-12
L44-R2ST1 & ST2	Exploration well in L44/43. The well tested the potential of two volcanic intervals below the proven oil bearing uppermost volcanic. Both zones initially flowed oil on test but quickly went to a 100% water cut.	18-Feb-12
L44-G3	Appraisal of the NSE North field. The well targeted the proven volcanic reservoir and one deeper unproven potential volcanic reservoir. Production testing of both reservoir intervals found them to be tight.	16-Mar-12
NS-4A	Exploration well targeting a volcanic interval below the main volcanic reservoir of the Na Sanun oil field. The well lost significant drilling fluids over the reservoir interval, indicating good flow potential however the well produced water on test. Over 3,000 barrels of drilling fluid losses were reported at the very top of the target interval. While drilling to the main target, the well discovered an oil bearing sand. The sand produced 250 BOPD on test. The equivalent sandstone interval was then perforated in the NS-4 well which then produced an additional 220 BOPD.	28-Mar-12
Q4		
NS-9A	Development of the Na Sanun oil field. The well was completed to produce from the main volcanic interval and produced 580 BOPD on test. An ICD was installed in the well in July 2012.	11-Apr-12
NS-8B	NS-8B targeted the oil bearing sand discovered by NS-4A. The well encountered oil bearing sands and is currently on test.	24-Jun-12

Note: All flow rates and volumes are gross to the JointVenture in which Carnarvon has a 40% interest

L20/50 Phitsanulok Basin (Carnarvon Petroleum 50% Operator, Sun Resources 50%)

The L20/50 Concession, granted in January 2007, is situated approximately 30 km's to the southeast and on trend with the largest onshore oil field in Thailand at Sirikit. The permit is around 60 km to the west of Carnarvon's 40% owned Petchabun Basin producing assets. The concession covers 4,000 km^2 and is lightly explored.

The acquisition of 550 km of 2D seismic data was completed in 2009. Processing and interpretation of the new 2D seismic data was completed in early 2010.

Significant sedimentary section and structuring were evident in the new data, and play types include Sirikit style fans, Wichian Buri style sandstones and Na Sanun style volcanics.

In early 2011, the Joint Venture drilled two exploration wells. The wells discovered good reservoir sands that were water bearing.

Subsequent geological modeling identified several drilling prospects that Carnarvon is seeking to explore with new joint venture partners.

Figure 3: Map of the Thailand Concessions

L52/50 and L53/50 Surat-Khian Sa Basin (Carnarvon Petroleum 50%, Mubudala 50% operator)

The exploration Concessions L52/50 and L53/50 onshore Thailand were awarded to Carnarvon and Mubudala in March 2010. The L52/50 Concession covers an area of 3,085 km^2 and the L53/50 Concession covers an area of 3,872 km^2.

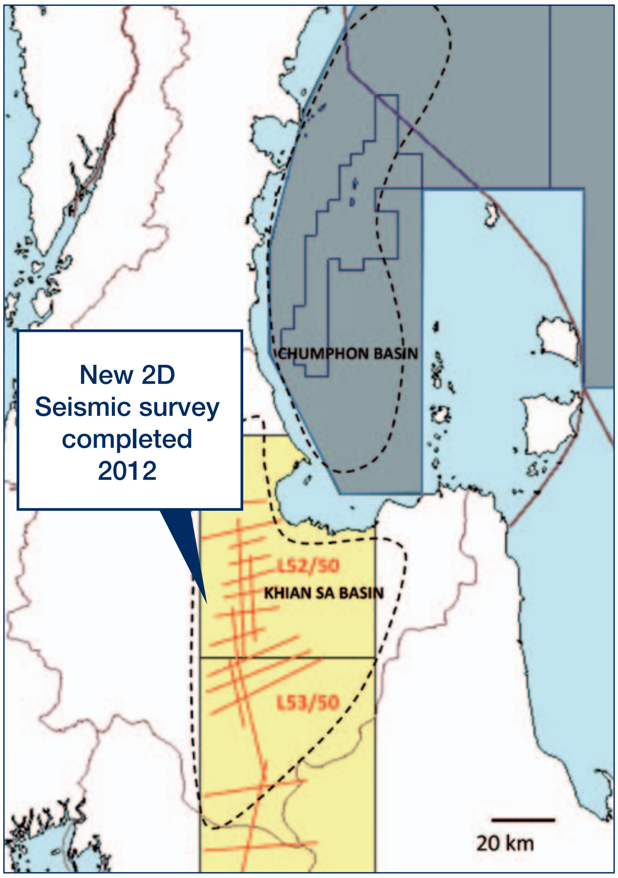


Figure 4: Basin location within the L52/50 and L53/50 Concessions

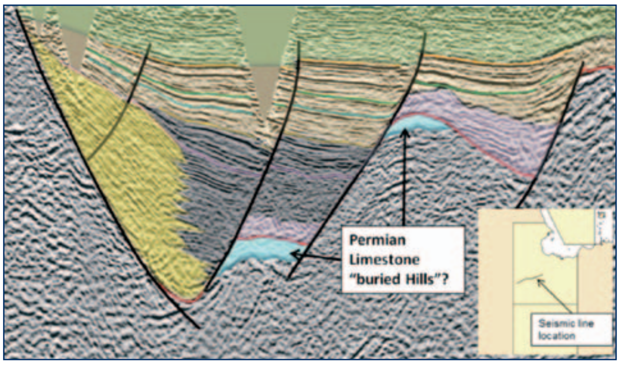


Figure 5: Seismic line through Khian Sa Basin

These blocks are situated in the Khian Sa Basin in the isthmus of southern Thailand adjacent to the NNE-oriented Ranong and Khlong Marui Fault Zones. The basin is of particular interest as it is on trend with the similar sized Chumphon Basin in the Gulf of Thailand to the immediate north. The Chumphon Basin has a proven oil kitchen and 4.3 MM bbls of oil was recovered from the Nang Nuan B well from 1994-1997 at rates up to 10,000 bopd. Numerous wells in the Chumphon Basin encountered oil shows.

Three oil and gas exploration wells have been drilled in the L52/50 Concession in addition to two very shallow coalbed methane wells. One well has been drilled in the L53/50 Concession.

The current Joint Venture acquired 314 km of new 2D seismic data with the processing and interpretation being completed in April 2012. Several leads and three prospects have been identified with individual prospect volume estimates of up to 42 MMBO (P50). The target formation is the Permian limestone's, similar to those producing in the Chumphon basin.

The Joint Venture is currently farming out an interest in the permit in exchange for payment of the exploration costs relating to the 2013 commitment wells.

Australia

WA-435-P, WA-436-P. WA-437-P & WA-438-P Offshore Northwest Shelf
(Carnarvon Petroleum 50%, Finder Exploration 50% operator)

The four permits are situated in the north-western part of the Bedout Sub-basin within the greater Roebuck Basin, offshore Western Australia. The blocks lie between the prolific Carnarvon Basin hydrocarbon province to the southwest and the Browse Basin to the northeast. The town of Port Hedland lies approximately 150 km to the south of the permits and Broome lies 250 km to the northeast. Water depths range from 35 to 265 metres and the permits cover a very large area of more than 21,000 km^2 (268 graticular blocks).

The WA-435-P, WA-436-P, WA437-P and WA-438-P permits contain the Phoenix-1 and Phoenix-2 wells with the first being declared a gas discovery. The Joint Venture embarked on an extensive geological study, acquiring 1,100 km^2 of multi-client 3D seismic and another 407 km of 2D seismic data. The Phoenix seismic acquisition was completed on 16 February 2011 and the processed 3D dataset was delivered in July 2011. Detailed velocity analyses and migration carried out followed by detailed reservoir analysis and remapping of the WA-435-P and WA-437-P permits.

The study confirmed two significant gas prospects, Phoenix South within WA-435-P and Roc in WA-437-P. Combined, the prospects contain approximately 2 Tcf of prospective resources. Development of gas discoveries in this area could utilise the existing onshore domestic gas pipeline infrastructure at Port Hedland or tie into offshore facilities in the area.

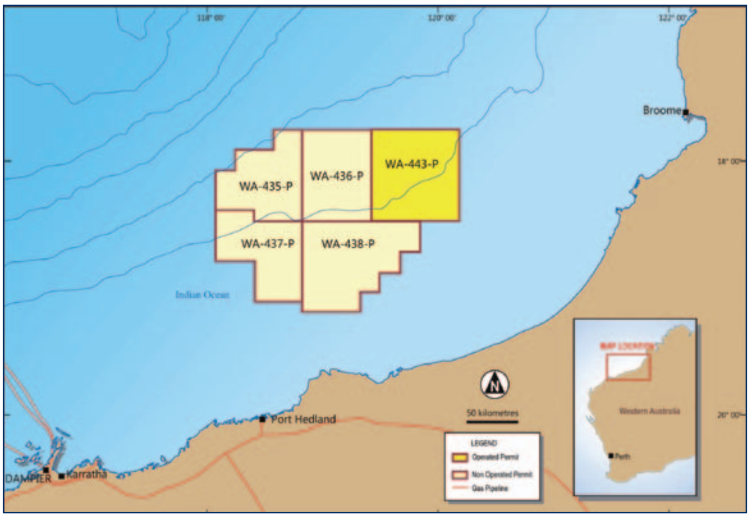


Figure 6: Offshore North West Shelf permit map

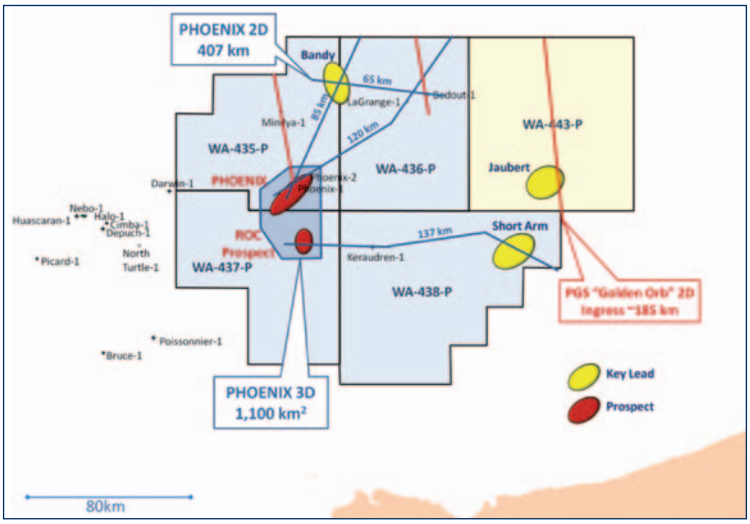


Figure 7: North West Shelf leads and prospects

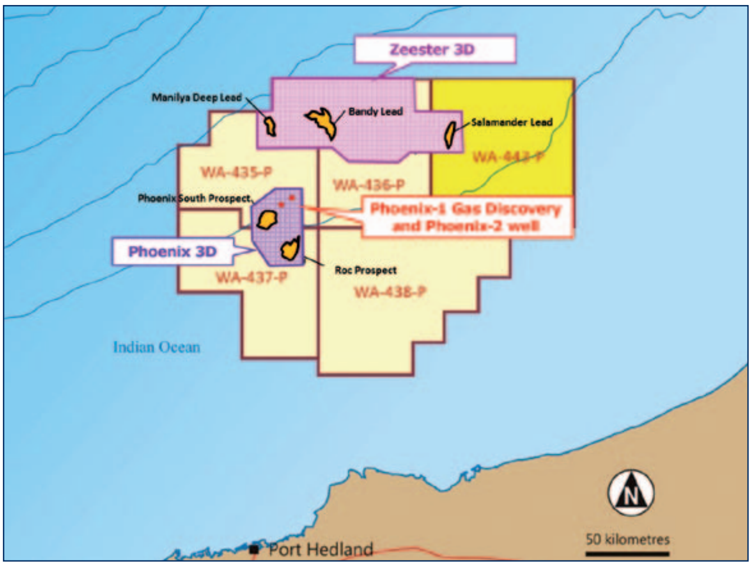


Figure 8: North West Shelf seismic 3D seismic locations over key leads and prospects

The Joint Venture aims to drill the prospects in 2013. To fund this, the joint venture began farming out the WA-435-P and WA-437-P concessions in February 2012. The farm-out has progressed significantly and Carnarvon is in negotiations to secure an international oil and gas major to operate the permits and drill exploration wells to test the prospects.

WA-436-P and WA-438-P are currently undergoing further analysis to understand the exploration potential within these blocks.

On 26 June 2012 the 3,854 km² new Zeester 3D seismic survey was completed covering the Northern part of WA-435-P and WA-436-P. The survey covers several key leads of interest and has the potential to add significant value to the Phoenix blocks and WA-443-P. At this stage Carnarvon has not licensed the data.

WA-443-P Australia Offshore Northwest Shelf (Carnarvon Petroleum 100% Operator)

This exploration permit is situated adjacent to Carnarvon's four existing permits WA-435-P, WA-436-P, WA-437-P and WA-438-P, in which it holds a 50% interest, within the Bedout Sub-Basin.

No previous drilling has taken place in the WA-443-P block. There are a number of leads in the permit of a structural form and size comparable to the Phoenix group of potentially large gas accumulations. Carnarvon has secured this new permit with a firm programme over three years to reprocess and interpret 1,400 km of 2D seismic. Geological and geophysical studies will also be carried out in conjunction with similar work in the Phoenix permits.

The multi-client 3D seismic survey being undertaken across WA-435-P and WA-437-P also extends into part of WA-443-P. The seismic acquisition will cover the Salamander lead, identified in a regional technical review, in the north-western section of the block.

The permit also contains a large Middle Triassic Jaubert lead. The structural form and size of this lead comparable to the adjacent Phoenix group of potentially large gas accumulations.

Geological and geophysical studies are being carried out in conjunction with similar work in the Phoenix permits.

WA-399-P – Australia Offshore Northwest Shelf (Carnarvon Petroleum 13%, Apache Energy 60% and Operator,Jacka Resources 15% and Rialto Energy 12%)

WA-399-P was awarded on 7 May 2007. The exploration permit covers an area of 50 km² and is situated offshore Western Australia within the Exmouth Sub-basin. The block is adjacent to the Pyrenees Oil development, a Joint Venture between BHP Billiton and Apache, which commenced oil production in March 2010. Nearby, there are several producing oil fields including Enfield and Vincent/Van Gogh, as well as Macedon gas field and a number of other oil field discoveries as set out below.

Apache Energy, as operator, acquired the "Gazelle" 3D seismic data over the whole permit in late 2010 and into early 2011. The 3D seismic data acquisition exceeds the existing minimum exploration commitment obligation under the exploration permit's terms.

The interpretation and analysis of the data supports several prospects and leads in the permit that requires further review. The Joint Venture also approved making an application to the Government to defer the drilling commitment by 12 months to allow further technical and commercial work to be undertaken. This will include an assessment of the potential to co-ordinate activities and resources with other permits in the region operated by Apache.

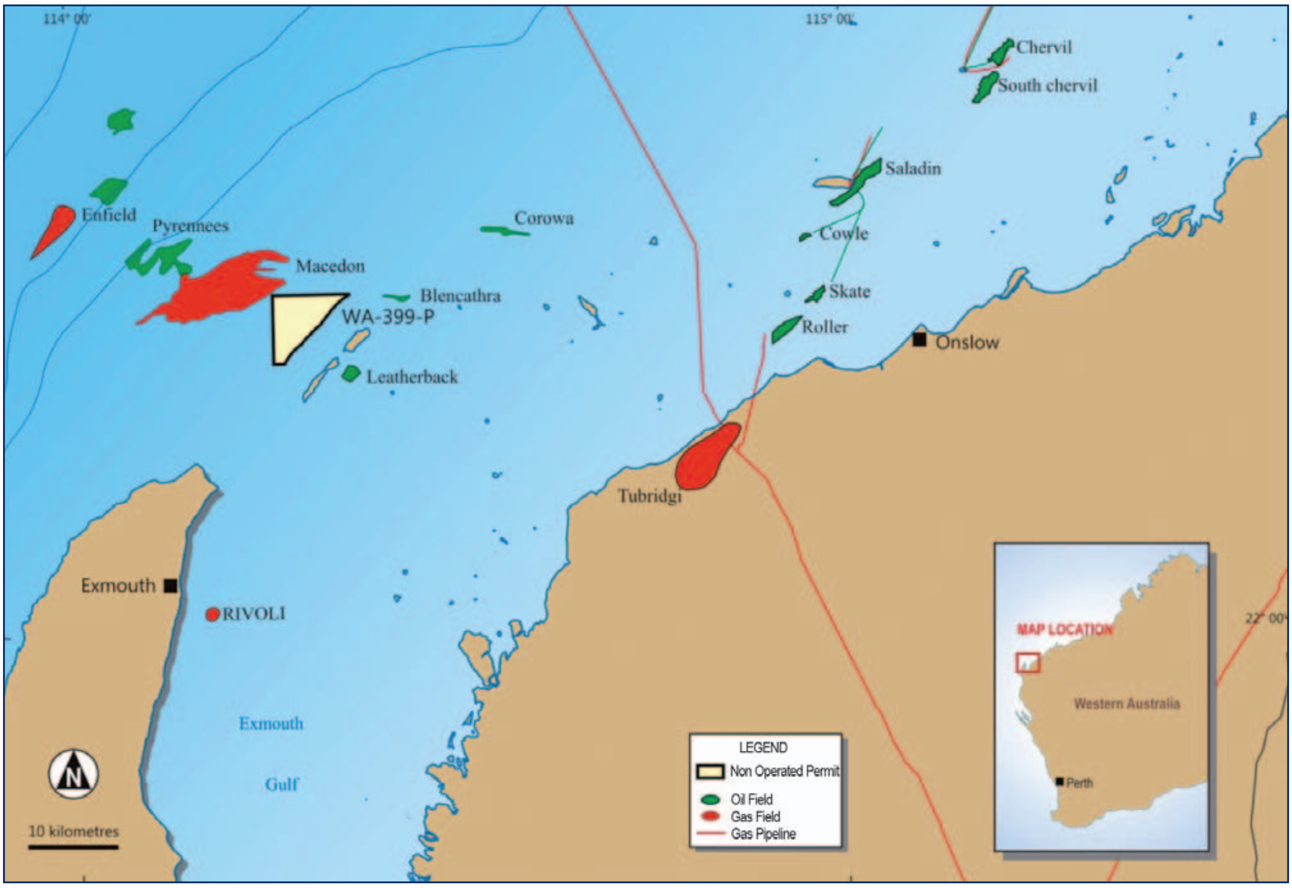


Figure 9: WA-399-P permit map

Indonesia

Rangkas PSC Onshore Java

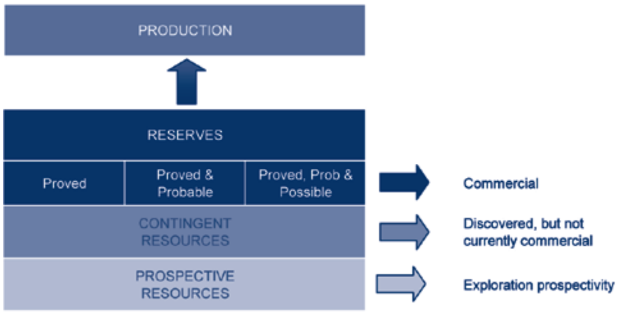
(Carnarvon Petroleum 25%, Lundin Petroleum 51% and Operator, Tap Oil 24%)

After a strategic and technical review, the Joint Venture commenced the process of withdrawing from the Rangkas PSC. An assessment of the seismic data gathered in 2011 identified several prospects. However, the prospects would appear to have a low chance of success and do not have sufficient volume to warrant further exploration activities.

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. Carnarvon reports reserves in line with ASX listing rules.



Carnarvon Reserves

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 certified 12.1 million barrels of 2P oil reserves net to Carnarvon as at 31 December 2011.

	Net Carnarvon Reserves		
	Proved 1P (million bbls)	Proved + Probable 2P (million bbls)	Proved + Probable + Possible 3P (million bbls)
GCA 31 Dec 2011	3.8	12.1	22.7

This report is based on information which has been compiled by the Company's Chief Operating Officer, Mr Philip Huizenga, who is a full-time employee of the Company. Mr Huizenga is qualified in accordance with ASX Listing Rule 5.11 and has consented to the form and context in which this statement appears.

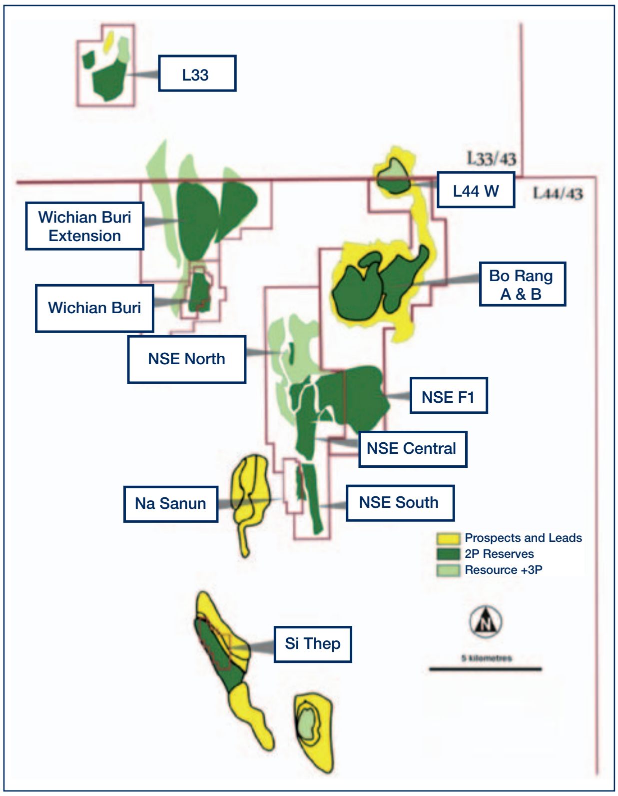
[1] *Society of Petroleum Engineers ("SPE"); World Petroleum Council ("WPC"); American Association of Petroleum Geologist ("AAPG") & Society of Petroleum Evaluation Engineers ("SPEE")*

Proved and Probable (2P) Reserves Thailand

A breakdown of the major reservoirs net to Carnarvon is given below.

	Net Carnarvon Reserves	
31-Dec-11	Proved + Probable 2P (million bbls)	Reservoir Type
NSE Central	0.8	Volcanic
NSE-F1	1.6	Volcanic
Bo Rang - B	2.1	Volcanic
Bo Rang - A	1.4	Volcanic
L44-W	0.4	Volcanic
NSE South	0.7	Volcanic
Wichian Buri	0.8	Sandstone
Si Thep	0.4	Sandstone
WBExt - Volc	1.5	Volcanic
WBExt - SST	1.7	Sandstone
L33	0.4	Volcanic
Other	0.4	Various
Total	12.1	

These reservoirs are schematically reproduced below.



Operating and Financial Review

Financial Review

The Group reports an after-tax loss of $2,498,000 for the financial year ending 30 June 2012.

	2012	2011	Change
Production (bbls)	321,968	731,544	▼ 56%
Sales ($'000)	30,411	54,750	▼ 44%
Cost of sales	15,828	18,891	▼ 16%

The decline in production is the main driver of the decrease in revenue in the 30 June 2012 financial year. A portion of cost of sales is fixed and as a result, cost of sales did not decrease in line with sales.

The exploration expenditure written off during the 2012 financial year consists of $3,361,000 in relation to the exploration expenses incurred in the Rangkas PSC.

The Company spent $14,583,000 on exploration and development drilling and associated activities during the period.

The Company has reported current income tax expense of $5,074,000 despite making a profit before income tax of $6,885,000. This arises because profit before income tax includes expenses of $7,759,000 which are not available as tax deduction for Thailand income tax purposes. These expenses relate to head office corporate expenses and exploration expenditure written off which were not incurred in Thailand.

With the increase in development costs carried forward, there has been an increase in deferred tax liabilities recognised in the financial statements. These liabilities are due to temporary differences between income tax deductions and amortization with respect to the Company's oil and gas assets in Thailand. The deferred tax component of the income tax expense does not incur any cash obligation to the Thai tax authorities in the current period.

The directors present their report together with the financial report 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 2012, 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)

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 of 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: CTI Logistics Limited (from August 1999); Centrepoint Alliance Limited (from May 2002 to June 2009). He is also a director of the Western Australian Institute for Medical Research and the Cancer Research Trust.

Mr Leonhardt is a member of the Audit Committee and the Remuneration Committee.

Adrian C Cook
Chief Executive Officer and Managing Director
B Bus, CA, MAppFin

Appointed as a director on 1 July 2011

Mr Cook has 25 years experience in commercial and financial management, primarily in the petroleum industry. Immediately prior to joining Carnarvon, he was the Managing Director of Buru Energy Limited, an ASX listed oil and gas exploration and production company with interests in the Canning Basin in Western Australia. Mr Cook has also held senior executive positions within Clough Limited's oil and gas construction business and was on the executive committee at ARC Energy Limited, an ASX listed mid cap oil and gas exploration and production company.

During the past three years Mr Cook has served as a Director of Buru Energy Limited (from August 2008 to November 2009). Mr Cook joined Carnarvon on 2 November 2009 and was appointed to the Board on 1 July 2011.

Edward (Ted) P Jacobson
Non-Executive Director
B.Sc (Hons Geology)

Appointed as a director on 5 December 2005.

Mr Jacobson is a petroleum geophysicist with 39 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 1991 Mr Jacobson 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. Mr Jacobson retired from Tap in September 2005.

During the past three years Mr Jacobson has served as director of Rialto Energy Limited (from July 2006 to November 2009). 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.

Mr Jacobson retired as Chief Executive officer on 30 June 2011.

Directors' Report

Neil C Fearis
Non-Executive Director
LL.B (Hons), FAICD, F Fin

Appointed as a director on 30 November 1999.

Mr Fearis has over 35 years' experience as a commercial lawyer in the UK and Australia.

During the past three years Mr Fearis served as a director of the following listed companies: Perseus Mining Limited (from 2004); Liberty Resources Limited (from June 2007 to November 2008); Kresta Holdings Limited (November 1997 to December 2009); Magma Metals Limited (from October 2009 to June 2012); and Tiger Resources Limited (from May 2011). Mr Fearis is also a member of several professional bodies associated with commerce and law.

Mr Fearis is Chairman of the Audit Committee and a member of the Remuneration Committee.

William (Bill) A Foster
Non Executive Director
BE (Chemical)

Appointed as a director on 17 August 2010.

Mr Foster is an engineer with extensive technical, commercial and managerial experience in the energy industry over a 40 year period. He has been an advisor to a major Japanese trading company for the last 20 years in the development of their global E&P and LNG activities and has spent time prior to this working internationally in the development of a number of energy companies.

Mr Foster is a Director of Red River Resources Limited and was a former independent director of Tap Oil Ltd and of the E&P companies that were formed through his advisory services to the Japanese trading company.

Mr Foster is Chairman of the Remuneration Committee a member of the Audit Committee.

Company Secretary

Mr Graeme Smith was appointed Company Secretary in November 2011. Mr Smith has company secretarial positions in both ASX-listed companies and private entities. Mr Smith is a qualified accountant and is a Fellow of both the Australian Society of Certified Practicing Accountants and the Chartered Institute of Secretaries and Administrators.

Mr Smith was appointed following the resignation of Mr Robert Anderson in November 2011.

Directors' meetings

The number of directors' meetings held and attended by each of the directors during the reporting period was as follows:

	(a)	(b)
Peter Leonhardt	12	12
Ted Jacobson	12	12
Neil Fearis	12	12
Bill Foster	12	12
Adrian Cook	12	12

(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 3 members from 1 July 2009. Current members of the committee are Neil Fearis (Chairman of the Audit Committee), Peter Leonhardt, and Bill Foster. Qualifications of Audit Committee members are provided in the Directors section of this directors' report.

Audit Committee meetings

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

	(a)	(b)
Peter Leonhardt	2	2
Neil Fearis	2	2
Bill Foster	2	2

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

Remuneration Report (Audited)

Remuneration Committee

The Remuneration Committee currently comprises Neil Fearis, Peter Leonhardt, and Bill Foster. Mr Foster replaced Mr Fearis as Chairman of the Committee on 3 July 2012.

Qualifications of Remuneration Committee members are provided in the directors section of this directors' report.

Remuneration Committee meetings

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

	(a)	(b)
Neil Fearis	2	2
Peter Leonhardt	2	2
Bill Foster	2	2

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

The Remuneration Committee is responsible for the compensation arrangements for directors and executives of the Company. The Remuneration Committee considers compensation packages and policies applicable to the executive directors, senior executives and non-executive directors' fees. In certain circumstances these include incentive arrangements including employee share plans, incentive performance packages, and retirement and termination entitlements.

Principles of compensation

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

The Remuneration Committee assesses the appropriateness of the nature and amount of compensation on an annual basis by reference to industry and market conditions, and with regard to individual performance and the Company's financial and operational results. Such assessments are also made after referring to the recommendations of specialist consultancy firms, industry groups, government and shareholder bodies. The Board obtains, when required, independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally.

The Remuneration Committee ultimately determines its compensation practices in terms of their effectiveness to attract, retain and incentivise appropriately qualified and experienced directors and senior executives.

Remuneration arrangements are made having regard to the number and composition of staff in the business and the stage of development of the Company. Remuneration arrangements include a mix of fixed and performance based remuneration. Performance based remuneration comprises short term and long term incentive schemes. Short term incentive arrangements are designed to incentivise superior individual achievement over a period of twelve months and typically comprise cash payments or share issues, as the Remuneration Committee considers appropriate. Long term incentive arrangements are share-based and designed to be simple, clear and strongly aligned between shareholder and executive interests over the medium to longer term.

Remuneration 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 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 issued 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.

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

Remuneration Report (Audited) (continued)

	30 June 2008	30 June 2009	30 June 2010	30 June 2011	30 June 2012
Share price as at 30 June each year	$0.53	$0.815	$0.345	$0.175	$0.105
Year on year change in the share price	121%	54%	(58%)	(49%)	(40%)
Consolidated net profit / (loss) from continuing operations ($000)	$15,651	$28,736	$14,423	$2,159	($2,498)

Non-executive directors

Total remuneration for all non-executive directors, last voted upon by shareholders at a General Meeting in November 2008, is not to exceed $300,000 per annum.

A non-executive director's base fee is $62,500 per annum and the Chairman receives $105,000 per annum. These fees were last increased with effect from 1 January 2010. 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 incentives or retirement benefits for non-executive directors.

Fixed compensation

Fixed compensation consists of base compensation as well as employer contributions to superannuation funds.

Short term incentive scheme

Short term incentives are assessed by the Remuneration Committee based on two components:

1. the performance of the business as a whole; and
2. the individual performances of each employee.

The value of any short term incentive is restricted to a maximum 50% of an individual's Fixed Compensation. Of this amount, 40% is applicable to fixed Remuneration Committee approved business performance targets; primarily relating to production, reserves and cash flow measures. A further 40% is assessed by the Remuneration Committee based on an individual's achievement of role related performance measures. The remaining 20% is assessed at the discretion of, the Remuneration Committee.

The Remuneration Committee is not obliged to make incentive payments where there are material adverse changes in the circumstances of the Company.

Short term incentives may be paid in cash or by the issue of shares in the Company.

Non-executive directors are not entitled to participate in the short term incentive scheme.

All short term incentives awarded during the period are included in remuneration, as set out on page 26, and fully vested to each of the directors, named Company executives, and key management personnel during the period.

Long term incentive scheme - Employee Share Plan

The Carnarvon Employee Share Plan ("**ESP**") was implemented following shareholder approval at the 1997 Annual General Meeting ("**AGM**") and was last ratified by shareholders at the AGM on 27 November 2009.

The purpose of the ESP is to attract, retain and motivate those who have been invited by the Board to participate in the ESP and align their interests with all other shareholders by encouraging performance that increases shareholder wealth through long term growth.

Remuneration Report (Audited) (continued)

The principal provisions of the Plan include:

- the Plan is available to all directors, employees or consultants of the Company or any of its subsidiaries ("Eligible Person");
- the Company may at any time, in its absolute discretion, make an offer to an Eligible Person;
- the number of Plan Shares issued to any Eligible Person and the issue price is to be determined by the directors of the Company;
- the issue price is to be no less than the weighted average market price of the Company's shares on the 5 trading days prior to the proposed date of issue;
- the offer may be accepted by an Eligible Person or an associate of that Eligible Person, within the given acceptance period;
- the person accepting the offer ("Participant") will be taken to have agreed to borrow from the Company on the terms of the loan agreement referred to below an amount to fund the purchase of the Plan Shares;
- the Plan Shares will rank pari passu with all issued fully paid ordinary shares in respect of voting rights, dividends and entitlement to participate in any bonus or rights issues;
- eligible Persons may not dispose of a third of their Plan Shares before the second year following their issue and may not dispose of a third of their Plan Shares before the third year following their issue. These restrictions do not apply in the event of redundancy or change of control;
- until the loan to the Participant is fully repaid, the Company has control over the disposal of the Plan Shares. Once the loan is repaid in full, the Participant may deal with the Plan Shares as he wishes;
- the aggregate number of Plan Shares and other shares and options issued in the previous 5 years under any other employee incentive scheme of the Company must not exceed 5% of the issued capital of the Company; and
- applications will be made as soon as practicable after the allotment of the Plan Shares for listing for quotation on ASX.
- The principal provisions of the loan agreement include:
- the amount lent will be an advance equal to the issue price of the Plan Shares multiplied by the number of Plan Shares issued;
- the loan can be repaid at any time but the Participant must pay any amount outstanding to the Company within 30 days of termination of the Eligible Person's employment. All dividends declared and paid on the Plan Shares will be applied towards the repayment of the advance and there is no interest on the advance;
- the maximum liability in respect of the loan will be the value of the Plan Shares from time to time; and
- a holding lock will be placed on the Plan Shares until the loan is fully repaid.
- loans made under the ESP involve no cash outlay by the Company.

A complete copy of the rules of the ESP (which incorporates the terms of the loan agreement) is available for inspection by shareholders (free of charge) at the Company's Registered Office or, upon request, from the Company Secretary.

Plan Shares are approved by the Remuneration Committee based upon the assessed performance of each person against his job specifications and the recommendations of the Chief Executive Officer, and in the case of directors, with the approval of shareholders.

The Remuneration Committee, having regard to recent changes in the taxation of certain long term incentive schemes and current trends in structuring long term incentive plans, is of the view that the Company's ESP is effectively structured to meet its objectives in attracting, retaining and motivating appropriately qualified and experienced directors and senior executives.

Remuneration Report (Audited) (continued)

During the current financial year the following Plan Shares were issued to Executive Officers of the Company:

Executive Officers	Number of shares issued	Issue date	Exercise price per share	Loan
AC Cook*	3,000,000*	25/11/2011*	$0.23*	$690,000*
PP Huizenga	2,500,000	15/07/2011	$0.23	$575,000

The exercise price for each issue above 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. The shares remain subject to the disposal restrictions contained in the Plan Rules summarized above.

** Approved by shareholders at the AGM on 18 November 2011.*

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.

In order to determine the cost of Plan Shares issued in a period, the Company uses the Black-Scholes Option Pricing Model, calculated at the date of issue of the Plan Shares, assuming a 3 year life and nil cash consideration. For this purpose, Plan Shares are treated as having vested immediately and the cost calculated under the Black-Scholes Option Pricing Model is recognised as an expense entirely in the current period, notwithstanding restrictions on their disposal and the period over which the benefits arise. The following factors and assumptions were used in determining the fair value of Plan Shares at grant date in the current reporting period:

2012

Grant date	Assumed expiry date	Fair value per option	Exercise price	ASX quoted price of shares at grant date	Expected volatility	Risk free interest rate	Dividend yield
15/07/2011	14/07/2014	$0.11	$0.23	$0.225	70%	4.75%	0%
25/11/2011	24/11/2014	$0.035	$0.23	$0.115	70%	4.50%	0%

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

(i) Philip Huizenga, Chief Operating Officer, is engaged as an employee. Termination by the Company is with 3 months' notice or payment in lieu thereof and an additional payment of 3 months' remuneration. Termination by Mr Huizenga is with 3 months' notice.

(ii) Adrian Cook, Chief Executive Officer, is engaged as an employee. Termination by the Company is with 12 months' notice or payment in lieu thereof. Termination by Mr Cook is with 6 months' notice.

Equity instruments
(i) Shares
There were no shares in the Company issued 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
There were no options over shares in the Company issued as compensation to key management personnel during the reporting period. No options have been issued since the end of the financial year. ESP shares issued as compensation to key management personnel during the year are disclosed on page 20.

There were no shares issued in either 2012 or 2011 on the exercise of options.

There are no amounts unpaid on shares issued as a result of the exercise of options. During the reporting period there was no forfeiture, lapsing or vesting of options issued in previous periods.

At the end of the reporting period, other than Plan Shares (treated in principle as options), there were no unvested options on issue.

Remuneration Report (Audited) Cont'd

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 ($)	Shares ($)	Total ($)	Proportion of remuneration performance related %	Value of shares as a % of remuneration
Directors							
Non-Executive							
Mr PJ Leonhardt (Chairman)							
2012	$105,000	-	-	-	$105,000	-	-
2011	$105,000	-	-	-	$105,000	-	-
Mr NC Fearis							
2012	$62,500	-	-	-	$62,500	-	-
2011	$62,500	-	-	-	$62,500	-	-
Mr W Foster							
2012	$62,500	-	-	-	$62,500	-	-
2011 (from 17 August 2011)	$54,457	-	-	-	$54,457	-	-
Mr EP Jacobson							
2012	$62,500	-	-	-	$62,500	-	-
2011 (Chief Executive Officer to 30 June 2011)	$516,050	$52,325	$46,444	-	$614,819	7.6%	-
Executive							
Mr AC Cook (Chief Executive Officer)							
2012	$520,578	-	$24,422	$106,246	$651,246	-	16.3%
2011	$375,730	$95,412	$25,000	$39,063	$535,205	17.8%	7.3%
Executives							
Mr PP Huizenga (Chief Operating Officer)							
2012	$492,226	-	$25,000	$274,728	$791,954	-	34.7%
2011	$375,730	$95,412	$25,000	$39,063	$535,205	17.8%	7.3%
Total compensation: key management personnel (Company and consolidated)							
2012	$1,305,304	-	$49,422	$380,974	$1,735,700		
2011	$1,489,467	$243,149	$96,444	$78,126	$1,907,186		

Directors' fees are paid or payable to the director or a director-related entity.

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 2012 ($)
Auditors of the Company:	
Audit and review of financial reports	132,000

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	17,000,000	-
AC Cook	5,000,000	-
EP Jacobson	31,297,635	-
NC Fearis	9,000,000	-
WA Foster	-	-

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

Share options

Options issued to directors and executives of the Company

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

Likely developments

The likely developments for the 2012 financial year are contained in the operating and financial review as set out on pages 5 to 17.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 2012.

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 (2011: Nil).

Auditor's independence declaration

The auditor's Independence Declaration under Section 307C of the Corporations Act is set out on page 30 and forms part of the directors' report for the financial year ended 30 June 2012.

Principal activities

During the course of the 2012 financial year the Group's principal activities continued to be directed towards oil and gas exploration, development and production.

Directors' Report

Identification of independent directors

The independent directors are identified in the Corporate Governance Statement section of this Annual Report as set out on pages 69 to 71.

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 4 to 12.

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 2012 is set out on pages 4 to 12 and forms part of this report.

Indemnity of directors, company secretary and auditors

Deeds of Access and Indemnity have been executed by the Company with each of the directors and Company Secretary. The deeds 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.

The company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify the auditor of the company against a liability incurred by the auditor.

Events subsequent to reporting date

No matters or circumstance has arisen since 30 June 2012 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, 31 August 2012

Auditor's Independence Declaration

Crowe 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 2012, 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.

Crowe Horwath Perth

CROWE HORWATH PERTH

CYRUS PATELL
Partner

Signed at Perth, 31 August 2012

Crowe Horwath Perth is a WHK Group Firm and a member of Crowe Horwath International, a Swiss verein.
Each member firm of Crowe Horwath is a separate and independent legal entity.

Consolidated Income Statement

For the year ended 30 June 2012

	Notes	Consolidated 2012 $000	Consolidated 2011 $000
Oil sales		30,411	54,750
Other income	4	61	93
Cost of sales	5	(15,828)	(18,891)
Administrative expenses		(1,317)	(1,724)
Directors' fees		(293)	(222)
Employee benefits expense		(1,165)	(1,686)
Travel related costs		(126)	(228)
Unrealised foreign exchange gain / (loss)		235	(4,463)
New venture costs		(1,287)	(983)
Exploration expenditure written off	14	(3,361)	(11,247)
Share-based payments		(445)	(207)
Profit before income tax		6,885	15,192
Taxes			
Current income tax expense		5,074	5,137
Deferred income tax expense		4,309	5,496
	9 (a)	9,383	10,633
Special remuneratory benefit	9 (b)	-	2,400
Total taxes		9,383	13,033
(Loss) / profit for the year		(2,498)	2,159
(Loss) / profit attributable to members of the Company		(2,498)	2,159
Basic earnings per share (cents per share)	8	(0.4)	0.3
Diluted earnings per share (cents per share)	8	(0.4)	0.3

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

Consolidated Statement Of Comprehensive Income

For the year ended 30 June 2012

	Consolidated	
	2012 $000	2011 $000
(Loss) / profit for the year	(2,498)	2,159
Other comprehensive income		
Exchange differences arising in translation of foreign operations, net of income tax	3,070	(17,439)
Total comprehensive income / (loss) for the year	572	(15,280)
Total comprehensive income / (loss) attributable to members of the company	572	(15,280)

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

Consolidated Statement Of Financial Position

As at 30 June 2012

	Notes	Consolidated 2012 $000	2011 $000
Current assets			
Cash and cash equivalents	21(b)	7,106	14,798
Trade and other receivables	10	2,926	5,444
Inventories	12	4,332	3,381
Other assets	13	427	287
Total current assets		14,791	23,910
Non-current assets			
Property, plant and equipment	11	469	470
Exploration and evaluation expenditure	14	7,776	5,955
Oil and gas assets	15	82,905	71,682
Total non-current assets		91,150	78,107
Total assets		105,941	102,017
Current liabilities			
Trade and other payables	17	1,945	4,895
Employee benefits	24	222	146
Current tax liability		2,347	875
Provisions	18	-	-
Total current liabilities		4,514	5,916
Non-current liabilities			
Deferred tax liabilities	19	33,111	28,802
Total non-current liabilities		33,111	28,802
Total liabilities		37,625	34,718
Net assets		68,316	67,299
Equity			
Issued capital		68,536	68,240
Reserves	20	(17,003)	(20,222)
Retained earnings	20	16,783	19,281
Total equity		68,316	67,299

The above consolidated statement of financial position should be read in conjunction with the accompanying notes to the financial statements.

Consolidated Statement Of Changes In Equity

For the year ended 30 June 2012

	Issued capital $000	Retained earnings $000	Translation reserve $000	Share based payments reserve $000	Total $000
Balance at 1 July 2010	68,240	17,122	(4,828)	1,838	82,372
Comprehensive income					
Profit for the year	-	2,159	-	-	2,159
Other comprehensive income	-	-	(17,439)	-	(17,439)
Total comprehensive income / (loss) for the year	-	2,159	(17,439)	-	(15,280)
Transactions with owners and other transfers					
Share based payments	-	-	-	207	207
Total transactions with owners and other transfers	-	-	-	207	207
Balance at 30 June 2011	68,240	19,281	(22,267)	2,045	67,299
Balance at 1 July 2011	68,240	19,281	(22,267)	2,045	67,299
Comprehensive income					
Loss for the year	-	(2,498)	-	-	(2,498)
Other comprehensive income	-	-	3,070	-	3,070
Total comprehensive income for the year	-	(2,498)	3,070	-	572
Transactions with owners and other transfers					
Share based payments	296	-	-	149	445
Total transactions with owners and other transfers	296	-	-	149	445
Balance at 30 June 2012	68,536	16,783	(19,197)	2,194	68,316

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

Statement Of Cash Flows
For the year ended 30 June 2012

	Notes	Consolidated 2012 $000	2011 $000
Cash flows from operating activities			
Receipts from customers and GST recovered		33,818	61,715
Payments to suppliers and employees		(18,908)	(24,323)
Income tax and special remuneratory benefit paid		(3,733)	(14,055)
Interest received		61	134
Net cash flows generated from operating activities	21(a)	11,238	23,471
Cash flows from investing activities			
Exploration and development expenditure		(19,271)	(34,462)
Cash held as security		359	-
Acquisition of property, plant and equipment		(253)	(207)
Net cash flows (used in) investing activities		(19,165)	(34,669)
Cash flows from financing activities			
Payment of share issue costs		-	-
Proceeds from repayment of Employee Share Plan loans		-	-
Net cash flows from financing activities		-	-
Net (decrease) in cash and cash equivalents held		(7,927)	(11,198)
Cash and cash equivalents at the beginning of the financial year		14,798	30,255
Effect of exchange rate fluctuations on cash and cash equivalents		235	(4,259)
Cash and cash equivalents at the end of the financial year	21(b)	7,106	14,798

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

Notes To The Financial Statements

1. Reporting entity

The consolidated financial report of Carnarvon Petroleum Limited ('Company') for the financial year ended 30 June 2012 comprises the Company and its controlled entities (the "Group") and the Group's interest in jointly controlled assets.

The separate financial statements of the parent entity, Carnarvon Petroleum Limited, have not been presented within this financial report as permitted by the *Corporations Act 2001*.

The financial report was authorised for issue by the directors on 31 August 2012.

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.

Adoption of new and revised Accounting Standards

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, the adoption of AASB 1054 Australian Additional Disclosures and AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project enabled the removal of certain disclosures in relation to commitments and the franking of dividends.

Basis of measurement
The financial report is prepared on a historical cost basis, except for available-for-sale financial assets which are measured at fair value.

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 recognised in the period in which the estimate is revised and in any future periods affected.

Key estimate – impairment
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.

An impairment loss of $3.4 million was recognised during the 30 June 2012 financial year (2011: $11.2 million)

Key estimate – income and capital gains taxes
Estimates are made 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)*

Key estimate – special remuneratory benefit 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% per concession).

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 – reserve quantities

Reserves are estimates of the amount of product that can be economically and legally extracted from the consolidated entity's properties. In order to estimate economically recoverable reserves, assumptions are required about a range of geological, technical, legal and economic factors, including quantities, production techniques, reversion rights, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates.

Estimating the quantity of reserves requires the size, shape and depth of fields to be determined by analysing geological drilling and production data. This process may require complex and difficult judgements to interpret the data. Because the economic assumptions used to estimate economically recoverable reserves change from period to period, and because additional data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the consolidated entity's financial results and financial position in a number of ways, including the following:

- asset carrying values (note 15) may be affected due to changes in estimated future cash flows;
- depreciation charged in the income statement (note 5) may change as such charges are determined by the units of production basis; and
- the carrying value of deferred tax assets (note 19) may change due to changes in the estimates of the likely recovery of the tax benefits.

Key judgement – 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 judgements – 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 group, 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 group 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.

Joint Ventures

The Group's shares of the assets, liabilities, revenue and expenses of joint ventures have been included in the appropriate line items of the consolidated financial statements. Details of the Group's interests are provided in Note 16.

(b) Income tax and special remuneratory benefit

Income tax (current tax & deferred 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 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 against which the benefits of the deferred tax assets can be utilized.

3. Significant accounting policies (continued)

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% per concession).

The SRB, which is tax deductible in the calculation of Thai income taxes, involves a 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 quarterly for each concession at the calculated annual rate at the end of each quarter.

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 as 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.

(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. Such amounts are determined based on current costs.

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 property 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 all classes of depreciable assets are:

Property, plant and equipment: 10% 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.

3. Significant accounting policies (continued)

(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.

Amortisation of oil and gas assets is calculated on a unit of production basis so as to write off costs, including an element of future costs, in proportion to the depletion of the estimated recoverable reserves which are expected to be recovered by the expiry of the production licenses.

(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 less than 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) 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
There are no restoration provisions required in respect of the Group's activities under current Thai Legislation.

3. Significant accounting policies (continued)

(h) Financial instruments

Recognition and initial measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Finance instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or cost. Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense item in profit or loss.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

(i) *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 subsequently measured at amortised cost.
Loans and receivables are included in current assets, where they are expected to mature within 12 months after the end of the reporting period.

(ii) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.
They are subsequently measured at fair value with changes in such fair value (ie gains or losses) recognised in other comprehensive income (except for impairment losses and foreign exchange gains and losses). When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss. Available-for-sale financial assets are included in non-current assets where they are expected to be sold within 12 months after the end of the reporting period. All other financial assets are classified as current assets.

(iii) *Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

3. Significant accounting policies (continued)

(i) Segment reporting

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

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

(j) 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 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.

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 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.

(k) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

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

(l) Share capital

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

3. *Significant accounting policies (continued)*

(m) 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.

(n) 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 – 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.

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 shares 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 plan. Upon repayment of the ESP loans, the balance of the share-based payments reserve relating to the loan repaid is transferred to issued capital.

(o) Earnings per share

The Group presents basic and diluted earnings per share ("**EPS**") 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 issued.

(p) 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.

(q) 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.

3. Significant accounting policies (continued)

(r) 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 statement of financial position are shown inclusive of GST.

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

(s) 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.

(t) 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.

(u) 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)

(v) New standards and interpretations not yet adopted

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below:

- AASB 9: Financial Instruments (December 2010) and AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applicable for annual reporting periods commencing on or after 1 January 2013).

  These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

  The key changes made to accounting requirements include:

  - simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
    - simplifying the requirements for embedded derivatives;
    - removing the tainting rules associated with held-to-maturity assets;
    - removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
    - allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
    - requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
    - requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

  The Group has not yet been able to reasonably estimate the impact of these pronouncements on its financial statements.

- AASB 2010–8: Amendments to Australian Accounting Standards: Deferred Tax: Recovery of Underlying Assets [AASB 112] (applies to periods beginning on or after 1 January 2012).

  This Standard makes amendments to AASB 112: Income Taxes and incorporates Interpretation 121: Income Taxes – Recovery of Revalued Non-Depreciable Assets into AASB 112.

  Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

  The amendments are not expected to significantly impact the Group.

3. Significant accounting policies (continued)

- AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011), AASB 128: Investments in Associates and Joint Ventures (August 2011) and AASB 2011–7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009–11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17] (applicable for annual reporting periods commencing on or after 1 January 2013).

  AASB 10 replaces parts of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees. The Group has not yet been able to reasonably estimate the impact of this Standard on its financial statements.

  AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either "joint operations" (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or "joint ventures" (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed).

  AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a "structured entity", replacing the "special purpose entity" concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will affect disclosures only and is not expected to significantly impact the Group.

  To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued. The Group has not yet been able to reasonably estimate the impact of these pronouncements on its financial statements.

- AASB 13: Fair Value Measurement and AASB 2011–8: Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009–11, 2010–7, 101, 102, 108, 110, 116, 17, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132] (applicable for annual reporting periods commencing on or after 1 January 2013).

  AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.

  AASB 13 requires:

  - inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and
  - enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) to be measured at fair value.
  - These Standards are not expected to significantly impact the Group.

- AASB 2011–9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049] (applicable for annual reporting periods commencing on or after 1 July 2012).

  The main change arising from this Standard is the requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently.

  This Standard affects presentation only and is therefore not expected to significantly impact the Group.

	Consolidated 2012 $000	Consolidated 2011 $000

4. Other income

	2012 $000	2011 $000
Finance income on bank deposits	61	93
	61	93

5. Cost of sales

	2012 $000	2011 $000
Production expenses	(5,894)	(5,143)
Royalty and excise	(1,664)	(3,430)
Transportation	(764)	(1,823)
Depreciation – development costs and producing assets	(5,171)	(6,074)
Selling, general and administration	(2,335)	(2,421)
	(15,828)	(18,891)

6. Other expenses

	2012 $000	2011 $000
Depreciation – property, plant and equipment	(236)	(231)
Rental premises – operating leases	(181)	(212)
Defined contribution – superannuation expense	(147)	(149)

7. Auditors' remuneration

	2012 $000	2011 $000
Audit and review services:		
Auditors of the Company	132	122

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:

	2012 Number of shares	2011 Number of shares
Issued ordinary shares at 1 July	687,820,634	686,759,634
Effect of shares issued	2,727,397	590,090
Weighted average number of ordinary shares 30 June (basic)	690,548,031	687,349,724
Effect of share options on issue	-	-
Weighted average number of ordinary shares 30 June (diluted)	690,548,031	687,349,724

	2012 $	2011 $
(Loss) / Profit used in calculating basic and diluted earnings per share from continuing operations	($2,498,000)	$2,159,000

9. Taxes

(a) Income tax expense

Numerical reconciliation between pre-tax profit and income tax expense:

	Consolidated 2012 $000	Consolidated 2011 $000
Prima facie income tax expense on pre-tax profit at 30% (2011: 30%)	2,065	4,558
Tax effect of:		
Special remuneratory benefit	-	(1,200)
Effect of higher overseas tax rate	2,929	6,725
Foreign exchange losses / (gains)	729	(5,142)
Non-deductible expenditure	1,160	3,861
Prior year temporary differences recognised	878	554
Current year tax benefit not brought to account	1,622	1,277
Income tax expense on pre tax profit	9,383	10,633
Current income tax	5,074	5,137
Deferred tax	4,309	5,496
	9,383	10,633

Tax Consolidation

Effective 1 July 2003, for the purposes of Australian income taxation, Carnarvon and its 100%-owned Australian 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.

Income tax expense has not been accrued on the profits generated by the Thailand joint venture as under Australian tax law, such profits attributable to the branch are taxed in Thailand and are non-assessable in Australia.

9. *Taxes (continued)*

(b) Special remuneratory benefit expense	Consolidated 2012 $000	Consolidated 2011 $000
Special remuneratory benefit	-	2,400
	-	2,400

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

The SRB, which is tax deductible in the calculation of Thai income taxes (see Note 9 (a)), involves a 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 quarterly for each concession at the calculated annual rate at the end of each quarter.

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

10. Trade and other receivables

	Consolidated 2012 $000	Consolidated 2011 $000
Current		
Trade and other receivables	2,035	4,271
Cash held as security	891	1,173
	2,926	5,444

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

11. Property, plant and equipment

	Consolidated 2012 $000	Consolidated 2011 $000
Plant and equipment		
Cost:		
Balance at beginning of financial year	495	447
Additions	42	106
Effects of movements in foreign exchange	15	(58)
Balance at end of financial year	552	495
Depreciation and impairment losses:		
Balance at beginning of financial year	192	116
Depreciation charge for year	87	76
Balance at end of financial year	279	192
Carrying amount opening	303	331
Carrying amount closing	273	303
Fixtures and fittings		
Cost:		
Balance at beginning of financial year	732	715
Additions	138	85
Effects of movements in foreign exchange	6	(68)
Balance at end of financial year	876	732
Depreciation and impairment losses:		
Balance at beginning of financial year	621	481
Depreciation charge for year	74	140
Balance at end of financial year	695	621
Carrying amount opening	111	234
Carrying amount closing	172	111
Land and buildings		
Cost:		
Balance at beginning of financial year	105	103
Additions	32	17
Effects of movements in foreign exchange	2	(15)
Balance at end of financial year	139	105
Depreciation:		
Balance at beginning of financial year	49	33
Depreciation charge for year	22	16
Balance at end of financial year	71	49
Carrying amount opening	56	70
Carrying amount closing	69	56

	Consolidated 2012 $000	Consolidated 2011 $000

11. *Property, plant and equipment (continued)*

Total

	2012 $000	2011 $000
Cost:		
Balance at beginning of financial year	1,332	1,266
Additions	212	207
Effects of movements in foreign exchange	23	(141)
Balance at end of financial year	1,567	1,332
Depreciation and impairment losses:		
Balance at beginning of financial year	862	631
Depreciation charge for year	236	231
Balance at end of financial year	1,098	862
Carrying amount opening	470	635
Carrying amount closing	469	470

12. Inventories

	2012 $000	2011 $000
Current		
Consumables	4,332	3,381

13. Other assets

	2012 $000	2011 $000
Current		
Deposits and prepayments	427	287

14. Exploration and evaluation expenditure

	2012 $000	2011 $000
Cost:		
Balance at beginning of financial year	5,955	6,351
Additions	5,182	10,851
Exploration expenditure written off	(3,361)	(11,247)
Balance at end of financial year	7,776	5,955

The exploration expenditure written off during the financial year ended 30 June 2012 of $3,361,000 was in relation to the exploration expenses incurred in the Rangkas PSC.

15. Oil and gas assets

Cost:		
Balance at beginning of financial year	97,549	90,127
Additions	14,583	20,460
Effects of movements in foreign exchange	1,598	(13,038)
Balance at end of financial year	113,730	97,549
Depreciation and impairment losses:		
Balance at beginning of financial year	25,867	19,951
Depreciation charge for year	4,958	5,916
Balance at end of financial year	30,825	25,867
Carrying amount opening	71,682	70,176
Carrying amount closing	82,905	71,682

16. Joint ventures

The Group has the following interests in joint venture assets:

Joint venture	*Principal activities*	*Ownership interest %*	
Thailand		**2012**	**2011**
Phetchabun Basin Concession, Exploration Blocks L44/43 and L33/43 3/2546/60 and 5/2546/62 Concessions	Exploration, development and production of hydrocarbons	40%	40%
Exploration Block L20/50 7/2551/98 Concession	Exploration for hydrocarbons	55%	50%
Exploration Blocks L52/50 and L53/50 3/2553/105 concession	Exploration for hydrocarbons	50%	50%
Western Australia			
WA-435-P, WA-436-P, WA-437-P, WA 438-P, Roebuck Basin	Exploration for hydrocarbons	50%	50%
WA-443-P, Roebuck Basin	Exploration for hydrocarbons	100%	100%
WA-399-P, Carnarvon Basin	Exploration for hydrocarbons	13%	13%
Indonesia			
Rangkas, West Java Basin	Exploration for hydrocarbons	-	25%
New Zealand			
PEP 38524	Exploration for hydrocarbons	-	10%

16. *Joint ventures (continued)*

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

	2012 $000	2011 $000
Current assets		
Cash and cash equivalents	5,465	9,349
Trade and other receivables	2,838	4,504
Inventories	4,332	3,381
Other assets	390	264
Total current assets	13,025	17,498
Non-current assets		
Property, plant and equipment	435	408
Exploration and evaluation	6,085	5,807
Oil and gas assets	82,905	71,682
Total non-current assets	89,425	77,897
Total assets	102,450	95,395
Current liabilities		
Trade and other payables	1,658	4,046
Current tax	2,347	875
Provisions	-	-
Total current liabilities	4,005	4,921
Non-current liabilities		
Deferred tax	33,111	28,802
Total non-current liabilities	33,111	28,802
Total liabilities	37,116	33,723
Net assets	65,334	61,672
Income	30,411	54,750
Expenses	(28,572)	(43,171)
Net profit after tax	1,839	11,579

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

17. Trade and other payables

	Consolidated	
	2012 $000	2011 $000
Current		
Trade payables	105	220
Non-trade payables and accrued expenses	1,760	4,611
Owing to related parties	80	64
	1,945	4,895

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

	Consolidated	
	2012	2011
	$000	$000

18. Provisions

	2012 $000	2011 $000
Current		
Special Remuneratory Benefit - Thailand	-	-
	-	-

Provision for restoration costs
There are no restoration provisions required in respect of the Group's activities under current Thai Legislation.

19. Deferred tax liabilities

Recognised deferred tax assets and liabilities

The net deferred tax liability is attributable to the following:

	2012 $000	2011 $000
Oil and gas assets	34,334	30,241
Tax value of losses carry forward - Thailand	(1,223)	(1,439)
Net deferred tax liability	33,111	28,802

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

Unrecognised deferred tax assets and liabilities

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

	2012 $000	2011 $000
Australian tax losses	5,407	4,256

The 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. As explained in note 9(a), income tax is not payable in Australia on the profits generated by the Thailand joint venture as under Australian tax law, such profits attributable to the branch are taxed in Thailand and are non-assessable in Australia.

20. Capital and reserves

	Company 2012	Company 2012
	Number of shares	
Issued capital		
Balance at beginning of financial year	687,820,634	686,759,634
Employee Share Plan issues	6,824,000	1,061,000
Employee Share Plan cancellations	(1,274,000)	-
Balance at end of financial year	693,370,634	687,820,634

	Company 2012 $000	Company 2011 $000
Issued capital		
Balance at beginning of financial year	68,240	68,240
Transfer from share based payment reserve*	296	-
Balance at end of financial year	68,536	68,240

* *This represents the fair value of Employee Share Plan shares transferred from the share based payment reserve to issued capital upon cancellation.*

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.

Translation reserve

Movements in the translation reserve are set out in the Statement of Changes in Equity on page 28.

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 page 28.

This reserve represents the fair value of shares issued under the Company's ESP. This reserve is reversed against issued capital when shares are issued on exercise of options issued under the previous employee option plan and the loan is repaid or cancelled under the current ESP.

21. Reconciliation of cash flows from operating activities

(a) Cash flows from operating activities

	Consolidated 2012 $000	Consolidated 2011 $000
(Loss) / profit for the year	(2,498)	2,159
Adjustments for:		
Equity settled share based payment expense	445	207
Deferred tax expense	4,309	5,496
Depreciation	5,194	6,074
Foreign exchange losses	235	4,463
Exploration expenditure written off	3,361	11,247
Operating profit before changes in working capital and provisions:	11,046	29,646
Changes in assets and liabilities:		
Decrease in trade and other receivables	2,695	1,736
(Increase) / decrease in inventories	(894)	115
(Increase) / decrease in other assets	(136)	107
(Decrease) in trade and other payables	(3,006)	(726)
Increase / (decrease) in provisions and employee benefits	1,533	(7,407)
Net cash flows generated from operating activities	11,238	23,471

(b) Reconciliation of cash and cash equivalents

	2012 $000	2011 $000
Cash at bank and at call	7,106	14,798

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

Restricted cash of $891,000 consolidated is included under trade and other receivables (2011:$1,173,000 consolidated), see Notes 10 and 23.

22. Capital and other commitments

	Consolidated	
	2012	2011
	$000	$000
(a) Joint venture commitments		
Share of capital commitments of joint venture assets:		
Within one year	983	394
Capital commitments of the Group to joint venture assets:		
Within one year	413	4,740

(b) Exploration expenditure commitments

Due to the nature of the Group's operations in exploring and evaluating areas of interest it is necessary to incur expenditure in order to retain the Group'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 Group's equity.

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

	Consolidated	
	2012	2011
	$000	$000
Less than one year	2,350	350
Between one and five years	5,300	1,450
	7,650	1,800
(c) Capital expenditure commitments		
Data licence commitments	156	236

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 considered remote

a) The Phetchabun Basin Joint Venture operation, in which the Group has a 40% interest, has procured the issue of bank guarantees for an amount of 40 million Thai Baht (A$1,245,741) as security in lieu of bonds.

The L20/50 Joint Venture, in which the Group has a 55% interest, has procured the issue of bank guarantees for an amount of 20 million Thai Baht (A$622,871) as security in lieu of bonds.

The restricted cash held by the banks as security for these bonds and guarantees totaling $891,000 (2011: $1,173,000) is classified under "trade and other receivables".

b) 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.

24. Employee benefits

	Consolidated 2012 $000	Consolidated 2011 $000
Current:		
Liability for annual leave	222	146

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 interest free 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 use the above-mentioned loan to acquire plan shares.

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

	1 July 2011	Issued	Cancelled	30 June 2012
Number of shares	17,689,199	6,824,000	1,274,000	23,239,199
Loan	3,916,097	1,463,600	661,381	4,718,316
Average loan per share	$0.22	$0.21	$0.52	$0.20

	1 July 2010	Issued	Repaid	30 June 2011
Number of shares	16,628,199	1,061,000	-	17,689,199
Loan	3,445,013	471,084	-	3,916,097
Average loan per share	$0.21	$0.44	-	$0.22

24. *Employee benefits (continued)*

Shares issued under the ESP are accounted for In accordance with the AASB 2.

The fair value of shares issued under the ESP is measured by reference to their fair value using the Black-Scholes model, as set out below.

Fair value of share options and related assumptions	Key management personnel 2012	Key management personnel 2011	Other employees 2012	Other employees 2011
Fair value at measurement date (cents)	7.6	19.5	4.8	19.5
Share price at date of issue (cents)	16.5	44.4	11.5	44.4
Exercise price (cents)	23	44.4	15	44.4
Expected volatility	70%	60%	70%	60%
Actual / assumed option life	3 years	3 years	3 years	3 years
Expected dividends	Nil	Nil	Nil	Nil
Risk-free interest rate	4.61%	4.75%	4.25%	4.75%
Share-based expense recognised	$380,974	$78,126	$64,188	$129,104

The current year volatility is intended to reflect the movement of the Company's share price during the financial year.

Further details of shares and options issued to directors are set out in Note 28, and in the Remuneration Report set out on pages 16 to 20.

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 for which it did not charge a management fee.

During the financial year ended 30 June 2012 net receipts from controlled entities totalled $2,957,000 (2011: net receipts from controlled entities $3,873,000).

The carrying value of loans to controlled entities at 30 June 2012 was $2,798,000 (2010: $14,186,000) after provisions of $693,000 (2011: $693,000). These loans are unsecured, non-interest bearing, and have no fixed terms of repayment.

Other related party balances

At 30 June 2012 an amount of $80,437 (2011: $63,903) 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 2012 $000	2011 $000
Less than one year	238	252
Between one and five years	304	385
	542	637

During the reporting period $243,000 was recognised as an expense in the consolidated income statement in respect of operating leases (2011: $245,000).

The property lease is a non-cancellable lease with the three-year term, with rent payable in advance. Contingent rental provisions within the lease agreement require that minimum lease payment shall be increased by the change in the consumer price index (CPI).

27. Segment information

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

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

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

	2012 $000	2011 $000
Thailand	30,454	54,797
Australia	18	46
	30,472	54,843

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

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

	2012 $000	2011 $000
Thailand	100,544	90,399
Australia	5,397	8,425
Indonesia	-	3,193
	105,941	102,017

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 are as follows:

	Consolidated	
	2012	2011
	$000	$000
Short term employee benefits	1,305	1,733
Post-employment benefits	49	96
Share-based payments	381	78
	1,735	1,907

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 16 to 20.

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) 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 set out below.

2012	Balance 1 July 2011 ($)	Balance 30 June 2012 ($)	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	446,300	1,021,300	1,021,300	575,000	-
AC Cook	838,800	1,528,800	1,528,800	690,000	-

2011	Balance 1 July 2010 ($)	Balance 30 June 2011 ($)	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	357,500	446,300	446,300	88,800	-
AC Cook	750,000	838,800	838,800	88,800	-

* The loans to directors were made in 2006 in lieu of normal remuneration at a time the Company had no full time employees and limited cash resources.

28. Key management personnel disclosures (continued)

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 individuals in each group, are as follows:

	Opening balance ($)	Closing balance ($)	Number in group at 30 June
2012	1,285,100	2,550,100	2
2011	1,647,500	1,825,100	3

(c) 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	
	2012 $000	2011 $000
Current		
Trade and other payables	80	65

(d) 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:

2012	Held at 1 July 2011	Net acquired/ (sold)	Award under Employee Share Plan	Received on exercise of options	Held at 30 June 2012
Directors					
PJ Leonhardt	17,000,000	-	-	-	17,000,000
EP Jacobson	31,037,335	260,300	-	-	31,297,635
NC Fearis	8,600,000	400,000	-	-	9,000,000
W Foster	-	-	-	-	-
AC Cook	1,794,839	205,161	3,000,000	-	5,000,000
Executives					
PP Huizenga	1,800,000	-	2,500,000	-	4,300,000

2011	Held at 1 July 2010	Net acquired/ (sold)	Award under Employee Share Plan	Received on exercise of options	Held at 30 June 2011
Directors					
PJ Leonhardt	17,000,000	-	-	-	17,000,000
EP Jacobson	31,037,335	-	-	-	31,037,335
NC Fearis	8,400,000	200,000	-	-	8,600,000
W Foster	-	-	-	-	-
Executives					
PP Huizenga	1,600,000	-	200,000	-	1,800,000
AC Cook	1,594,839	-	200,000	-	1,794,839

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.

28. *Key management personnel disclosures (continued)*

In accordance with AASB 2 the issue of shares under the ESP is accounted for using the Black-Scholes model, 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 16 to 20.

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

		Ownership interest	
Name	**Country of Incorporation**	**2012**	**2011**
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%
Carnarvon Petroleum (Indonesia) Pty Ltd	Australia	100%	100%
Carnarvon (NZ) Pty Ltd	New Zealand	100%	100%

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

31. Subsequent events

No matters or circumstance has arisen since 30 June 2012 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 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.

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 2011:

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2012	2,888	2,888
30 June 2011	5,141	5,141

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 2011:

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2012	(2,888)	(2,888)
30 June 2011	(5,141)	(5,141)

32. Financial risk management (continued)

(b) Interest rate risk

The significance and management of the risks to the Group 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 Group manages the risk 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 Group were as follows. There were no interest-bearing financial liabilities.

	Consolidated	
	2012	2011
Carrying amount (A$000)		
Financial assets – cash and cash equivalents	7,106	14,798
Weighted average interest rate (%)		
Financial assets – cash and cash equivalents	0.44%	0.24%

Sensitivity analysis

All other financial assets are non interest bearing.

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 2011:

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2012	34	34
30 June 2011	155	155

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 2011:

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2012	(28)	(28)
30 June 2011	(21)	(21)

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 Group, and arises principally from the Group's receivables from customers and cash deposits.

The Group's trade receivables at both June 2012 and June 2011 are all due from an entity located in Thailand and controlled by its government. This entity has an appropriate credit history with the Group. There were no receivables at 30 June 2012 or 30 June 2011 that were past due.

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 statement of financial position.

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	
	2012	2011
	$000	$000
Carrying amount:		
Cash and cash equivalents	7,106	14,798
Trade and other receivables	2,926	5,444
	10,032	20,242

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

	Gross	Impairment	Gross	Impairment
	2012	2012	2011	2011
	$000	$000	$000	$000
Not past due	1,800	-	3,757	-
	1,800	-	3,757	-

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

(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$, THB and US$.

The Group operates predominantly in Thailand and is exposed to currency risk arising from various foreign currency exposures, mainly with respect to the US$ and Thai Baht ("**THB**").

Cash receipts from the Thai operations, which comprise 100% of the Group revenues, 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$ loans to 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.

32. Financial risk management (continued)

(d) Currency risk (continued)

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

	THB A$000	USD A$000
Consolidated 2012		
Cash and cash equivalents	5,004	2,047
Trade and other receivables	2,688	558
Trade payables and accruals	(1,445)	(213)
SRB and income tax provisions	(2,347)	-
Gross balance sheet exposure	3,900	2,392
Consolidated 2011		
Cash and cash equivalents	8,702	5,737
Trade and other receivables	3,891	571
Trade payables and accruals	(3,580)	(466)
SRB and income tax provisions	(874)	-
Gross balance sheet exposure	8,139	5,842

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
AUD to:	2012	2011	2012	2011
1 Thai baht	0.031	0.033	0.031	0.031
1 USD	0.97	1.02	0.98	0.94

Sensitivity analysis

A 10% strengthening of the AUD against the THB for the 12 months to 30 June 2012 and 30 June 2011 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:

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2012		
THB	(13,333)	(1.797)
30 June 2011		
THB	(11,867)	(3,049)

32. Financial risk management (continued)

(d) Currency risk (continued)

A 10% weakening of the AUD against the THB for the 12 months to 30 June 2012 and 30 June 2011 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:

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2012		
THB	16,295	2,197
30 June 2011		
THB	14,504	3,954

(e) Fair values

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

	Carrying amount 2012 $000	Fair Value 2012 $000	Carrying amount 2011 $000	Fair Value 2011 $000
Consolidated				
Loans and receivables	2,926	2,926	5,444	5,444
Cash and cash equivalents	7,106	7,106	14,798	14,798
Trade and other payables	(1,945)	(1,945)	(4,895)	(4,895)
	8,087	8,087	15,347	15,347

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

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.

The Group currently does not have 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 2012				
Non-derivative financial liabilities				
Trade and other payables	1,945	1,945	1,945	-
SRB and income tax provisions	2,347	2,347	2,347	-
	4,292	4,292	4,292	-
Consolidated 2011				
Non-derivative financial liabilities				
Trade and other payables	4,895	4,895	4,895	-
SRB and income tax provisions	875	875	875	-
	5,770	5,770	5,770	-

33. Parent Information

The following information has been extracted from the books and records of the parent and has been prepared in accordance with the accounting standards:

	2012 $000	2011 $000
Statement of financial position		
Current Assets	1,787	6,799
Non-current assets	10,367	17,521
Total assets	12,154	24,320
Current liabilities	500	493
Non-current liabilities	-	-
Total liabilities	500	493
Equity		
Issued Capital	68,536	68,240
Accumulated losses	(59,077)	(46,458)
Reserves	2,195	2,045
Total equity	11,654	23,827
Statement of comprehensive income		
Total (loss)	(4,772)	(9,102)
Total comprehensive income	(4,772)	(9,102)

Parent Contingencies

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 may be 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.

	Parent	
	2012 $000	2011 $000
Parent capital and other commitments		
(a) Joint venture commitments		
Capital commitments of the Group to joint venture assets:		
Within one year	413	4,740

(b) Exploration expenditure commitments

Due to the nature of the Company's operations in exploring and evaluating areas of interest it is necessary to incur expenditure in order to retain the Company'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 Company's equity.

33. Parent Information (continued)

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

Less than one year	2,350	350
Between one and five years	5,300	1,450
	7,650	1,800

(c) Capital expenditure commitments

Data licence commitments	156	236

Non-cancellable operating lease rentals are payable as follows:

Less than one year	150	145
Between one and five years	168	318
	318	463

Directors' Declaration

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

(a) the financial statements and notes of the Group set out on pages 25 to 65 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance, as represented by the results of its operations and its 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) the financial statements comply with International Financial Reporting Standards as set out in Note 2; and

(c) the remuneration disclosures that are contained in the Remuneration Report in the Directors Report comply with the Corporations Act 2001 and the Corporations Regulations 2001; and

(d) 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 2012.

Signed in accordance with a resolution of the directors.

PJ Leonhardt
Director

Perth, 31 August 2012

Crowe Horwath

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

Report on the Financial Report

We have audited the accompanying financial report of Carnarvon Petroleum Limited and its controlled entities (the consolidated entity), which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated income statement, consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 judgement, 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 of the financial report that gives a true and fair view 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:

(a) the financial report of Carnarvon Petroleum Limited is in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Crowe Horwath

Report on the Remuneration Report
We have audited the Remuneration Report included in pages 16 to 20 of the directors' report for the year ended 30 June 2012. 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 for the year ended 30 June 2012 complies with section 300A of the Corporations Act 2001.

Crowe Horwath Perth

CROWE HORWATH PERTH

CYRUS PATELL
Partner

Signed at Perth, 31 August 2012

Introduction

The Company's directors are fully cognisant of the Corporate Governance Principles and Best Practice Recommendations published by the ASX Corporate Governance Council ("CGC") and have adopted those recommendations where they are appropriate to the Company's circumstances.

However, a number of those principles and recommendations are directed towards listed companies considerably larger than Carnarvon, whose circumstances and requirements accordingly differ markedly from the Company's. For example, the nature of the Company's operations and its low direct employee count mean that a number of the board committees and other governance structures recommended by the CGC are not only unnecessary in Carnarvon's case, but the effort and expense required to establish and maintain them would, in the directors' view, be an unjustified diversion of shareholders' funds.

Carnarvon's directors are aware that according to one school of thought listed companies will be rated by the investment community according to their compliance with the CGC's Best Practice Recommendations. However, in the directors' view that approach is not soundly based, particularly where unquestioning compliance with the recommendations would produce marginal or no benefit to shareholders.

In discharging its functions Carnarvon's board of directors receives competent legal and other professional advice. Based on that advice the board is satisfied that, notwithstanding non-compliance with the Best Practice Recommendations (to the extent noted below), the Company's governance structures are appropriate for its circumstances and the board acts at all times in the best interests of the Company and its shareholders.

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

- 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;
- Remuneration 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
- 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.

Corporate Governance Statement

Explanations for departures from best practice recommendations

From 1 July 2011 to 30 June 2012 (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	2.4	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.
3	3.2	A diversity policy has not been established.	The Company is committed to providing equal employment opportunities to all employees, and to all applicants for employment, regardless of race, colour, gender, religion, age, nationality, disability, marital status, sexual orientation, political conviction or any other personal factors. As the Company has a small number of employees a policy has not been formalised.
3	3.3	Measurable objectives for achieving gender diversity set in accordance with the diversify policy have not been established.	Given the Company's small number of Directors and employees the Board considers that at this stage measurable objectives would not be meaningful.
3	3.4	The proportion of women employees on the whole organisation, women in senior executive positions and women on the on Bard has not been disclosed.	Given the Company's small number of Directors and employees the Board considers that at this stage disclosure women employees in the whole organisation, women in senior executive positions and women on the Board would not be meaningful.

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 16 to 20.

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.

Material business risks

Management has reported to the Board as to the effectiveness of the Company's management of its material business risks.

Performance evaluation of the Board, its committees and senior executives

The Board reviews and evaluates the performance of the Board and its committees, which involves consideration of all the Board's key areas of responsibility.

A performance evaluation of senior executives was undertaken during the year, in the case of the Chief Executive by the Board, and in all other cases by the Chief Executive Officer and the Chairman.

Identification of independent directors

The Company's independent directors are considered to be Peter Leonhardt, Ted Jacobson, Neil Fearis, and Bill Foster.

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.

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.

Additional Shareholder Information

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 30 August 2012

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
HSBC Custody Nominees (Australia) Limited	52,358,317	7.55
J P Morgan Nominees Australia Limited	26,829,774	3.87
Mr Edward Patrick Jacobson	12,917,903	1.86
National Nominees Limited	12,160,222	1.75
Citicorp Nominees Pty Limited	11,177,494	1.61
Jacobson Geophysical Services Pty Ltd	9,728,390	1.40
Pendomer Investments Pty Ltd	9,000,000	1.30
Mr James Mark Dack	8,000,000	1.15
Mr Peter James Leonhardt	7,700,000	1.11
Mr James Mark Dack	7,000,000	1.01
Arne Investments Pty Ltd	6,710,493	0.97
Loong Phoong Pty Ltd	6,484,000	0.94
Geolyn Pty Ltd	6,000,000	0.87
Mr Edward Patrick Jacobson	6,000,000	0.87
JP Morgan Nominees Australia (Cash Income A/C)	5,432,468	0.78
Mr Philip Paul Huizenga	4,400,000	0.63
Arne Investments Pty Ltd	3,991,906	0.58
Mr Hsin Wei Wi & Ms Lydia Wen-Lin Hsieh	3,827,600	0.55
Mr William Douglas Goodfellow	3,400,000	0.49
Log Creek Pty Ltd	3,400,853	0.49
	206,519,420	**29.78**

Distribution of equity security holders

Size of Holding			Number of shareholders	Number of fully paid shares
1	to	1,000	526	282,571
1,001	to	5,000	1,997	6,362,775
5,001	to	10,000	1,797	15,184,730
10,001	to	100,000	4,435	170,133,345
100,001	and over		867	501,407,213
			9,622	**693,370,634**

The number of shareholders holding less than a marketable parcel of ordinary shares is 2,581.

b) Option holdings as at 31 August 2012

There were no share options on issue.

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%	Towngas
		Towngas	60%	
L33/43	Phetchabun / Thailand	Carnarvon	40%	Towngas
		Towngas	60%	
L44/43	Phetchabun / Thailand	Carnarvon	40%	Towngas
		Towngas	60%	
L20/50	Phitsanulok / Thailand	Carnarvon	55%	Carnarvon
		Sun Resources	45%	
L52/50, & L53/50	Surat-Khiensa / Thailand	Carnarvon	50%	Mubudala
		Mubudala	50%	
EP321	Perth / Australia	Carnarvon	2.5% of 38.25%	Latent Petroleum
EP407	Perth / Australia	Carnarvon	2.5% of 42.5%	Latent Petroleum
WA-399-P	Carnarvon / Australia	Carnarvon	13%	Apache
		Apache	60%	
		Rialto Energy	12%	
		Jacka	15%	
WA-435-P, WA-436-P, WA-437-P, WA-438-P	Roebuck / Australia	Carnarvon	50%	Finder Exploration
		Finder Exploration	50%	
WA-443-P	Roebuck / Australia	Carnarvon	100%	Carnarvon

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