CARNARVON PETROLEUM LTD

ABN 60 002 688 851

2013 ANNUAL REPORT

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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
T Naude (Appointed 22 November 2012)
G Smith (Resigned 22 November 2012)

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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

At the start of the 2013 financial year the company set out to firstly, work closely with its new operator in Thailand focusing on enhancing production in the Wichian Buri area and to secondly, establish a new region of growth in Western Australia focusing on two exploration blocks containing the Phoenix gas discovery and associated geological structures. The Company also continues to look elsewhere in South East Asia and Australia for opportunities that would provide a new growth horizon for the company.

Pleasingly, excellent progress has been achieved in the Phoenix area exploration permits with drilling now being planned around the end of the 2013 calendar year. In Thailand, significant technical work has been undertaken, albeit with field development activity being slower than anticipated and results are therefore delayed. Management has also been very active in assessing other opportunities throughout South East Asia and Australia and I am hopeful that their efforts will yield a result soon.

In Western Australia two key Phoenix area wells were farmed out to highly regarded international partners, significantly reducing the financial risk associated with these wells. We are pleased to have Apache and JX Nippon join the WA-435-P and WA-437-P joint venture that contains the Phoenix gas discovery. Apache brings to the joint venture particular experience and capability suited to these blocks and any subsequent development. The first exploration well is expected to commence later this year or early next year based on current indications and will be an important milestone for Carnarvon if it delivers on the identified targets.

The sandstone focus that I indicated last year would be a priority for our Thailand reserve exploitation has resulted in an effective increase in developed sandstone reserves. Overall Carnarvon maintained similar proved plus probable reserve levels to those assessed in the previous year with the increase in sandstone reserves offsetting a reduction attributable to the igneous reservoirs.

Notwithstanding the delayed Thailand production results, from an operational perspective I am pleased to report that the drilling programme conducted during the financial year was completed on time, safely and on budget. The new 3D seismic data acquisition program was similarly acquired without incident and a water-flooding program to enhance recovery has recently been initiated.

The immediate objective remains to build sustainable production in Thailand, through developing the identified sandstone reservoirs and continuing to focus on means by which the igneous reservoirs can be produced more effectively. The challenge for the joint venture is to generate value from those reserves by increasing development activity to boost oil rates in a cost efficient manner.

In terms of financial results, for the year ended 30 June 2013, Carnarvon recorded sales revenue of $18.3 million, a profit before tax of $1.5 million and a loss after tax of $8.4 million that mainly related to a deferred tax expense arising from exchange rate adjustments. The earnings figures include a $1.1 million exploration expenditure write-off for the L20/50 Concession as the Company continues to maintain a prudent policy of expensing exploration costs.

During the year the Board recognised the difficult trading conditions in the market and consequently adopted prudent remuneration practices, most notably in not granting bonuses or annual employee share plan shares to senior executives, as well as freezing director's fees. The Board also limited salary increases to a small number of staff and these were only to compensate for CPI increases. The Board continually monitors market conditions and prevailing remuneration practices to ensure the Company's position is broadly in line with industry and market conditions.

Finally, I'd like to thank my fellow directors and the management team and staff for their support and contribution this year. We look forward to seeing value from their efforts in the coming year.

Peter Leonhardt
Chairman

CHIEF EXECUTIVE'S REVIEW

It was back in 2008 that the Company secured five exploration permits in Western Australia that within the coming financial year will be tested with at least one high impact well being drilled by Apache as the operator. The Company secured these five large contiguous exploration permits with a clear vision of building an exploration program from a base around the Phoenix-1 gas discovery. Carnarvon's vision was that this area of some 28,000km^2 between the Carnarvon and Browse basins could contain significantly greater hydrocarbon potential along the North West Shelf than just the Phoenix gas discovery.

In October 2012 Apache and JX Nippon farmed into two of the five permits committing expertise and funding, to a cap, for the drilling of one firm and one contingent well. The first of these wells targeting significant hydrocarbon potential is scheduled to spud between November 2013 and January 2014.

Alongside the commercial work to farm out these blocks, the Carnarvon team continued its technical work in this region covering all five exploration blocks, including the two farmed out in October 2012. The benefits of this technical work include preparation for future farmout activity in the remaining three permits and the identification of additional potential hydrocarbon targets in a shallower oil zone and a larger gas zone within WA-435-P. Carnarvon is of the opinion that, at this time, both these additional potential hydrocarbon zones could be tested with the first well, namely the Phoenix South well.

From a commercialisation perspective, these permits are well suited to a number of development options given they are in reasonably shallow water depth and close to onshore infrastructure.

In Thailand a key focus in the 2013 financial year was the study and development of the first sandstone fault block in the Wichian Buri extension area. Given the nature of the sandstone reservoirs in this area, developments require drilling water injection and production wells with the former being necessary to create reservoir pressure and move the oil to the production wells. This is a common industry practice for enhancing oil recovery from sandstone reservoirs. The operator completed the first sandstone development program late in 2012 with promising oil flow rates from the wells drilled. Whilst the water injection program has been delayed, I am pleased that it was brought on line in August 2013. It is expected to take some months before the reservoir pressure builds sufficiently to lift production and is expected to involve a level of refinement as it progresses. Once the first fault block is performing to expectations the operator will move to develop a number of adjoining fault blocks containing similar sandstone reservoirs in a similar manner.

In addition to sandstone reservoirs, the more complex but prolific igneous reservoirs remains a key focus of the joint venture. The first new 3D seismic in six years was acquired during the 2013 financial year. At this stage, drilling on this new 3D seismic data is expected to commence late in 2013 and form a part of the longer term exploitation plan for these igneous reservoirs.

It is also important to report that Carnarvon has stepped up its new ventures initiatives and has been very active in assessing opportunities in South East Asia and Australia. This market remains highly competitive but we have identified a small number of suitable projects where we are either progressing discussions or monitoring the situation.

The Company is focused on a number of key initiatives involving increasing production in Thailand, building a new region of growth in Western Australia around the Phoenix area and securing new opportunities in South East Asia and Australia to either complement the Company's existing portfolio or form the platform for a new region of growth.

Adrian Cook
Chief Executive Office

PERMITS

Permit	Basin	Equity	Joint Venture Partner(s)	Partner Interest	Indicative Forward Program
Thailand					
SW1A	Phetchabun	40%	Eco Orient Energy	60%	Production, Appraisal
L33/43	Phetchabun	40%	Eco Orient Resources	60%	Production, Appraisal, Exploration
L44/43	Phetchabun	40%	Eco Orient Resources	60%	Production, Appraisal, Exploration
L20/50	Phitsanulok	0%	Siam Moecoii	100%	Post well G&G studies Seismic planning
L52/50	Surat-Khiensa	100%	-	-	Seismic acquisition and Interpretation
L53/50	Surat-Khiensa	100%	-	-	Seismic acquisition and Interpretation
Australia					
WA-435-P	Roebuck	20%	Apache [i] Finder Exploration JX Nippon	40% 20% 20%	Interpretation, Exploration well
WA-436-P	Roebuck	50%	Finder Exploration [i]	50%	G & G Studies, Farmout
WA-437-P	Roebuck	20%	Apache [i] Finder Exploration JX Nippon	40% 20% 20%	Interpretation, Exploration well
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% [ii]	-	-	Appraisal
EP407	Perth	2.50% of 42.5% [ii]	-	-	Appraisal
WA399P	Carnarvon	13%	Apache [i] Rialto Energy Jacka Resources	60% 12% 15%	Interpretation

Note:
(i) Denotes operator where Carnarvon is non-operator partner
(ii) Carnarvon has an overriding royalty interest in these assets

THAILAND

L44/43, L33/43 and SW1A Phetchabun Basin ("SW1A")
(Carnarvon Petroleum 40%, Eco Orient Energy 60% operator)

BACKGROUND

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

The Concessions cover the central, oil prone section of the basin, with around 100 km^2 under long term production licenses and an additional 1,000 km^2 area reserved for exploration.

Carnarvon has been a co-concessionaire in these permits since 2000, however oil has been flowing from the area since 1995.

Oil has been discovered in multiple oil bearing reservoirs in two distinct reservoir type: sandstone (clastic) and fractured igneous (volcanic).

Details on the reserves can be found later in this report.

2013 DRILLING

The joint venture performed 16 drilling operations in the 2013 financial year targeting a combination of volcanic and sandstone reservoirs. A complete list of results can be found in the Table 2.

Eight wells were drilled into the WBEXT sandstone reservoirs, primarily targeting the "D" and "E" sands of the WBEXT-1B fault block, and the results from these wells supported the WBEXT-1B water flood project that is in the process of being implemented.

Two wells were unsuccessful appraisals of the WBV2 igneous reservoir in the WBEXT area. The WBEXT-2C well, drilled after the financial year end, was also drilled into this reservoir and initial testing resulted in flow rates of 400 bopd at 60-70% water cut.

One well was an unsuccessful appraisal of the WBV3 igneous reservoir in the WBEXT area.

Four wells appraised the NSE igneous reservoir with sub-commercial results.

One exploration well was drilled between Si Thep and Wichian Buri and, while adding to the overall understanding of the area, did not result in a commercial discovery.

EXPLORATION

Acquisition of 100 km^2 of 3D seismic was completed in 2013 over the south-western portion of the L33/43 concession. The seismic was acquired for approximately US$1.4 million net to Carnarvon.

The seismic was designed to cover the areas surrounding the 2010 discoveries in L33-1 and L33-2 that flowed at rates of 1,200 and 2,400 bopd (gross) respectively, as well as the extension of the WBEXT sandstone and igneous reservoirs from the L44/43 concession into the L33/43 concession, as depicted below. The data is in the final stages of processing and is expected to be available for interpretation in the September 2013 quarter with drilling tentatively scheduled for late in the December 2013 quarter.

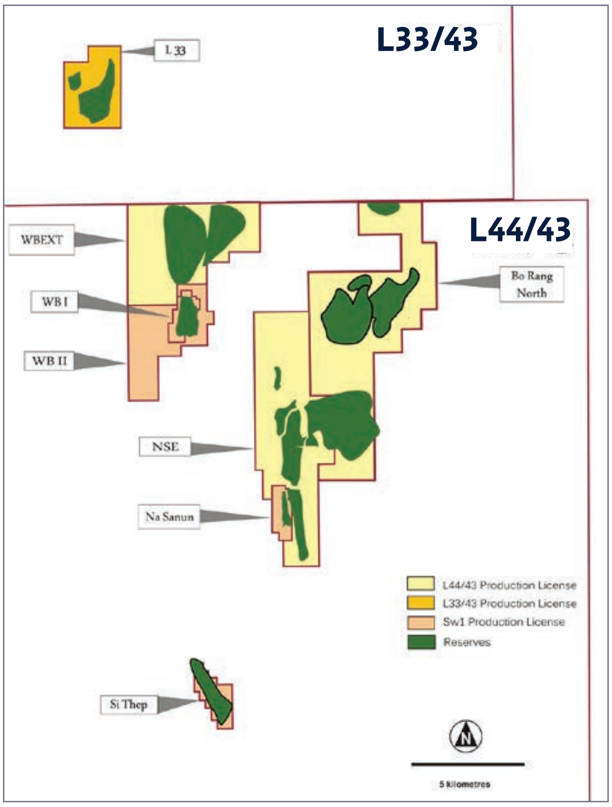


Figure 1: Carnarvon's Production Licenses within the Phetchabun Basin

Only six wells have previously been drilled in the 450 km^2 L33/43 block. While the processing of this seismic is still ongoing, initial analysis suggests that the successful wells in the L33/43 Production License ("PL") are producing from two shallow igneous horizons. The main WBEXT WBV1 and WBV2 igneous reservoirs, where significant volumes of oil have been produced from around 5km to the south, are interpreted to be deeper horizons. It is interpreted that no wells in the L33/43 permit have penetrated these deeper horizons, which will be a target for the late 2013 drilling.

DEVELOPMENT – SANDSTONE RESERVOIRS

Eight wells drilled in the 2013 financial year in the WBEXT-1B fault block were designed to develop the reserves in the "D" and "E" sandstone reservoirs in the WBEXT area. The nature of the geological formations in this area require water flooding of the reservoir to improve the overall recovery and manage reservoir pressure to increase flow rates.

After a successful implementation of the water flood project in this fault block, further water flood programs will be initiated in the surrounding areas, including the original Wichian Buri sandstones that have been producing since 1996.

The water injection program is planned to commence in in the September 2013 quarter, however pressure rebuild could take several months to deliver meaningful results.

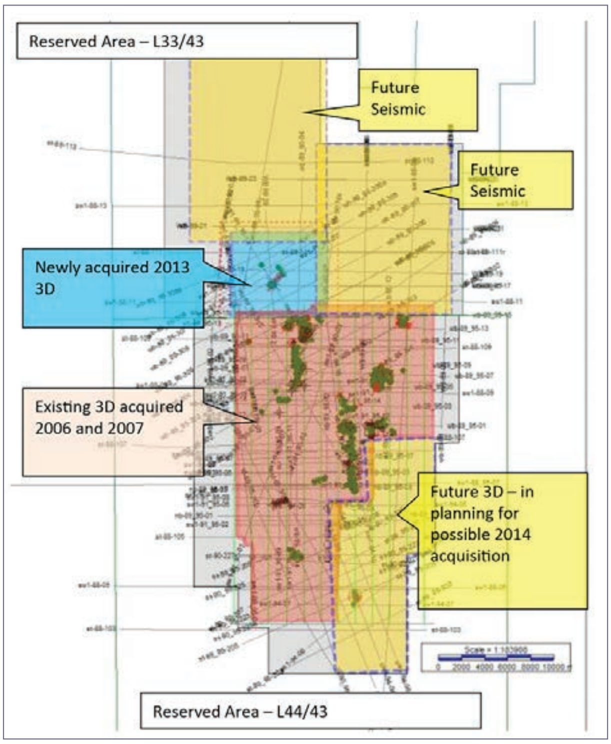


Figure 2: Carnarvon's Proposed Seismic Program within the Phetchabun Basin

Figure 3: Water flood injection equipment on-site at WBEXT-1 well site

DEVELOPMENT – IGNEOUS RESERVOIRS

The igneous development wells in the 2013 financial year targeted the NSE and WBEXT igneous reservoirs with varying results.

New technical work is being applied to the results from these wells, and previous wells, to determine future development locations.

Previously, wells were drilled primarily based solely on geophysical interpretations of reservoir highs. The new technical work has applied different geological, petrophysical and reservoir engineering expertise along with ongoing geophysical interpretation to determine development locations.

The first of these locations was drilled after the 2013 financial year with the WBEXT-2C well, initially flowing oil at an encouraging 400 bopd from one of a number of zones to be tested.

For the 2014 financial year, the Joint Venture is planning on two drilling campaigns of 6-8 wells each targeting a mix of locations within the WBEXT and NSE reserves areas and L33, Nong Bua and Si Thep exploration areas.

AGRICULTURAL LAND REFORM OFFICE SHUT IN WELLS

Ten wells in the Bo Rang North area, which is covered by CVN's petroleum licence, were shut in on 2 May 2012 while clarification was sought from the Agricultural Land Reform Office (ALRO), regarding development approvals for these wells.

Four wells were brought back online on 26 December 2012.

The remaining six wells, producing around 200 bopd in aggregate (gross) at the time of the shut-in and remain off-line whilst discussions continue with ALRO on the matter.

Well		Spud Date
Q1		
WBEXT-4A ST2	Exploration/Appraisal well to test the northern extension of the Wichian Buri Oil Field. The well was targeting igneous reservoirs and experienced well bore collapse and was terminated.	6-Jul-12
WBEXT-5C	Appraisal well to test the "E" sandstone reservoir. The well encountered oil bearing reservoir sands and was completed as an oil producer. The well tested at up to 120 bopd.	25-Jul-12
WBEXT-6A	Development/Appraisal well designed to test the "E" sandstone as defined by WBEXT-5C. The well identified gas with associated oil flows of up to 30 bopd.	6-Aug-12
WBEXT-5B	Appraisal well of the WBEXT-5C "E" sand which intersected poorly developed sandstone reservoir. Well tested up to 40 bopd.	15-Aug-12
L44K-D	Exploration well to evaluate the Wichian Buri sands north of the Si Thep field. Encountered tight igneous reservoir with oil shows.	24-Aug-12
NSE-F9 ST1	Igneous appraisal well of the NSE-F1 reservoir. Encountered tight igneous reservoir and sub-commercial oil flow rates.	6-Sep-12
WBEXT-1D ST3	Appraisal well in the sandstone reservoirs with a view to developing a waterflood development plan. Successfully encountered several sandstone packages. Tested at rates up to 70 bopd.	17-Sep-12
WBEXT-7B	Igneous Appraisal well. Significant drilling fluid losses over the interval indicated excellent fracturing however oil flow rates were sub-commercial.	26-Sep-12
Q2		
WBEXT-7B ST1	Igneous Appraisal well. Significant drilling fluid losses over the interval indicated excellent fracturing however oil flow rates were sub-commercial.	3-Oct-12
WBEXT-1G	Targeting the WBEXT sandstone reservoirs. Central well to be converted into water injection well.	16-Oct-12
WBEXT-6D	Targeting the WBEXT sandstone reservoirs. Tested at rates up to 20 bopd.	26-Oct-12
WBEXT-1A ST2 (5F)	Targeting the WBEXT sandstone reservoirs. Tested at rates up to 30 bopd.	6-Nov-12
WBEXT-1H	Targeting the WBEXT sandstone reservoirs. Tested at rates up to 250 bopd.	14-Nov-12
NSE-B2 ST1	Appraisal well for the NSE central igneous reservoir. Testing resulted in sub-commercial oil flows.	20-Nov-12
NSE-H4	Appraised the Na Sanun East igneous interval. The well flowed significant gas from an interpreted oil-bearing zone. A workover was completed in late February and the well tested only minimal amounts of oil with significant water cut.	13-Dec-12
NSE-H5	Appraised the Na Sanun East igneous interval. The well contained significant fracturing and logging tools indicated oil present. Initial testing resulted in no oil flows and the wells failure to flow is believed to be caused by plugging of the fractures by well cuttings. A workover was completed in mid to late January 2013 and the well initially tested up to 50 bopd.	24-Dec-12
Q3		
No drilling		
Q4		
No drilling		

Table 1: Wells drilled in 2013 financial year

L52/50 and L53/50
Surat-Khiensa Basin
(Carnarvon Petroleum 100% 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 3,085km² and the L53/50 Concession covers an area of 3,872km². Carnarvon acquired 100% equity and Operatorship of both blocks in November 2012.

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.

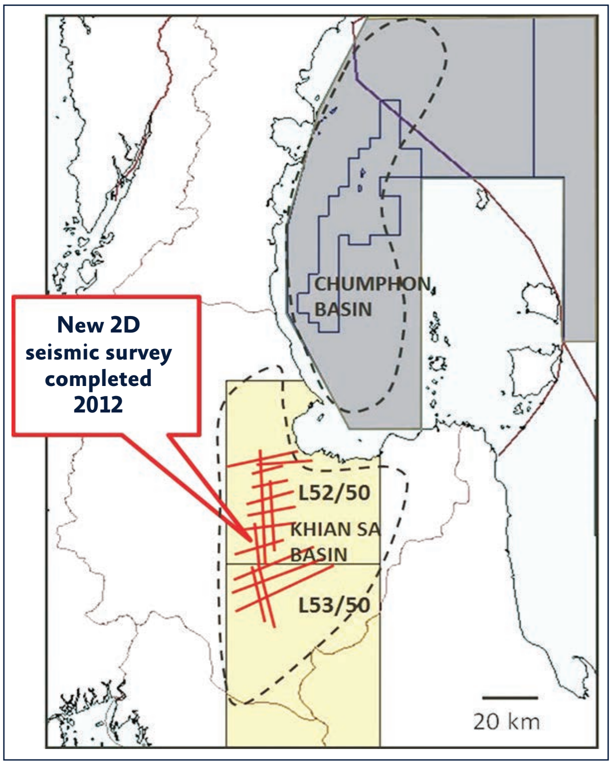


Figure 4: Basin location within the L52/50 and L53/50 Concessions

Acquisition of 314km of 2D seismic data was completed in November 2011 with the processing and interpretation being completed in April 2013. Several leads and three prospects have been identified with the target formation being the Permian Limestone, similar to those producing in the Chumphon basin.

Carnarvon is currently seeking a partner for the advancement of exploration in these permits. Carnarvon's forward plan includes acquiring an EIA (Environmental Impact Assessment) and planning the drilling of two wells in L52/50.

L20/50 Concession – Thailand
(Siam Moeco Limited 100% - subject to Government approval of recent 100% interest transfer)

Carnarvon and joint venture partner, Sun Resources, previously assigned 100% of the L20/50 concession to Siam Moeco Limited.

The assignment to Siam Moeco Limited means Carnarvon has no financial exposure to exploration or development costs in this block. However, should commercial production eventuate, Siam Moeco Limited will pay Carnarvon and Sun Resources a total US$4.7 million and a 2.0% overriding royalty capped at a total US$5.5 million.

Siam Moeco have now completed 3D seismic data and are planning for exploration drilling in the concession in 2014.

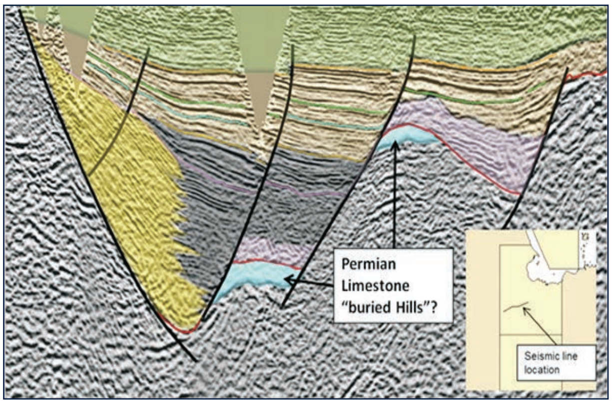


Figure 5: Seismic line through Khian Sa Basin

AUSTRALIA

WA-435-P and WA-437-P permits – Western Australia (NW Shelf)
(Carnarvon 20%, Finder Exploration 20%, JX Nippon 20%, Apache 40% and Operator)

These two permits, along with WA-436, WA-438 and WA-443, 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.

The WA-435-P permit contains the Phoenix-1 and Phoenix-2 wells, with the former, drilled by BP as previous licensee, 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 through to mid 2012.

A study of the newly acquired 3D data confirmed two significant gas prospects, Phoenix South within WA-435-P; and Roc in WA-437-P.

To fund the drilling of these prospects, Carnarvon executed agreements with both Apache and JX Nippon in October 2012 that covers the cost, to an agreed cap of $50 million per well, for drilling of the Phoenix South prospect (firm) in WA-435-P and the Roc prospect (contingent) in WA-437-P.

Apache, as the operator of the WA-435-P permit in Western Australia, has advised Carnarvon that the Phoenix South well is expected to spud between November 2013 and January 2014, using the Apache-contracted Atwood Eagle semisubmersible drilling rig.

The Phoenix South and Roc wells both have primary gas targets in lower Triassic reservoirs.

The Phoenix South prospect is assessed by Carnarvon as a multi-TCF prospect that will be drilled on modern 3D seismic data and in proximity to proven gas in lower Triassic reservoirs in the Phoenix-1 well.

Carnarvon recently completed additional technical work within the WA-435-P permit, uncovering a potential new oil prospect and a new stratigraphic gas prospect. Both prospects have the potential to be tested by the Phoenix South well, and this is undergoing a technical review by the operator.

If successful, the Phoenix South well has the potential to open up the prospectivity in the region for oil and gas. Importantly Carnarvon holds a significant interest in approximately 28,000 km^2 of contiguous acreage providing a great deal of scope for further exploration.

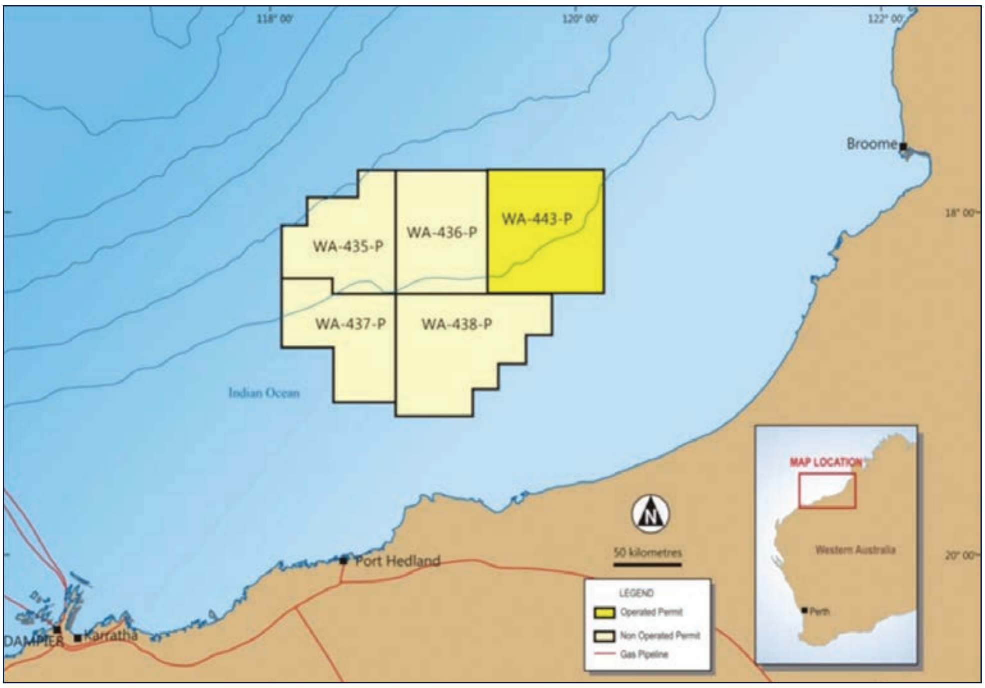


Figure 6: Offshore North West Shelf permit map

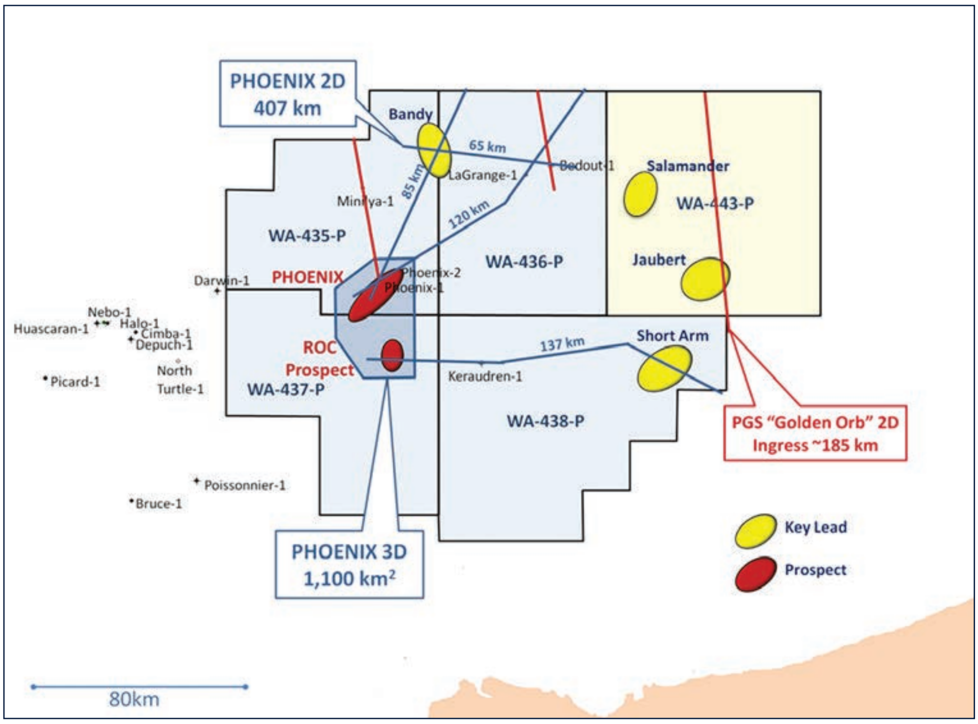


Figure 7: North West Shelf leads and prospects

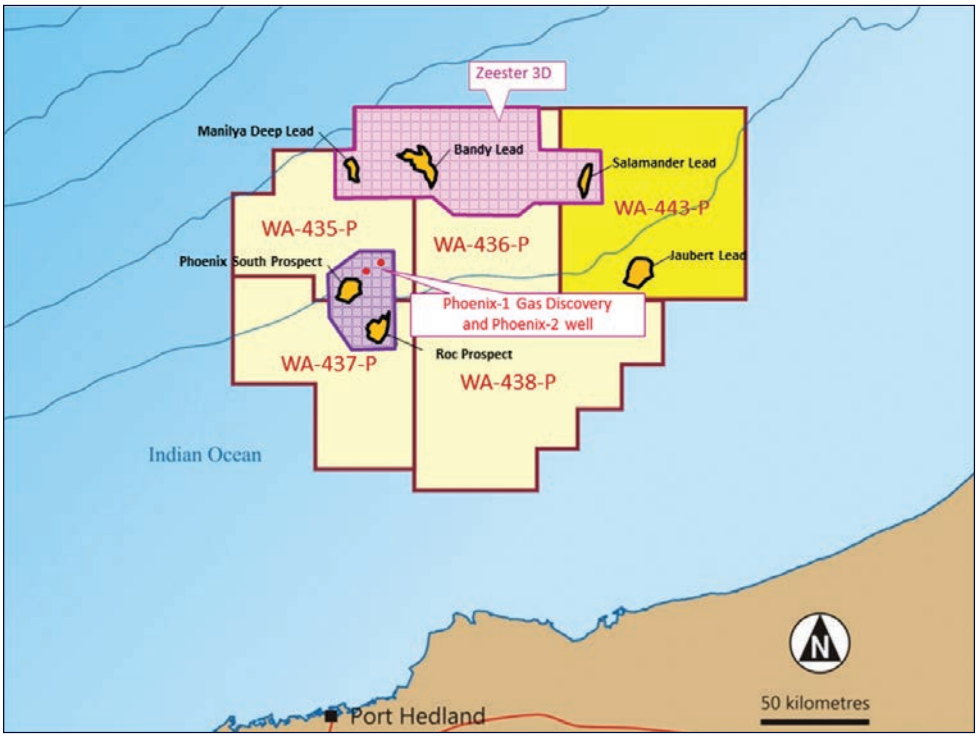


Figure 8: North West Shelf seismic 3D seismic locations over key leads and prospects

WA-436-P and WA-438-P – Western Australia (NW Shelf) (Carnarvon Petroleum 50%, Finder Exploration 50% and operator)

The WA-436-P and WA-438-P permits are adjacent to the Phoenix blocks (i.e. WA-435-P and WA-437-P) that were farmed out to Apache and JX Nippon in October 2012.

On 26 June 2013 the 3,854 km² new Zeester 3D seismic survey was completed covering the Northern part of WA-436-P (as well as a portion of WA-435-P and WA-443-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. Carnarvon has yet to license the data and processing has been delayed until late 2013.

The joint venture will continue with its technical work on these permits, including consideration of the Zeester 3D data once it is available.

Carnarvon's technical work has to date identified an additional play type in these blocks being, a stratigraphic play along the margins of the basin, which has the potential to contain significant volumes of hydrocarbons. This type of play has been very successful in the North Sea. Further work will be carried out to assess and develop this play type.

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 within the Bedout Sub-Basin.

No previous drilling has taken place in the WA-443-P block. 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 Zeester 3D seismic survey being undertaken across the WA-435-P and WA-437-P permits also extends into a portion of WA-443-P permit. The seismic acquisition covered the Salamander lead, identified in a regional technical review, in the north-western section of this block. The survey has been completed and processing of this data is expected to commence in Q4 2013.
The stratigraphic play concept identified in the adjacent block also has the potential to extend into WA-443-P, and geological and geophysical studies are currently being carried out on this block in conjunction with similar work in the adjacent permits.

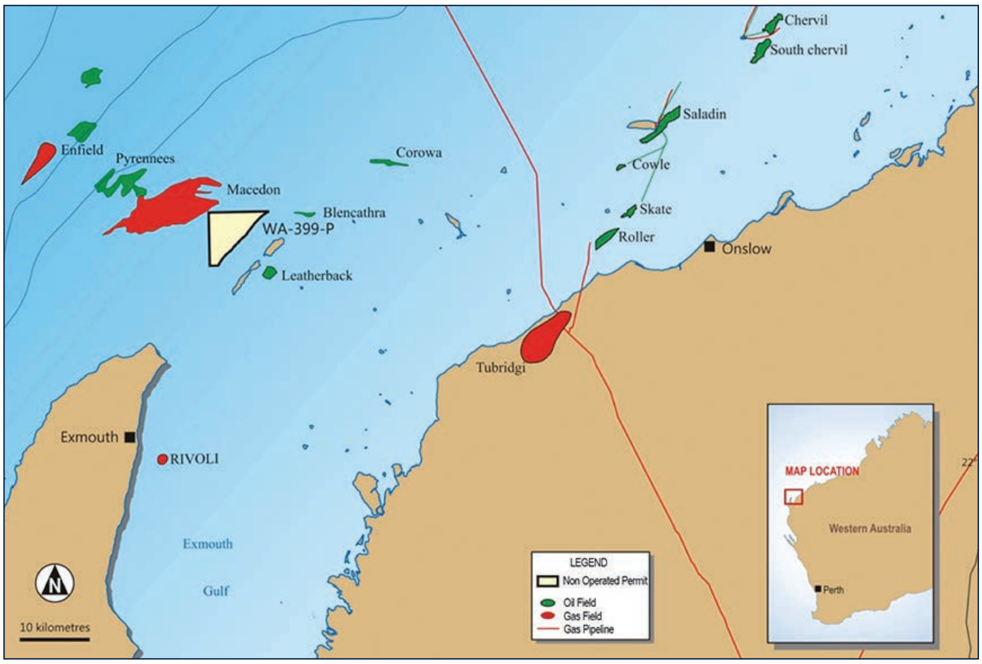


Figure 9: WA-399-P permit map

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 50km² 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.

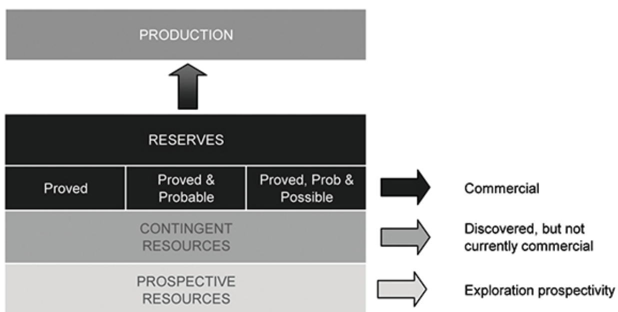
Apache Energy, as operator, acquired the "Gazelle" 3D seismic data over the whole permit in late 2010 and into early 2012.

The Operator has undertaken technical work including the interpretation and analysis of the "Gazelle" 3D seismic data. The work supports several prospects and leads in the permit that requires further review. The joint venture 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 coordinate activities and resources with other permits in the region operated by Apache.

RESERVE ASSESMENT

PETROLEUM RESOURCE CLASSIFICATION, CATEGORISATION AND DEFINITIONS

Carnarvon calculates reserves and resources according to the SPE/WPC/AAPG/SPEE 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 further clarified by the SPE-PRMS in 2007. Carnarvon reports reserves in line with ASX listing rules.



CARNARVON RESERVES

All Carnarvon's reserves are within the L33/43, L44/43 and SW1 Concessions in which Carnarvon has a 40% equity interest. Eco Orient Energy ("Eco") as Operator of these Concessions has commissioned Chapman Petroleum Engineering Ltd ("Chapman") to undertake a third party independent appraisal of these Concessions for planning purposes. Chapman completed a Reserve and Economic Evaluation of these Concessions. Chapman has performed this service in line with end of calendar year requirements for the Department of Mineral Fuels ("DMF") in Thailand. Chapman certified 12.2 million barrels of 2P oil reserves net to Carnarvon as at 31 December 2012.

	Net Carnarvon Reserves		
	Proved 1P (million bbls)	Proved + Probable 2P (million bbls)	Proved + Probable + Possible 3P (million bbls)
Chapman 31 Dec 2012	3.4	12.2	33.5

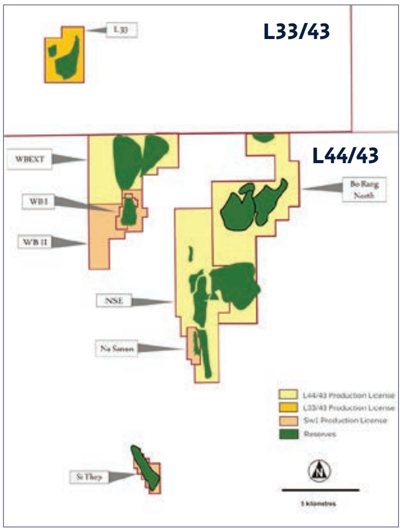
This report is based on information which has been compiled by the Company's Chief Operating Officer, Mr Philip Huizenga, who is a full-time employee of the Company. Mr. Huizenga is qualified in accordance with ASX Listing Rule 5.11 and has consented to the form and context in which this statement appears.

PROVED AND PROBABLE (2P) RESERVES THAILAND

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

	Reservoir	Type	Proved (1P) (million bbls)	Proved + Probable (2P) (million bbls)	Proved + Probable + Possible (3P) (million bbls)
SW1	WB I	Sandstones	0.1	0.4	0.7
	WB II	Sandstones	0.1	0.3	0.6
	Na Sanun	Sandstones	0.1	0.2	0.2
	Si Thep	Sandstones	0.1	0.4	1.1
L44/43	NSE	Igneous	1.5	5.4	12.8
	NSE	Sandstones	-	1.5	7.5
	Bo Rang Nth	Igneous	0.8	2.5	5.3
	Bo Rang Nth	Sandstones	-	-	-
	WBEXT	Igneous	-	0.4	1.0
	WBEXT	Sandstones	0.4	0.7	0.7
L33/43		Igneous	0.2	0.5	3.4
	L33	Igneous	2.5	8.8	22.6
		Sandstones	0.9	3.4	10.9
Net Carnarvon (at 31 Dec 2012)			**3.4**	**12.2**	**33.5**

These reservoirs are schematically reproduced below.



FINANCIAL REVIEW

The Group reports an after-tax loss of $8,385,000 for the financial year ending 30 June 2013.

	2013	2012	Change
Production (bbls)	200,147	321,968	▼ 38%
Sales ($'000)	18,304	30,411	▼ 40%
Cost of sales	13,007	15,828	▼ 18%

The decline in production is the main driver of the decrease in revenue in the 30 June 2013 financial year. A large portion of cost of sales is fixed and as a result, cost of sales did not decrease in line with sales.

During the year Carnarvon raised $20,000,000 by way of a placement and share purchase plan which has enabled the Company to participate in the L33/43 3D seismic acquisition, development drilling in the L44/43 concession and the proposed drilling program in the 2014 financial year in Thailand as well as other exploration activities.

The exploration expenditure written off during the 2013 financial year consists of $1,105,000 in relation to the exploration expenses incurred in the L20/50 Concession.

The Company spent $13,196,000 on exploration and development drilling and associated activities during the period.

With the increase in development costs carried forward and exchange rate adjustments, 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 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 Company manages its cash positions in Thai Baht, US Dollars and Australian Dollars to naturally hedge its foreign exchange rate exposures.

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

The 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 2013, 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 CTI Logistics Limited (from August 1999). 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 not served as a Director of any other listed company. 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 not served as director of any other listed company.

Mr Jacobson retired as Chief Executive Officer of Carnarvon 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); 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 was chairman Red River Resources Limited (resigned 2011) and was a former director 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 Thomson Naude was appointed Company Secretary in November 2012. Mr Naude is a qualified Chartered Accountant, a member of Chartered Secretaries Australia and the Financial Controller at Carnarvon Petroleum.

Mr Naude was appointed following the resignation of Mr Graeme Smith in November 2012.

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	10	10
Ted Jacobson	10	9
Neil Fearis	10	10
Bill Foster	10	10
Adrian Cook	10	10

(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.

Remuneration Report (Audited) (continued)

Principles of compensation (continued)
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.

	30 June 2009	30 June 2010	30 June 2011	30 June 2012	30 June 2013
Share price as at 30 June each year	$0.815	$0.345	$0.175	$0.105	$0.041
Year on year change in the share price	54%	(58%)	(49%)	(40%)	(61%)
Consolidated net profit / (loss) from continuing operations ($000)	$28,736	$14,423	$2,159	($2,498)	($8,385)

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.

Additional consulting fees of $149,987 (2012:$83,447) were paid to a related entity of Ted Jacobson in relation to exploration advisory services during the year.

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 paid in cash is restricted to a maximum 20% of an individual's Fixed Compensation.

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

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

There were no short term incentives awarded during the period as set out on page 22, to each of the directors, named Company executives, and key management personnel during the period.

Remuneration Report (Audited) (continued)

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 updated and ratified by shareholders at the AGM on 16 November 2012.

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.

The principal provisions of the Plan include:

- A Participant may not dispose of any Plan Shares within one year of the Issue Date but, subject to repayment of any associated loan, may dispose of up to 33.3% of Plan Shares after one year, 66.6% after two years, and 100% after three years;
- 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 executive 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.

There were no Plan Shares were issued to Executive Officers of the Company During the current financial year:

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.

Remuneration Report (Audited) (continued)

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.

(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 22.

There were no shares issued in either 2013 or 2012 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) (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)							
2013	105,000	-	-	-	105,000	-	-
2012	105,000	-	-	-	105,000	-	-
Mr NC Fearis							
2013	62,500	-	-	-	62,500	-	-
2012	62,500	-	-	-	62,500	-	-
Mr W Foster							
2013	62,500	-	-	-	62,500	-	-
2012	62,500	-	-	-	62,500	-	-
Mr EP Jacobson							
2013	62,500	-	-	-	62,500	-	-
2012	62,500	-	-	-	62,500	-	-
Executive							
Mr AC Cook (Chief Executive Officer)							
2013	520,000	-	25,000	-	545,000	-	-
2012	520,578	-	24,422	106,246	651,246	-	16.3
Executives							
Mr PP Huizenga (Chief Operating Officer)							
2013	492,750	-	25,000	-	517,750	-	-
2012	492,226	-	25,000	274,728	791,954	-	34.7
Total compensation: key management personnel (Company and consolidated)							
2013	1,305,250	-	50,000	-	1,355,250	-	-
2012	1,305,304	-	49,422	380,974	1,735,700	-	21.2

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 2013 ($)
Auditors of the Company:	
Audit and review of financial reports	138,000

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	17,750,000	-
AC Cook	5,900,000	-
EP Jacobson	31,297,635	-
NC Fearis	9,287,768	-
WA Foster	121,955	-

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.

Diversity

For the year ending 30 June 2013, women make up 37.5% of the Company's general work force. Currently, there are no women on the board or in senior executive positions.

Likely developments

The likely developments for the 2013 financial year are contained in the operating and financial review as set out on pages 3 to 14. 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 2013.

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 (2012: Nil).

Auditor's independence declaration

The auditor's Independence Declaration under Section 307C of the Corporations Act is set out on page 25 and forms part of the directors' report for the financial year ended 30 June 2013.

DIRECTORS' REPORT

Principal activities

During the course of the 2013 financial year the Group's principal activities continued to be directed towards oil and gas exploration, development and production.

Identification of independent directors

The independent directors are identified in the Corporate Governance Statement section of this Annual Report as set out on pages 75 to 77.

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 3 to 14.

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 2013 is set out on pages 3 to 14 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 2013 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
(ii) 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, 30 August 2013

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 2013, 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

Sean McGurk

SEAN MCGURK
Partner

Signed at Perth, 30 August 2013

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2013

	Notes	Consolidated 2013 $000	Consolidated 2012 $000
Oil sales		18,304	30,411
Other income	4	787	61
Cost of sales	5	(13,007)	(15,828)
Administrative expenses		(1,192)	(1,100)
Directors' fees		(293)	(293)
Employee benefits expense		(885)	(1,165)
Travel related costs		(271)	(126)
Unrealised foreign exchange gain		1,498	235
New venture and advisory costs		(2,334)	(1,504)
Exploration expenditure written off	14	(1,105)	(3,361)
Share-based payments		(14)	(445)
Profit before income tax		1,488	6,885
Taxes			
Current income tax (benefit) / expense		(261)	5,074
Deferred income tax expense		10,134	4,309
	9 (a)	9,873	9,383
Special remuneratory benefit	9 (b)	-	-
Total taxes		9,873	9,383
(Loss) for the year		(8,385)	(2,498)
(Loss) attributable to members of the Company		(8,385)	(2,498)
Basic loss per share (cents per share)	8	(1.0)	(0.4)
Diluted loss per share (cents per share)	8	(1.0)	(0.4)

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 2013

	Consolidated 2013 $000	Consolidated 2012 $000
(Loss) for the year	(8,385)	(2,498)
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences arising in translation of foreign operations, net of income tax	18,102	3,070
Total comprehensive income for the year	9,717	572
Total comprehensive income attributable to members of the company	9,717	572

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 2013

	Notes	Consolidated 2013 $000	Consolidated 2012 $000
Current assets			
Cash and cash equivalents	21(b)	19,525	7,106
Trade and other receivables	10	5,082	2,926
Inventories	12	6,963	4,332
Other assets	13	251	427
Total current assets		31,821	14,791
Non-current assets			
Property, plant and equipment	11	765	469
Exploration and evaluation expenditure	14	3,404	7,776
Oil and gas assets	15	108,374	82,905
Total non-current assets		112,543	91,150
Total assets		144,364	105,941
Current liabilities			
Trade and other payables	17	3,166	1,945
Employee benefits	24	279	222
Current tax liability		846	2,347
Total current liabilities		4,291	4,514
Non-current liabilities			
Deferred tax liabilities	19	43,245	33,111
Total non-current liabilities		43,245	33,111
Total liabilities		47,536	37,625
Net assets		96,828	68,316
Equity			
Issued capital	20	87,573	68,536
Reserves	20	857	(17,003)
Retained earnings		8,398	16,783
Total equity		96,828	68,316

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 2013

	Issued capital $000	Retained earnings $000	Translation reserve $000	Share based payments reserve $000	Total $000
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
Balance at 1 July 2012	68,536	16,783	(19,197)	2,194	68,316
Comprehensive income					
(Loss) for the year	-	(8,385)	-	-	(8,385)
Other comprehensive income	-	-	18,102	-	18,102
Total comprehensive income for the year	-	(8,385)	18,102	-	9,717
Transactions with owners and other transfers					
Share based payments	256	-	-	(242)	14
Proceeds from capital raise	18,781	-	-	-	18,781
Total transactions with owners and other transfers	19,037	-	-	(242)	18,795
Balance at 30 June 2013	87,573	8,398	(1,095)	1,952	96,828

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 2013

		Consolidated	
		2013	2012
	Notes	$000	$000
Cash flows from operating activities			
Receipts from customers and GST recovered		18,352	33,818
Payments to suppliers and employees		(15,766)	(18,908)
Income tax and special remuneratory benefit paid		(1,479)	(3,733)
Interest received		180	61
Net cash inflow generated from operating activities	21(a)	1,287	11,238
Cash flows from investing activities			
Exploration and development expenditure		(12,448)	(19,271)
Cash held as security		(745)	359
Acquisition of property, plant and equipment		(453)	(253)
Proceeds from farm-out activities		4,480	-
Net cash outflow investing activities		(9,166)	(19,165)
Cash flows from financing activities			
Sale from property, plant and equipment		19	-
Proceeds from issue of shares		18,781	-
Net cash inflow from financing activities		18,800	-
Net increase / (decrease) in cash and cash equivalents held		10,921	(7,927)
Cash and cash equivalents at the beginning of the financial year		7,106	14,798
Effect of exchange rate fluctuations on cash and cash equivalents		1,498	235
Cash and cash equivalents at the end of the financial year	21(b)	19,525	7,106

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

1. Reporting entity

The consolidated financial report of Carnarvon Petroleum Limited ('Company') for the financial year ended 30 June 2013 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 group is a for profit entity for financial reporting purposes under Australian Accounting Standards.

The financial report was authorised for issue by the directors on 30 August 2013.

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 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, amendments made to AASB 101 *Presentation of Financial Statements* effective 1 July 2012 now require the statement of comprehensive income to show the items of comprehensive income grouped into those that are not permitted to be classified to profit or loss in a future period and those that may have to be reclassified if certain conditions are met.

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.

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

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 as detailed in Note 15(a).

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.

Exploration and evaluation expenditures
The application of the Company's accounting policy for exploration and evaluation expenditure requires judgement to determine whether it is likely that future economic benefits are likely, from future either exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself an estimation process that requires varying degrees of uncertainty depending on how the resources are classified. These estimates directly impact when the Company defers exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular, whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in profit or loss in the period when the new information becomes available.

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.

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

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 ecovery 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.

3. Significant accounting policies (continued)

(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.

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.

3. Significant accounting policies (continued)

(c) Property, plant and equipment

Recognition and measurement

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

(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.

3. Significant accounting policies (continued)

(e) Exploration and evaluation

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

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

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

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

The Company does not record any expenditure made by the farmee on its account. It also does not recognise any gain or loss on its exploration and evaluation farm-out arrangements but redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

(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 cash flows 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.

3. Significant accounting policies (continued)

(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.

(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.

3. Significant accounting policies (continued)

(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.

(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 Accounting Standards for Application in Future Periods

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 are set out below:

– AASB 9: *Financial Instruments* (December 2010) and AASB 2010–7: *Amendments to Australian Accounting Standards* arising from AASB 9 *(December 2010)*.

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.

These Standards were mandatorily applicable for annual reporting periods commencing on or after 1 January 2013. However, AASB 2012–6: *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9* and Transition Disclosures (issued September 2012) defers the mandatory application date of AASB 9 from 1 January 2013 to 1 January 2015. In light of the change to the mandatory effective date, the Group is expected to adopt AASB 9 and AASB 2010–7 for the annual reporting period ending 31 December 2015. Although the directors anticipate that the adoption of AASB 9 and AASB 2010–7 may have a significant impact on the Group's financial instruments, it is impracticable at this stage to provide a reasonable estimate of such impact.

– AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011) and AASB 128: Investments in Associates and Joint Ventures (August 2011) (as amended by AASB 2012–10: Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments), and AASB 2011–7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (applicable for annual reporting periods commencing on or after 1 January 2013).

3. Significant accounting policies (continued)

(v) New Accounting Standards for Application in Future Periods (continued)

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. This Standard is not expected to significantly impact the Group's 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).

At this point in time this Standard is not expected to significantly impact the Group's financial statements.

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's financial statements.

To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued. The revisions made to AASB 127 and AASB 128 are not expected to significantly impact the Group's financial statements.

– AASB 13: *Fair Value Measurement* and AASB 2011–8: *Amendments to Australian Accounting Standards arising from AASB 13* (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 expected to result in more detailed fair value disclosures, but are not expected to significantly impact the amounts recognised in the Group's financial statements.

– AASB 2011–4: *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (applicable for annual reporting periods beginning on or after 1 July 2013).

This Standard makes amendments to AASB 124: *Related Party Disclosures* to remove the individual key management personnel disclosure requirements (including paras Aus29.1 to Aus29.9.3). These amendments serve a number of purposes, including furthering trans-Tasman convergence, removing differences from IFRSs, and avoiding any potential confusion with the equivalent *Corporations Act 2001* disclosure requirements.

This Standard is not expected to significantly impact the Group's financial report as a whole because:

- some of the disclosures removed from AASB 124 will continue to be required under s 300A of the Corporations Act, which is applicable to the Group; and
- AASB 2011–4 does not affect the related party disclosure requirements in AASB 124 applicable to all reporting entities, and some of these requirements require similar disclosures to those removed by AASB 2011–4.

3. Significant accounting policies (continued)

(v) New Accounting Standards for Application in Future Periods (continued)

- AASB 119: *Employee Benefits* (September 2011) and AASB 2011–10: *Amendments to Australian Accounting Standards* arising from AASB 119 (September 2011) (applicable for annual reporting periods commencing on or after 1 January 2013).

  This Standard is not expected to significantly impact the Group's financial statements.

- AASB 2012–2: *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities* (applicable for annual reporting periods commencing on or after 1 January 2013).

  AASB 2012–2 principally amends AASB 7: *Financial Instruments:* Disclosures to require entities to include information that will enable users of their financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. This Standard is not expected to significantly impact the Group's financial statements.

- AASB 2012–3: *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities* (applicable for annual reporting periods commencing on or after 1 January 2014).

  This Standard adds application guidance to AASB 132: *Financial Instruments:* Presentation to address potential inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.
  This Standard is not expected to significantly impact the Group's financial statements.

- AASB 2012–5: Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 (applicable for annual reporting periods commencing on or after 1 January 2013).

  This Standard amends a number of Australian Accounting Standards as a consequence of the issuance of Annual Improvements to IFRSs 2009–2011 Cycle by the International Accounting Standards Board, including:
  AASB 1: First-time Adoption of Australian Accounting Standards to clarify the requirements in respect of the application of AASB 1 when an entity discontinues and then resumes applying Australian Accounting Standards;

  AASB 101: Presentation of Financial Statements and AASB 134: Interim Financial Reporting to clarify the requirements for presenting comparative information;

  AASB 116: Property, Plant and Equipment to clarify the accounting treatment of spare parts, stand-by equipment and servicing equipment;

  AASB 132 and Interpretation 2: Members' Shares in Co-operative Entities and Similar Instruments to clarify the accounting treatment of any tax effect of a distribution to holders of equity instruments; and

  AASB 134 to facilitate consistency between the measures of total assets and liabilities an entity reports for its segments in its interim and annual financial statements.

  This Standard is not expected to significantly impact the Group's financial statements.

	Consolidated 2013 $000	Consolidated 2012 $000

4. Other income

	2013 $000	2012 $000
Finance income on bank deposits	188	61
Net gain on asset transactions	599	-
	787	61

5. Cost of sales

	2013 $000	2012 $000
Production expenses	(4,426)	(5,894)
Royalty and excise	(1,050)	(1,664)
Transportation	(486)	(764)
Depreciation - development costs and producing assets	(5,140)	(5,171)
Selling, general and administration	(1,905)	(2,335)
	(13,007)	(15,828)

6. Other expenses

	2013 $000	2012 $000
Depreciation – property, plant and equipment	(310)	(236)
Rental premises – operating leases	(163)	(181)
Defined contribution – superannuation expense	(143)	(147)

7. Auditors' remuneration

	2013 $000	2012 $000
Auditors of the Company	(138)	(132)

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:

	2013 Number of shares	2012 Number of shares
Issued ordinary shares at 1 July	693,370,634	687,820,634
Effect of shares issued	168,989,083	2,727,397
Weighted average number of ordinary shares 30 June (basic)	862,359,717	690,548,031
Effect of share options on issue	-	-
Weighted average number of ordinary shares 30 June (diluted)	862,359,717	690,548,031

	2013 $	2012 $
(Loss) / Profit used in calculating basic and diluted earnings per share from continuing operations	(8,385,000)	(2,498,000)

9. Taxes

(a) Income tax expense

	Consolidated 2013 $000	Consolidated 2012 $000
Numerical reconciliation between pre-tax profit and income tax expense:		
Prima facie income tax expense on pre-tax profit at 30% (2012: 30%)	446	2,065
Tax effect of:		
Special remuneratory benefit	-	-
Effect of higher overseas tax rate	1,039	2,929
Effect of foreign exchange	6,200	729
Non-deductible expenditure	635	1,160
Prior year temporary differences recognised	(356)	878
Current year tax benefit not brought to account	1,909	1,622
Income tax expense on pre tax profit	9,873	9,383
Current income tax	(261)	5,074
Deferred tax	10,134	4,309
	9,873	9,383

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)

	Consolidated	
	2013	2012
(b) Special remuneratory benefit expense	$000	$000
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 (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 rate was 0% for the 2013 financial year (2012:0%).

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

10. Trade and other receivables

	Consolidated	
	2013	2012
	$000	$000
Current		
Trade and other receivables	5,028	2,035
Cash held as security	54	891
	5,082	2,926

Trade and other receivables include May 2013 oil sales of $1,399,000 (2012:$0).

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

11. Property, plant and equipment

	Consolidated 2013 $000	Consolidated 2012 $000
Plant and equipment :		
Balance at beginning of financial year	552	495
Additions	206	42
Disposals	(8)	-
Effects of movements in foreign exchange	142	15
Balance at end of financial year	892	552
Depreciation and impairment losses:		
Balance at beginning of financial year	279	192
Depreciation charge for year	136	87
Balance at end of financial year	415	279
Carrying amount opening	273	303
Carrying amount closing	477	273
Fixtures and fittings		
Cost:		
Balance at beginning of financial year	823	732
Additions	222	138
Effects of movements in foreign exchange	77	6
Balance at end of financial year	1,122	823
Depreciation and impairment losses:		
Balance at beginning of financial year	695	621
Depreciation charge for year	204	74
Balance at end of financial year	899	695
Carrying amount opening	181	111
Carrying amount closing	223	181
Land and buildings		
Cost:		
Balance at beginning of financial year	139	105
Additions	-	32
Effects of movements in foreign exchange	20	2
Balance at end of financial year	159	139
Depreciation:		
Balance at beginning of financial year	71	49
Depreciation charge for year	23	22
Balance at end of financial year	94	71
Carrying amount opening	68	56
Carrying amount closing	65	68

11. Property, plant and equipment (continued)

	Consolidated 2013 $000	Consolidated 2012 $000
Total		
Cost:		
Balance at beginning of financial year	1,567	1,332
Additions	428	212
Disposals	(8)	-
Effects of movements in foreign exchange	239	23
Balance at end of financial year	2,226	1,567
Depreciation and impairment losses:		
Balance at beginning of financial year	1,098	862
Depreciation charge for year	363	236
Balance at end of financial year	1,461	1,098
Carrying amount opening	469	470
Carrying amount closing	765	469

12. Inventories

	2013 $000	2012 $000
Current		
Consumables	6,963	4,332

13. Other assets

	2013 $000	2012 $000
Current		
Deposits and prepayments	251	427

14. Exploration and evaluation expenditure

	2013 $000	2012 $000
Cost:		
Balance at beginning of financial year	7,776	5,955
Additions	1,213	5,182
Exploration back costs recovered	(4,480)	-
Exploration expenditure written off	(1,105)	(3,361)
Balance at end of financial year	3,404	7,776

The exploration expenditure written off during the financial year ended 30 June 2013 of $1,105,000 was in relation to the exploration expenses incurred in the L20/50 block in Thailand following the assignment of the Concession to Siam Moeco Limited.

15. Oil and gas assets

	Consolidated 2013 $000	Consolidated 2012 $000
Cost:		
Balance at beginning of financial year	113,730	97,549
Additions	13,196	14,583
Effects of movements in foreign exchange	17,138	1,598
Balance at end of financial year	144,064	113,730
Depreciation and impairment losses:		
Balance at beginning of financial year	30,825	25,867
Depreciation charge for year	4,865	4,958
Balance at end of financial year	35,690	30,825
Carrying amount opening	82,905	71,682
Carrying amount closing	108,374	82,905

(a) Impairment

The Company identified impairment indicators at 30 June 2013 relating to its L44/43, L33/43 and SW1A Concessions in Thailand and as such performed an impairment test on the assets relating to those concessions.

The Company's production assets are held in a single joint venture which includes the L44/43, L33/43 and SW1A Concessions. Therefore, the Company's producing assets in Thailand as a whole were determined to be a cash generating unit (CGU) for impairment purposes. The recoverable amount of the CGU was determined based on fair value less cost to sell (FVLCS). FVLCS was determined as the present value of the estimated real future cash flows expected to arise from the continued use of the asset using assumptions that an independent market participant may consider. These cash flows were discounted using a nominal after-tax discount rate that is derived from the Company's post-tax weighted average cost of capital (WACC), with appropriate adjustments made to reflect the risks specific to the CGU.

The calculation of fair value less costs to sell was most sensitive to the following assumptions:

- Production volumes – Estimated production volumes are based on the production profiles of proven and probable reserves for the fields and take into account development plans for the fields agreed by management as part of the long-term planning process, which have been independently verified;
- Crude oil price – forecast crude oil prices are based on independent data;
- Operating and capital cost – these costs were based on independent data; and
- Discount rate – a post–tax nominal discount rate of 12%.

Based on the proven and probable production profile from the L44/43, L33/43 and SW1A Concessions, the Company believes that no reasonable foreseeable changes in the above assumptions would cause the carrying amount of oil and gas assets to exceed their recoverable amount.

16. Joint ventures

The Group has the following interests in joint venture assets:

Joint venture	*Principal activities*	*Ownership interest %*	
Thailand		**2013**	**2012**
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	0%	55%
Exploration Blocks L52/50 and L53/50 3/2553/105 concession	Exploration for hydrocarbons	100%	50%
Western Australia			
WA-435-P, WA-437-P, Roebuck Basin	Exploration for hydrocarbons	20%	50%
WA-436-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%

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:

	2013 $000	2012 $000
Current assets		
Cash and cash equivalents	5,087	5,465
Trade and other receivables	4,972	2,838
Inventories	6,963	4,332
Other assets	174	390
Total current assets	17,196	13,025
Non-current assets		
Property, plant and equipment	707	435
Exploration and evaluation	3,132	6,085
Oil and gas assets	108,374	82,905
Total non-current assets	112,213	89,425
Total assets	129,409	102,450
Current liabilities		
Trade and other payables	2,568	1,658
Current tax	846	2,347
Provisions	-	-
Total current liabilities	3,414	4,005
Non-current liabilities		
Deferred tax	43,245	33,111
Total non-current liabilities	43,245	33,111
Total liabilities	46,659	37,116
Net assets	82,750	65,334
Income	18,351	30,411
Expenses	(23,026)	(28,572)
Net profit after tax	(4,675)	1,839

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

17. Trade and other payables

	2013 $000	2012 $000
Current		
Trade payables	533	105
Non-trade payables and accrued expenses	2,633	1,760
Owing to related parties	-	80
	3,166	1,945

	2013	2012
	$000	$000

18. Provisions

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:

	2013 $000	2012 $000
Oil and gas assets	44,359	34,334
Tax value of losses carry forward - Thailand	(1,114)	(1,223)
Net deferred tax liability	43,245	33,111

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:

		2013 $000	2012 $000
Australian tax losses	6,362	5,407	3,691

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 2013	Company 2012
	Number of shares	
Issued capital		
Balance at beginning of financial year	693,370,634	687,820,634
Issued for cash	243,887,066	-
Employee Share Plan issues	600,000	6,824,000
Employee Share Plan cancellations	(3,748,199)	(1,274,000)
Balance at end of financial year	934,109,501	693,370,634

	Company 2013 $000	Company 2012 $000
Issued capital		
Balance at beginning of financial year	68,536	68,240
Transfer from share based payment reserve*	256	296
Net proceeds from capital raising activities	18,781	-
Balance at end of financial year	87,573	68,536

* 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 29.

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

Share based payments reserve
Movements in the share based payments reserve are set out in the Statements of Changes in Equity on page 29.

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 2013 $000	Consolidated 2012 $000
(Loss) for the year	(8,385)	(2,498)
Equity settled share based payment expense	14	445
Deferred tax expense	10,134	4,309
Depreciation	5,139	5,194
Foreign exchange gains	(1,498)	(235)
Exploration expenditure written off	1,105	3,361
Operating profit before changes in working capital and provisions:	6,509	10,576
Changes in assets and liabilities:		
(Increase) / decrease in trade and other receivables	(2,544)	2,695
(Increase) / decrease in inventories	(2,631)	(894)
(Increase) / decrease in other assets	176	(136)
Increase / (decrease) in trade and other payables	1,221	(3,006)
Increase / (decrease) in provisions and employee benefits	(1,444)	1,533
Net cash flows generated from operating activities	1,287	11,238

(b) Reconciliation of cash and cash equivalents

	Consolidated 2013 $000	Consolidated 2012 $000
Cash at bank and at call	19,525	7,106

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 $1,443,100 consolidated is included under trade and other receivables (2012:$ 891,000 consolidated), see Notes 10 and 23.

22. Capital and other commitments

	Consolidated	
	2013	2012
	$000	$000
(a) Joint venture commitments		
Share of capital commitments of joint venture assets:		
Within one year	542	983
Capital commitments of the Group to joint venture assets:		
Within one year	1,987	413

(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	
	2013	2012
	$000	$000
Less than one year	3,120	2,350
Between one and five years	3,650	5,300
	6,770	7,650

(c) Capital expenditure commitments

Data licence commitments	229	156

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 Company has provided a cash bond of THB 39,309,600 (AUD$1,388,639) to the Department of Mineral Fuels in Thailand in respect of its obligations for its 40% interest in the L44/43 and L33/43 Concessions in Thailand. The bond is secured by a cash deposit of THB 39,309,600 (AUD$1,388,639) held with the joint venture partner's Thai bank. The joint venture partner has also provided their 60% share of similar guarantee's to the Department of Mineral Fuels.

The restricted cash held by the banks as security for these bonds and other guarantees total $1,443,100 (2012: $891,000) 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

	2013 $000	2012 $000
Current:		
Liability for annual leave	279	222

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 2012	Issued	Cancelled	30 June 2013
Number of shares	23,239,199	600,000	2,474,199	21,365,000
Loan	4,718,316	54,000	598,422	4,173,894
Average loan per share	$0.20	$0.09	$0.24	$0.19

	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

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 2013	Key management personnel 2012	Other employees 2013	Other employees 2012
Fair value at measurement date (cents)	-	7.6	2.3	4.8
Share price at date of issue (cents)	-	16.5	7.4	11.5
Exercise price (cents)	-	23	9	15
Expected volatility	-	70%	70%	70%
Actual / assumed option life	-	3 years	3 years	3 years
Expected dividends	-	Nil	Nil	Nil
Risk-free interest rate	-	4.61%	3%	4.25%
Share-based expense recognised	-	$380,974	$13,723	$64,188

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 18 to 22.

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 2013 net receipts from controlled entities totalled $0 (2012: net receipts from controlled entities $2,957,000).

The carrying value of loans to controlled entities at 30 June 2013 was $8,131,000 (2012: $2,798,000) after provisions of $833,000 (2012: $693,000). These loans are unsecured, non-interest bearing, and have no fixed terms of repayment.

Other related party balances and transactions

At 30 June 2013 an amount of $84,175 (2012: $80,437) is included in Company and consolidated trade and other payables for outstanding director fees and expenses.

Additional consulting fees of $149,987 (2012:$83,447) were paid to a related entity of Ted Jacobson in relation to exploration advisory services during the year.

26. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Consolidated	
	2013 **$000**	**2012** **$000**
Less than one year	298	238
Between one and five years	114	304
	412	542

During the reporting period $238,000 was recognised as an expense in the consolidated income statement in respect of operating leases (2012: $243,000).

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:

	2013 $000	2012 $000
Thailand	18,350	30,454
Australia	741	18
	19,091	30,472

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:

	2013 $000	2012 $000
Thailand	128,692	100,544
Australia	15,672	5,397
	144,364	105,941

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	
	2013 $000	2012 $000
Short term employee benefits	1,305	1,305
Post-employment benefits	50	49
Share-based payments	-	381
	1,355	1,735

Information regarding individual directors and executives' compensation and some equity instruments disclosures, as permitted by Corporations Regulation 2M.3.03, are provided in the Remuneration Report section of the directors' report as set out on pages 18 to 22.

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.

28. Key management personnel disclosures (continued)

(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.

2013	Balance 1 July 2012 ($)	Balance 30 June 2013 ($)	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	1,021,300	1,021,300	1,021,300	-	-
AC Cook	1,528,800	1,528,800	1,528,800	-	-

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	-

* 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.

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
2013	2,550,100	2,550,100	2
2012	1,285,100	2,550,100	2

(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 2013 $000	Consolidated 2012 $000
Current		
Trade and other payables	84	80

28. Key management personnel disclosures (continued)

(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:

2013	**Held at 1 July 2012**	**Net acquired/ (sold)**	**Award under Employee Share Plan**	**Received on exercise of options**	**Held at 30 June 2013**
Directors					
PJ Leonhardt	17,000,000	750,000	-	-	17,750,000
EP Jacobson	31,297,635	-	-	-	31,297,635
NC Fearis	9,000,000	287,768	-	-	9,287,768
W Foster	-	121,955	-	-	121,955
AC Cook	5,000,000	900,000	-	-	5,900,000
Executives					
PP Huizenga	4,600,000	150,000	-	-	4,750,000

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	2,100,000	-	2,500,000	-	4,600,000

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

In accordance with AASB 2 the issue of shares under the ESP is accounted for 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 18 to 22.

29. Non-key management personnel disclosures

Identity of related parties

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

30. Consolidated entities

Name	Country of Incorporation	Ownership interest 2013	Ownership interest 2012
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%
Carnarvon Khian Sa Pte Ltd	Singapore	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 2013 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 2012:

	Consolidated	
	Equity	**Profit and loss**
	$000	**$000**
30 June 2013	1,739	1,739
30 June 2012	2,888	2,888

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 2012:

	Consolidated	
	Equity	**Profit and loss**
	$000	**$000**
30 June 2013	(1,739)	(1,739)
30 June 2012	(2,888)	(2,888)

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	
	2013	**2012**
Carrying amount (A$000)		
Financial assets – cash and cash equivalents	19,525	7,106
Weighted average interest rate (%)		
Financial assets – cash and cash equivalents	1.12%	0.44%

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 2012:

	Consolidated	
	Equity $000	**Profit and loss $000**
30 June 2013	96	96
30 June 2012	34	34

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 2012:

	Consolidated	
	Equity $000	**Profit and loss $000**
30 June 2013	(110)	(110)
30 June 2012	(28)	(28)

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 2013 and June 2012 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 2013 or 30 June 2012 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	
	2013	2012
	$000	$000
Cash and cash equivalents	19,525	7,106
Trade and other receivables	5,082	2,926
	24,607	10,032

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

	Gross 2013 $000	Impairment 2013 $000	Gross 2012 $000	Impairment 2012 $000
Not past due	3,153	-	1,800	-
	3,153	-	1,800	-

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

32. Financial risk management (continued)

(d) Currency risk

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

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.

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 2013		
Cash and cash equivalents	4,348	7,773
Trade and other receivables	4,957	191
Trade payables and accruals	(2,112)	(455)
SRB and income tax provisions	(846)	-
Gross balance sheet exposure	6,347	7,509
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

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
AUD to:	2013	2012	2013	2012
1 Thai baht	0.032	0.031	0.035	0.031
1 USD	0.97	0.97	1.093	0.98

32. Financial risk management (continued)

(d) Currency risk (continued)

Sensitivity analysis

A 10% strengthening of the AUD against the THB for the 12 months to 30 June 2013 and 30 June 2012 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 2013		
THB	(16,761)	(945)
30 June 2012		
THB	(13,333)	(1,797)

A 10% weakening of the AUD against the THB for the 12 months to 30 June 2013 and 30 June 2012 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 2013		
THB	20,486	1,155
30 June 2012		
THB	16,295	2,197

(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 2013 $000	Fair Value 2013 $000	Carrying amount 2012 $000	Fair Value 2012 $000
Consolidated				
Loans and receivables	5,082	5,082	2,926	2,926
Cash and cash equivalents	19,525	19,525	7,106	7,106
Trade and other payables	(3,167)	(3,167)	(1,945)	(1,945)
	21,440	21,440	8,087	8,087

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 2013				
Non-derivative financial liabilities				
Trade and other payables	3,167	3,167	3,167	-
SRB and income tax provisions	846	846	846	-
	4,013	4,013	4,013	-
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	-

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:

	2013 $000	2012 $000
Statement of financial position		
Current Assets	14,625	1,787
Non-current assets	12,917	10,367
Total assets	27,542	12,154
Current liabilities	821	500
Non-current liabilities	-	-
Total liabilities	821	500
Equity		
Issued Capital	87,573	68,536
Accumulated losses	(62,804)	(59,077)
Reserves	1,952	2,195
Total equity	26,721	11,654
Statement of comprehensive income		
Total (loss)	(3,709)	(4,772)
Total comprehensive income	(3,709)	(4,772)

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.

33. Parent Information (continued)

	Parent 2013 $000	Parent 2012 $000
Parent capital and other commitments		
(a) Joint venture commitments		
Capital commitments of the Group to joint venture assets:		
Within one year	1,987	413

(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.

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

	2013 $000	2012 $000
Less than one year	3,120	2,350
Between one and five years	3,650	5,300
	6,770	7,650

(c) Capital expenditure commitments

	2013 $000	2012 $000
Data licence commitments	229	156

Non-cancellable operating lease rentals are payable as follows:

	2013 $000	2012 $000
Less than one year	155	150
Between one and five years	13	168
	168	318

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 26 to 71 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 2013 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 2013.

Signed in accordance with a resolution of the directors.

PJ Leonhardt

Director
Perth, 30 August 2013

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 2013, 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 2013 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 18 to 22 of the directors' report for the year ended 30 June 2013. 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 2013 complies with section 300A of the Corporations Act 2001.

Crowe Horwath Perth

CROWE HORWATH PERTH

SEAN MCGURK
Partner

Signed at Perth, 30 August 2013

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CORPORATE GOVERNANCE STATEMENT

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 2012 to 30 June 2013 (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.	Due to the size of the Company's workforce, the Company has not adopted a formal diversity policy or any gender diversity objectives. The Board believes that there is no detriment to the Company in not adopting a formal diversity policy or in not setting gender diversity objectives as the Company is committed to providing all employees with fair and equal access to employment opportunities.
3	3.3	Measurable objectives for achieving gender diversity set in accordance with the diversify policy have not been established.	See above.

Notes

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

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

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

Company's remuneration policies

The Company's remuneration policies are set out in the Remuneration Report on pages 18 to 22.

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 2013

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	76,878,404	8.22
J P Morgan Nominees Australia Limited	46,672,367	4.99
Citicorp Nominees Pty Limited	20,743,780	2.22
Mr Edward Patrick Jacobson	12,917,903	1.38
Sun Loong Corporation Pty Ltd	12,359,768	1.32
Sunshine Group Investments Pty Ltd	10,000,000	1.07
Jacobson Geophysical Services Pty Ltd	9,728,390	1.04
Pendomer Investments Pty Ltd	9,287,768	0.99
Mr James Mark Dack	8,999,999	0.96
JP Morgan Nominees Australia (Cash Income A/C)	8,891,859	0.95
Mr Peter James Leonhardt	7,700,000	0.82
Log Creek Pty Ltd	7,117,596	0.76
Arne Investments Pty Ltd	7,078,209	0.76
National Nominees Limited	6,748,046	0.72
Arne Investments Pty Ltd	6,710,493	0.72
ABN Amro Clearing Sydney Nominees Pty Ltd	6,578,910	0.70
Mr Edward Patrick Jacobson	6,000,000	0.64
Geolyn Pty Ltd	6,000,000	0.64
Mr Hsin Wei Wi & Ms Lydia Wen-Lin Hsieh	5,930,568	0.63
Mr Thomas Fritz Ensmann	4,450,000	0.48
	280,794,060	30.02

Distribution of equity security holders

The number of shareholders holding less than a marketable parcel of ordinary shares is 2,964.

Size of Holding			Number of shareholders	Number of fully paid shares
1	to	1,000	526	262,151
1,001	to	5,000	1,724	5,416,695
5,001	to	10,000	1,505	12,738,544
10,001	to	100,000	4,059	159,686,873
100,001	and over	1,273	757,279,238	
			9,087	935,383,501

The number of shareholders holding less than a marketable parcel of ordinary shares is 2,964.

b) Option holdings as at 31 August 2013

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%	
		Eco Orient Energy	60%	Eco Orient Energy
L33/43	Phetchabun / Thailand	Carnarvon	40%	
		Eco Orient Resources	60%	Eco Orient Resources
L44/43	Phetchabun / Thailand	Carnarvon	40%	
		Eco Orient Resources	60%	Eco Orient Resources
L20/50	Phitsanulok / Thailand	Carnarvon	0%	Carnarvon
		Siam Moeco	100%	
L52/50, & L53/50	Surat-Khiensa / Thailand	Carnarvon	100%	Carnarvon
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	60%	Apache
		Rialto Energy	12%	
		Jacka	15%	
WA-435-P, WA-437-P	Roebuck / Australia	Carnarvon	20%	
		Apache	40%	Apache
		Finder Exploration	20%	
		JX Nippon	20%	
WA-436-P, WA-438-P	Roebuck / Australia	Carnarvon	50%	
		Finder Exploration	50%	Finder Exploration
WA-443-P	Roebuck / Australia	Carnarvon	100%	Carnarvon

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