



Carnarvon
Petroleum NL

ABN 60 002 688 851

Annual Report 2001



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Corporate Directory

Directors

GHC White (Non-Executive Chairman)
KC Tregonning (Managing Director)
DJ Orth (Executive Director)
NC Fearis (Non-Executive Director)

Company Secretary

L Troncone

Auditors

Ernst & Young

Solicitors

Freehills

Bankers

Australia and New Zealand Banking
Group Limited

Registered Office

Ground Floor, Durack Centre
263 Adelaide Terrace
Perth Western Australia 6000

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Share Registry - Australia

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

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Facsimile: +61 8 9323 2033

Share Registry - New Zealand

Computershare Registry Services Limited
Private Bag 92119
Auckland 1020

Telephone: +64 9 522 0022

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Stock Exchange Listing

Carnarvon Petroleum NL is listed on both the
Australian and New Zealand Stock Exchanges.

ASX Code: CVN

NZSE Code: CVN

*Cover photograph shows drilling rig at WB-N2,
SWIA Concession, Central Thailand.*



Buddhist shrine near WB-1 well, SWIA Concession, Central Thailand.

Chairman's Report

Carnarvon's year has been characterised by change. At our last Annual General Meeting the Shareholders were informed about the acquisition of Block SW1A in Thailand in a move to take Carnarvon from being an exploration company into a producing oil and gas company, not a small feat for a junior Australian explorer. With our initial success in Thailand we have been encouraged to seek out and secure similar projects throughout the region in an effort to grow the Company on the basis of production and cash flow.

There have been a number of Board changes with the addition of two new directors, Dr. Ken Tregonning and David Orth, and the retirement of Stuart Hohnen in November. In July 2001, Derek Cowlan and Warren Beckwith also retired. I would like to take this opportunity to both welcome Ken and David to the Company and to express our thanks for the contributions made by Stuart, Derek and Warren.

Consistent with Carnarvon's overall goal to invest in producing and developing projects, we have embarked on a policy of divestiture of those assets in our portfolio that no longer satisfy our criteria. During the year we have sold our equity in EP 325 and we are progressing the sale of our interests in WA 254-P, EP 395 and EP 342&TP/9, all in the Carnarvon Basin. We have farmed out half of our holding in EP 110 in return for a carried interest in an upcoming seismic acquisition program while retaining a significant equity as it lies next to the Tubridgi Gas Field. We still hold an 11% interest in AusAm as well as a 2.5% royalty in that company's Perth Basin assets.

In Papua New Guinea we have relinquished PPL 204 but have retained our interest in the ex PPL 157 retention licenses, PRLs 4&5. The reserves in the PRLs total nearly a trillion cubic feet of gas and about 50 million barrels of condensate. If these reserves are not commercialized in the near term, Carnarvon will consider selling to fund our other Asian activities and further stimulate our expansion.

The biggest change that Carnarvon has experienced this past year is the acquisition of the producing Wichian Buri Oil Field in Thailand and the surrounding acreage. We participated in the drilling of two successful wells, WB-N1 and WB-N2, during the course of the year that effectively doubled our net production and added reserves in the order of 10 million barrels of oil. We have embarked on an aggressive development program which, if successful, will result in a five-fold increase in production by the middle of calendar year 2002 and we anticipate that the project will become self funding by early 2002.

On 31 August 2001, the Company announced plans for a capital raising via a placement of 40,000,000 shares at 7 cents each with attaching free options. The \$2.8 million raised (before costs) will be utilised to fund the Company's share of the development plans for the SW1A Concession as well as provide working capital for the Company to pursue other similar opportunities. Your directors intend to participate in this capital raising and we hope to see as many of our fellow Shareholders as possible participating as well.

I thank all Shareholders for their continued interest and renewed support during the year and I look forward to another successful year ahead.

George White
Chairman

Review of Operations

Summary

Carnarvon Petroleum NL embarked on a new strategy during the year, one of acquisition of producing and developing properties whereby Carnarvon could add value through technical excellence and take advantage of previously unrecognised or unrealised growth potential. So far the Company has acquired only the SWIA Concession in Thailand but active negotiations and due diligence evaluations are under way that could lead to the addition of one or more new assets to its portfolio during the next year.

Block SWIA gave to Carnarvon an immediate cash flow resulting from the purchase of the Wichian Buri Oil Field. The initial drilling campaign has increased reserve estimates to some four million barrels of oil net to the Company. This estimate does not include the significant potential of the production license nor does it reflect the value of the application area, L44/43, which covers the remainder of the Phetchabun Basin in Central Thailand.

Exploration activities over the past twelve months have been restricted to Block SWIA and have resulted in two new discoveries at WB-N1 and WB-N2. The Company is actively involved in the divestiture of those assets that do not complement the new strategy. This means that Carnarvon has been, and will be, selling off those properties that are no longer regarded as essential to its portfolio, including the majority of permits in the Carnarvon Basin and perhaps the acreage in Papua New Guinea.

Wells Drilled During 2000/2001

Carnarvon participated in the drilling of two wells during the year both of which resulted in discoveries. WB-N1 is currently shut in pending the award of an expanded production license but it did prove up the geological concept under which the acquisition was made by expanding the confines of the producing Wichian Buri Oil Field to the north. WB-N2 further delineated the field and was put on stream immediately.

Well Name	Permit	Basin	Interest	Spud Date	Metres	Comment
WB-N1	SWIA	Thailand	40%	21 Feb 01	1007	Discovery
WB-N2	SWIA	Thailand	40%	26 May 01	1020	Discovery

Upcoming Wells

The Company has agreed to an aggressive field development campaign over the course of the next year to actively bring on stream a number of wells in an effort to bolster cash flow. With each successful well producing oil directly to the refiner it is imperative that the joint venture enters into an accelerated development program designed to maximise the financial returns to the participants. There are also a number of low risk prospects adjacent to the existing production fields that have been included in the expanded production license that will be investigated.

Well Name	Permit	Basin	Interest	Spud Date	Metres	Comment
WB-N3	SWIA	Thailand	40%	3Q 2001		Development
WB-N4	SWIA	Thailand	40%	3Q 2001		Development
WB-N5	SWIA	Thailand	40%	4Q 2001		Development
WB-N6	SWIA	Thailand	40%	4Q 2001		Development
WB-3N	SWIA	Thailand	40%	1Q 2002		Exploration
Huai Phai	SWIA	Thailand	40%	1Q 2002		Exploration

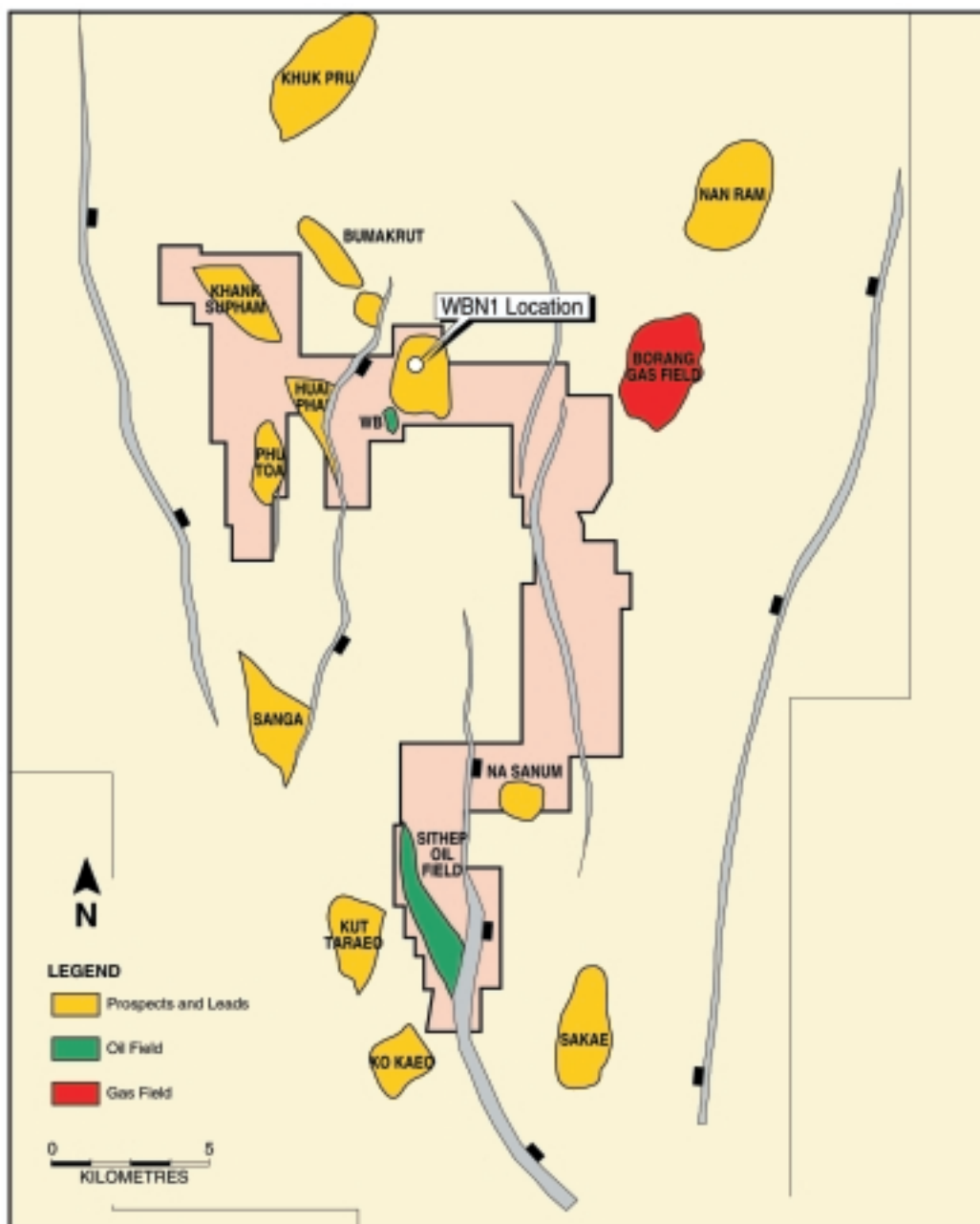
Thailand

There are over 30 significant Tertiary basins that have been identified in Thailand. Hydrocarbons are found throughout the trend from the Fang basin in the north to the Songkhla basin in the south. The Phetchabun basin is located within the Sukhothai-Loei fold belt, immediately north of the Mae Ping fault zone. Exploration in the South Phetchabun Basin commenced with the SWI Concession in the mid 1980s. Six wildcat wells have been drilled with hydrocarbons produced from four new field discoveries (including the economically marginal Bo Rang gas field).

The basin comprises a series of five half and full grabens located in a narrow, elongate (30 km by 120km)

intermontaine rift. Individual grabens range in depth from 2500 meters in the Wichian Buri graben in the south to 1100 meters or less in the North Phetchabun sub-basin. Block SWIA, in which Carnarvon holds a 40% equity, covers the northern portion of the South Phetchabun Basin and contains the producing Wichian Buri and Si Thep oil fields as well as the Bo Rang gas discovery.

The WB-N1 well is located 1.7 kilometers northeast of Wichian Buri-1 and represents an exploratory step-out from the Wichian Buri Oil Field into an independently closed structure. The well successfully tested the productive F-Sandstone package in a four-way, dip-closed anticline in a structurally up dip position from the Wichian Buri Oil Field.



Thailand Block SWIA, Permit Details

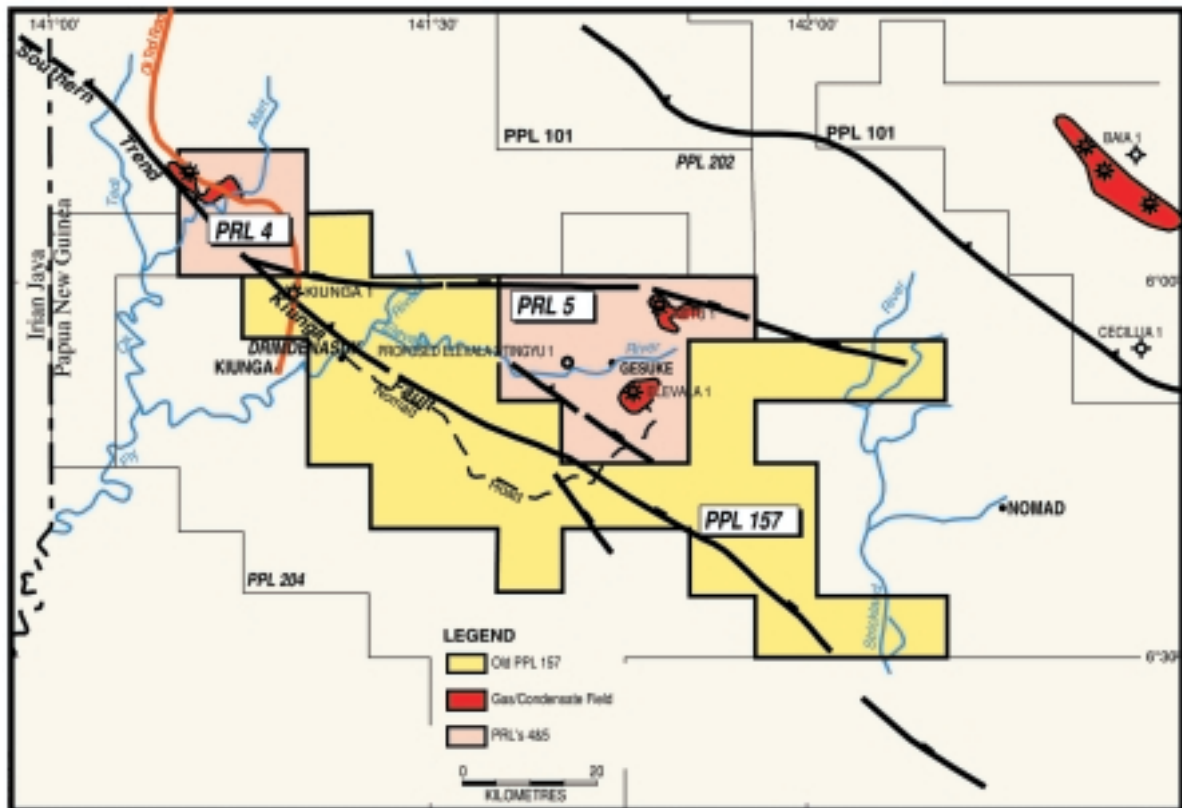
Review of Operations (cont.)

Papua New Guinea

Petroleum Retention Licenses (PRLs) 4 & 5 (Carnarvon 15%) have been excised from the original PPL 157. These permits are located in the foreland of the Papuan Basin in Papua New Guinea near the port town of Kiunga on the Fly River.

Stanley-1, located within PRL 4 was a gas/condensate discovery that identified 12 to 13 meters of gross gas pay of which 9 to 10 meters is considered to be net pay of good reservoir quality and potential deliverability. The Operator estimates there is a potential recoverable volume associated with this gas pay of approximately 110 BCF of gas and 4 million barrels of condensate.

The Elevala-1 discovery, situated in PRL 5, was made in 1990, and flowed gas at 11.3 MMCFD with an associated condensate flow of 634 barrels of condensate per day. The Elevala feature is estimated to contain some 550 BCF of gas as well as 30 million barrels of condensate. Also within the confines of PRL 5 is the Ketu discovery with an additional 250 BCF and 13 million barrel of condensate.



Papua New Guinea
PRLs 4 & 5 Permit Details

Carnarvon Basin

EP 110 (Carnarvon 25.8585%)

This permit is located onshore/offshore at Onslow, Western Australia, and is adjacent to the Tubridgi Gas Field. Carnarvon has recently reduced its equity and relinquished the operatorship in the permit by virtue of a farm-out to Gulliver Productions in return for a two year carry through the acquisition of a seismic program. In the event that the interpretation of the seismic defines an exploration target, the proximity to Tubridgi will make the economics very attractive and reduce the time required to bring on stream a new discovery. A well is required to be drilled during the third permit year placing it sometime during 2002.

EP 395 (Carnarvon 11.61%)

WA 254-P Parts 1, 3 and 4 (Carnarvon 7.82%)

WA 254-P Part 2 (Carnarvon 10.31%)

EP 342/TP9 (Carnarvon 9.70873%)

Carnarvon is well advanced in the negotiation for the sale of these permits in the Carnarvon Basin. The decision was made for the divestiture of the blocks as they did not fit in with the new strategy being undertaken by the Company which is focused on the acquisition of undervalued producing properties with an upside to be developed by

a combination of technical expertise and state-of-the-art technology. Cash generated from the sale of these assets will be used in the implementation of that new strategy throughout the region in projects similar in nature to that in Thailand.

EP 325 (Carnarvon 1.8%)

Carnarvon has sold its equity in this permit to the Operator, Victoria Petroleum.

Perth Basin

Carnarvon owns 11% of AusAm Resources NL and retains a royalty of 2.5% by virtue of a sales agreement completed in 2000 over a number of Perth Basin blocks. AusAm Resources NL is preparing for a drilling campaign to begin during the third quarter of 2001. Their interests are shown below:

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



Carnarvon Basin
Infrastructure and Location Map

Directors' Report

Your directors submit their report for the year ended 30 June 2001.

Directors

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

George White - Appointed director 3 November 1992, and Chairman on 28 November 1996

Ken Tregonning - Appointed director 14 December 2000

Neil Fearis - Appointed director 30 November 1999

David Orth - Appointed director 14 December 2000

Warren Beckwith - Appointed director 17 August 1998, resigned 12 July 2001

Derek Cowlan - Appointed director 9 December 1998, resigned 12 July 2001

Stuart Hohnen - Appointed director 21 June 1993, resigned 30 November 2000

The details of the directors of the Company are:

George White

Non-Executive Chairman

Age 57. Bachelor of Science (Hons)
Fellow of the Australian Institute of Company Directors
Member of the Executive Council of the Chamber of Minerals & Energy of Western Australia
Director of Doral Mineral Industries Limited and Australian Fused Materials Pty Ltd

Ken Tregonning

Managing Director

Age 49. Bachelor of Science (Hons), Ph.D.
Member of the Society of Petroleum Engineers (SPE)
Past Chairman SPE (NSW/ACT Chapter) and member of the Executive Committee SPE (Kuala Lumpur Chapter)

Neil Fearis

Non-Executive Director

Age 50. Bachelor of Law (Hons)
Director of Kresta Holdings Limited and Director (and WA Chairman) of the Australian-British Chamber of Commerce
Member of the Australian Institute of Company Directors

David Orth

Executive Director

Age 52. Bachelor of Science
Diploma of GeoSci
Member of American Association of Petroleum Geologists (AAPG)

Interests in the Shares and Options of the Company and Related Bodies Corporate

Relevant interest in the shares and options of the Company as at the date of this report:

Director	Ordinary Shares	25 cents Options 31/7/2002	20 cents Options 31/12/2003
GHC White	2,713,482	1,131,741	–
KC Tregonning	4,000,000	100,610	5,000,000
DJ Orth	2,000,000	–	5,000,000
NC Fearis	800,000	–	–

Corporate Information

Corporate structure

Carnarvon Petroleum NL is a no liability company incorporated and domiciled in Australia. Carnarvon Petroleum NL has prepared a consolidated financial report incorporating the following entities:

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

Principal activities

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

Employees

The consolidated entity employed 2 employees as at 30 June 2001 (2000: 2 employees).

Earnings Per Share

Earnings Per Share	Cents
Basic earnings per share	(1.2)
Diluted earnings per share	(1.2)

Dividends

The directors have recommended that no dividend be paid in respect of the financial year ending 30 June 2001. No dividends were declared or paid during the financial year.



Night crew during drilling of WB-N1 well, SWIA Concession, Central Thailand.

Review of Operations

A review of the operations during the financial year of the Carnarvon Petroleum Consolidated Entity is contained in pages 4 to 7 of this Annual Report and the directors adopt and endorse that review which is to be regarded as incorporated herein.

Operating Results

The loss of the consolidated entity after providing for income tax was	\$ (947,697)
This included exploration costs written off amounting to	\$ (379,806)
The loss of the parent entity after providing for income tax was	\$ (1,271,238)
This included exploration costs written off amounting to	\$ (379,806)

Significant Changes in the State of Affairs

The directors of the parent entity evaluated a number of opportunities to acquire oil and gas production and renewable energy projects. In December 2000 the acquisition of a 40% interest in the producing Wichian Buri-1 & 1A (proved reserve area only) and Si Thep-1 oilfields (forming part of the SWIA Exploration Block) in Thailand were finalised. This acquisition was satisfied by the payment of US\$800,000 plus the funding of 80% of the cost of two exploration wells capped to a maximum of US\$400,000 per well. This acquisition represents the first step in the consolidated entity's change in strategy from being a purely wildcat oil and gas exploration entity into a oil and gas producing entity generating cash flows from operations.

Significant Events After Balance Date

On 2 August 2001, the parent entity announced a placement of 6,000,000 fully paid ordinary shares at 7 cents each together with 6,000,000 free options exercisable at 25 cents each expiring on 31 July 2002. The total sum raised was \$420,000 and the cost of the placement was \$21,000. The funds were raised for working capital purposes.

On 31 August 2001 the Company lodged a prospectus for the open placement of 40,000,000 fully paid ordinary shares at 7 cents each with free attaching options exercisable at 25 cents each expiring on 31 December 2001. The placement is subject to shareholder approval. A notice of extraordinary general meeting is due to be mailed to shareholders on 10 September 2001 and the

Directors' Report (cont.)

meeting to approve the issue of shares and options is due to be held on 11 October 2001. The funds raised by the share placement will be used to fund the consolidated entity's portion of the development program on the SWIA Concession and provide working capital for the Company to pursue other oil and gas production opportunities.

Likely Developments and Expected Results

The Review of Operations outlines likely developments in the operations of the consolidated entity. The directors are not presently in a position to predict the results of those developments.

The directors are of the opinion that further information as to the likely developments in the operations of the consolidated entity would prejudice the interests of the Company and the consolidated entity and it has accordingly not been included.

Environmental Regulations and Performance

The consolidated entity's oil and gas exploration and development activities are concentrated in Western Australia, Thailand and Papua New Guinea. Environmental obligations are regulated under both State and Federal Law in Western Australia, under Department of Mineral Resources regulations in Thailand, and under the Oil and

Gas Act in Papua New Guinea. No significant environmental breaches have been notified by any government agency during the year ended 30 June 2001.

Share Options

Unissued shares

As at the date of this report, there were 53,953,645 unissued ordinary shares under options as follows:

- 43,953,645 options to take up one ordinary share in Carnarvon Petroleum NL at an issue price of 25 cents. The options expire on 31 July 2002; and
- 10,000,000 options to take up one ordinary share in Carnarvon Petroleum NL at an issue price of 20 cents. The options expire on 31 December 2003.

The option holders are entitled to participate in any new pro-rata issue of securities of the Company on the prior exercise of the options.

Shares issued as a result of exercise of options

There have been no options exercised during or since the end of the financial year.

Expiry of options

On 28 July 2001, 7,373,680 options exercisable at \$4.00 each expired and were cancelled.



Production facility adjacent to WB-1 well, SWIA Concession, Central Thailand.

Indemnification and Insurance of Directors and Officers

The Company has arranged Directors and Officers insurance to cover losses or liabilities incurred by that person as an officer of the Company or of a related body corporate as permitted by law. Full details of the cover and premium are not disclosed as the insurance policy prohibits the disclosure. The amount of the premium however is included as part of directors' remuneration in note 19 to the financial statements.

Directors' Benefits

Disclosure of benefits provided to directors during the financial year is made in notes 19 and 22 to the financial statements.

Directors' and other Officers' Emoluments

The Board of directors is responsible for determining and reviewing compensation arrangements for the directors, officers and executive employees. The Board assesses the appropriateness of the nature and amount of emoluments on a periodic basis by reference to relevant employment market conditions.

Officers and executives are given the opportunity to receive their emoluments in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

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

The overall objective is to ensure maximum shareholder benefit from the retention of a quality Board and executive team.

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

Emoluments of directors of Carnarvon Petroleum NL

	Emoluments Paid		Long Term Emoluments	
	Base Fee	Other	Termination & similar payments	Superannuation
	\$	\$	\$	\$
Non-Executive Directors				
GHC White	20,000	—	—	800
NC Fearis	17,083	—	—	1,367
DT Cowlan	17,083	—	—	1,367
SA Hohnen	6,250	—	—	500
Executive Directors				
KC Tregonning	113,333	—	—	—
DJ Orth	87,500	—	—	—
WT Beckwith	54,458	—	49,997	1,000

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

Emoluments of executive officers of Carnarvon Petroleum NL

	Emoluments Paid		Long Term Emoluments	
	Base Salary	Other	Termination & similar payments	Superannuation
	\$	\$	\$	\$
L Troncone	66,461	—	—	7,500

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

The elements of emoluments have been determined on the basis of cost to the Company and consolidated entity. The category 'Other' includes the value of any non-cash benefits provided. Executive officers are those directly accountable and responsible for the operational management and strategic direction of the Company and the consolidated entity.

Directors' Report (cont.)

Options granted to directors and executive officers

The following options were granted to executive directors during or since the end of the financial year:

Executive Directors	Number of Options	Exercise Price of Options (\$)	Expiry Date of Options
KC Tregonning	5,000,000	\$0.20	31 December 2003
DJ Orth	5,000,000	\$0.20	31 December 2003

Directors' Meetings

During the year, 13 directors' meetings were held. The number of meetings attended by each director is as follows:-

Director	Number of Board Meetings Held While in Office	Number of Board Meetings Attended
GHC White	13	13
KC Tregonning	9	9
NC Fearis	13	12
DJ Orth	9	9
WT Beckwith	13	13
DT Cowlan	13	11
SA Hohnen	4	4

The Company does not have an audit committee as the directors believe that the small size of the Company enables the Board to monitor and control the operations of the Company.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Carnarvon Petroleum NL support and have adhered to the principles of corporate governance. The Company's corporate governance statement is contained in pages 36 and 37 of this Annual Report.

Signed in accordance with a resolution of the directors.

GHC White

Director

Perth 31 August 2001

Statement of Financial Performance

for the Year ended 30 June 2001

	Notes	CONSOLIDATED		CARNARVON PETROLEUM NL	
		2001 \$	2000 \$	2001 \$	2000 \$
REVENUES FROM ORDINARY ACTIVITIES					
	2(a)	533,490	–	–	–
Cost of sales	2(b)	(407,786)	–	–	–
Other revenues from ordinary activities	2(c)	172,129	757,315	161,292	757,315
Exploration expenses	2(d)	(379,806)	(541,575)	(379,806)	(538,182)
Unrealised foreign exchange gain	2(e)	190,224	–	–	–
Other expenses from ordinary activities	2(d)	(1,055,948)	(654,467)	(1,052,724)	(657,860)
LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		(947,697)	(438,727)	(1,271,238)	(438,727)
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES	3	–	–	–	–
LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE ATTRIBUTABLE TO MEMBERS OF CARNARVON PETROLEUM NL		(947,697)	(438,727)	(1,271,238)	(438,727)
Basic earnings per share (cents per share)	25(a)	(1.2)	(0.6)		
Diluted earnings per share (cents per share)	25(b)	(1.2)	(0.6)		

Statement of Financial Position

As at 30 June 2001

	Notes	CONSOLIDATED		CARNARVON PETROLEUM NL	
		2001 \$	2000 \$	2001 \$	2000 \$
CURRENT ASSETS					
Cash		788,519	4,373,791	463,199	4,373,791
Receivables	4	220,599	263,406	70,269	263,406
Prepayments and other assets	5	32,680	8,165	6,902	8,165
TOTAL CURRENT ASSETS		1,041,798	4,645,362	540,370	4,645,362
NON-CURRENT ASSETS					
Receivables	4	249,815	139,290	1,855,267	139,290
Other financial assets	6	282,876	281,757	1,765,838	281,787
Plant and equipment	8	31,933	14,514	19,321	14,514
Deferred exploration evaluation and development costs	9	3,144,389	–	–	–
TOTAL NON-CURRENT ASSETS		3,709,013	435,561	3,640,426	435,591
TOTAL ASSETS		4,750,811	5,080,923	4,180,796	5,080,953
CURRENT LIABILITIES					
Payables	10	606,566	72,606	360,062	72,606
Provisions	11	10,536	4,437	10,536	4,437
TOTAL CURRENT LIABILITIES		617,102	77,043	370,598	77,043
NON-CURRENT LIABILITIES					
Provisions	11	–	8,474	–	8,474
TOTAL NON-CURRENT LIABILITIES		–	8,474	–	8,474
TOTAL LIABILITIES		617,102	85,517	370,598	85,517
NET ASSETS		4,133,709	4,995,406	3,810,198	4,995,436
EQUITY					
Contributed equity	12	38,111,125	38,025,125	38,111,125	38,025,125
Accumulated losses	13	(33,977,416)	(33,029,719)	(34,300,927)	(33,029,689)
TOTAL EQUITY		4,133,709	4,995,406	3,810,198	4,995,436

Statement of Cash Flows

For the Year ended 30 June 2001

	Notes	CONSOLIDATED		CARNARVON PETROLEUM NL	
		2001 \$	2000 \$	2001 \$	2000 \$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		397,845	–	–	–
Payments to suppliers and employees		(933,589)	(560,371)	(736,080)	(560,371)
Interest received		185,138	212,303	174,299	212,303
Exploration costs		(379,806)	(541,575)	(379,806)	(538,182)
Goods and services tax paid		(73,746)	–	(73,746)	–
Rothschild contribution		–	225,000	–	225,000
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	14(a)	(804,158)	(664,643)	(1,015,333)	(661,250)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payment for purchase of interests in permits		(1,613,796)	–	–	–
Payments for exploration and development expenditure		(1,359,469)	–	–	–
Proceeds from sale of permits		200,000	–	200,000	–
Purchase of plant & equipment		(25,830)	–	(13,218)	–
Proceeds from sale of plant & equipment		–	3,000	–	3,000
Purchase of shares in unlisted public company		(1,119)	(21,757)	(1,119)	(21,757)
Purchase of shares in subsidiary		–	–	(1,475,470)	–
Purchase of permit security deposits		–	(1,490)	–	(1,490)
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		(2,800,214)	(20,247)	(1,289,807)	(20,247)
CASH FLOWS FROM FINANCING ACTIVITIES					
Advances to controlled entities		–	–	(1,605,452)	(3,393)
Proceeds from issue of shares & options		–	844,800	–	844,800
Capital raising costs		–	(42,720)	–	(42,720)
Proceeds from sale of employee shares		–	9,417	–	9,417
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		–	811,497	(1,605,452)	808,104
NET INCREASE/(DECREASE) IN CASH HELD					
Add opening cash brought forward		4,373,791	4,247,184	4,373,791	4,247,184
Effects of foreign exchange rate changes on cash		19,100	–	–	–
CLOSING CASH CARRIED FORWARD	14(b)	788,519	4,373,791	463,199	4,373,791

Notes to the Financial Statements

30 June 2001

1. Summary of Significant Accounting Policies

(a) Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention.

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The accounting policies adopted are consistent with those of the previous year.

(b) Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments at call readily convertible to cash.

(c) Recoverable amount

Non-current assets are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount, assets are written down. In assessing recoverable amounts the relevant cash flows have not been discounted to their present value, except where specifically stated.

(d) Investments

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

(e) Plant and equipment

The Company owns plant and equipment, which is carried at cost. Assets are depreciated at rates based upon their expected useful lives using the straight line method. Depreciation periods for all equipment are between 2 and 5 years (2000: 2 and 5 years).

(f) Joint ventures

Interest in the joint venture operation is brought to account by including in the respective classifications the share of individual assets employed and share of liabilities and expenses incurred.

(g) Deferred exploration, evaluation and development costs

Deferred exploration, evaluation and development costs represent acquisition costs and direct exploration, evaluation and development costs incurred. These costs are only carried forward in respect of each separate area of interest for which rights of tenure are current and where such costs are expected to be recouped through successful development and economic exploitation of the area of interest.

All costs relating to activities in areas of interest which have not yet reached a stage that permits an assessment of the existence or otherwise of economically recoverable reserves are expensed as incurred.

Amortisation

Upon commencement of operations, expenditure is amortised on a units of production basis. Amortisation rates are based on Proven plus Probable reserve estimates. No amortisation charge was applied in the current year as at current disclosed reserve estimates the effect of amortisation is not considered to materially affect the results.

(h) Employee entitlements

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave. Sick leave is not accrued as it is not of a material nature and any entitlement is not vested on termination of employment.

Liabilities arising in respect of wages and salaries, annual leave and any other employee entitlements expected to be settled within twelve months of the reporting date are measured at their nominal amounts. All other employee entitlement liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the interest rates attaching to government guaranteed securities which have terms to maturity approximating the terms of the related liability are used.

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

- (i) wages and salaries, non-monetary benefits, annual leave, long service leave and other leave entitlements; and
- (ii) other types of employee entitlements,

are charged against profits on a net basis in their respective categories.

(h) Employee entitlements (cont.)

The value of the employee share scheme described in note 16 is not being charged as an employee entitlement expense.

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

(i) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Control of the goods has passed to the buyer.

Interest

Control of a right to receive consideration for the provision of, or investment in, assets has been attained.

(j) Comparison

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

(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

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

(l) Principles of consolidation

The consolidated financial statements are those of the economic entity, comprising Carnarvon Petroleum NL (the parent entity) and all entities which Carnarvon Petroleum NL controlled from time to time during the year and at balance date.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

(m) Foreign currency

Transactions

Foreign currency transactions are initially translated into Australian dollars at the rate of exchange applying on the date of the transaction. The subsequent receipt of payment of funds relating to the transaction is translated at the rate applicable on the date of receipt of payment.

Assets and liabilities at balance date are translated at the rate of exchange prevailing on balance date.

Exchange gains or losses, whether realised or unrealised, from the translation of assets and liabilities are included in the determination of operating results.

Foreign operations

Strategic Exploration (Asia) Limited (SEAL), a wholly owned subsidiary, is accounted for in its functional currency. SEAL is an integrated operation and its financial statements are translated using the temporal rate method.

Hedges

The economic entity has no hedging instruments in place.

Notes to the Financial Statements (cont.)

30 June 2001

(n) Income tax

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

The income tax expense for the year is calculated using the 34% tax rate.

(o) Earnings per share

Basic earnings per share is determined by dividing the operating profit after tax and after preference dividends by the weighted average number of ordinary shares outstanding during the financial year.

(p) Share capital

Ordinary share capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(q) Trade and other payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

(r) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

	CONSOLIDATED		CARNARVON PETROLEUM NL	
	2001 \$	2000 \$	2001 \$	2000 \$
2. Revenues from Ordinary Activities				
Loss from ordinary activities before income tax is arrived at after taking into account:				
(a) Revenues from oil and gas operations				
Sales revenue				
Oil-SWIA Concession	533,490	–	–	–
Total revenues from oil and gas operations	533,490	–	–	–
(b) Cost of sales				
Production	(146,785)	–	–	–
Royalty and excise	(27,100)	–	–	–
Transportation	(45,148)	–	–	–
Selling, general and administration	(188,753)	–	–	–
Total cost of sales	(407,786)	–	–	–
(c) Other revenues from ordinary activities				
Interest – other persons/corporations	172,129	220,951	161,292	220,951
Profit from sale of non-current assets and investments	–	3,000	–	3,000
Profit from sale of employee shares	–	9,417	–	9,417
Profit from sale of exploration permits	–	460,000	–	460,000
Other	–	63,947	–	63,947
Total other revenues from ordinary activities	172,129	757,315	161,292	757,315
(d) Other expenses from ordinary activities				
Exploration costs incurred and expensed in current year	(379,806)	(541,575)	(379,806)	(538,182)
Corporate administration costs				
Administration	(977,689)	(516,386)	(974,465)	(516,386)
Depreciation – plant & equipment	(8,411)	(12,197)	(8,411)	(12,197)
Loss on disposal of plant and equipment	–	(3,794)	–	(3,794)
Rental premises – operating lease	(115,503)	(69,175)	(115,503)	(69,175)
Provision for non-recovery of:				
Controlled entity advances	–	–	–	(3,393)
Employee share loans	45,655	(52,915)	45,655	(52,915)
Total corporate administration costs	(1,055,948)	(654,467)	(1,052,724)	(657,860)
Total other expenses from ordinary activities	(1,435,754)	(1,196,042)	(1,432,530)	(1,196,042)
(e) Gains/(Losses)				
Unrealised foreign exchange gain on translation of integrated subsidiary	190,224	–	–	–
Loss from ordinary activities before income tax	(947,697)	(438,727)	(1,271,238)	(438,727)

Notes to the Financial Statements (cont.)

30 June 2001

Notes	CONSOLIDATED		CARNARVON PETROLEUM NL	
	2001 \$	2000 \$	2001 \$	2000 \$
3. Income Tax				
The prima facie income tax on operating loss differs from the income tax provided in the financial statements as follows:				
Prima facie income tax benefit on operating loss	322,217	157,942	432,221	157,942
Tax effect of permanent differences				
Exploration costs written off	–	(137,412)	–	(137,412)
Provision for doubtful debts	–	–	–	(1,221)
Employee share loan written off	–	(19,049)	–	(19,049)
Foreign sourced income	45,328	–	–	–
Expenditure of a capital nature	(50,561)	–	(50,561)	–
Other	–	(89)	–	(89)
Current year tax benefit not brought to account	(316,984)	(1,392)	(381,660)	(171)
Income tax benefit attributable to operating loss	–	–	–	–
Income tax losses				
Future income tax benefit arising from tax losses of a controlled entity not brought to account at balance date as realisation of the benefit is not regarded as virtually certain				
	5,007,641	4,565,838	3,014,669	2,523,507

This future income tax benefit will only be obtained if:

- future assessable income is derived of a nature and an amount sufficient to enable the benefit to be realised;
- the conditions for deductibility imposed by tax legislation continue to be complied with; and
- no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

4. Receivables

CURRENT

Trade debtors	4(a)	110,667	–	–	–
Interest receivable	4(a)	–	13,007	–	13,007
Other debtors	4(a)	85,442	247,039	45,779	247,039
		196,109	260,046	45,779	260,046
Employee share loans	16(a)	177,800	7,800	177,800	7,800
Provision for non-recovery	16(a)	(153,310)	(4,440)	(153,310)	(4,440)
		24,490	3,360	24,490	3,360
		220,599	263,406	70,269	263,406

	Notes	CONSOLIDATED		CARNARVON PETROLEUM NL	
		2001 \$	2000 \$	2001 \$	2000 \$
4. Receivables (cont.)					
NON-CURRENT					
Permit security deposits		31,490	31,490	31,490	31,490
Amounts receivable from controlled entities	4(a)	–	–	2,298,801	693,349
Provision for non-recovery	4(a)	–	–	(693,349)	(693,349)
		–	–	1,605,452	–
Employee share loans	16(a)	320,600	404,600	320,600	404,600
Provision for non-recovery	16(a)	(102,275)	(296,800)	(102,275)	(296,800)
		218,325	107,800	218,325	107,800
		249,815	139,290	1,855,267	139,290

(a) Terms and Conditions

Terms and conditions relating to the above financial instrument

- (i) Trade debtors are generally settled in the month after invoicing.
- (ii) Interest receivable on bank accepted bills is recognised on an accrual basis.
- (iii) Details of the terms and conditions of related party receivables are set out in note 22.

5. Prepayments and Other Current Assets

Prepayments and other current assets	32,680	8,165	6,902	8,165
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6. Other Financial Assets

NON-CURRENT

Shares in controlled entities	24	–	–	1,482,962	30
Shares in AusAm Resources NL		282,876	281,757	282,876	281,757
		282,876	281,757	1,765,838	281,787

Notes to the Financial Statements (cont.)

30 June 2001

7. Joint Ventures

The economic entity has the following interests in joint venture operations:

Joint Venture	Principal Activities	Ownership Interest %	Related Party %
Thailand			
SWIA Concession	Exploration, development, production and marketing of crude oil	40%	—
Western Australia (Carnarvon Basin)			
EP395	Exploration for hydrocarbons	11.61%	—
WA254-P, Parts 1,3 and 4 including the proposed Argos-I Well		7.82%	—
WA254-P, Part 2 including the Sage-I Well		10.31%	—
EPI10		46.55%	—
EP342/TP9		9.71%	—
Papua New Guinea (Papuan Basin)			
PRLs 4 & 5 (ex PPL157) including the Stanley, Eevala and Ketu discoveries	Exploration for hydrocarbons	15%	—

	CONSOLIDATED		CARNARVON PETROLEUM NL	
	2001	2000	2001	2000
	\$	\$	\$	\$

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

CURRENT ASSETS

Cash	253,734	—	—	—
Receivables	110,667	—	—	—
Prepayments and other	65,441	—	—	—

TOTAL CURRENT ASSETS	429,842	—	—	—
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NON-CURRENT ASSETS

Property, plant and equipment	12,612	—	—	—
Exploration, evaluation and development costs	952,955	—	—	—

TOTAL NON-CURRENT ASSETS	965,567	—	—	—
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TOTAL ASSETS	1,395,409	—	—	—
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CURRENT LIABILITIES

Payables	1,269,704	—	—	—
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TOTAL LIABILITIES	1,269,704	—	—	—
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NET ASSETS	125,705	—	—	—
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Capital expenditure commitments and contingent liabilities in respect of the joint venture are disclosed in Notes 15 and 17 respectively.

	CONSOLIDATED		CARNARVON PETROLEUM NL	
	2001 \$	2000 \$	2001 \$	2000 \$

8. Plant and Equipment

Plant and equipment at cost	165,109	139,279	152,497	139,279
Accumulated depreciation	(133,176)	(124,765)	(133,176)	(124,765)
	<u>31,933</u>	<u>14,514</u>	<u>19,321</u>	<u>14,514</u>

	CONSOLIDATION		CARNARVON PETROLEUM NL	
	2001 \$		2000 \$	

(a) Reconciliations

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

Plant and equipment

Carrying amount at beginning	14,514		14,514	
Additions	25,830		13,218	
Disposals	–		–	
Depreciation expense	(8,411)		(8,411)	
	<u>31,933</u>		<u>19,321</u>	

9. Deferred Exploration, Evaluation and Development Expenditure

Exploration, evaluation and development costs carried forward in respect of the SWIA Concession:

Pre-production				
Exploration & development phases	3,144,389	–	–	–

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful further development and commercial exploitation or sale of the SWIA Concession.

10. Payables

CURRENT

Trade creditors	10(a)	138,767	20,841	–	20,841
Other creditors	10(a)	467,799	51,765	360,062	51,765
		<u>606,566</u>	<u>72,606</u>	<u>360,062</u>	<u>72,606</u>

(a) Terms and Conditions

Terms and conditions relating to the above financial instruments:

- (i) Trade and other creditors are non-interest bearing and are normally settled on 30 day terms

Notes to the Financial Statements (cont.)

30 June 2001

Notes	CONSOLIDATED		CARNARVON PETROLEUM NL	
	2001 \$	2000 \$	2001 \$	2000 \$

11. Provisions

CURRENT

Employee leave entitlements	16	10,536	4,437	10,536	4,437
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NON CURRENT

Employee leave entitlements	16	–	8,474	–	8,474
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12. Contributed Equity

(a) Issued and paid up capital

Ordinary shares fully paid	38,111,125	38,025,125	38,111,125	38,025,125
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(b) Movements in shares on issue

	2001		2000	
	Number of Shares	\$	Number of Shares	\$
Beginning of the financial year	78,532,846	38,025,125	68,212,846	37,093,845
Issued during the year				
– employee share scheme	2,000,000	86,000	1,520,000	129,200
– public equity raising	–	–	8,800,000	844,800
less transaction costs	–	–	–	(42,720)
End of the financial year	80,532,846	38,111,125	78,532,846	38,025,125

(c) Share options

Options over ordinary shares:

In April 2001, 10,000,000 options were issued over ordinary shares exercisable at 20 cents each expiring on 31 December 2003. The options were issued to two executive directors pursuant to their respective service agreements with the Company. Shareholder approval to issue these options was obtained at a general meeting held on 15 March 2001.

Unissued ordinary shares of the Company under option:

Expiry date	Exercise Price \$	Number of Options	
		2001	2000
28 July 2001 (since expired and cancelled)	4.00	7,373,680	7,373,680
31 July 2002	0.25	37,953,645	37,953,645
31 December 2003	0.20	10,000,000	–

An additional 6,000,000 options exercisable at 25 cents each expiring on 31 July 2002 were issued on 2 August 2001 pursuant to a placement of shares.

(d) Terms and conditions of contributed equity

Ordinary Shares

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

	CONSOLIDATED		CARNARVON PETROLEUM NL	
	2001 \$	2000 \$	2001 \$	2000 \$
13. Accumulated Losses				
Balance at the beginning of the year	(33,029,719)	(32,590,992)	(33,029,689)	(32,590,962)
Operating loss attributable to members of Carnarvon Petroleum NL	(947,697)	(438,727)	(1,271,238)	(438,727)
Balance at the end of the year	(33,977,416)	(33,029,719)	(34,300,927)	(33,029,689)

14. Statement of Cash Flows

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

Loss from ordinary activities after tax	(947,697)	(438,727)	(1,271,238)	(438,727)
Provision for diminution – employee share loans	(45,655)	52,915	(45,655)	52,915
Provision for non-recovery of controlled entity advances	–	–	–	3,393
Depreciation – plant & equipment	8,411	12,197	8,411	12,197
Gain on sale of plant and equipment	–	3,794	–	3,794
Gain on sale of employee shares	–	(792)	–	(792)
Unrealised foreign exchange gain	(190,224)	–	–	–
Profit on sale of exploration permits	–	(460,000)	–	(460,000)
Changes in assets and liabilities:				
Receivables	(136,063)	192,174	14,267	192,174
Prepayments	(24,515)	7,966	1,263	7,966
Accounts payable	533,960	(33,295)	279,994	(33,295)
Employee entitlements	(2,375)	(875)	(2,375)	(875)
Net cash flows used in operating activities	(804,158)	(664,643)	(1,015,333)	(661,250)

(b) Reconciliation of cash

Cash balance comprises:				
Cash at bank and at call	788,519	39,908	463,199	39,908
Term deposit	–	1,000,000	–	1,000,000
Bank accepted bill	–	3,333,883	–	3,333,883
Closing cash balance	788,519	4,373,791	463,199	4,373,791

(c) Financing facilities available

At balance date the Company was not utilising any financing facilities.

(d) Non-cash financing and investment activities

Issue of shares under the employee share scheme	86,000	129,200	86,000	129,200
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Notes to the Financial Statements (cont.)

30 June 2001

	CONSOLIDATED		CARNARVON PETROLEUM NL	
	2001 \$	2000 \$	2001 \$	2000 \$
15. Expenditure Commitments				
(a) Capital expenditure commitments				
Estimated capital expenditure contracted for at balance date, but not provided for, payable:				
Not later than one year				
Joint venture	208,848	—	—	—
Other	—	—	—	—
Later than one year and not later than 5 years				
Joint venture	—	—	—	—
Other	—	—	—	—
	208,848	—	—	—
(b) Lease expenditure commitments				
Operating leases (non cancellable)				
Not later than one year	34,750	16,462	34,750	16,462
Later than one year and not later than 5 years	—	—	—	—
	34,750	16,462	34,750	16,462
Aggregate lease expenditure contracted for at balance date				
	34,750	16,462	34,750	16,462
Aggregate expenditure commitments comprise:				
Amounts not provided for at balance date				
Rental commitments	34,750	16,462	34,750	16,462

Due to the nature of consolidated entity's operations in exploring and evaluating areas of interest, it is difficult to accurately forecast the nature or amount of future expenditure, although it will be necessary to incur expenditure in order to retain the entity's present permit interests. Expenditure commitments on exploration permits can be reduced by selective relinquishment of exploration tenure, by the renegotiation of expenditure commitments and by farming out portions of the entity's equity. The Company forecasts its exploration commitments for 2001/02 to be approximately \$0.2 million (actual 2000/01: \$0.4 million).

16. Employee Entitlements

Aggregate employee entitlements, including on-costs

The aggregate employee entitlement liability is comprised of:

Accrued wages, salaries and on costs		—	—	—	—
Provisions (Current)	11	10,536	4,437	10,536	4,437
Provisions (Non-Current)	11	—	8,474	—	8,474
		10,536	12,911	10,536	12,911

16. Employee Entitlements (cont.)

(a) Employee share plan

At the Annual General Meeting held on 16 October 1997 the shareholders approved the Carnarvon Employee Share Plan and a loan arrangement scheme to assist in funding the acquisition of Plan Shares.

Under the terms of the Plan:

- (i) the Company may, in its absolute discretion, make an offer of ordinary fully paid shares in Carnarvon Petroleum NL to any eligible employee;
- (ii) an eligible employee is any person who is a director or employee of Carnarvon Petroleum NL or any of its subsidiaries;
- (iii) the issue price is determined by the directors and is not to be less than the weighted average market price of the Company's shares on the five trading days prior to the proposed date of offer;
- (iv) transfer of shares is limited within the first two years;
- (v) eligible employees receive an interest free advance to acquire the shares;
- (vi) the maximum liability of the advance is the market value of the shares from time to time;
- (viii) the eligible employee is the legal owner of the shares subject to the provisions of the loan agreement between the Company and the eligible employee; and
- (viii) Australian Stock Exchange Listing Rules require the Company to obtain shareholder approval for the issue of shares to directors.

At balance date there were 8 (2000: 7) eligible employees, all of whom have received and accepted an offer.

During the financial year, 2,000,000 (2000: 1,520,000) shares were issued at an issue price of 4.3 cents (2000: 8.5 cents) each for a value of \$86,000 (2000: \$129,200) which was funded under the loan arrangement scheme with the Company. The market value of the 2,000,000 (2000: 1,520,000) shares at the date of issue was \$86,000 (2000: \$129,200). At balance date the market value of the shares was \$158,000 (2000: \$85,120).

In respect to the eligible employees who ceased employment during the year, Nil (2000: 115,000) shares were disposed of by the Company Secretary as agent. During last year, \$9,417 was used to repay the advances under the loan arrangement scheme. During the year there was also a further 310,000 (2000: 60,000) shares being held by the Company Secretary as agent for employees who have ceased employment with a market value of \$24,490 (2000: \$3,360).

At balance date, there were 3,985,000 (2000: 1,925,000) shares on issue in respect to eligible employees with a market value of \$314,815 (2000: \$107,800).

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

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

	CONSOLIDATED		CARNARVON PETROLEUM NL	
	2001 \$	2000 \$	2001 \$	2000 \$
Share capital	86,000	129,200	86,000	129,200

(b) Superannuation Commitments

Employees make contributions to employee superannuation plans based on various percentages of their salary and wage. The consolidated entity has a legal obligation to contribute to the plans to the extent of the superannuation guarantee legislation and the specific terms of individual employment contracts.

Employer contributions to the plans	28,240	24,884	28,240	24,884
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Notes to the Financial Statements (cont.)

30 June 2001

17. Contingent Liabilities

Controlled Entities

- (a) Carnarvon Petroleum NL has agreed not to recall the loans owing by its controlled entities where it would result in the controlled entity not being able to meet its debts and commitments as they fall due.
- (b) In accordance with normal petroleum industry practice, the consolidated entity has entered into joint ventures and farmin agreements with other parties for the purpose of exploring and developing its petroleum permit interests. If a party to a joint venture defaults and does not contribute its share of joint venture obligations, then the other joint venturers are liable to meet those obligations. In this event, the interest in the permit held by the defaulting party may be redistributed to the remaining joint venturers.
- (c) Securities have been placed in favour of the Independent State of Papua New Guinea in respect of the compliance with the conditions of Petroleum Prospecting Licences (PPL's) granted to the Company and its joint venturers, totalling \$31,490 (2000: \$31,490).
- (d) If a discovery is made within an exploration permit in which a Native Title claim has been made and a production licence is sought in respect of that exploration permit, the issue of the production licence may be subject to the right to negotiate procedures set out in the Native Title Act. If no agreement is reached with the claimants, the National Native Title Tribunal will conduct a hearing to determine whether the licence can be granted, and if so on what conditions. A condition of the grant may be the payment of compensation.

18. Segment Information

	Australia		Thailand		Papua New Guinea		Consolidated	
	2001 \$	2000 \$	2001 \$	2000 \$	2001 \$	2000 \$	2001 \$	2000 \$
Geographical Segments								
Segment revenue	–	–	533,490	–	–	–	533,490	–
Exploration costs expensed	(183,588)	(359,315)	(145,288)	–	(50,930)	(182,260)	(379,806)	(541,575)
Other	(891,432)	102,848	(209,949)	–	–	–	(1,101,381)	102,848
Segment Result	(1,075,020)	(256,467)	178,253	–	(50,930)	(182,260)	(947,697)	(438,727)
Exploration and development costs	–	–	3,144,389	–	–	–	3,144,389	–
Other	1,084,195	5,049,433	490,737	–	31,490	31,490	1,606,422	5,080,923
Segment Assets	1,084,195	5,049,433	3,635,126	–	31,490	31,490	4,750,811	5,080,923

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

CONSOLIDATED		CARNARVON PETROLEUM NL	
2001	2000	2001	2000
\$	\$	\$	\$

19. Remuneration of Directors

Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of each entity in the consolidated entity, directly or indirectly, by the entities of which they are directors or any related party.

370,738 112,323

Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of Carnarvon Petroleum NL, directly or indirectly, from the entity or any related party.

370,738 112,323

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

\$	2001	2000
0 – 9,999	1	1
10,000 – 19,999	2	3
20,000 – 29,999	1	2
80,000 – 89,999	1	—
100,000 – 109,999	1	—
110,000 – 119,999	1	—

20. Remuneration of Executives

Remuneration received or due and receivable by executive officers of the consolidated entity whose remuneration is \$100,000 or more, from entities in the consolidated entity or a related party, in connection with the management of the affairs of the entities in the consolidated entity whether as an executive officer or otherwise.

— —

Remuneration received or due and receivable by executive officers of the Company whose remuneration is \$100,000 or more, from the Company or any related party, in connection with the management of the affairs of the Company or any related party whether as an executive officer or otherwise.

— —

21. Remuneration of Auditors

Amounts received or due and receivable by the auditors of Carnarvon Petroleum NL and the consolidated entity for an audit and review of the financial report of the Company and any other entity in the consolidated entity.

20,055 15,000 20,055 15,000

Other services in relation to the entity and any other entity in the consolidated entity.

49,511 6,000 49,511 6,000

Audit of overseas operations by an overseas branch of the auditors of Carnarvon Petroleum NL.

15,000 — — —

84,566 21,000 69,566 21,000

Notes to the Financial Statements (cont.)

30 June 2001

22. Related Party Disclosures

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

GHC White
 KC Tregonning
 DJ Orth
 NC Fearis
 WT Beckwith
 DT Cowlan
 SA Hohnen

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

(c) Equity instruments of directors

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

Notes	1 July 2000	Acquired/ (Sold, Cancelled, Disassociated)	Employee Share Plan	30 June 2001
Ordinary shares				
GHC White	2,713,482	—	—	2,713,482
KC Tregonning (i)	—	2,000,000	2,000,000	4,000,000
NC Fearis	800,000	—	—	800,000
DJ Orth (i)	—	—	2,000,000	2,000,000
WT Beckwith (ii)	14,271,055	(10,147,335)	—	4,123,720
DT Cowlan	1,200,000	—	—	1,200,000
SA Hohnen (iii)	244,000	(244,000)	—	—
TOTAL	19,228,537	(8,391,335)	4,000,000	14,837,202
31 July 2002 Options				
GHC White	1,238,841	(107,100)	—	1,131,741
KC Tregonning (i)	—	100,610	—	100,610
WT Beckwith (ii)	13,145,043	(9,136,708)	—	4,008,335
TOTAL	14,383,884	(9,143,198)	—	5,240,686
28 July 2001 Options				
SA Hohnen	3,000	(3,000)	—	—
TOTAL	3,000	(3,000)	—	—
31 December 2003 Options				
KC Tregonning (i)	—	—	5,000,000	5,000,000
DJ Orth (i)	—	—	5,000,000	5,000,000
TOTAL	—	—	10,000,000	10,000,000

22. Related Party Disclosures (cont.)

Notes:

- (i) In April 2001, the following shares were issued under the Carnarvon Employee Share Plan to directors at an issue price of 4.3 cents per share.

KC Tregonning	1,000,000
DJ Orth	1,000,000

The shares were issued to a related entity of both directors.

Under the Carnarvon Employee Share Plan, the Company provides an interest-free loan to employees to acquire shares. The total value of the shares issued during the year was \$86,000 (2000: \$129,200).

- (ii) In May 2001, Mr WT Beckwith advised the Company of a change in his interests in the Company's equity instruments due to disassociation rather than sale.
- (iii) On 30 November 2000 Mr Hohnen resigned as a director of the Company and ceased to be a related party.

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

(d) Wholly owned group

The following related party transactions occurred during the financial year within the wholly owned group.

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

The Company also provided interest free funding for exploration and acquisition expenditure, accounting and administrative services to its controlled entities during the year amounting to \$1,605,452 (2000 \$3,393). The outstanding balance of loans made by Carnarvon Petroleum NL to its controlled entities at 30 June 2001 was \$2,298,801 (2000 \$693,349) of which \$693,349 (2000: \$693,349) has been provided for. These loans are unsecured and have no fixed terms of repayment.

(e) Other transactions

Dr KC Tregonning and Mr DJ Orth are directors and shareholders in Resource Management Associates Pty Ltd. That company provided consulting services to the consolidated entity in relation to the acquisition of the SW1A Concession in Thailand. The total value of consulting fees paid was US\$110,000 prior to Dr Tregonning and Mr Orth becoming directors of the Company.

Mr WT Beckwith is a director and shareholder in Gondwana Resources NL. During the year, Gondwana Resources NL provided accounting and administration services to the consolidated entity. The value of the transactions during the year was \$45,715 (2000 \$14,818). Carnarvon provided office space to Gondwana Resources NL to the value of \$41,174 (2000: \$25,643).

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

Notes to the Financial Statements (cont.)

30 June 2001

23. Financial Instruments

(a) Interest rate risk

The Company's exposure to interest rate risk is considered minimal. The only financial asset or financial liability subject to fluctuations in interest rates is the cash balance which is at a floating rate.

(b) Net fair values

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

(c) Credit risk exposures

The Company's maximum exposures to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the statement of financial position.

Concentrations of credit risk

The Company considers its exposure to credit risk as minimal. Amounts receivable by the Company relate to either:

- (i) costs charged to related entities for which the Company awaits reimbursement; or
- (ii) amounts advanced to employees which are repayable under the terms of the Carnarvon Employee Share Plan which requires repayment on sale of the shares.

24. Controlled Entities and Contribution to Consolidated Entity Profit/(Loss)

Name	% held by parent entity		Book value of shares held		Contribution to consolidated entity profit/(loss)	
	2001 %	2000 %	2001 \$	2000 \$	2001 \$	2000 \$
Carnarvon Petroleum NL					(1,271,238)	(435,335)
Controlled entities of Carnarvon Petroleum NL:						
Lassoc Pty Ltd	100	100	20	20	—	(1,696)
SRL Exploration Pty Ltd	100	100	10	10	—	(1,696)
Strategic Exploration (Asia) Ltd	100	—	1,482,932	—	323,541	—
			<u>1,482,962</u>	<u>30</u>	<u>(947,697)</u>	<u>(438,727)</u>

25. Earnings Per Share

	<i>2001</i>	<i>2000</i>
(a) Basic earnings per share (cents per share)	(1.2)	(0.6)
(b) Diluted earnings per share (cents per share)	(1.2)	(0.6)
(c) Weighted average number of ordinary shares on issue used in the calculation of earnings per share	78,861,613	72,187,641

26. Subsequent Events After Balance Date

On 2 August 2001 the Company raised \$420,000 in capital via the issue of 6,000,000 fully paid ordinary shares at 7 cents per share plus 6,000,000 free attaching options exercisable at 25 cents each expiring on 31 July 2002. The cost of the capital raising was \$21,000. The funds were raised for working capital purposes.

On 31 August 2001 the Company lodged a prospectus for the open placement of 40,000,000 fully paid ordinary shares at 7 cents each with free attaching options exercisable at 25 cents each expiring on 31 December 2002. The placement is subject to shareholder approval. A notice of extraordinary general meeting is due to be mailed to shareholders on 10 September 2001 and the meeting to approve the issue of shares and options is due to be held on 11 October 2001. The funds raised by the share placement will be used to fund the consolidated entity's portion of the development program on the SWIA Concession and provide working capital for the Company to pursue other oil and gas production opportunities.

Directors' Declaration

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

I. In the opinion of the directors:

- (a) the financial statements and notes of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2001 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.

GHC White
Director

Perth 31 August 2001

Independent Audit Report

To the members of Carnarvon Petroleum NL

Scope

We have audited the financial report of Carnarvon Petroleum NL for the financial year ended 30 June 2001 as set out on pages 13 to 34, including the Directors' Declaration. The financial report includes the financial statements of Carnarvon Petroleum NL and the consolidated financial statements of the consolidated entity comprising the Company and the entities it controlled at year's end or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and statutory requirements in Australia, so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Carnarvon Petroleum NL is in accordance with:

- (a) the Corporations Act 2001 including:
 - (i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2001 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements.

ERNST & YOUNG

J P Dowling

Partner

Perth

Date: 31 August 2001

Corporate Governance

The Board of directors of Carnarvon Petroleum NL is responsible for the corporate governance of the economic entity. The Board guides and monitors the business and affairs of Carnarvon Petroleum on behalf of the shareholders by whom they are elected and to whom they are accountable.

To ensure the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and for the operation of the Board.

Composition of the Board

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

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

The directors in office at the date of this statement are:

Name	Position
GHC White	Non-Executive Director (Chairman)
KC Tregonning	Managing Director
DJ Orth	Executive Director
NC Fearis	Non-Executive Director

Board responsibilities

As the Board acts on behalf of, and is accountable to the shareholders, the Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. The Board seeks to discharge these responsibilities in a number of ways.

The Board is responsible for corporate development matters and ensuring the Company's objectives and activities re aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved and include the following mechanisms:

- implementation of operating plans and budgets and Board monitoring of progress against budget - this includes the identification of significant variances;
- membership and liaison with APPEA to ensure that environmental issues are correctly canvassed; and
- procedures to allow directors, in the furtherance of their duties, to seek independent professional advice at the Company's expense.

The responsibility for the administration function of the consolidated entity is delegated by the Board to the Company Secretary. The Board ensures that the Company Secretary is appropriately qualified and experienced to discharge his responsibilities.

The Board of directors aims to ensure that the shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the directors. Information is communicated to the shareholders through:

- the annual report which is distributed to all shareholders;
- the half-yearly report which is available;
- the annual general meeting and other meetings so called to obtain approval for Board action as appropriate; and
- establishment of a world-wide web page on all aspects of the Company which is updated on a regular basis.

Remuneration

The Board is responsible for determining compensation arrangements for employees.

Share trading by directors and officers

The directors and officers of Carnarvon Petroleum NL are not permitted to engage in short-term trading of the Company's shares and must notify the Board in advance of any proposed transactions involving the Company's shares. In addition directors and officers are prohibited from buying or selling the Company's shares during the drilling of a well in which Carnarvon has an interest and from one week prior to the commencement of drilling and up to one week after the drilling of any well is completed.

ASX Additional Information

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is made up to 27 August 2001.

1. Analysis of shareholdings

Size of Holdings	Number of Shareholders	Number of Option Holders (31 July 2002)	Number of Option Holders (31 December 2003)
1 – 1,000	2,008	311	—
1,001 – 5,000	1,585	299	—
5,001 – 10,000	502	66	—
10,001 – 100,000	700	148	—
100,000 – and over	83	55	2
Total number of shareholders	4,878	879	2

- The number of shareholders holding less than a marketable parcel was 3,698.
- Voting Rights - no restrictions apply. On a show of hands every member present or by proxy shall have one vote and upon a poll each share shall have one vote.
- The names of the twenty largest holders of securities.

Shareholders	#	%
Hamilton Capital Partners Limited	6,134,698	7.09
B C Capital Limited	4,617,259	5.34
Pearl Resources Pty Ltd	3,623,720	4.19
Danari Holdings Pty Ltd	3,000,000	3.47
Geoffrey Desmond Hartnett	3,000,000	3.47
CNW (Explorations) Pty Ltd	2,049,282	2.37
Resource Management Associates Pty Ltd	2,000,000	2.31
Kenneth Tregonning & Brenda Leung Tregonning	2,000,000	2.31
Alakor Corporation Inc.	1,865,777	2.16
National Nominees Limited	1,465,935	1.69
Exchange Nominees Pty Ltd	1,363,346	1.58
Civic Transport Services Pty Ltd	1,189,648	1.37
Lawrence Crowe Consulting Pty Ltd <LCC Super Fund A/C>	1,100,000	1.27
Ashmy (Esap) Pty Ltd	1,000,000	1.16
Massif Limited	800,000	0.92
Miss Ching-Yu Chen	800,000	0.92
Berne No. 132 Nominees Pty Ltd	769,230	0.89
HSBC Custody Nominees (Australia) Limited	702,800	0.81
Arne Investments Pty Ltd	700,000	0.81
Mr.Velko Radaich	666,150	0.77
Total	38,847,845	44.89

4. The names of the twenty largest holders of securities (continued)

Option Holder (31 July 2002)	#	%
Hamilton Capital Partners Limited	5,346,154	12.16
Pearl Resources Pty Ltd	4,008,335	9.12
B C Capital Limited	3,414,508	7.77
Danari Holdings Pty Ltd	3,000,000	6.83
Alakor Corporation Inc	1,876,046	4.27
Encounter Bay Pty Ltd	1,605,092	3.65
Midway Property Pty Ltd	1,600,000	3.64
Mr Stig Hakan Hellsing	1,460,000	3.32
Exchange Nominees Pty Ltd	1,153,846	2.63
CNW (Explorations) Pty Ltd	1,024,641	2.33
Massif Limited	800,000	1.82
Berne No. 132 Nominees Pty Ltd	769,230	1.75
Arne Investments Pty Ltd	700,000	1.59
Desmic Investments Pty Ltd	500,010	1.14
J D Trading Pty Ltd	500,000	1.14
Ooranya Pty Ltd	500,000	1.14
P T Whitely and P J Whitely <Whitely Super Fund A/C>	457,490	1.04
Mr Kirwiakos Mazis	449,200	1.02
Dimi Pty Ltd	400,000	0.91
Mr John Gleadow	400,000	0.91
Total	29,964,552	68.17

Option Holder (31 December 2003)	#	%
KC Tregonning	5,000,000	50.0
DJ Orth	5,000,000	50.0
Total	10,000,000	100.0

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