CARNARVON
PETROLEUM LTD




2009 ANNUAL REPORT

CORPORATE DIRECTORY

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

COMPANY SECRETARY
RA Anderson

AUDITORS
WHK Horwath Perth Audit Partnership

BANKERS
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HSBC (Thailand)

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STOCK EXCHANGE LISTING
Securities of Carnarvon Petroleum Limited are listed on ASX Limited

ASX Code: CVN - ordinary shares

ABN
60 002 688 851

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CHAIRMAN'S REVIEW

The 2008/09 financial year was a period of severe turbulence in economic conditions and I am delighted to report that Carnarvon has been successful in delivering further significant growth in operational and financial performance. Importantly, we have built a strong foundation for future development and your Company is now very well positioned to pursue the emerging opportunities.

Financial and operating highlights include:

- Sales revenue grew by 59% to $100.8 million. Due to lower oil prices this did not match the 93% growth in oil sales to 1.35 million bbls
- Profit after tax increased by 133% to $36.4 million
- Exploration and development expenditure more than doubled to $35.5 million which was funded from operating cash flows
- Proved and probable reserves increased by 46% to 16.6 million bbls reflecting the successful exploration and development work programme
- Market capitalisation increased by 54% to $556 million at year end and Carnarvon was included in the S&P/ASX 200 Index for the first time

These excellent results have been achieved against a background of a collapse in the oil price from record levels, significant fluctuations in the A$ exchange rate, and uncertain market conditions.

Over the last two years numerous investment opportunities have been considered by the Board and management team. We have been mindful of the risk-reward balance, particularly during a period of enthusiastic valuations, and have taken a cautious approach to exploration commitments. As a result we believe Carnarvon now has the capacity to pursue the opportunities available at an opportune time in the business cycle.

Our existing Phetchabun Basin joint venture interests continue to provide extensive scope for future exploration and development. At the same time, we have grown our regional knowledge and resources and added to our Thai interests. Outside of Thailand our new ventures team is seeing many opportunities, and current work in progress should flow through to the announcement of a number of exciting new interests.

At an operational level our Thai Joint Venture partner Pan Orient Energy Corp has again delivered excellent results in the field notwithstanding the complexities and challenges of exploration and drilling in fractured volcanic reservoirs. The contributions of Pan Orient's Chief Executive Officer, Jeff Chisholm, and his team are greatly appreciated. Our strong working relationship with them is an important element of our success.

To continue Carnarvon's successful growth we are conscious of the need to work closely with all stakeholders including joint venture partners, suppliers, our corporate advisers and shareholders. I would like to thank all those who have supported us during the year.

Carnarvon's people have again made outstanding contributions and the high calibre of our relatively small team is a key to our future growth. On behalf of the Carnarvon Board I congratulate our Chief Executive Officer Ted Jacobson and all of the staff. We all look forward to another exciting year in 2010 and beyond.

Peter Leonhardt
Chairman

CHIEF EXECUTIVE'S REVIEW

The Company's key performance indicators prepared in this report show that the 2008/2009 reporting period has been one of significant growth at all levels.

This growth is the direct result of the discovery of oil within highly fractured volcanic reservoirs in the L44/43 licence within onshore Thailand where Carnarvon has a 40% interest. When we look at the production graph it appears that this rapid growth has happened over a period of only two years. But this doesn't do justice to the extensive preparatory work carried out by the joint venture in Thailand, commencing in late 2005, with the recording of 3D seismic and drilling of eight exploration wells prior to the discovery of commercial oil in fractured volcanics in the POE-9 well.

We are fortunate to have a highly competent and experienced operator, Pan Orient Energy Corp, who led our joint venture to this success, demonstrating the importance of performing good technical work and being open minded to new ideas and concepts.

Whilst we are grateful for this new discovery, these fractured reservoirs are unlike the homogeneous reservoirs more normally developed for oil production elsewhere and present numerous difficulties. The fracture systems within these volcanic reservoirs are complex with adjacent wells performing quite differently depending on the number, intensity, distribution and size of the fractures intersected. This makes for difficulties in predicting flow rates and ultimate recoveries for wells drilled across the field. During the reporting period 25 wells were drilled with a success of 17 wells resulting in commercial production or extensive testing. This is an excellent result considering the uncertainties posed by these reservoirs.

Whilst drilling through these zones the wells often experience "lost circulation" with all drilling fluids being lost into the reservoir with no returns arriving back to the surface. This makes for difficult drilling and at times results in wells taking longer to drill than expected.

The L44/43 licence has produced 5.5 mmbbls to date from fractured volcanic reservoirs. Net reserves to Carnarvon estimated by our Reserves Auditor at 31 December 2008 are 16.6 mmbbls. The joint venture has two drilling rigs on long term contract drilling continuously. Whilst it is important to drill many more development wells to grow production, new discoveries such as Bo Rang and L44-W have meant that the drilling programme has had to be changed frequently at short notice to appraise these new discoveries to provide the information required to apply for a development licence. Whilst we have found more commercial oil in these other structures, this has been at the expense of not being able to drill as many production wells as we would have liked.

It is becoming clear that the L44/43 licence covers that part of the Phetchabun Basin that is generating considerable quantities of oil, trapped in numerous structures. Although the testing of oil flows at high rates in fractured volcanic reservoirs has led us to drilling these reservoirs exclusively, many other types of prospects occur on the licence and need to be addressed in time, particularly within sandstones deposited within these ancient lake systems such as at the Wichian Buri oil field in the north of the licence.

Carnarvon also has a 40% interest in the L33/43 licence immediately to the north. Although we have drilled several unsuccessful exploration wells here, the discovery of a good oil flow rate in the L44-W well on a structure that straddles the border between L44/43 and L33/43 is encouraging that the oil potential may continue to the north into this licence. Several exploration wells will be required to evaluate this trend.

The Company is keen to search for other such oily basins not only in onshore Thailand but elsewhere in SE Asia. In 2008, Carnarvon was awarded a 50% interest in permit L20/50 to the west of L44/43. This licence is located within the Phitsanulok Basin south of the largest oil field onshore Thailand at Sirikit. Here Carnarvon, as operator, has commenced the recording and processing of 550 kms of 2D seismic. The preliminary results from this survey are encouraging and the Company plans to drill up to four wells here in early 2010.

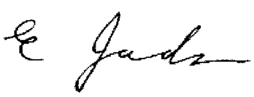
Furthermore Carnarvon, together with Pearl Energy Ltd, has applications pending with the Thai Government for the granting of two permits south of Bangkok at L52/50 and L53/50 and is evaluating other onshore opportunities in the SE Asian area.

Within Australia, Carnarvon has taken a 100% interest in a large permit offshore Western Australia, with a Heads of Agreement signed to exchange 50% of this permit for 50% of three adjacent permits. These permits contain several large structures where two previous drilled wells, Phoenix-1 and 2, intersected several hundred metres of gas within low porosity sandstone reservoirs. The company plans to record 3D seismic over the Phoenix structures late this year. The earliest that appraisal drilling can be undertaken is late in 2010 and Carnarvon will attempt to get a well drilled as soon as possible.

This certainly has been a busy year. Aside from all the activity in Thailand, the Company has worked hard to build an asset portfolio that will deliver near and medium term growth, diversified through several countries and in different geological provinces. The new and interesting permit additions I have described are just the beginning. Over the coming months I hope to be able to announce several other interesting opportunities we have been negotiating in other hydrocarbon rich areas, which will provide even more excitement to our drilling programme. With success, all of these opportunities are capable of growing our company substantially. The oil production from our Thailand operations will enable Carnarvon to explore and develop these new opportunities using funds generated from the Company's cashflow, maintaining our strong financial position without debt.

We have been careful in selecting those new opportunities where joint venture partners are like minded to Carnarvon. The Carnarvon management considers good relationships an important ingredient for success. Thus we have been careful to select those opportunities that are situated in areas with well demonstrated hydrocarbon generating systems and where the joint venture is active in carrying out good technical work, encouraging the drilling of wells. Our success in the Pan Orient operated permits in Thailand is testament to this philosophy.

None of this could happen without the small and highly loyal team we have at Carnarvon and I sincerely thank the staff and other Board members for their support and hard work.



Ted Jacobson
Chief Executive Officer

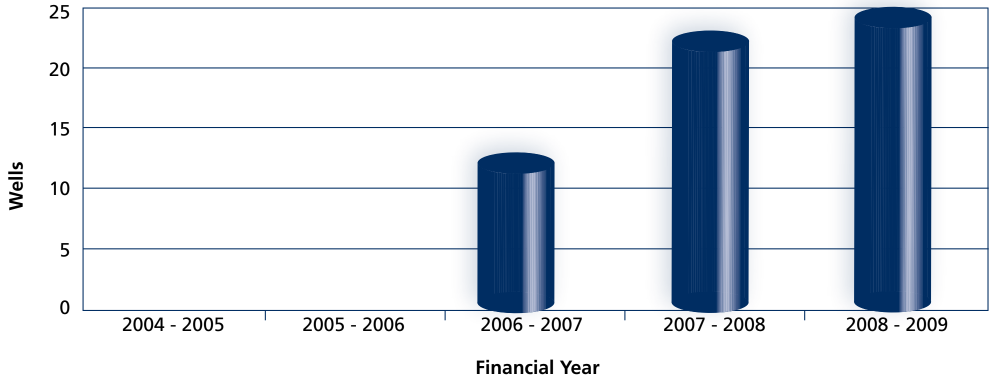
OPERATING AND FINANCIAL REVIEW

COMPANY PERFORMANCE

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

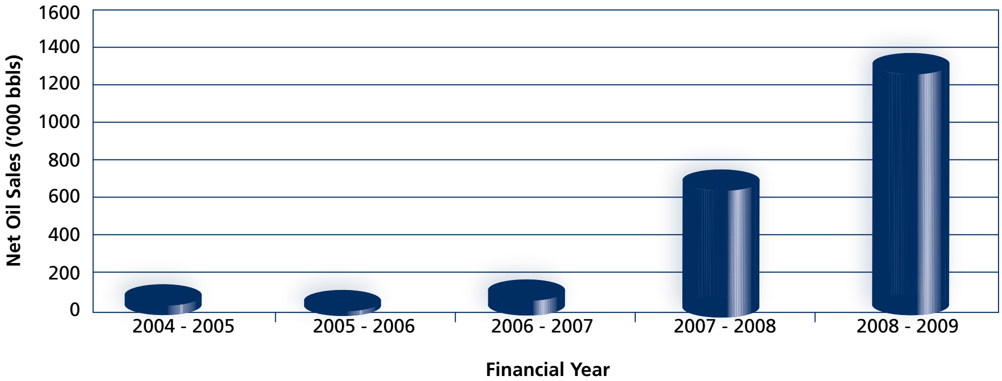
Wells Drilled

Period:	1 July 2008 – 30 June 2009
Measure:	25 wells
Period Change:	+ 9%



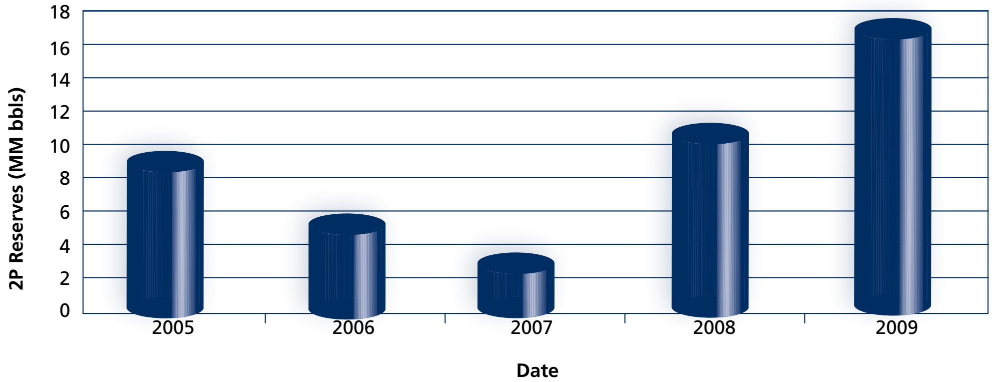
Net Sales

Period:	1 July 2008 – 30 June 2009
Measure:	1,353,421 bbls
Period Change:	+ 93%



Proved and Probable Reserves

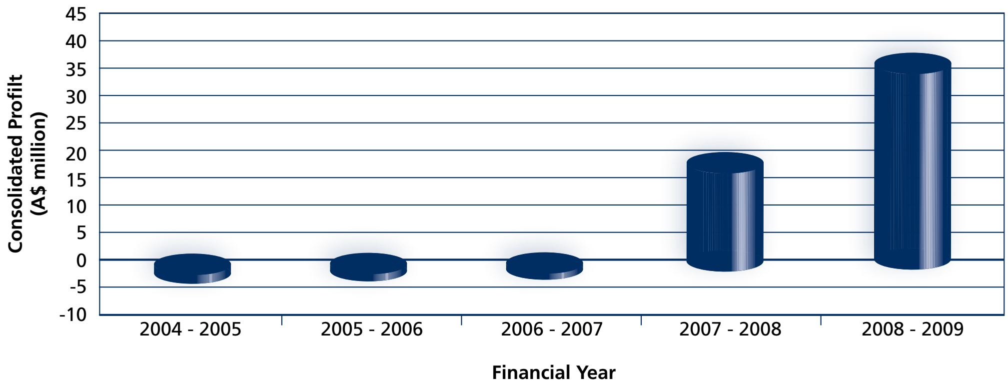
Period:	As at 31 December 2008
Measure:	16.6 million bbls
Period Change:	+ 46%



OPERATING AND FINANCIAL REVIEW (Continued)

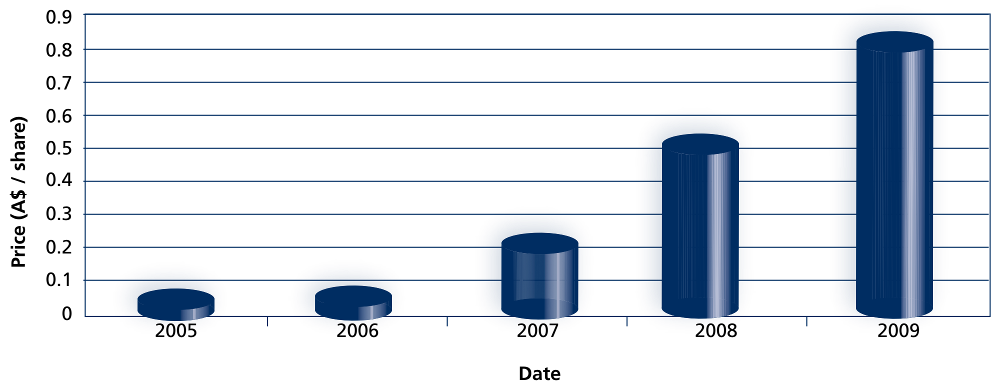
Consolidated Profit After Tax

Period: 1 July 2008 – 30 June 2009
Measure: A$36.4 million
Period Change: + 133%



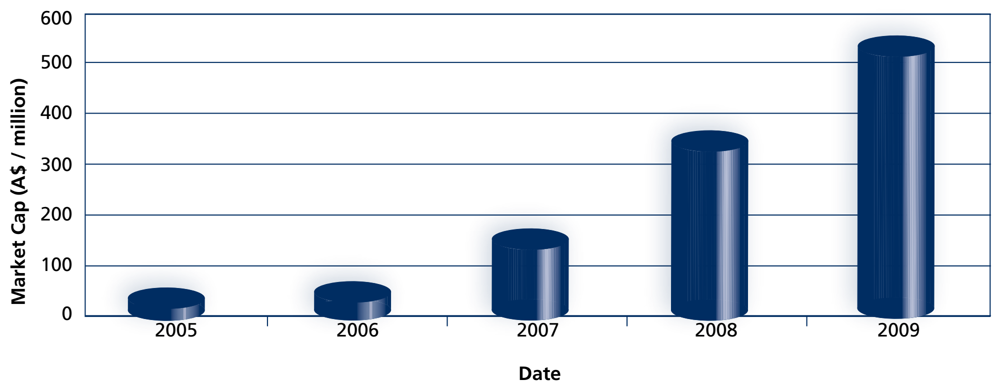
Share Price

Period: As at 30 June 2009
Measure: A$0.815
Period Change: + 54%



Market Capitalisation

Period: As at 30 June 2009
Measure: A$556 million
Period Change: + 54%



OPERATING REVIEW

Summary

Carnarvon participated in the drilling of 25 wells within the SW1A group of permits resulting in 17 commercial production / testing wells. Successful drilling and testing also resulted in an increase in 2P reserves to 16.6 million bbls.

Annual production increased significantly, compensating for varying but decreasing oil prices, resulting in consolidated profit after tax more than doubling from the prior year.

In Carnarvon's operated L20/50 exploration concession, a 500 km 2D seismic acquisition program was initiated.

Subsequent to year end Carnarvon was awarded a new permit offshore West Australia in the Roebuck basin on the North West Shelf. A Heads of Agreement has been signed with a third party to swap 50% of Carnarvon's permit for 50% of three new adjacent permits, subject to ratification by government authorities.

Permits

Permit	Basin	Equity	Joint Venture Partner(s)	Partner Interest	Indicative Program	Notes
Thailand						
SW1A	Phetchabun	40%	Pan Orient Energy *	60%	Production, Appraisal	Up to two wells planned.
L33/43	Phetchabun	40%	Pan Orient Energy *	60%	Appraisal, Exploration	Up to two wells planned.
L44/43	Phetchabun	40%	Pan Orient Energy *	60%	Production, Appraisal, Exploration	Up to 20 wells planned.
L20/50	Phitsanulok	50%	Sun Resources	50%	Seismic Acquisition, Exploration	500 Km 2D seismic acquisition; One to four wells in planning
Australia						
WA-435-P	Roebuck	100.00%			Studies	Reprocessing
EP321	Perth	2.50% of 38.25% (i)			Appraisal	
EP407	Perth	2.50% of 42.5% (i)			Appraisal	
WA399P	Carnarvon	50%	Rialto Energy	50%	Seismic Acquisition, Exploration	315 Km 2D Seismic acquisition.
EP110 / EP424	Carnarvon	35%	Strike Oil * Pancontinental Oil and Gas	25% 30%	Exploration	Active farm out.

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

Thailand

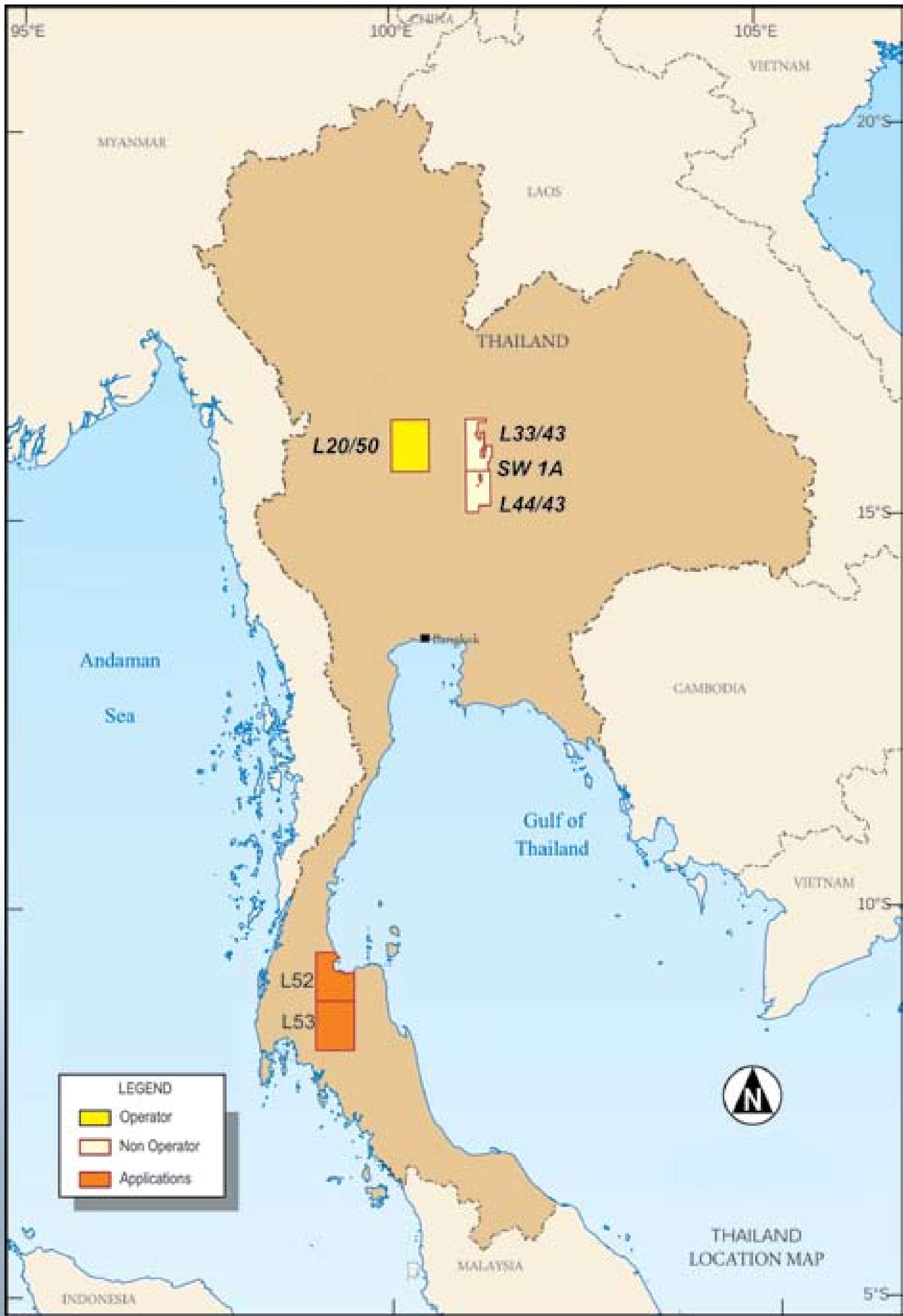
Carnarvon's principal assets are the producing fields in the L44/43 and SW1A licences in the Phetchabun Basin onshore Thailand.

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

A total of 25 wells were drilled in the SW1A permits resulting in 17 commercial oil production / testing wells, delineation of one new oil field, and several new oil pools. The remaining eight wells all contained promising oil shows and several have sidetrack potential.

A production license and environmental approval were granted over the Na Sanun East ("NSE") oil field allowing field development drilling to commence.

Exploration drilling in the northern exploration block L33/43 failed to intersect commercial volumes of hydrocarbons. However, the L44-W oil discovery, in the north eastern corner of L44/43, is interpreted to spill over into the southern end of L33/43. Appraisal drilling of the L44-W oil discovery is anticipated in both concessions over the next 12 months.



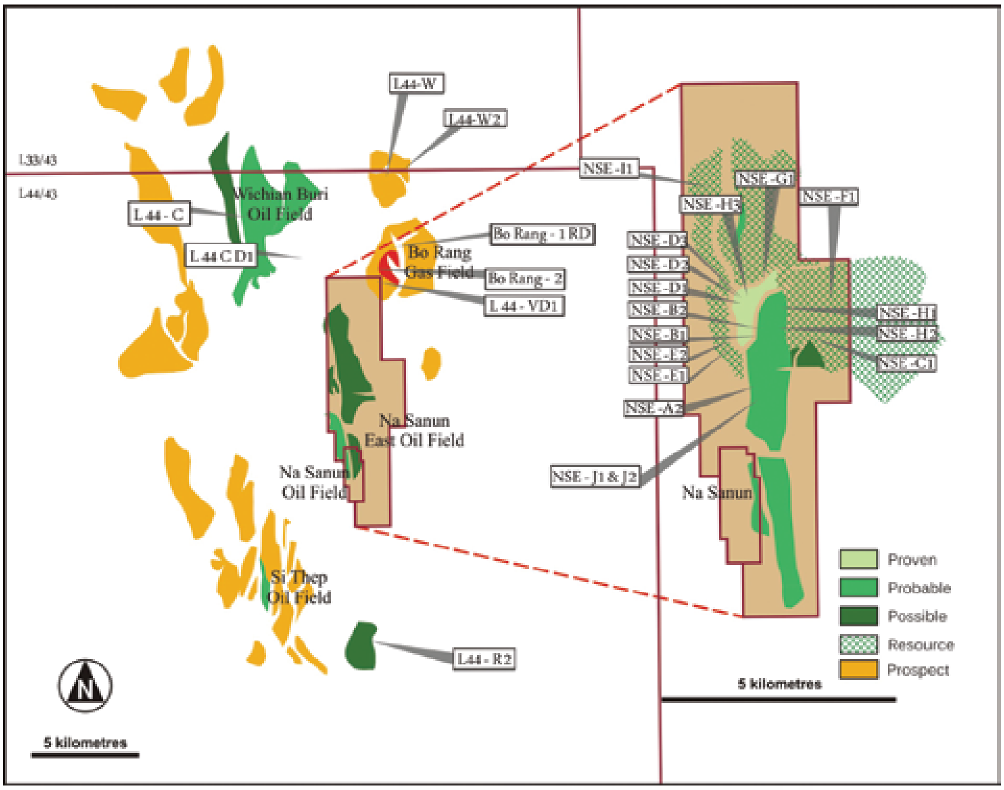
Permit map of Thailand

A total of sixteen development/appraisal wells have been drilled into the NSE structure, with several other oil pools discovered above and below the main producing volcanic reservoir. It is evident from the varied drilling results that the development of oil reserves from the fractured volcanic reservoirs at Na Sanun East and adjacent oil fields requires comprehensive understanding due to the severe heterogeneity in this type of reservoir.

The geological setting of these volcanic oil reservoirs is very complex, featuring rapid changes of lithofacies and thicknesses, distributions of fractures and pores/vugs, and different oil well productivities with neighbouring wells.

The most likely exploitation plan for NSE incorporates 20 to 25 development wells being drilled from mid 2008 through to mid 2010.

The wells will be drilled from a total of 7 to 10 well cluster locations, with each location being designed and built to accommodate a maximum of four wells. Each location will have oil treatment, storage and offloading capacity.



Location of oilfields and prospects within L44/43 & L33/43 Thailand Phetchabun Basin

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

While a significant number of wells have been drilled, and a comprehensive 3D geological model has been completed, a comprehensive development plan is still in the course of development by the joint venture.

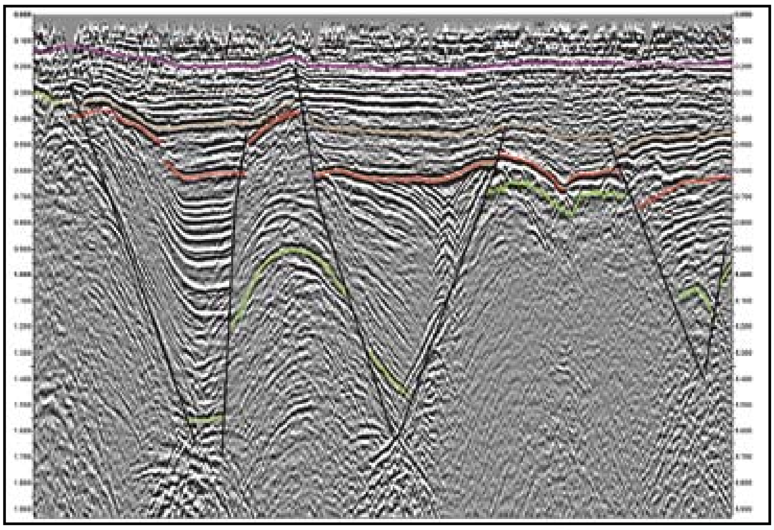
L20/50 Thailand Phitsanulok Basin
(Carnarvon Petroleum 50% Operator, Sun Resources 50%)

Carnarvon, and partner Sun Resources, were granted the L20/50 exploration concession in January of 2007. The L20/50 concession is situated approximately 30 kms to the southeast and on trend with the largest onshore oil field in Thailand at Sirikit. The permit is around 60 km to the west of Carnarvon's 40% owned Petchabun Basin producing assets. The concession covers around 4,000 km^2 and is lightly explored. Around 1,000 km of 1980's vintage 2D seismic data is available in paper format and six wells have been drilled in the block (three shallow at around 500m and three deeper).

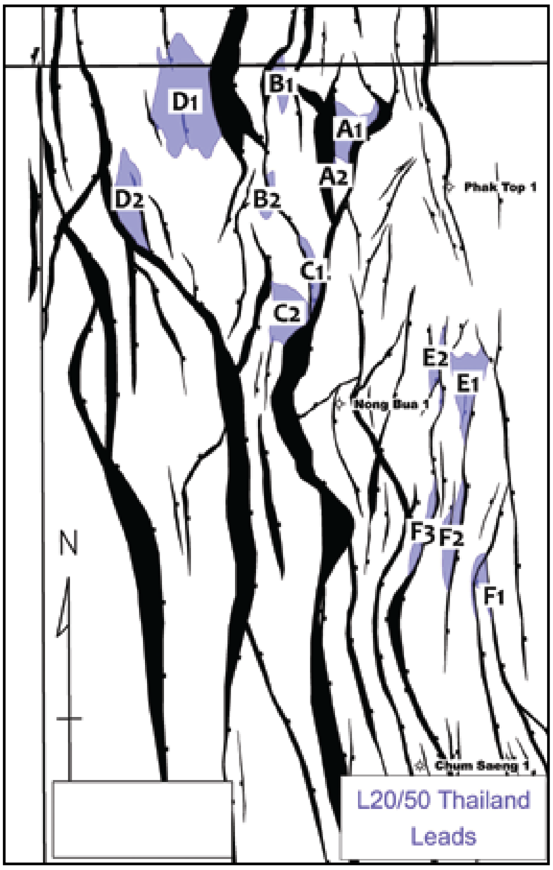
One previously drilled well in 1982 at Nong Bua-1 intersected oil shows which Carnarvon believes were not fully tested. Carnarvon is continuing to investigate the possibility of twinning or re-drilling this well.

Carnarvon has also digitized and reprocessed the bulk of the available 2D seismic data and the interpretation of that dataset showed the potential for a large number of structures of significant potential size.

500 km of new 2D seismic is being acquired and is due for completion in September of 2009.



Reprocessed 1980's vintage 2D seismic line indicates potential structuring



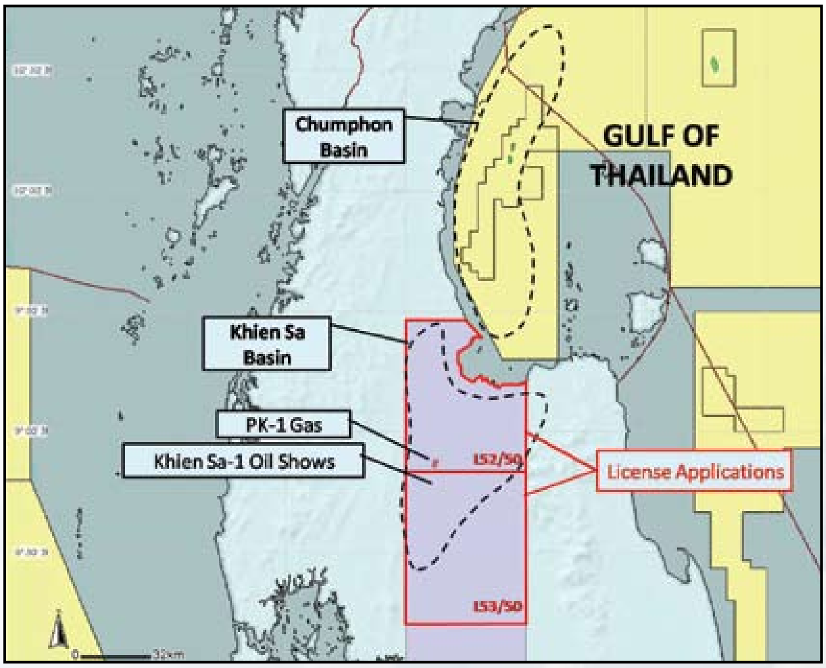
The processing and interpretation of the new data, incorporating the reprocessed data, will be fast tracked to allow for a decision on the location and number of exploration wells to be drilled in 2010.

Geological analysis of seismic and previous drilling data has concluded that a number of play types are apparent, including Sirikit style fans, Wichian Buri style sandstones, and Na Sanun style volcanics.

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

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

Pearl Oil (Petroleum) Ltd ("Pearl"), an independent oil and gas company with exploration and production (E&P) activities focused exclusively in South East Asia, submitted the bid as operator on behalf of Pearl and Carnarvon, each company participating at a 50% equity level. The combined area of the two blocks is large, comprising approximately 6,950 km^2, however both are lightly explored with only two deep wells and limited seismic data available.



Basin locations within Application Permits L52/50 and L53/50

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

Carnarvon and Pearl were together the sole bidders for this block and the Company anticipates award in late 2009.

Australia

WA-435-P Australia Offshore Northwest Shelf
(Carnarvon Petroleum 100% Operator)

Subsequent to being awarded 100% of exploration permit WA-435-P, Carnarvon entered into a heads of agreement with private exploration company Finder Exploration ("Finder") to swap 50% of Carnarvon's WA-435-P for 50% of the three new adjacent Finder permits WA-436-P, WA-437-P and WA-438-P, subject to ratification by the government authorities. Finder will assume operatorship of all four permits.

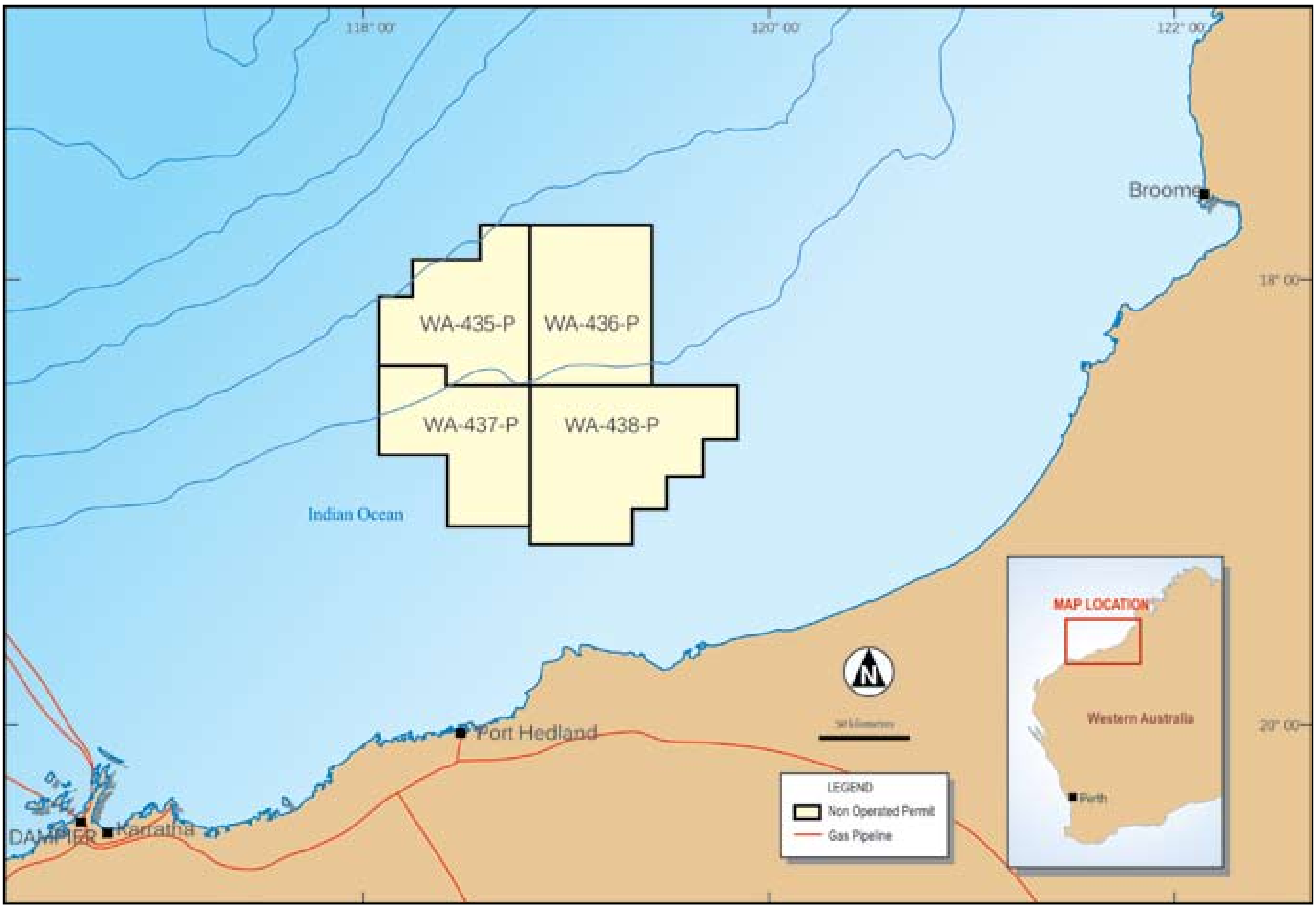
The four permits are situated in the north-western part of the Bedout Sub-basin within the greater Roebuck Basin, offshore Western Australia. The blocks lie in an under-explored area that has received little recent attention, between the prolific Carnarvon Basin hydrocarbon province to the southwest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

OPERATING AND FINANCIAL REVIEW (Continued)

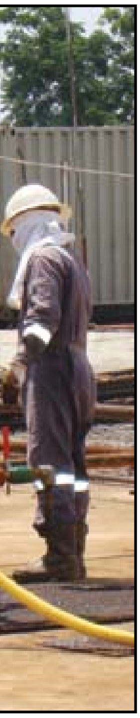
Only six wells have been drilled in the permits to date. The two wells, Phoenix-1 and Phoenix-2, drilled on the large Phoenix structure in WA-435-P both intersected extensive gas columns within lower-porosity, mid-Triassic reservoirs. In particular, Phoenix-1 recorded 110 metres of net gas-bearing section; however, further work is required to determine whether the gas discovery at Phoenix could flow at commercial rates. A larger, untested structure in WA-435-P lies directly on trend with the Phoenix structure, 5 to 15 km to the southwest. Further to the southeast in WA-437-P lies yet another large, untested structure. Regional geology suggests that reservoir quality improves southward toward these prospects, but this model will need to be confirmed by drilling. These Triassic structures have significant potential of the order of several Tcf's of recoverable gas, if exploration and appraisal drilling are successful.

Other viable plays are recognised in these blocks including possible oil exploration potential at the shallower Cretaceous-aged levels. Carnarvon and Finder intend to carry out numerous studies to evaluate this potential.

The Government approved work programme for these permits, for the initial firm three-year term, comprises seismic reprocessing, the recording of an aeromagnetic survey and technical studies, which will include a complete analysis of the gas intersections in the Phoenix-1 and Phoenix-2 wells. The second three-year term is planned to consist of seismic acquisition and the drilling of at least one well in each permit. The results of the initial technical studies will be used to modify/accelerate this second period work programme as appropriate.



Carnarvon's proposed new permits, offshore Western Australia.



WA-399 P – Australia Offshore Northwest Shelf
(Carnarvon Petroleum 50% Operator, Rialto Energy 50%)

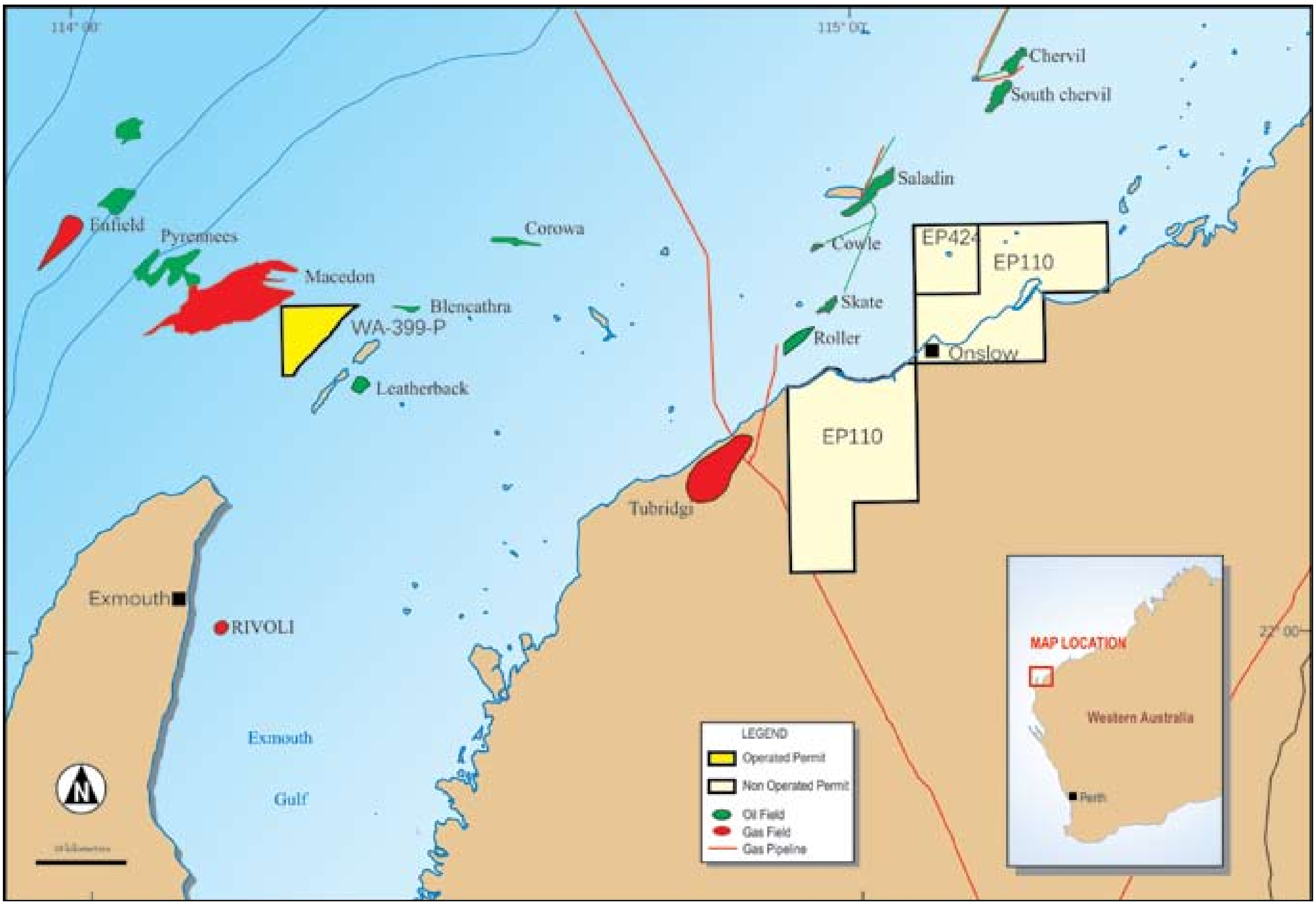
WA-399-P was awarded on 7 May 2007. The permit covers an area of 50km^2 located between the Pyrenees and Macedon oil and gas fields and the Leatherback oil accumulation. Carnarvon has completed the reprocessing of all available seismic over the permit (550 km^2). The current work programme requires acquisition of 315km of new 2D seismic and Carnarvon is reviewing vessel availability and prices.

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

A variation to the permit terms of EP 424 has been granted from the Department of Industry and Resources to alter the requirement for the drilling of one well by 13 April 2011.

Further detailed seismic analysis of 'amplitude versus offset' was carried out by the operator over the Baniyas Prospect to refine the nature of hydrocarbons expected. The Baniyas Prospect is situated on the downthrown side of the Flinders Fault and bright seismic amplitudes on the crest are similar to the Cyrano and Nasutus discoveries elsewhere along trend which encountered a gas cap on an oil leg. Baniyas is estimated to have potential for Pmean prospective resources of 26 million barrels oil and 56 Bcf gas (34 million Barrels of Oil Equivalent). These prospective resources are of a speculative nature until the prospect has been evaluated by drilling.

The joint venture is actively farming out the drilling of a well into this prospect.

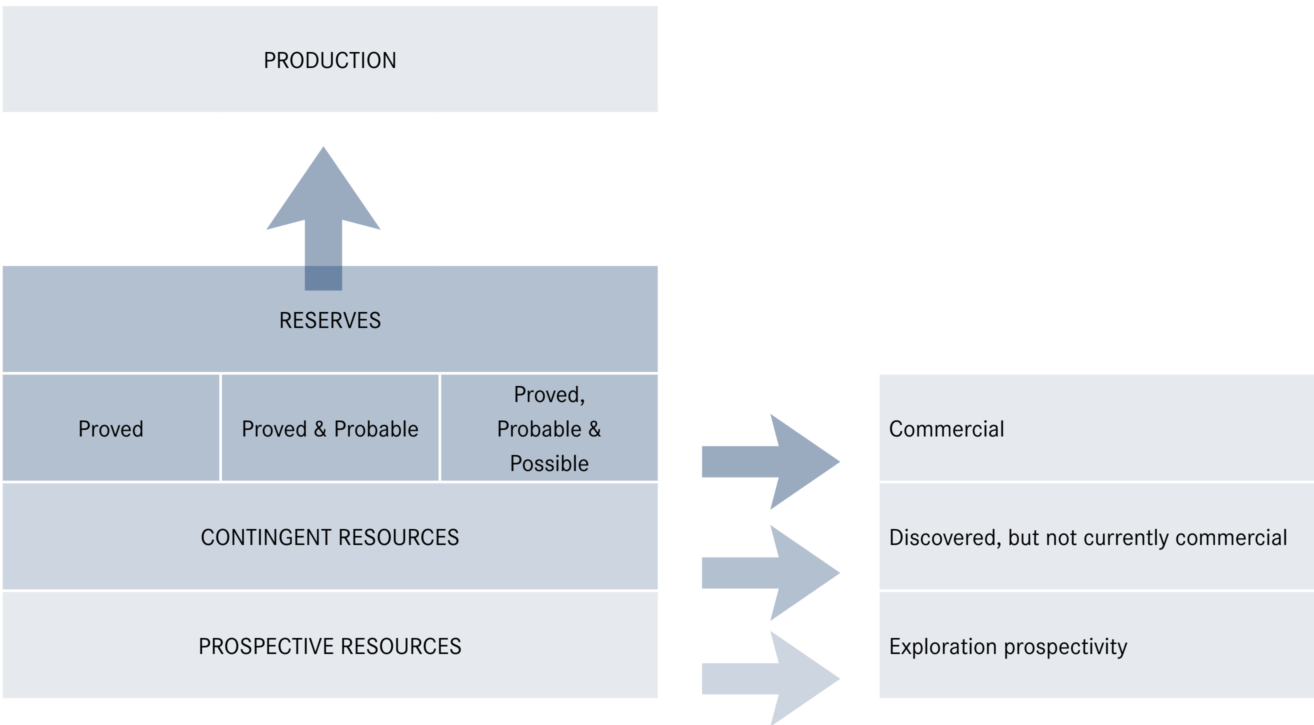


North West Shelf permits – location map

RESERVE ASSESMENT

Petroleum Resource Classification, Categorisation and Definitions

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



Proved and Probable (2P) Reserves Thailand

Carnarvon's reserves base has been certified by an independent reserves auditor. Over the last few years Gaffney, Cline and Associates ("GCA"), one of the largest independent reserves certifiers in the world, has performed this service in line with end of calendar year requirements for the Department of Mineral Fuels ("DMF") in Thailand. GCA certified 16.6 million barrels of oil of 2P oil reserves net to Carnarvon as at 31 December 2008, which is an increase of 46% percent compared to 31 December 2007 reserves.

	Net Carnarvon Reserves		
	Proved 1P	Proved + Probable 2P	Proved + Probable + Possible 3P
GCA 31 Dec 2008	3.72 (million bbls)	16.62 (million bbls)	36.85 (million bbls)

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

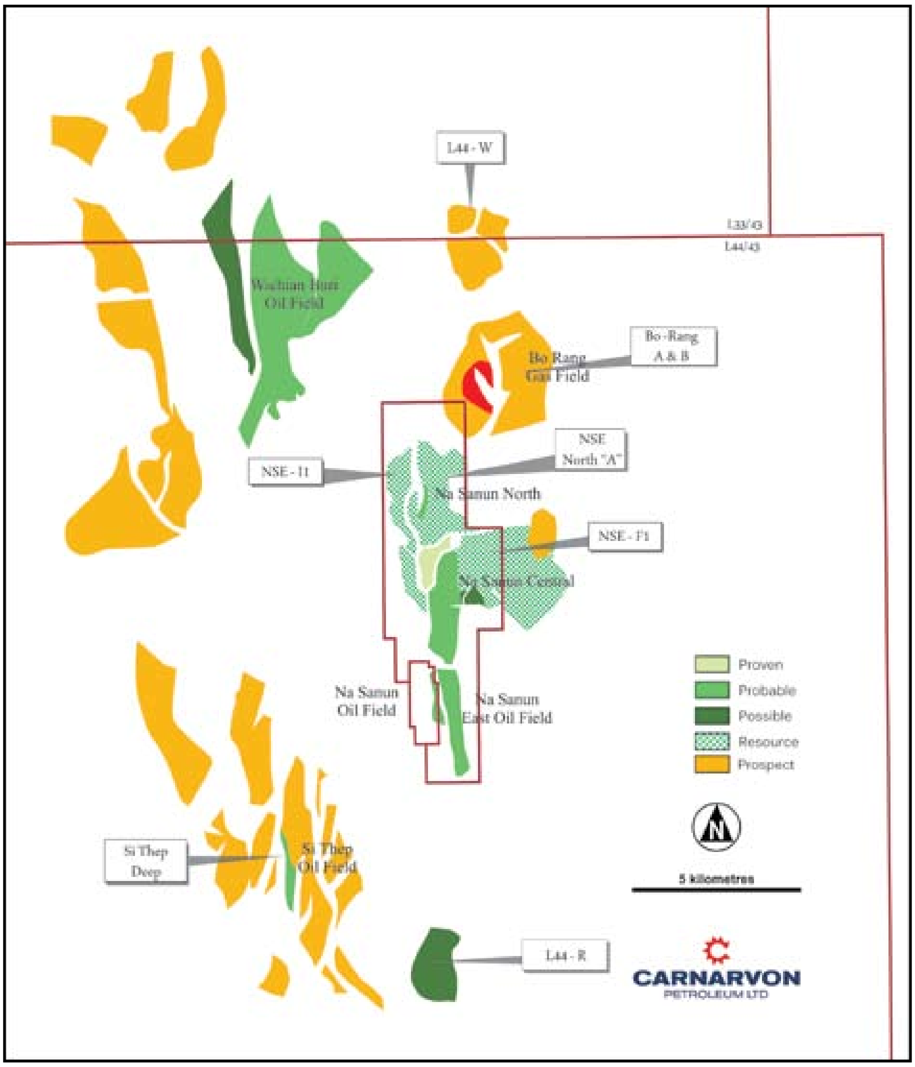
1 Society of Petroleum Engineers (SPE); World Petroleum Council (WPC); American Association of Petroleum Geologist (AAPG) & Society of Petroleum Evaluation Engineers (SPEE)

Contingent Resources Thailand

In addition to its certified reserves, Carnarvon has a number of discovered oil and gas resources which currently do not classify as reserves.

	Net Carnarvon Contingent Resource
	2C (million bbls)
NSE - F1	2.5
NSE North A	5.0
NSE - I1	2.2
Bo Rang A	3.7
Bo Rang B	9.7
L44-W	3.6
Si Thep (Deep)	5.8
L44-R	2.6
Carnarvon 30 June 2009	35.1

Carnarvon has an estimated 35 million barrels of contingent oil resources. These resources are not reserves, because further work is required to mature them, most notably appraisal drilling and well testing. During 2008 around 2.5 million bbls of contingent resources were matured into 2P reserves. Contingent resources have been replenished by the recent L44-W, NSE-I1 and NSE-F1 oil discoveries.



Map showing location of contingent resources

OPERATING AND FINANCIAL REVIEW (Continued)

Prospective Resources

Under the SPE-PRMS definitions prospective resources can also be classified as exploration resources.

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

At the time of writing this report, Carnarvon has a seriatim of leads in a number of exploration blocks, most notably L20/50, L33/43 and L44/43 in Thailand, but is still in the process of undertaking additional work to progress those leads to drillable prospects. Notwithstanding, a number of exploration wells are scheduled for the latter part of 2009 and for 2010.

GROWTH AND NEW VENTURES

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

Through the year Carnarvon has added four new exploration permits offshore North West Shelf Australia and is actively pursuing several other near term drilling opportunities.

The new ventures team has implemented a strategy to acquire quality exploration acreage and appraisal projects with preference for the following:

- low cost, non-operated interests with competent partner operators
- on trend with commercial oil discoveries
- necessary infrastructure and markets in place
- leveraging Carnarvon's knowledge and expertise to develop healthy, long-term relationships with larger operators
- organic growth as well as growth via mergers and acquisitions

Carnarvon is at an advanced stage of progressing several additional exploration and appraisal opportunities to deliver on this strategy over the next few months.

FINANCIAL SUMMARY

The Group's revenue from continuing operations for the year ended 30 June 2009, being its share of the Phetchabun Basin Joint Venture ("Joint Venture") in Thailand, was $100,758,000 (2008: $63,033,000).

The higher A$ oil revenue resulted from Carnarvon's share of higher Joint Venture oil sales of 1,353,421 bbls (2008: 702,084 bbls), however this was offset by a reduced oil sale price of US$56.92 per bbl (2008: US$82.19). The weakening in the A$/US$ exchange rate from US$0.96 to US$0.80 over the reporting period also had a positive impact on A$ revenue.

The Group's profit after income tax for the year ended 30 June 2009 was $36,423,000 (2008: $15,651,000 profit). Its share of the pre tax (income and special remuneratory benefit) cash operating profit of the Joint Venture increased to $83,194,000 (2008: $52,734,000) as a result of improved production and the low variable operating, transportation, royalty and selling cost of per barrel of $12.95 (2008: $13.87). Depreciation cost per barrel increased to $7.43 (2008: $3.78); estimated future costs of maintaining existing production have been included, effective 1 July 2008, in the depreciable cost base.

New venture costs of $963,000 (2008: $973,000) are indicative of the Company's continued effort to diversify its project base. Corporate and administration costs for the year of $2,909,000 (2008: $2,129,000), excluding share-based payments, reflect a general increase in corporate costs, including larger office premises, together with staff costs devoted towards expanding the Company's technical capability.

DIRECTORS' REPORT

The directors present their report together with the financial report of Carnarvon Petroleum Limited ("Company") and of the Group, being the Company, its controlled entities, and the Group's interest in jointly controlled assets, for the financial year ended 30 June 2009, 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 with PricewaterhouseCoopers and Managing Partner of Coopers & Lybrand in Western Australia.

During the past three years Mr Leonhardt has served as a director of the following listed companies: CTI Logistics Limited (from August 1999); Centrepoint Alliance Limited (from May 2002 to June 2009). He is also a director of the Western Australian Institute for Medical Research.

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

Edward (Ted) P Jacobson
Chief Executive Officer

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

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

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

Neil C Fearis
Non-Executive Director

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

Mr Fearis has over 32 years' experience as a commercial lawyer in the UK and Australia.

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

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

DIRECTORS (CONTINUED)

Kenneth P Judge
Non-Executive Director

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

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

Mr. Judge is a director and Chairman of Brazilian Diamonds Limited (from February 2001), which is listed on both the Toronto Stock Exchange and the AIM market of the London Stock Exchange Plc. He is also Chairman of Hidefield Gold Plc (from October 2003) and a director of Gulfsands Petroleum Plc. (from October 2006), both of which are listed on AIM. He is also a director and Chairman of Alto Ventures Ltd (from April 2004) which is listed on the TSX Venture Exchange.

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

COMPANY SECRETARY

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

DIRECTORS' MEETINGS

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

	(a)	(b)
Peter Leonhardt	6	6
Ted Jacobson	6	6
Neil Fearis	6	6
Ken Judge	6	6

(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), Peter Leonhardt, and Ken Judge. Mr Judge was appointed a member on 1 July 2009. 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	3	3
Neil Fearis	3	3

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

REMUNERATION COMMITTEE

In August 2008 the Board determined the Company was of a size to justify the existence of a Remuneration Committee that now comprises Neil Fearis (Chairman), Peter Leonhardt, and Ken Judge.

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)
Peter Leonhardt	2	2
Neil Fearis	2	2
Ken Judge	2	2

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

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

REMUNERATION REPORT

Until August 2008 the Board determined remuneration policies and practices, evaluated the performance of senior management, and considered remuneration for those senior managers.

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

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

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

Principles of compensation

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

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

Compensation arrangements recognise the relatively small size of the staff and stage of development of the Company and include a mix of fixed and performance based compensation. A component of share-based compensation may be awarded at the discretion of the Board, subject to shareholder approval when required.

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

On 1 August 2008 the Board adopted a policy that prohibits those that are 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.

REMUNERATION REPORT (CONTINUED)

Principles of compensation (continued)

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

	30 June 2005	30 June 2006	30 June 2007	30 June 2008	30 June 2009
Share price	$0.018	$0.052	$0.24	$0.53	$0.815
Consolidated net profit / (loss) from continuing operations ($000)	($1,007)	($1,246)	($1,542)	$15,651	$36,423

The directors believe the increase in share price since June 2005 reflects a number of factors, including the appointment of Ted Jacobson as Chief Executive Officer in February 2006. The development of the Group's oil and gas interests in Thailand since his appointment has resulted in a substantial increase in production and operational revenues, as evidenced by the operating profit in the current and prior reporting period.

Fixed compensation

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

There was no share-based compensation in the current or prior reporting periods, other than that set out in the Employee Share Plan section of this remuneration report.

Non-executive directors

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

A non-executive director's base fee is currently $60,500 per annum. The Chairman receives $103,500 per annum. Non-executive directors do not receive any performance-related remuneration. Directors' fees cover all main Board activities and membership of Board committees. The Company does not have any terms or schemes relating to retirement benefits for non-executive directors.

Service contracts

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

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

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

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

REMUNERATION REPORT (CONTINUED)

Employee Share Plan

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

The purpose of the ESP is to attract, retain and motivate those who have been invited to participate in the ESP and thereby align their interests with those of other shareholders as a means of encouraging them to ensure that Company performance increases shareholder wealth through long term growth. Shares are issued based upon the assessed performance of each person against their job specifications and the recommendations of the Chief Executive Officer, and in the case of directors, with the approval of shareholders. There were no ESP shares issued to directors and key management personnel during the reporting period.

2008

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

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

Analysis of bonuses included in remuneration

All cash bonuses awarded during the period and included in remuneration, as set out on page 23, fully vested to each of the directors, named Company executives, and key management personnel during the period.

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

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

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

2008

Grant date	Assumed expiry date	Fair value per option	Exercise price	Price of shares at grant date	Expected volatility	Risk free interest rate	Dividend yield
07/01/2008	06/01/2011	$0.31	$0.701	$0.701	55%	7.5%	0%

REMUNERATION REPORT (CONTINUED)

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

	Short Term		Post Employment	Share-based payments				
Name	Salary and fees ($)	Short term cash bonus($)	Superannuation contributions ($)	Shares ($)	Options ($)	Total ($)	Proportion of remuneration performance related %	Value of options as a % of remuneration
DIRECTORS								
Non-Executive								
Mr PJ Leonhardt (Chairman)								
2009	$96,750	-	-	-	-	$96,750	-	-
2008	$82,500	-	-	-	-	$82,500	-	-
Mr NC Fearis								
2009	$57,750	-	-	-	-	$57,750	-	-
2008	$50,000	-	-	-	-	$50,000	-	-
Mr KP Judge								
2009	$57,750	-	-	-	-	$57,750	-	-
2008	$50,000	-	-	-	-	$50,000	-	-
EXECUTIVE								
Mr EP Jacobson (Chief Executive Officer)								
2009	$345,183	$35,000	$31,066	-	-	$411,249	8.5%	-
2008	$315,367	$50,000	$9,633	-	-	$375,000	13.3%	-
Mr RA Anderson (CFO/Company Secretary)								
2009	$236,250	$22,500	-	-	-	$258,750	8.7%	-
2008	$225,000	$26,214	-	-	$30,734	$281,948	9.3%	10.9%
Mr Philip Huizenga (Chief Operating Officer)								
2009	$276,120	$29,910	$37,931	-	-	$343,961	8.7%	-
2008 (from 1 January 2008)	$137,200	-	$12,348	-	$30,734	$180,282	-	17.0%
Total compensation: key management personnel (Company and consolidated)								
2009	$1,069,803	$87,410	$68,997	-	-	$1,226,210		
2008	$860,067	$76,214	$21,981	-	$61,468	$1,019,730		

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

REMUNERATION REPORT (CONTINUED)

Equity instruments

(i) Shares

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

(ii) Options and ESP shares

There were no options over shares or ESP 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.

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

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

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

The following shares were issued on the exercise of options issued as compensation in prior periods. These options were issued to Directors in 2006 at a time the Company had no full-time employees, very limited cash resources, and recognised the unusual contribution of the Directors.

2009 Directors	Number of shares	Amount paid per share
EP Jacobson	4,000,000	$0.10
PJ Leonhardt	3,000,000	$0.10
NC Fearis	2,000,000	$0.10
KP Judge	1,000,000	$0.10

2008 Directors	Number of shares	Amount paid per share
EP Jacobson	4,000,000	$0.07
PJ Leonhardt	3,000,000	$0.07
KP Judge	2,000,000	$0.07
KP Judge	1,000,000	$0.10

There are no amounts unpaid on shares issued as a result of the exercise of options. During the reporting period there was no forfeiture or vesting of options issued in previous periods. At the end of the reporting period there were no unvested options on issue. All options expire on the expiry date but do not expire as a result of the termination of the holder's engagement with the Company.

REMUNERATION REPORT (CONTINUED)

Equity instruments (continued)

(ii) Options and ESP shares (continued)

The movement during the reporting period, by value, of options over ordinary shares, including shares issued under the Company's ESP, for each company director and company executive and issued as part of remuneration is detailed below. These should be read in the context of the comments above about the status of the Company in 2006 at the time the options were issued.

Directors	Value of Options Issued in year ($)	Exercised in year ($)	Forfeited in year ($)	Total value in year ($)
EP Jacobson	-	1,160,000	-	1,160,000
PJ Leonhardt	-	870,000	-	870,000
KP Judge	-	290,000	-	290,000
NC Fearis	-	580,000	-	580,000

Executive Officers	Value of Options Issued in year ($)	Exercised in year ($)	Forfeited in year ($)	Total value in year ($)
PP Huizenga	-	359,000	-	359,000

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

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

NON-AUDIT SERVICES

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

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

Audit Services	Consolidated 2009 ($)
Auditors of the Company:	
Audit and review of financial reports	108,000

DIRECTORS' INTERESTS

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

Name	Ordinary Shares	Options over ordinary Shares
PJ Leonhardt	17,000,000	-
EP Jacobson	30,917,335	-
NC Fearis	8,400,000	-
KP Judge	10,932,855	-

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 or ESP shares in the Company issued as compensation to directors or named executives during or since the end of the financial year.

Shares under option

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

Expiry Date	Exercise price	1 July 2008	Issued	Number Exercised	Expired	30 June 2009
31/03/2009	$0.10	10,000,000	-	10,000,000	-	-
		10,000,000	-	10,000,000	-	-

All options expire on the expiry date but do not expire as a result of the termination of the holder's engagement with the Company. Option holders do not have any right, by virtue of the option, to vote or to participate in any share issue of the Company or any related body corporate. No shares have been issued as a result of the exercise of options since the end of the financial year. There are no amounts unpaid on the shares issued as a result of the exercise of options in the reporting period. During the reporting period there was no forfeiture or vesting of options issued in previous periods. At the end of the reporting period there were no unvested options on issue.

LIKELY DEVELOPMENTS

The likely developments for the 2010 financial year are contained in the operating and financial review as set out on pages 5 to 17. The directors are of the opinion that further information as to the likely developments in the operations of the Group would prejudice the interests of the Company and the Group and it has accordingly not been included.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group's oil and gas exploration and development activities are concentrated in Thailand and Western Australia. Environmental obligations are regulated under both State and Federal Law in Western Australia and under the Department of Mineral Fuels regulations in Thailand. No significant environmental breaches have been notified by any government agency during the year ended 30 June 2009.

DIVIDENDS

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

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's Independence Declaration under Section 307C of the Corporations Act is set out on page 28 and forms part of the directors' report for the financial year ended 30 June 2009.

PRINCIPAL ACTIVITIES

During the course of the 2009 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 72 to 74.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

In the opinion of the directors no significant changes in the state of affairs of the Group occurred during the current financial year other than as outlined in the operating and financial review as set out on pages 5 to 17.

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 2009 is set out on pages 5 to 17 and forms part of this report.

INDEMNITY OF DIRECTORS AND COMPANY SECRETARY

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.

EVENTS SUBSEQUENT TO REPORTING DATE

On 28 July 2009 the Company announced that its application to the Australian Government to acquire 100% of a new offshore West Australian permit covering application block WA-435-P had been successful.The application block is situated in the north-western part of the Bedout Sub-basin within the greater Roebuck Basin. In the same bidding round Finder Exploration ("Finder") was also successful in being awarded 100% of three permits surrounding WA-435-P. Subject to ratification by the government authorities, Carnarvon and Finder have entered into a heads of agreement to swap 50% of Carnarvon's WA-435-P for 50% of the three new Finder permits WA-436-P, WA-437-P and WA-438-P. Finder will assume operatorship of all four permits.

No other matter or circumstance has arisen since 30 June 2009 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

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

ROUNDING 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, 28 August 2009

WHK Horwath

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Carnarvon Petroleum Limited for the year ended 30 June 2009, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

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

WHK HORWATH PERTH AUDIT PARTNERSHIP

SEAN MCGURK
Principal

Dated this 28th day of August 2009

Perth, WA

Total Financial Solutions

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INCOME STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

	Notes	CONSOLIDATED 2009 $000	CONSOLIDATED 2008 $000 (Restated)	COMPANY 2009 $000	COMPANY 2008 $000
Sales revenue from continuing operations		100,758	63,033	-	-
Other income	4	896	318	214	251
Cost of sales	5	(27,847)	(12,392)	-	-
Administrative expenses		(1,445)	(1,032)	(1,445)	(1,032)
Directors' fees		(212)	(183)	(212)	(183)
Employee benefits expense		(829)	(637)	(829)	(637)
Travel related costs		(424)	(311)	(424)	(311)
Unrealised foreign exchange gain / (loss)		2,305	(656)	2,759	(1,851)
New ventures		(963)	(973)	(963)	(973)
Share-based payments		(122)	(119)	(122)	(119)
Finance costs		(1)	34	(1)	-
Profit before income tax		72,116	47,082	(1,023)	(4,855)
Taxes					
Income tax expense	9	22,132	16,452	-	-
Special remuneratory benefit		13,561	14,979	-	-
Total taxes		35,693	31,431	-	-
Profit / (loss) from continuing operations		36,423	15,651	(1,023)	(4,855)
Profit / (loss) attributable to members of the Company		36,423	15,651	(1,023)	(4,855)
Basic earnings per share from continuing operations (cents per share)	8	5.4	2.4		
Diluted earnings per share from continuing operations (cents per share)	8	5.4	2.3		

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

BALANCE SHEETS
AS AT 30 JUNE 2009

	Notes	CONSOLIDATED 2009 $000	CONSOLIDATED 2008 $000 (Restated)	COMPANY 2009 $000	COMPANY 2008 $000
Current assets					
Cash and cash equivalents	21(b)	31,099	28,281	3,380	570
Trade and other receivables	10	11,904	12,443	2,730	2,788
Inventories	12	3,865	1,586	-	-
Other assets	13	677	299	415	96
Total current assets		47,545	42,609	6,525	3,454
Non-current assets					
Trade and other receivables	10	-	-	10,273	12,713
Property, plant and equipment	11	353	172	115	49
Exploration and evaluation	14	1,219	379	438	379
Oil and gas assets	15	49,701	22,078	-	-
Other investments	16	-	-	1,483	1,483
Total non-current assets		51,273	22,629	12,309	14,624
Total assets		98,818	65,238	18,834	18,078
Current liabilities					
Trade and other payables	17	6,901	3,368	1,017	531
Employee benefits	24	49	13	49	13
Income tax provision		3,521	9,304	-	-
Provisions	18	3,122	14,848	-	-
Total current liabilities		13,593	27,533	1,066	544
Non-current liabilities					
Deferred tax	19	8,964	3,215	-	-
Total non-current liabilities		8,964	3,215	-	-
Total liabilities		22,557	30,748	1,066	544
Net assets		76,261	34,490	17,768	17,534
Equity					
Issued capital		68,090	66,738	68,090	66,738
Reserves		(2,215)	(6,211)	1,131	1,226
Retained profits / (accumulated losses)		10,386	(26,037)	(51,453)	(50,430)
Total equity		76,261	34,490	17,768	17,534

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

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2009

GROUP	Issued capital $000	Retained profits / (accumulated losses) $000 (Restated)	Translation reserve $000	Share-based payments reserve $000	Total $000
Balance at 1 July 2007	65,041	(41,688)	(3,383)	1,487	21,457
Shares issued net of transaction costs	1,226	-	-	-	1,226
Exchange differences on translation of foreign operations	-	-	(4,054)	-	(4,054)
Share based payments	471	-	-	(261)	210
Profit attributable to members of Company	-	15,651	-	-	15,651
Balance at 30 June 2008	66,738	(26,037)	(7,437)	1,226	34,490
Shares issued net of transaction costs	996	-	-	-	996
Exchange differences on translation of foreign operations	-	-	2,839	-	2,839
Exchange differences on change in functional currency	-	-	1,252	-	1,252
Share based payments	356	-	-	(95)	261
Profit attributable to members of Company	-	36,423	-	-	36,423
Balance at 30 June 2009	68,090	10,386	(3,346)	1,131	76,261

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

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2009

COMPANY	Issued capital $000	Accumulated losses $000	Share-based payments reserve $000	Total $000
Balance at 1 July 2007	65,041	(45,575)	1,487	20,953
Shares issued net of transaction costs	1,226	-	-	1,226
Share based payments	471	-	(261)	210
Loss attributable to members of the Company	-	(4,855)	-	(4,855)
Balance at 30 June 2008	66,738	(50,430)	1,226	17,534
Shares issued net of transaction costs	996	-	-	996
Share based payments	356	-	(95)	261
Loss attributable to members of the Company	-	(1,023)	-	(1,023)
Balance at 30 June 2009	68,090	(51,453)	1,131	17,768

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

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2009

		CONSOLIDATED		COMPANY	
	Notes	2009 $000	2008 $000	2009 $000	2008 $000
Cash flows from operating activities					
Receipts from customers and GST recovered		114,038	56,145	221	275
Payments to suppliers and employees		(34,238)	(13,616)	(3,832)	(3,153)
Income tax and special remuneratory benefit paid		(48,177)	(3,666)	-	-
Interest received		973	236	291	204
Interest paid		-	(8)	-	-
Net cash flows generated from / (used in) operating activities	21(a)	32,596	39,091	(3,320)	(2,674)
Cash flows from investing activities					
Exploration and development expenditure		(35,550)	(17,399)	(346)	(628)
Joint venture cash assigned to subsidiary		-	-	(341)	-
Cash held as security		(429)	(3,156)	(581)	(2,656)
Acquisition of property, plant and equipment		(300)	(218)	(139)	(13)
Net repayments from / (advances to) controlled entities		-	-	6,366	(1,293)
Net cash flows (used in) / from investing activities		(36,279)	(20,773)	4,959	(4,590)
Cash flows from financing activities					
Proceeds from issue of share capital		1,000	1,230	1,000	1,230
Payment of share issue costs		(4)	(3)	(4)	(3)
Proceeds from repayment of Employee Share Plan loans		140	90	140	90
Net cash flows from financing activities		1,136	1,317	1,136	1,317
Net (decrease) / increase in cash and cash equivalents		(2,547)	19,635	2,775	(5,947)
Cash and cash equivalents at the beginning of the financial year		28,281	8,927	570	6,520
Effect of exchange rate fluctuations on cash and cash equivalents		5,365	(281)	35	(3)
Cash and cash equivalents at the end of the financial year	21(b)	31,099	28,281	3,380	570

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

1. Reporting entity

The consolidated financial report of the Company for the financial year ended 30 June 2009 comprises the Company and its controlled entities (the "Group") and the Group's interest in jointly controlled assets.

The financial report was authorised for issue by the directors on 28 August 2009.

2. Basis of preparation of the financial report

Statement of compliance

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

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

Basis of measurement

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

Functional and presentation currency

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

Use of estimates and judgements

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

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

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.

There was not considered to be any impairment trigger over the carrying value of the Group's interest in exploration and evaluation or oil and gas assets at the date of this report.

Key estimate – income and capital gains taxes

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

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

Use of estimates and judgements (continued)

Key estimate – special remuneratory benefit tax and income tax

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

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

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

Key estimate – functional currency

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

Key estimates – other

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

3. Significant accounting policies

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

(a) Basis of consolidation

Controlled entities

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

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

Jointly controlled assets

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

3. Significant accounting policies (continued)

(b) Income tax and special remuneratory benefit

Income tax

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

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

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

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

Special remuneratory benefit

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

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

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

Tax consolidation

Carnarvon Petroleum Limited and its wholly-owned Australian resident controlled entities formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed 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.

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.

Depreciation 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. Refer to Note (y) for further details on changes in accounting policy.

3. Significant accounting policies (continued)

(e) Exploration and evaluation

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

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

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

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

(f) Recoverable amount of assets and impairment testing

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

Assets that are subject to depreciation are reviewed annually to determine whether there is any indication of impairment. Where such an indicator exists, a formal assessment of recoverable amount is then made. Where this is 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) Trade receivables

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

(h) Provisions

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

Restoration costs

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

3. Significant accounting policies (continued)

(i) Investments and other financial instruments

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

Fair value is the measurement basis, with the exception of held-to-maturity investments and loans and receivables which are measured at amortised cost. Fair value is inclusive of transaction costs. Changes in fair value are either taken to the income statement or to an equity reserve (refer below). Amortised cost is the amount measured at initial recognition, less principal repayments, adjusted for the difference, if any, between initial measurement and the maturity amount calculated using the effective interest method, less any reduction for impairment. The effective interest method is the rate that discounts future expected cash flows through the expected life of the financial instrument to its net carrying amount. Revisions to expected cash flows will require an adjustment to the carrying value with a consequential recognition of an income or expense in profit and loss.

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

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

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

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

(ii) Loans and receivables

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

(iii) Held-to-maturity investments

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

(iv) Available-for-sale financial assets

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

(j) Segment reporting

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

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

3. Significant accounting policies (continued)

(k) Foreign currency

Functional and presentation currency

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

Transactions and balances

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

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

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

Foreign operations

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

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

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

(l) Leases

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

Operating leases

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

(m) Share capital

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

(n) Inventories

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

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

3. Significant accounting policies (continued)

(o) Employee benefits

Wages and salaries, annual leave

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

Share based payments – shares and share options

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

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

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

Share based payments – Employee Share Plan

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

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

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

(p) Earnings per share

The Group presents basic and diluted earnings per share ("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.

3. Significant accounting policies (continued)

(q) Cash and cash equivalents

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

(r) Revenue

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

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

(s) Goods and services tax

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

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

(t) Trade and other payables

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

(u) Finance income and expenses

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

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

(v) Royalties

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

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

(w) Comparative figures

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

3. Significant accounting policies (continued)

(x) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods. The consolidated entity's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 (effective from 1 January 2009).

AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The consolidated entity will adopt AASB 8 from 1 July 2009. It may result in an increase in the number of reportable segments presented. In addition, the segments will be reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker.

(ii) Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 (effective from 1 January 2009)

The revised AASB 123 has removed the option to expense all borrowing costs and, when adopted, will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the consolidated entity.

(iii) Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101 (effective from 1 January 2009)

The September 2007 revised AASB 101 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The consolidated entity will apply the revised standard from 1 July 2009.

(iv) AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations (effective from 1 January 2009)

AASB 2008-1 clarifies that vesting conditions are service conditions and performance conditions only and that other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The consolidated entity will apply the revised standard from 1 July 2009, but it is not expected to affect the accounting for the consolidated entity's share-based payments.

(v) Revised AASB 3 Business Combinations, AASB 127 Consolidated and Separate Financial Statements and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 (effective 1 July 2009)

The revised AASB 3 continues to apply the acquisition method to business combinations, but with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs must be expensed.

The revised AASB 127 requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. The consolidated entity will apply the revised standards prospectively to all business combinations and transactions with non-controlling interests from 1 July 2009.

3. Significant accounting policies (continued)

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

(vi) AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective 1 July 2009)

The amendments to AASB 5 Discontinued Operations and AASB 1 First-Time Adoption of Australian-Equivalents to International Financial Reporting Standards are part of the IASB's annual improvements project published in May 2008. They clarify that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosures should be made for this subsidiary if the definition of a discontinued operation is met. The consolidated entity will apply the amendments prospectively to all partial disposals of subsidiaries from 1 July 2009.

(vii) AASB 2008-7 Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective 1 July 2009)

In July 2008, the AASB approved amendments to AASB 1 First-time Adoption of International Financial Reporting Standards and AASB 127 Consolidated and Separate Financial Statements. The consolidated entity will apply the revised rules prospectively from 1 July 2009. After that date, all dividends received from investments in subsidiaries, jointly controlled entities or associates will be recognised as revenue, even if they are paid out of pre-acquisition profits, but the investments may need to be tested for impairment as a result of the dividend payment. Furthermore, when a new intermediate parent entity is created in internal reorganisations it will measure its investment in subsidiaries at the carrying amounts of the net assets of the subsidiary rather than the subsidiary's fair value.

(viii) AASB 2008-8 Amendment to IAS 39 Financial Instruments: Recognition and Measurement (effective 1 July 2009)

AASB 2008-8 amends AASB 139 Financial Instruments: Recognition and Measurement and must be applied retrospectively in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. The amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. The consolidated entity will apply the amended standard from 1 July 2009. It is not expected to have an impact on the consolidated entity's financial statements.

3. Significant accounting policies (continued)

(y) Change in accounting policy

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

Depreciation is now calculated using a unit of production method which amortises capitalised costs carried forward plus the estimated future field development costs for proved and probable ("2P") reserves over the life of the 2P reserves. Previously only capitalised costs were included in the depreciation calculation. This change has been implemented as the directors are of the opinion that a cost base that reflects the future costs of maintaining current production provides more relevant information and a more accurate carrying value of oil and gas assets at balance date.

Total costs subject to depletion included $62.5 million of estimated future development costs to deplete the proved and probable reserves. Since an approved development plan has not yet been sanctioned by the joint venture, future costs have been estimated by Carnarvon management based on historical depletion rates of around 500,000 bbls per well and estimated costs for drilling and completion of US$1.5 million per well. It is anticipated that an approved development plan will supersede these estimates.

The aggregate effect of the change in accounting policy on the annual financial statements is as follows:

	2009 Previously stated $000	2009 Adjusted $000	2009 Restated $000	2008 Previously stated $000	2008 Adjusted $000	2008 Restated $000
Consolidated						
Income statement						
Cost of sales	23,080	4,767	27,847	11,346	1,046	12,392
Profit before income tax	76,883	(4,767)	72,116	48,128	(1,046)	47,082
Profit after income tax	38,807	(2,384)	36,423	16,174	(523)	15,651
Balance sheet						
Oil and gas assets	55,514	(5,813)	49,701	23,124	(1,046)	22,078
Deferred tax liability	11,871	(2,907)	8,964	3,738	(523)	3,215
Opening retained earnings	(25,514)	(523)	(26,037)	(41,688)	-	(41,688)
	Cents	**Cents**	**Cents**	**Cents**	**Cents**	**Cents**
Basic earnings per share	5.7	(0.3)	5.4	2.4	-	2.4
Diluted earnings per share	5.7	(0.3)	5.4	2.4	(0.1)	2.3

There were no adjustments to the Company income statement or balance sheet figures in 2008 or 2009.

	CONSOLIDATED		COMPANY	
	2009 $000	2008 $000	2009 $000	2008 $000
4. Other income				
Finance income on bank deposits	896	283	214	251
Other income	-	35	-	-
	896	318	214	251
5. Cost of sales				
Production expenses	(3,892)	(1,800)	-	-
Royalty and excise	(7,331)	(4,374)	-	-
Transportation	(3,827)	(1,920)	-	-
Depreciation - development costs and producing assets	(10,057)	(2,651)	-	-
Selling, general and administration	(2,740)	(1,647)	-	-
	(27,847)	(12,392)	-	-
6. Other expenses				
Depreciation – property, plant and equipment	(162)	(73)	(57)	(34)
Rental premises – operating leases	(234)	(131)	(184)	(66)
7. Auditors' remuneration				
Audit services:				
Auditors of the Company	108	78	108	78

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:

	2009	2008
	Number of shares	
Issued ordinary shares at 1 July	672,924,634	657,537,134
Effect of shares issued	583,699	186,849
Effect of share options exercised	2,493,151	6,979,452
Weighted average number of ordinary shares 30 June (basic)	676,001,484	664,703,435
Effect of share options on issue	-	19,163,014
Weighted average number of ordinary shares 30 June (diluted)	676,001,484	683,866,449
Profit used in calculating basic and diluted earnings per share from continuing operations	$36,423,000	$15,651,000

9. Income tax expense

	CONSOLIDATED 2009 $000	CONSOLIDATED 2008 $000	COMPANY 2009 $000	COMPANY 2008 $000
Numerical reconciliation between pre-tax profit / (loss) and income tax expense / (benefit):				
Prima facie income tax expense / (benefit) on pre-tax profit / (loss) at 30% (2008: 30%)	21,634	14,124	(307)	(1,457)
Tax effect of:				
Special remuneratory benefit	(6,781)	(7,552)	-	-
Effect of higher overseas tax rate	12,988	10,229	-	-
Foreign exchange (gains) / losses	(3,220)	-	(836)	554
Non-deductible expenditure	350	322	350	277
Prior year losses recognised	(198)	(3,064)	-	-
Prior year temporary differences recognised	(3,434)	1,814	-	-
Current year tax benefit not brought to account	793	579	793	626
Income tax expense on pre-tax profit	22,132	16,452	-	-
Current income tax	16,383	13,237	-	-
Deferred tax	5,749	3,215	-	-
	22,132	16,452	-	-

Tax Consolidation

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

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

10. Trade and other receivables

	CONSOLIDATED 2009 $000	CONSOLIDATED 2008 $000	COMPANY 2009 $000	COMPANY 2008 $000
Current				
Trade and other receivables	8,318	9,287	90	132
Cash held as security	3,586	3,156	2,640	2,656
	11,904	12,443	2,730	2,788
Non-current				
Amounts receivable from controlled entities	-	-	10,966	13,406
Provision for non-recovery	-	-	(693)	(693)
	-	-	10,273	12,713

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

	CONSOLIDATED		COMPANY	
	2009 $000	2008 $000	2009 $000	2008 $000
11. Property, plant and equipment				
Plant and equipment				
Cost:				
Balance at beginning of financial year	74	89	-	-
Additions	-	56	-	-
Transfers	(43)	-	-	-
Disposals	-	(63)	-	-
Effects of movements in foreign exchange	11	(8)	-	-
Balance at end of financial year	42	74	-	-
Depreciation and impairment losses:				
Balance at beginning of financial year	67	56	-	-
Disposals	-	(3)	-	-
Transfers	(43)	-	-	-
Depreciation charge for year	8	14	-	-
Balance at end of financial year	32	67	-	-
Carrying amount opening	7	33	-	-
Carrying amount closing	10	7	-	-
Fixtures and fittings				
Cost:				
Balance at beginning of financial year	319	204	121	108
Additions	271	121	139	13
Transfers	43	-	-	-
Disposals	(58)	-	(58)	-
Effects of movements in foreign exchange	51	(6)	-	-
Balance at end of financial year	626	319	202	121
Depreciation and impairment losses:				
Balance at beginning of financial year	191	133	72	38
Disposals	(41)	-	(42)	-
Transfers	43	-	-	-
Depreciation charge for year	141	58	57	34
Balance at end of financial year	334	191	87	72
Carrying amount opening	128	71	49	70
Carrying amount closing	292	128	115	49
Land and buildings				
Cost:				
Balance at beginning of financial year	38	-	-	-
Additions	21	38	-	-
Effects of movements in foreign exchange	6	-	-	-
Balance at end of financial year	65	38	-	-
Depreciation and impairment losses:				
Balance at beginning of financial year	1	-	-	-
Depreciation charge for year	13	1	-	-
Balance at end of financial year	14	1	-	-
Carrying amount opening	37	-	-	-
Carrying amount closing	51	37	-	-

	CONSOLIDATED		COMPANY	
	2009 $000	2008 $000	2009 $000	2008 $000
11. Property, plant and equipment (continued)				
Total				
Cost:				
Balance at beginning of financial year	431	293	121	108
Additions	292	215	139	13
Disposals	(58)	(63)	(58)	-
Effects of movements in foreign exchange	68	(14)	-	-
Balance at end of financial year	733	431	202	121
Depreciation and impairment losses:				
Balance at beginning of financial year	259	189	72	38
Disposals	(41)	(3)	(42)	-
Depreciation charge for year	162	73	57	34
Balance at end of financial year	380	259	87	72
Carrying amount opening	172	104	49	70
Carrying amount closing	353	172	115	49
12. Inventories				
Current				
Raw materials and consumables	3,865	1,586	-	-
13. Other assets				
Current				
Deposits and prepayments	677	299	415	96
14. Exploration and evaluation				
Cost:				
Balance at beginning of financial year	379	-	379	-
Additions	915	379	134	379
Assignment of joint venture to subsidiary	(75)	-	(75)	-
Balance at end of financial year	1,219	379	438	379
15. Oil and gas assets				
Cost:				
Balance at beginning of financial year	25,340	12,773	-	-
Additions	31,233	14,475	-	-
Effects of movements in foreign exchange	6,341	(1,908)	-	-
Balance at end of financial year	62,914	25,340	-	-
Depreciation and impairment losses:				
Balance at beginning of financial year	3,262	644	-	-
Depreciation charge for year	9,951	2,618	-	-
Balance at end of financial year	13,213	3,262	-	-
Carrying amount opening	22,078	12,129	-	-
Carrying amount closing	49,701	22,078	-	-

For details of the change in oil and gas assets depreciation policy refer to Note 3(y).

	CONSOLIDATED 2009 $000	CONSOLIDATED 2008 $000	COMPANY 2009 $000	COMPANY 2008 $000
16. Other investments				
Non-current				
Investments in controlled entities – at cost	-	-	1,483	1,483

The Group has the following interests in joint venture assets:

Joint venture	*Principal activities*	*Ownership interest %*
Thailand		
Phetchabun Basin Concession, Exploration Blocks L44/43 and L33/43 3/2546/60 and 5/2546/62 Concessions	Exploration, development and production of hydrocarbons	40%
Exploration Block L20/50 7/2551/98 Concession	Exploration for hydrocarbons	50%
Western Australia		
EP 110 & 424, Carnarvon Basin	Exploration for hydrocarbons	35%
WA-399-P, Carnarvon Basin	Exploration for hydrocarbons	50%

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

	2009 $000	2008 $000
Current assets		
Cash and cash equivalents	27,758	28,130
Trade and other receivables	9,176	9,124
Inventories	3,865	1,586
Other assets	384	738
Total current assets	41,183	39,578
Non-current assets		
Property, plant and equipment	238	123
Exploration and evaluation	1,189	363
Oil and gas assets	50,401	22,991
Total non-current assets	51,828	23,477
Total assets	93,011	63,055
Current liabilities		
Trade and other payables	5,889	2,863
Provisions	6,643	24,152
Total current liabilities	12,532	27,015
Non-current liabilities		
Deferred tax	8,964	3,215
Total non-current liabilities	8,964	3,215
Total liabilities	21,496	30,230
Net assets	71,515	32,825
Income	100,758	63,033
Expenses	(63,313)	(44,380)
Net profit after tax	37,445	18,653

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

	CONSOLIDATED		COMPANY	
	2009 $000	2008 $000	2009 $000	2008 $000
17. Trade and other payables				
Current				
Trade payables	2,686	2,352	368	308
Non-trade payables and accrued expenses	4,163	948	597	155
Owing to related parties	52	68	52	68
	6,901	3,368	1,017	531

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

18. Provisions

Current				
Special Remuneratory Benefit - Thailand	3,122	14,848	-	-
	3,122	14,848	-	-
Non-current				
Site restoration:				
Balance at beginning of financial year	-	105	-	-
Provision (reversed) during the year	-	(105)	-	-
Balance at end of financial year	-	-	-	-

There are no restoration provisions required in respect of the Group's activities.

19. Deferred tax

Recognised deferred tax assets and liabilities

The net deferred tax liability is attributable to the following:

Oil and gas assets	11,232	5,395	-	-
Tax value of losses carry forward	(2,268)	(2,180)	-	-
Net tax liability	8,964	3,215	-	-

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

Unrecognised deferred tax assets and liabilities

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

Deductible temporary differences	159	212	459	1,518
Tax losses	2,571	1,631	2,571	1,631
	2,730	1,843	3,030	3,149

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

20. Capital and reserves

	CONSOLIDATED & COMPANY 2009 Number of shares	2008
Issued capital		
Balance at beginning of financial year	672,924,634	657,537,134
Employee Share Plan issues	750,000	387,500
Shares issued on exercise of share options	10,000,000	15,000,000
Balance at end of financial year	683,674,634	672,924,634

	CONSOLIDATED & COMPANY 2009 $000	2008 $000
Issued capital		
Balance at beginning of financial year	66,738	65,041
Employee Share Plan related movements	216	380
Employee Share Plan loans repaid	140	90
Shares issued on exercise of share options	1,000	1,230
Share issue transaction costs	(4)	(3)
Balance at end of financial year	68,090	66,738

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 in Changes in Equity on page 31.

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

Share based payments reserve

Movements in the share based payments reserve are set out in the Statements of Changes in Equity on pages 31 and 32.

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

	CONSOLIDATED 2009 $000	CONSOLIDATED 2008 $000	COMPANY 2009 $000	COMPANY 2008 $000

21. Reconciliation of cash flows from operating activities

(a) Cash flows from operating activities

	CONSOLIDATED 2009 $000	CONSOLIDATED 2008 $000	COMPANY 2009 $000	COMPANY 2008 $000
After tax profit / (loss) for the period	36,423	15,651	(1,023)	(4,855)
Adjustments for:				
Equity settled share based payment expense	122	119	122	119
Deferred tax expense	5,749	3,215	-	-
Depreciation	10,114	2,688	57	34
Finance costs for rehabilitation provisions	-	(39)	-	-
Loss on disposal of property, plant and equipment	16	-	16	-
Foreign exchange (gains) / losses	(2,305)	656	(2,787)	1,851
Operating profit before changes in working capital and provisions:	50,119	22,290	(3,615)	(2,851)
Changes in assets and liabilities:				
Decrease / (increase) in trade and other receivables	2,682	(7,789)	74	(9)
(Increase) in inventories	(1,972)	(604)	-	-
(Increase) / decrease in other assets	(185)	273	(319)	(62)
Increase in trade and other payables	150	760	504	239
(Decrease) / increase in provisions and employee benefits	(18,198)	24,161	36	9
Net cash flows generated from / (used in) operating activities	32,596	39,091	(3,320)	(2,674)

(b) Reconciliation of cash and cash equivalents

	CONSOLIDATED 2009 $000	CONSOLIDATED 2008 $000	COMPANY 2009 $000	COMPANY 2008 $000
Cash at bank and at call	31,099	28,281	3,380	570

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 $2,640,000 Company and $3,586,000 consolidated is included under trade and other receivables (2008: $2,656,000 Company and $3,156,000 consolidated), see Notes 10 and 23.

	CONSOLIDATED 2009 $000	CONSOLIDATED 2008 $000	COMPANY 2009 $000	COMPANY 2008 $000

22. Capital and other commitments

(a) Joint venture commitments

	CONSOLIDATED 2009 $000	CONSOLIDATED 2008 $000	COMPANY 2009 $000	COMPANY 2008 $000
Share of capital commitments of joint venture assets:				
Within one year	1,189	1,721	-	-
Capital commitments of the Group to joint venture assets:				
Within one year	2,264	187	2,264	187

(b) Exploration expenditure commitments

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

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

	CONSOLIDATED 2009 $000	CONSOLIDATED 2008 $000	COMPANY 2009 $000	COMPANY 2008 $000
Less than one year	4,100	500	4,100	500
Between one and five years	1,700	3,000	1,700	3,000
	5,800	3,500	5,800	3,500

(c) Capital expenditure commitments

	CONSOLIDATED 2009 $000	CONSOLIDATED 2008 $000	COMPANY 2009 $000	COMPANY 2008 $000
Data licence commitments	126	96	126	96

23. Contingencies

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

Contingent liabilities not considered remote

a) Under the terms of an Investment Agreement the Group is required to pay a percentage of sales proceeds from specified zones within the Wichian Buri Production Licences I and II in Thailand to Gemini Oil and Gas Limited, an independent oil and natural gas investment fund. The current percentage is 7.5%.

The Group has expensed US$85,000 in the current period (2008: US$371,000). Cumulative amounts paid and payable at balance date under the terms of this agreement are US$905,000.

23. Contingencies (continued)

Contingent liabilities considered remote

a) The Phetchabun Basin Joint Venture operation, in which the Group has a 40% interest, has issued bank guarantees for an amount of 40 million Thai Baht as security in lieu of bonds.

The L20/50 Joint venture, in which the Group has a 50% interest, has issued bank guarantees for an amount of 20 million Thai Baht as security in lieu of bonds.

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

The restricted cash held by the banks as security for these guarantees totaling $3,586,000 (2008: $3,156,000) 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.

	CONSOLIDATED		COMPANY	
	2009 $000	2008 $000	2009 $000	2008 $000
24. Employee benefits				
Current:				
Liability for annual leave	49	13	49	13

Share options

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

	Weighted average exercise price 2009	Number of options 2009	Weighted average exercise price 2008	Number of options 2008
Outstanding 1 July	$0.10	10,000,000	$0.09	20,000,000
Exercised during the period	$0.10	10,000,000	$0.07	10,000,000
Outstanding 30 June	-	-	$0.10	10,000,000
Exercisable at 30 June	-	-	$0.10	10,000,000

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

The weighted average share price at the date of exercise for employee share options exercised during the period was $0.36 (2008: $0.53)

24. Employee benefits (continued)

Share based payments - Employee Share Plan

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

The issue price is determined by the directors and is not to be less than the weighted average market price of the Company’s shares on the five trading days prior to the date of offer. Eligible persons receive an interest free advance to acquire the shares.

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

	1 July 2008	Issued	Repaid	30 June 2009
Number of shares	14,852,500	750,000	895,000	14,707,500
Loan	$1,755,353	$285,750	$139,895	$1,901,208
Average loan per share	$0.12	$0.38	$0.16	$0.13

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

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

Fair value of share options and related assumptions	Key management personnel 2009	Key management personnel 2008	Other employees 2009	Other employees 2008
Fair value at measurement date (cents)	-	30.7	11.2 to 20.8	30.7
Share price at date of issue (cents)	-	70.1	26.1 to 48.5	70.1
Exercise price (cents)	-	70.1	26.1 to 48.5	70.1
Expected volatility	-	55%	60%	55%
Actual / assumed option life	-	3 years	3 years	3 years
Expected dividends	-	Nil	Nil	Nil
Risk-free interest rate	-	7.5%	3.5%	7.5%
Share-based expense recognised	-	$61,468	$122,208	$57,627

The current year volatility is intended to reflect the movement of the Company’s share price volatility towards its peers as its oil and gas interests mature.

Further details of shares and options issued to directors are set out in Note 28, and in the Remuneration Report set out on pages 20 to 25.

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 2009 net repayments from controlled entities totalled $6,366,000 (2008: net loans to controlled entities $1,293,000).

The carrying value of loans to controlled entities at 30 June 2009 was $10,273,000 (2008: $12,713,000) after provisions of $693,000 (2008: $693,000). These loans are unsecured, non-interest bearing, and have no fixed terms of repayment.

Other related party balances

At 30 June 2009 an amount of $52,070 (2008: $68,548) is included in Company and consolidated trade and other payables for outstanding director fees and expenses.

26. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	CONSOLIDATED		COMPANY	
	2009 $000	2008 $000	2009 $000	2008 $000
Less than one year	231	170	163	71
Between one and five years	271	12	-	-
	502	182	163	71

During the reporting period $371,000 was recognised as an expense in the consolidated income statement in respect of operating leases (2008: $344,000).

27. Segment information

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

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

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

Geographical Segments (A$000)

	Australia		Thailand		Consolidated	
	2009 $000	2008 $000	2009 $000	2008 $000	2009 $000	2008 $000
Revenue						
Sales	-	-	100,758	63,033	100,758	63,033
Other	214	251	682	67	896	318
Total revenue	214	251	101,440	63,100	101,654	63,351
Segment result						
Result from continuing operations	(1,023)	(3,001)	37,446	18,652	36,423	15,651
Total segment result	(1,023)	(3,001)	37,446	18,652	36,423	15,651
Assets						
Oil and gas assets	-	-	49,701	22,078	49,701	22,078
Property, plant and equipment	115	49	238	123	353	172
Other	6,963	3,833	41,801	39,155	48,764	42,988
Total segment assets	7,078	3,882	91,740	61,356	98,818	65,238
Liabilities						
Total segment liabilities	1,066	544	21,491	30,204	22,557	30,478
Other segment information:						
Capital expenditure	139	13	31,400	14,614	31,539	14,627
Depreciation	57	34	10,057	2,657	10,114	2,691

28. Key management personnel disclosures

(a) Key management personnel compensation

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

	CONSOLIDATED		COMPANY	
	2009 ($)	2008 ($)	2009 ($)	2008 ($)
Short term employee benefits	1,157,213	936,281	1,157,213	936,281
Post-employment benefits	68,997	21,981	68,997	21,981
Share-based payments	-	61,468	-	61,468
	1,226,210	1,019,730	1,226,210	1,019,730

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 20 to 25.

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

(b) Options and rights over equity instruments

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

Directors	Held at 1 July 2008	Exercised	Held at 30 June 2009
PJ Leonhardt	3,000,000	(3,000,000)	-
EP Jacobson	4,000,000	(4,000,000)	-
NC Fearis	2,000,000	(2,000,000)	-
KP Judge	1,000,000	(1,000,000)	-

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

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

28. Key management personnel disclosures (continued)

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

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

	Balance 1 July 2008 ($)	Balance 30 June 2009 ($)	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	314,100	253,100	314,100	-	61,000
RA Anderson	81,065	81,065	81,065	-	-

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

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
2009	1,205,165	1,144,165	4
2008	911,242	1,205,165	4

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

(d) Other key management personnel transactions

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

	CONSOLIDATED		COMPANY	
	2009 $000	2008 $000	2009 $000	2008 $000
Current				
Trade and other payables	212	68	212	68

28. Key management personnel disclosures (continued)

(e) Movements in shares

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

	Held at 1 July 2008	Net acquired/(sold)	Award under Employee Share Plan	Received on exercise of options	Held at 30 June 2009
Directors					
PJ Leonhardt	14,900,000	(900,000)	-	3,000,000	17,000,000
EP Jacobson	28,613,793	(1,696,458)	-	4,000,000	30,917,335
NC Fearis	6,316,186	83,814	-	2,000,000	8,400,000
KP Judge	15,568,596	(5,635,741)	-	1,000,000	10,932,855
Executives					
PP Huizenga	2,100,000	(500,000)	-	-	1,600,000
RA Anderson	3,104,441	(1,619,441)	-	-	1,485,000

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

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

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

Information regarding individual directors' and executives' compensation, including company loans used to finance the purchase of the ESP shares, is provided in the Remuneration Report section of the directors' report as set out on pages 20 to 25.

29. Non-key management personnel disclosures

Identity of related parties

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

30. Consolidated entities

		Ownership interest	
Name	**Country of Incorporation**	**2009**	**2008**
Company			
Carnarvon Petroleum Ltd			
Controlled entities			
Carnarvon Thailand Ltd	British Virgin Islands	100%	100%
Lassoc Pty Ltd	Australia	100%	100%
SRL Exploration Pty Ltd	Australia	100%	100%

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

31. Subsequent events

On 28 July 2009 the Company announced that its application to the Australian Government to acquire 100% of a new offshore West Australian permit covering application block WA-435-P had been successful. The application block is situated in the north-western part of the Bedout Sub-basin within the greater Roebuck Basin. In the same bidding round Finder Exploration ("Finder") was also successful in being awarded 100% of three permits surrounding WA-435-P. Subject to ratification by the government authorities, Carnarvon and Finder have entered into a heads of agreement to swap 50% of Carnarvon's WA-435-P for 50% of the three new Finder permits WA-436-P, WA-437-P and WA-438-P. Finder will assume operatorship of all four permits.

No other matter or circumstance has arisen since 30 June 2009 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

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

32. Financial risk management

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

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

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

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

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

(a) Commodity price risk

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

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

Sensitivity analysis

An increase of 10% in the achieved monthly oil sale price would have increased equity and pre-tax profit and loss by the amounts shown below. This analysis assumes that all other variables other than royalties, which are directly related to oil revenues, remain constant. The analysis is performed on the same basis for 2008:

	CONSOLIDATED		COMPANY	
	Equity $000	Profit and loss $000	Equity $000	Profit and loss $000
30 June 2009	9,344	9,344	-	-
30 June 2008	5,867	5,867	-	-

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 2008:

	CONSOLIDATED		COMPANY	
	Equity $000	Profit and loss $000	Equity $000	Profit and loss $000
30 June 2009	(9,344)	(9,344)	-	-
30 June 2008	(5,867)	(5,867)	-	-

32. Financial risk management (continued)

(b) Interest rate risk

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

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

The 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 Company and the Group were as follows. There were no interest-bearing financial liabilities:

	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Carrying amount (A$000)				
Financial assets	31,099	28,281	3,380	570
Weighted average interest rate (%)				
Financial assets	0.4%	0.25%	2.95%	6.14%

Sensitivity analysis

An increase in 50 basis points from the weighted average year-end interest rates at 30 June would have increased equity and profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2008:

	CONSOLIDATED		COMPANY	
	Equity $000	Profit and loss $000	Equity $000	Profit and loss $000
30 June 2009	140	140	17	17
30 June 2008	141	141	3	3

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 2008:

	CONSOLIDATED		COMPANY	
	Equity $000	Profit and loss $000	Equity $000	Profit and loss $000
30 June 2009	(47)	(47)	(17)	(17)
30 June 2008	(141)	(141)	(3)	(3)

32. Financial risk management (continued)

(c) Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in a financial loss to the Company or Group, and arises principally from the Group's receivables from customers and cash deposits. The Company has no trade receivables at June 2009 or June 2008 and has no significant concentration of credit risk.

The Group's trade receivables at both June 2009 and June 2008 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 2009 or 30 June 2008 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 balance sheet.

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

	CONSOLIDATED		COMPANY	
	2009 $000	2008 $000	2009 $000	2008 $000
Carrying amount:				
Cash and cash equivalents	31,099	28,281	3,380	570
Trade and other receivables	11,904	12,443	13,003	15,501
	43,003	40,724	16,383	16,071

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

	Gross 2009 $000	Impairment 2009 $000	Gross 2008 $000	Impairment 2008 $000
Not past due	7,218	-	9,255	-
	7,218	-	9,255	-

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

32. Financial risk management (continued)

(d) Currency risk

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

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). The functional currency of its Thai operations changed from US$ to THB from 1 January 2009, primarily because the trend in the source currency of the majority of its costs from US$ to THB was not considered temporary. The effect of this change was to increase Property, Plant and Equipment and the Translation Reserve by $1,252,000.

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$ loan to one of its controlled entities.

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

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

	THB A$000	USD A$000	GBP A$000
Consolidated 2009			
Cash and cash equivalents	27,405	48	-
Trade and other receivables	8,208	-	-
Trade payables and accruals	(5,304)	(754)	-
SRB and income tax provisions	(6,643)	-	-
Gross balance sheet exposure	23,666	(706)	-
Company 2009			
Cash and cash equivalents	-	14	-
Trade and other receivables	-	10,760	-
Trade payables and accruals	-	(11)	-
Gross balance sheet exposure	-	10,763	-
Consolidated 2008			
Cash and cash equivalents	27,634	114	-
Trade and other receivables	9,255	-	-
Trade payables and accruals	(1,561)	(493)	(36)
SRB and income tax provisions	(24,152)	-	-
Gross balance sheet exposure	11,176	(379)	(36)
Company 2008			
Trade and other receivables	-	13,625	-
Trade payables and accruals	-	(10)	(36)
Gross balance sheet exposure	-	13,615	(36)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
AUD to:	2009	2008	2009	2008
1 Thai baht	0.040	0.036	0.037	0.031
1 USD	1.36	1.12	1.24	1.04

32. Financial risk management (continued)

(d) Currency risk (continued)

Sensitivity analysis

A 10% strengthening of the AUD against the US$ for the 6 months to 31 December 2008 and against the THB for the 6 months to 30 June 2009, reflecting the change in functional currency of the Phetchabun Basin Joint Venture from 1 January 2009, and against the THB as at 30 June 2009, 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		COMPANY	
	Equity $000	Profit and loss $000	Equity $000	Profit and loss $000
30 June 2009				
THB and US$	(7,752)	(5,077)	(1,232)	(1,232)
30 June 2008				
USD	(3,439)	(2,137)	(1,237)	(1,237)

A 10% weakening of the AUD against the US$ for the 6 months to 31 December 2008 and against the THB for the 6 months to 30 June 2009, reflecting the change in functional currency of the Phetchabun Basin Joint Venture from 1 January 2009, and against the THB as at 30 June 2009, 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		COMPANY	
	Equity $000	Profit and loss $000	Equity $000	Profit and loss $000
30 *June* 2009				
THB and USD	9,412	6,206	1,232	1,232
30 *June* 2008				
USD	4,203	2,612	1,515	1,515

(e) Fair values

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

	Carrying amount 2009 $000	Fair Value 2009 $000	Carrying amount 2008 $000	Fair Value 2008 $000
Consolidated				
Loans and receivables	11,904	11,904	12,443	12,443
Cash and cash equivalents	31,099	31,099	28,281	28,281
Trade and other payables	(6,901)	(6,901)	(3,368)	(3,368)
	36,102	36,102	37,356	37,356
Company				
Loans and receivables	13,003	13,003	15,501	15,501
Investment in controlled entities	1,483	1,483	1,483	1,483
Cash and cash equivalents	3,380	3,380	570	570
Trade and other payables	(1,017)	(1,017)	(531)	(531)
	16,849	16,849	17,023	17,023

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

32. Financial risk management (continued)

(f) Liquidity risk

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

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

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

	Carrying amount $000	Contractual cashflows $000	6 months or less $000	6 to 12 months $000
Consolidated 2009				
Non-derivative financial liabilities				
Trade and other payables	6,901	6,901	6,901	-
SRB and income tax provisions	6,643	6,643	3,521	3,122
	13,544	13,544	10,422	3,122
Company 2009				
Non-derivative financial liabilities				
Trade and other payables	1,017	1,017	1,017	-
	1,017	1,017	1,017	-
Consolidated 2008				
Non-derivative financial liabilities				
Trade and other payables	3,368	3,368	3,368	-
SRB and income tax provisions	24,152	24,152	9,304	14,848
	27,520	27,520	12,672	14,848
Company 2008				
Non-derivative financial liabilities				
Trade and other payables	531	531	531	-
	531	531	531	-

DIRECTORS' DECLARATION

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

(a) the financial statements and notes of the Company and of the Group set out on pages 29 to 68 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and Group's financial position as at 30 June 2009 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and

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

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2009.

Signed in accordance with a resolution of the directors.

PJ Leonhardt
Director

Perth, 28 August 2009

WHK Horwath

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

We have audited the accompanying financial report of Carnarvon Petroleum Limited (the company) and Carnarvon Petroleum Limited and its Controlled Entities (the consolidated entity), which comprises the balance sheet as at 30 June 2009 and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report
The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

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

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

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

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

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

(a) (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

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

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

Total Financial Solutions

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INDEPENDENT AUDIT REPORT TO MEMBERS OF CARNARVON PETROLEUM LIMITED AND ITS CONTROLLED ENTITIES (CONT'D)

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 20 to 25 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Carnarvon Petroleum Limited (the company) and Carnarvon Petroleum Limited and its Controlled Entities (the consolidated entity) for the year ended 30 June 2009, complies with section 300A of the Corporations Act 2001.

WHK HORWATH PERTH AUDIT PARTNERSHIP

SEAN MCGURK
Principal

Dated this 28th day of August 2009

Perth, WA

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.carnarvonpetroleum.com:

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

Explanations for departures from best practice recommendations

From 1 July 2008 to 30 June 2009 (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.
4	4.2	The Audit Committee comprised two independent directors. An additional independent director was appointed on 1 July 2009.	In accordance with Listing Rule 12.7, the Company was not required to comply with Recommendation 4.2 prior to admission to the ASX top 300.
8	8.1	A Remuneration Committee was appointed on 1 August 2008.	Prior to its formation the Board considered that the Company was not of a size to justify the formation of a Remuneration Committee. The Board as a whole undertook the role of this committee prior to its formation.

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 20 to 25.

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, Neil Fearis, and Ken Judge.

None 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 26 August 2009

Substantial shareholders

The following substantial shareholder notices are lodged with the Company:

Name of Shareholder	Number of Shares	% held
Barclays Global Investors Australia Limited	36,107,227	5.28

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	59,302,913	8.67
National Nominees Limited	56,695,602	8.29
J P Morgan Nominees Australia Limited	53,743,584	7.86
ANZ Nominees Limited <Cash Income A/C>	18,024,980	2.64
Mr Edward Patrick Jacobson	12,917,903	1.89
Citicorp Nominees Pty Limited	11,143,997	1.63
Pendomer Investments Pty Ltd <Law Settlements Fund A/C>	8,400,000	1.23
Cogent Nominees Pty Limited	8,132,673	1.19
Jacobson Geophysical Services Pty Ltd	8,000,000	1.17
Mr Peter James Leonhardt	7,700,000	1.13
Arne Investments Pty Ltd	6,710,493	0.98
Cogent Nominees Pty Limited <SMP Accounts>	6,354,899	0.93
Mr Gregory John Munyard + Mrs Maria Ann Munyard + Miss Carmen Helene Munyard <Riviera Super Fund A/C>	6,164,000	0.90
Geolyn Pty Ltd	6,000,000	0.88
Mr Edward Patrick Jacobson	6,000,000	0.88
Queensland Investment Corporation	4,105,911	0.60
UBS Nominees Pty Ltd	4,105,900	0.60
Australian Reward Investment Alliance	4,028,214	0.59
Athol Steel Pty Ltd	4,000,000	0.59
Arne Investments Pty Ltd	3,991,906	0.58
	295,522,975	**43.23**

Distribution of equity security holders

Size of Holding			**Number of shareholders**	**Number of fully paid shares**
1	to	1,000	520	360,338
1,001	to	5,000	2,273	7,175,157
5,001	to	10,000	1,854	15,712,034
10,001	to	100,000	3,576	124,650,381
100,001	and over		618	535,776,724
			8,841	683,674,634

The number of shareholders holding less than a marketable parcel of ordinary shares is 896.

b) Option holdings as at 26 August 2009

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 Pan Orient Energy	40% 60%	Pan Orient Energy
L33/43	Phetchabun / Thailand	Carnarvon Pan Orient Energy	40% 60%	Pan Orient Energy
L44/43	Phetchabun / Thailand	Carnarvon Pan Orient Energy	40% 60%	Pan Orient Energy
L20/50	Phitsanulok / Thailand	Carnarvon Sun Resources	50% 50%	Carnarvon
EP321 & EP407	Perth / Australia	Carnarvon	2.5% ORRI	Latent Petroleum
WA-399-P	Carnarvon / Australia	Carnarvon Rialto Energy	50% 50%	Carnarvon
EP110 & EP 424	Carnarvon / Australia	Carnarvon Strike Oil Pancontinental Oil and Gas	35% 40% 25%	Strike Oil
WA-345-P	Roebuck / Australia	Carnarvon	100%	Carnarvon

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