CARNARVON
PETROLEUM LTD

ANNUAL REPORT 2011

For the financial year ended June 30, 2011
ABN 60 002 688 851

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

COMPANY SECRETARY
RA Anderson

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

ASX CODE:
CVN - ordinary shares

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CHAIRMAN'S REVIEW

We are pleased to report that our operational results have enabled us to record an after tax profit of $2.2 million for the 2011 financial year after writing off exploration expenditure totalling $11.2 million. The $13.4 million profit before exploration expenditure written off is slightly less than the equivalent 2010 financial year result of $14.8 million. Over the last five reporting periods, Carnarvon has reported accumulated net profits after tax in excess of $58 million and generated cash to sustain a very active field and development programme together with our exploration activities. Carnarvon has achieved this result by carefully managing its exploration commitments and conservatively carried only $6.0 million for exploration assets on its balance sheet at 30 June 2011.

Initiatives to improve the stability and predictability of production in the future will involve focusing on increasing the proportion of production from sandstone reservoirs that typically flow at more stable rates for longer periods than production from volcanic reservoirs. A key characteristic of the sandstone reservoirs is that they do not provide the rapid pay back enjoyed from the volcanic reservoirs, which flow at higher initial rates. Consequently we have consumed capital on this endeavor during the year and plan to continue this investment in 2012 as we pursue this re-weighting in the production mix in the short to medium term.

During the year Gaffney, Cline & Associates endorsed the Operator's 2P reserve estimates at over 20 million barrels net to Carnarvon. This was a 16% decline on the previous year's estimate, but nonetheless represents a substantial reserve position for the Company.

We again offer our thanks to Pan Orient Energy Corp, the Operator of our production asset in Thailand, for their ongoing efforts in what has been a challenging year.

During the year Carnarvon, as Operator, completed two exploration wells in the L20/50 Concession in Thailand which did not, however, encounter hydrocarbons in commercial quantities. After a period of significant effort acquiring and interpreting new seismic data and then undertaking these exploration wells we were naturally disappointed not to have obtained a more encouraging result. However, since completing the wells we have received some encouraging new information in relation to geochemical analysis of drill samples and new discoveries in the region that has the Carnarvon team re-assessing their previous leads and prospects in this Concession. I would like to thank the Carnarvon team for their efforts this year in diligently pursuing and safely executing this and several other projects.

We also advanced a number of other assets toward the testing of their prospectivity. Of particular note is the work undertaken in preparing for and acquiring seismic in permits in Australia, Indonesia and Thailand, in anticipation of undertaking drilling activities in 2012 and 2013. The Phoenix asset situated 150km north of Port Hedland has created particular excitement within the Carnarvon team as the preliminary 3D data supports several multi TCF recoverable prospects and well log data and regional field assessments also suggest potential for condensate.

In my last review I referred to the Board changes that actually occurred during the 2011 financial year in terms of the retirement of Ken Judge and the appointment of Bill Foster. This year Bill has made a considerable contribution to the Board and brings to us extensive and invaluable industry experience.

The Board was sorry to announce in June 2011 the retirement of Ted Jacobson, who has been central to the growth of the Company since joining some five years ago. However, we have been fortunate to retain his services as a non-executive director and to have secured his continuing technical support of the Carnarvon management team on a consultancy basis.

Clearly the current year has been difficult for Carnarvon's shareholders and the Board acknowledges their concerns. However the outlook for Carnarvon is more optimistic. We have an excellent portfolio of development and exploration opportunities including the exciting Phoenix asset. I can assure you that our entire team is fully committed to the development of stable sandstone production in Thailand and the continued exploration programs.

Peter Leonhardt
Chairman

Carnarvon's strategy is to build a profitable company, from a diversified portfolio of exploration and production assets, which create value for shareholders over the long term.

In the near term the Company is focussed on the delivery of production and steady cashflow from its onshore Thailand assets.

We are also focussed on advancing Carnarvon's exploration portfolio within and outside of Thailand. In this regard we have made significant progress on several fronts this year, including the work undertaken over the series of Phoenix blocks in the Carnarvon Basin, offshore Western Australia and the Rangkas block, onshore in Indonesia.

We continue to seek attractive acquisition opportunities in prolific oil and gas basins in South East Asia and Australia. Our focus is on conventional hydrocarbons that are either onshore or in shallow offshore waters and include exploration opportunities and producing assets with production appraisal or exploration upside.

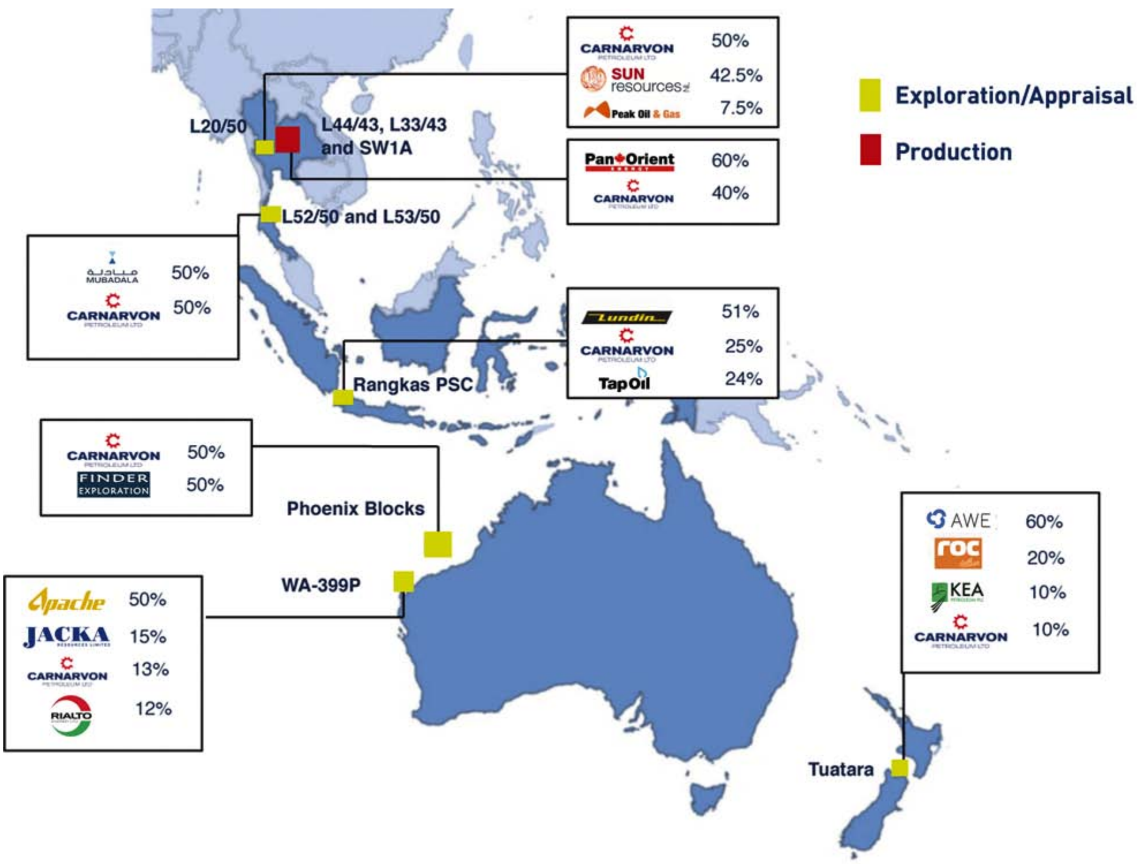
During the 2011 financial year Carnarvon conducted its first operated drill program with the completion of the Tapao Kaew and Krai Thong exploration wells in the L20/50 Concession, onshore Thailand. We are currently studying the results of these wells and considering the results of recent geochemical analysis from well samples. We are also incorporating this work into reprocessed seismic data before determining the forward exploration plans for this region.

In addition to the L20/50 Concession wells, Carnarvon was involved in the continuous drilling and production operations at the non-operated L33/43 and L44/43 Concessions in Thailand and the drilling of the Tuatara-1 well offshore New Zealand.

Carnarvon was also actively engaged in seismic exploration activities through the financial year, commencing or completing seismic acquisition in Australia, Indonesia and Thailand.

Overall, during the 2011 financial year Carnarvon:

- participated in the drilling of 25 wells;
- acquired 1,250 km of 2D seismic;
- acquired 1,160 km^2 of 3D seismic;
- produced 731,544 bbls of oil.



PERMIT SUMMARY

Permit	Basin	Equity	Joint Venture Partner(s)	Partner Interest	Indicative Forward Program
Thailand					
SW1A	Phetchabun	40%	Pan Orient Energy *	60%	Production, Development, Appraisal
L33/43	Phetchabun	40%	Pan Orient Energy *	60%	Production, Appraisal, Exploration
L44/43	Phetchabun	40%	Pan Orient Energy *	60%	Production, Development, Appraisal, Exploration
L20/50	Phitsanulok	50%	Sun Resources Raisama	42.5% 7.5%	Post well G&G studies Seismic planning
L52/50	Surat-Khiensa	50%	Pearl Oil Resources*	50%	Seismic acquisition and Interpretation
L53/50	Surat-Khiensa	50%	Pearl Oil Resources*	50%	Seismic acquisition and Interpretation
Australia					
WA-435-P	Roebuck	50%	Finder Exploration*	50%	Interpretation, Farmout
WA-436-P	Roebuck	50%	Finder Exploration*	50%	G & G Studies
WA-437-P	Roebuck	50%	Finder Exploration*	50%	Interpretation, Farmout
WA-438-P	Roebuck	50%	Finder Exploration*	50%	G & G Studies
WA-443-P	Roebuck	100%			G & G Studies
EP321	Perth	2.50% of 38.25% (i)			Appraisal
EP407	Perth	2.50% of 42.5% (i)			Appraisal
WA399P	Carnarvon	13%	Apache * Rialto Energy Jacka Resources	60% 12% 15%	Interpretation
Indonesia					
Rangkas	West Java	25%	Lundin Petroleum Tap Oil	50% 24%	Interpretation
New Zealand					
PEP38524	Taranaki	10%	AWE* ROC Oil Kea Oil and Gas	60% 20% 10%	Post well review

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

THAILAND

L44/43, L33/43 &, SW1A PHETCHABUN BASIN ("WICHIAN BURI PROJECT")
(Carnarvon Petroleum 40%, Pan Orient 60% operator)

WICHIAN BURI SUMMARY

As outlined in the following table, Carnarvon participated in the drilling of 22 individual boreholes (excluding sidetracks) within the L33/43, L44/43 and SW1A Concessions during the reporting period, resulting in 13 wells producing at commercial rates and several new oil pool discoveries.

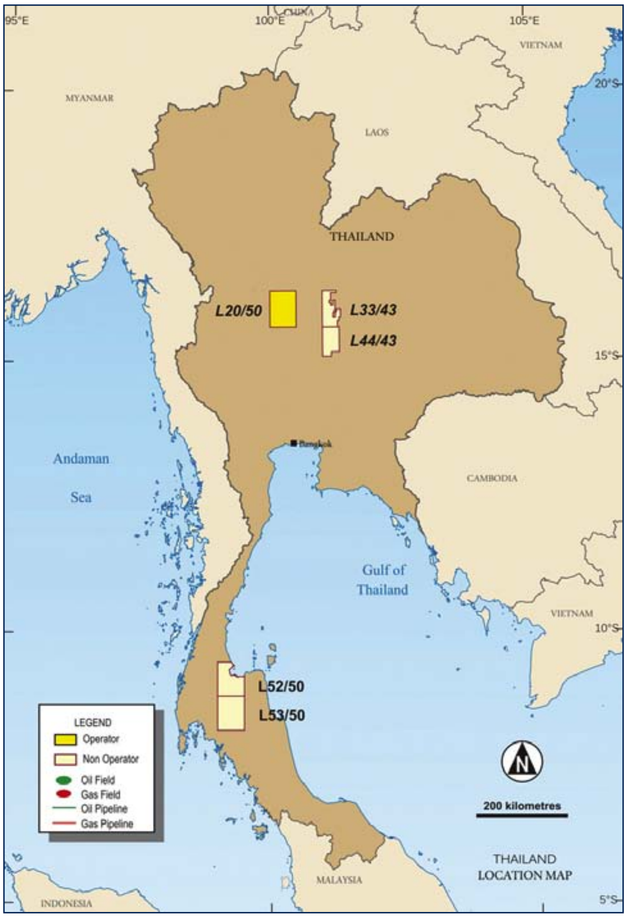


Figure 1. Permit map of Thailand.

New discoveries were found in volcanic reservoirs at L33-1, L33-2, WBEXT WBV1 and WBEXT WBV2 and in sandstone reservoirs at WBEXT "D", "E" and "F".

New production licenses were also granted over the L33-1 & 2 discoveries ("L33 PL") and the WBEXT discoveries ("WBEXT PL"). There are now a total of eight production licenses. The pre-existing licences are Wichin Buri Licence I and II, Na Sanun, Si Thep, Na Sanun East and Bo Rang North.

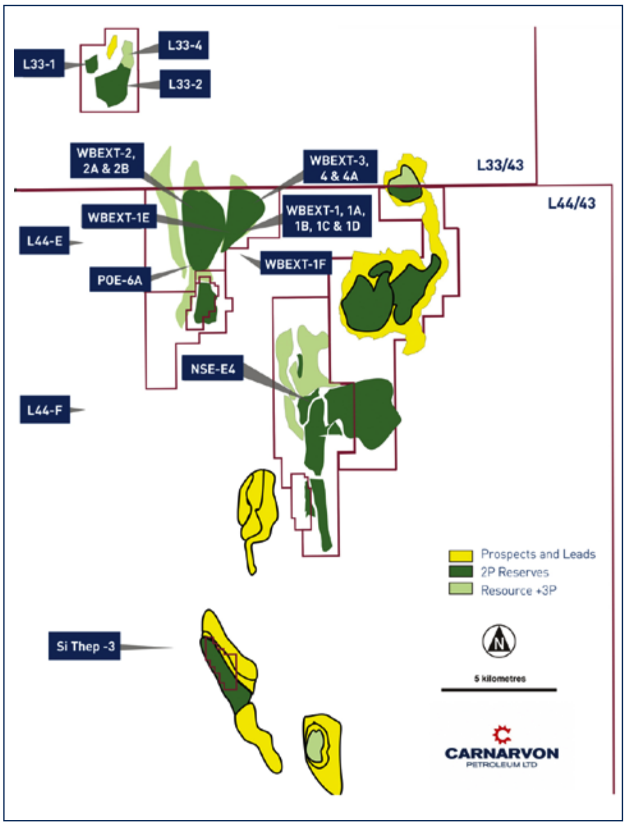


Figure 2. Location of oilfields and prospects within the Wichian Buri Project – Phetchabun Basin.

Well	Field		Spud Date	FY 2010/11 Ave. Production Rate (bbl/d)
Q1				
L33-1	L33	New volcanic field discovery and first production from the L33/43 concession. Tested at up to 1,100 bopd from the WBV1 volcanic.	7/4/2010	372
L33-2	L33	New volcanic field discovery in L33/43 concession, approximately 1.8 km south of L33-1. Tested at rates up to 2,400 bopd from the WBV1 volcanic. At the completion of the 90 day production test, the well was shut-in and sidetracked to evaluate the WBV1 volcanic in the L33-2 area. Production recommenced in April 2011.	7/28/2010	109
Tuatara-1	NZ	Drilled to a total measured depth of 1,911 metres, during which minor oil shows were intermittently reported over the interval 1,790 – 1,850 metres. Wireline logs were run, but no zones of economic potential were identified.	7/28/2010	0
WBEXT-1	WBEXT	Concession L44 new field discovery producing from the WBV1 volcanic reservoir. The well was tested at rates up to 2,500 bopd under a 90 day production test which expired in November 2010. The well recommenced production when the production licence was granted in February 2011.	7/14/2010	1471
WBEXT-1A	WBEXT	New pool discovery in the WBV2 volcanic in the WBEXT field. Well produced up to 5,300 bopd during a 90 day production test period until December. The well was shut in until the production licence was granted in February 2011. Well production was choked back as a result of water incursion.	8/7/2010	984
WBEXT-1B	WBEXT	New pool discovery (sandstone reservoir) in the WBEXT field. Well produced up to 550 bopd during a 90 day production test period until mid December 2010. The well was shut in until the production licence was granted in February 2011.	8/31/2010	239
WBEXT-2	WBEXT	Exploration / appraisal well initially tested gas at rates up to 3.0 million cubic feet per day from the WBV2 volcanic. The well was deepened to target a potential oil leg but failed to encounter quality reservoir. The well was sidetracked and subsequent testing of the WBV2 volcanic resulted in a brief oil flow. The well is currently suspended.	9/16/2010	0
WBEXT-2A	WBEXT	Exploration well targetting the WBV3 lower volcanic zone in the WBEXT area. The original wellbore and subsequent sidetrack both encountered reasonable thickness reservoir with good oil shows but testing indicated both zones were tight.	9/27/2010	0
Q2				
WBEXT-1C	WBEXT	Appraisal well for the WBV1 volcanic reservoir. Initially tested at 3,500 bopd but water incursion in January 2011 reduced the production rate. Subsequently shallower sandstone reservoir sections were perforated and the well is now on production as a sandstone development well.	11/2/2010	940
WBEXT-3	WBEXT	WBV1 volcanic zone tested and found to be tight. The shallower sandstone zones produced water on test.	11/14/2010	0
WBEXT-4	WBEXT	Exploration well encountered a sandstone approximately 14 metres thick at a shallow depth of around 400 m TVD. Subsequent testing resulted in low flows due to the waxy crude and low temperature from this shallow reservoir.	12/7/2010	52
WBEXT-4A	WBEXT	Exploration well and subsequent sidetrack targeting the as yet unproven WBV3 volcanic which was found to be tight. The well also tested a sandstone section and is on production at low rates.	12/14/2010	7
WBEXT-1D	WBEXT	Appraisal well targetting multiple sandstone zones in the WBEXT area. The well tested both gas and oil from the "D" and "E" sands. Commingling of several reservoir sections has resulted in cyclic production of up to 75 bopd.	18/12/2010	58
Q3				
NSE-E4	NSE	Exploration well targetting a potential volcanic reservoir below the main NSE Central reservoir. A 30 metre thick volcanic was encountered with good oil shows but subsequent testing resulted in minor oil with significant formation water.	1/27/2011	0
Tapao Kaew-1	L20/50	Several sands were intersected in the shallower sections however analysis of wireline logs, cutting samples, gas readings and other data indicates the sands are not hydrocarbon bearing.	1/31/2011	0
L44-F	L44	Exploration well targeting both sandstone and volcanic reservoirs encountered sands without an effective top seal resulting in only water bearing sands. The presence of good quality sandstone reservoir is encouraging for future exploration in this area.	2/12/2011	0
L44-E	L44	Exploration well six kilometres north of L44-F was targetting multiple stacked sandstones but the drilling was halted early to test a shallow volcanic reservoir with high gas readings and mud losses. The zone was tested but only produced water. The well is currently suspended and will be re-entered to test the original deeper sandstone targets at a later date.	2/23/2011	0
Krai-Thong-1	L20/50	Wireline testing of several zones of potential hydrocarbon bearing intervals have proved water as the mobile fluid and led the joint venture to the decision to plug and abandon the well.	2/28/2011	0
Si Thep-3	Si Thep	Exploration well for sandstone target failed to encounter reservoir quality sand and was abandoned.	3/17/2011	0
Q4				
L33-4	L33	Exploration well targetting the WBV1 volcanic around 2.2 km north of the L33-2 oil well. The well is currently suspended as a sub commercial oil discovery.	4/16/2011	0
WBEXT-1E	WBEXT	Appraisal well of the WBEXT "E" sandstone tested at rates between 200 and 300 bopd and was subsequently put on full production.	4/30/2011	213
WBEXT-1F	WBEXT	Discovery of new "D" and "E" sandstone reservoir pools in the WBEXT-1F fault compartment. While the "E" sand flowed predominantly gas the "D" sand has been placed into production.	5/11/2011	65
WBEXT-4B	WBEXT	Exploration well encountered good oil shows in several sands however subsequent testing resulted in sub-commercial oil flows. The well remains open to work over to test other reservoir zones.	6/5/2011	0
WBEXT-2B	WBEXT	The original appraisal well to the 2010 WBEXT WBV2 discovery was abandoned due to stuck downhole equipment and a subsequent sidetrack flowed initially on test at rates up to 1,100 bopd.	6/17/2011	0
POE-6A	L44	Appraisal well to the 2006 POE-6 discovery producing from the "G" sandstone at rates around 80 bopd.	6/22/2011	0

WICHIAN BURI PRODUCTION FACILITIES

Carnarvon and its partner in the Wichian Buri group of fields employ low cost, fit for purpose facilities designed to extract, process, transport and sell the produced crude as efficiently as possible.

The efficiency begins at the surface location, with multiple well clusters being drilled from central well sites. Well sites are purchased with flexibility in mind, such that during the exploration phase maybe only one or two well cellars are developed but expansion is possible with extension of the well pads (see Figure 7 for example of multiple producing wells from a single site).

The operator of the permits has been continuously drilling in the region, with up to three rigs at a time, since 2006 and has an enviable record of safety, performance and cost control. The primary drilling rig used by the operator has exhibited superior performance over the past year and the drilling rig company has indicated that a second rig may be available in October 2011 if required. Wells are typically drilled very efficiently and for low cost.

Extraction of the oil is via one of three main methods: free flow during the initial flush production, Electrical Submersible Pumps ("ESP") for high rate wells and simple pumpjacks for low rate wells.

On site the oil, water and gas are separated via right-sized heater treater units. Water is temporarily stored on site in water knockout tanks before eventual transfer to centrally located water injection wells. As at the end of the 2011 financial year, the capacity of the water injection wells is around 12,000 bfpd with redundancies built in via multiple injection pumps and wells. The joint venture continues to monitor water injection capacities to ensure sufficient excess.

The separated gas is used onsite as fuel for the heater treater separator systems, as heat for the storage tanks to prevent waxing of the crude, and as fuel for reciprocal gas engines to generate power for onsite pumps. Any remaining gas is flared.

The crude is stored on-site in various tank systems. The tanks come in individual 100 barrel, 200 barrel, 1,000 barrel and 2,000 barrel sizes and are moveable around sites. In this way facilties can be very rapidly put together to test different rate wells and be reused as required. Across the various well sites in the area, the joint venture has around 50,000 barrels of storage, of which supplemental tank farms represents around half, allowing for 5-10 days of storage across all the locations.

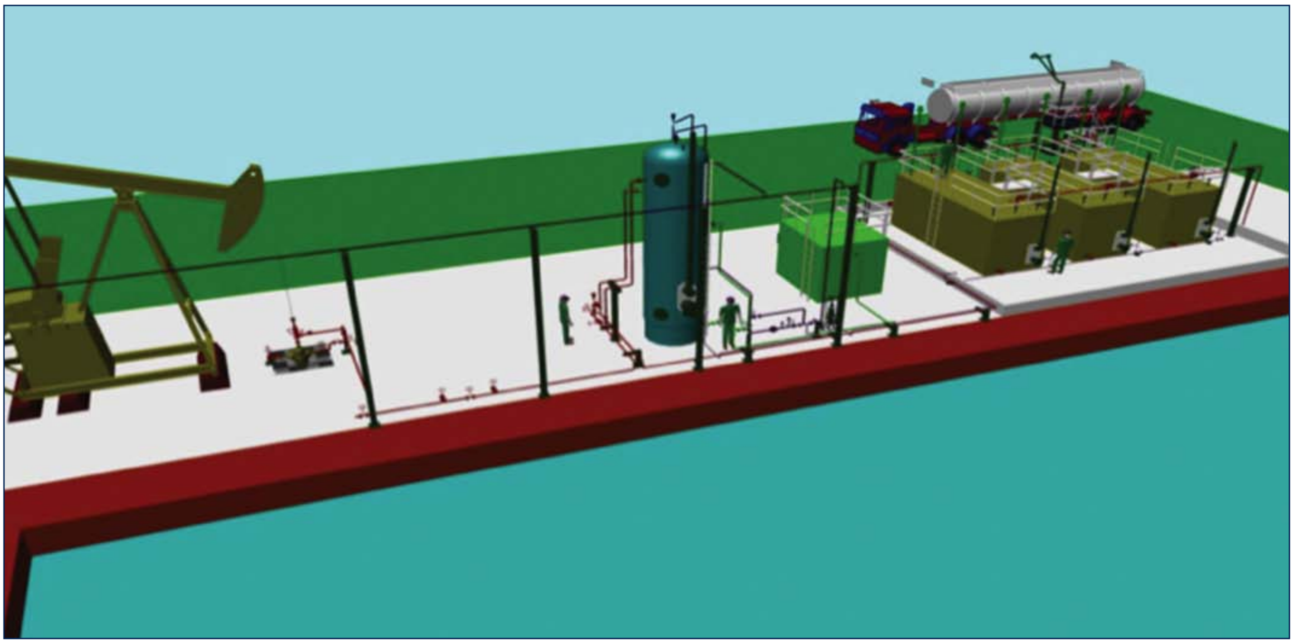


Figure 3. Production site layout incorporating (from left) pumpjack, heater treater, water knockout tank, crude storage tanks and offloading to road tanker.

Figure 4. Safely and environmentally contained wellsites.

Figure 5. Fit for purpose lifting and treatment methods.

The crude is pumped into 200 barrel road tankers on-site and transported generally to Bangkok for sale to local refineries. Tankers are leased from at least three different companies.

The facilities are rapidily scalable across the various sites and also as a complete system. This ensures that the right size facilities are in place and that costs are kept as low as possible.

WICHIAN BURI PRODUCTION

Production from the Wichian Buri suite of fields varied throughout the financial year due primarily to wells coming off flush production (a characteristic of volcanic wells as detailed in previous annual reports), wells requiring shut-in because of legislative requirements and then not recovering and natural field decline.

Oil production for the past financial year averaged 4,994 BOPD gross (1,998 BOPD net to Carnarvon).

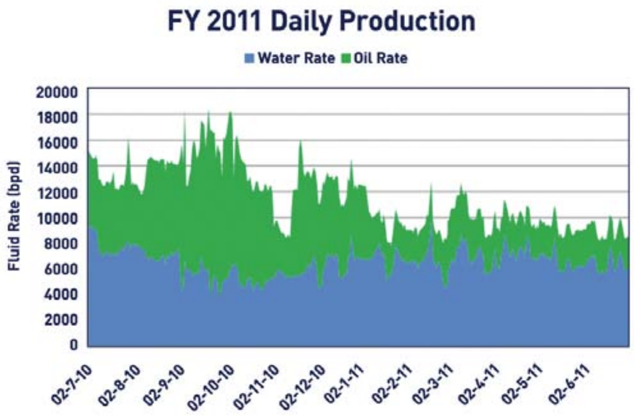


Figure 6. Small footprint, easily transportable drilling rig.

Figure 7. Multiple production wells per location.

L20/50 PHITSANULOK BASIN

(Carnarvon Petroleum 50% Operator, Sun Resources 42.5%, Peak Oil & Gas 7.5%)

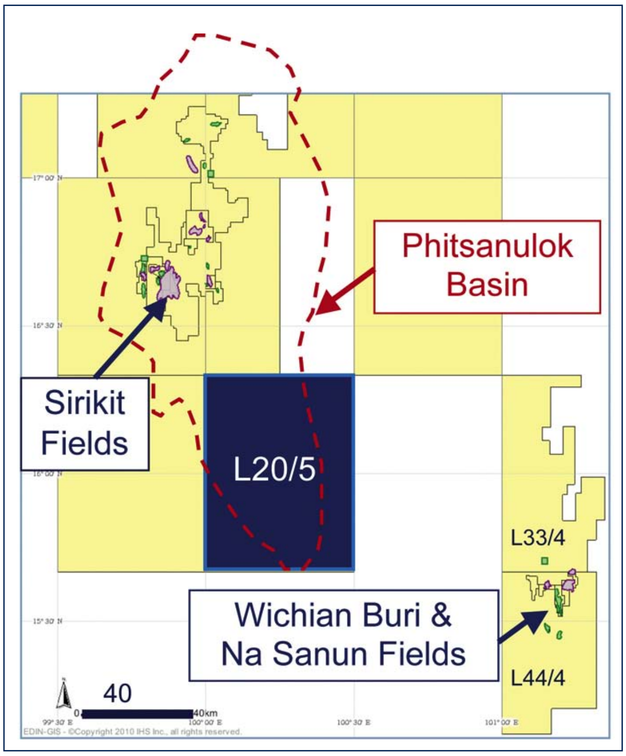


Figure 8. L20/50 Phitsanulok basin outline.

The L20/50 Concession, granted in January 2007, 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 kms to the west of Carnarvon's 40% owned Wichian Buri producing assets. The concession covers 4,000 km^2 and is lightly explored.

Acquisition of 550 kms of 2D seismic data was completed in 2009. Processing and interpretation of the new 2D seismic data was completed by early 2010.

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

Three drillable prospects were identified from a seriatum of over 20 leads, and two wells were drilled in the concession in early 2011.

Tapao Kaew-1 was drilled in January 2011 and several sands were intersected in the shallower sections of the well. Rig site analysis of wireline logs, cutting samples, gas readings and other data indicated the sands were not hydrocarbon bearing.

Krai Thong-1 was drilled in February 2011 and wireline testing of several zones of potential hydrocarbon bearing intervals proved water as the mobile fluid and led the joint venture to the decision to delay drilling of the third well.

Post well analysis of cuttings indicates a working petroleum system may be present in the block and has encouraged the joint venture to reprocess the available data.

All three locations are still available for drilling. Casing and completion equipment are still part of the joint venture's working capital and a drilling rig is stacked on location. This capability enables the joint venture to rapidly remobilise and commence drilling if the current studies, reprocessing and post well analysis prove up a valid drilling prospect.

L52/50 AND L53/50 SURAT-KHIENSA BASIN

(Carnarvon Petroleum 50%, Pearl Oil 50% operator)

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

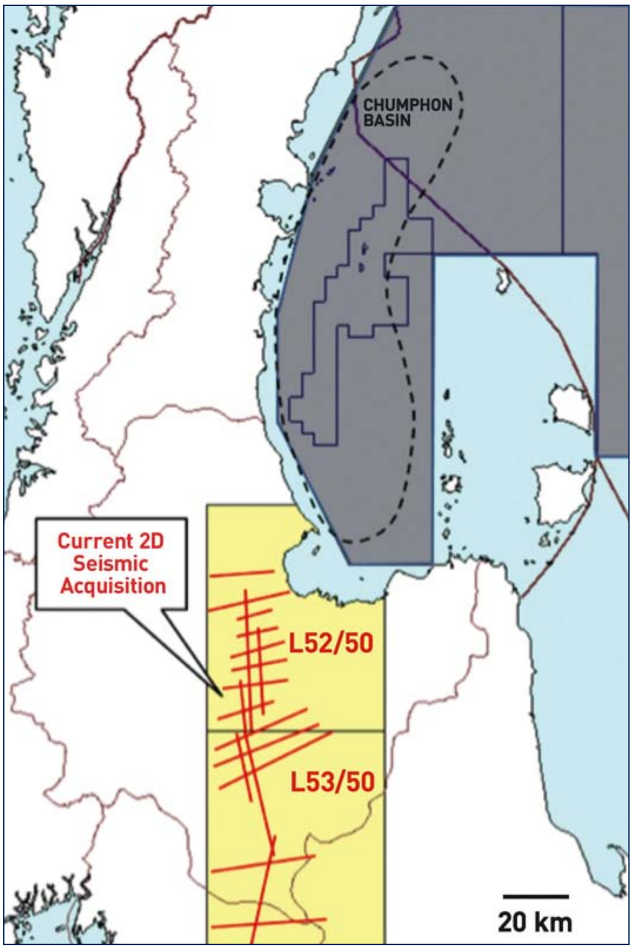


Figure 9. L52/50 and L53/50 concessions showing current 2D seismic acquisition.

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

Some leads have been identified on the limited 2D seismic available.

Three oil and gas exploration wells have been drilled in L52/50 Concession in addition to two very shallow coalbed methane wells. One well has been drilled in the L53/50 Concession. One of the wells drilled in L52/50 Concession (PK-1) is reported to have encountered gas.

Preparations for the acquisition of up to 500 km of 2D seismic data across the combined L52/50 & L53/50 Concessions are well advanced, with land permitting and up-hole drilling in progress.

It is anticipated that the new seismic data will be acquired, processed and interpreted in 2011 in order to generate prospects for drilling in 2012.

AUSTRALIA

WA-435-P, WA-436-P. WA-437-P & WA-438-P OFFSHORE NORTHWEST SHELF

(Carnarvon Petroleum 50%, Finder Exploration 50% operator)

The WA-435-P, WA-436-P, WA437-P and WA-438-P permits contain the Phoenix-1 and Phoenix-2 gas discoveries with contingent and prospective resources, in the order of several TCFs of gas close to onshore pipeline infrastructure at Port Hedland. Central to the appraisal of these discoveries is the acquisition and interpretation of new 3D and 2D seismic data.

In late 2010 operations commenced for the acquisition of 1,100 km^2 of new, multi-client 3D seismic data over the area highlighted below. The 3D seismic data are being acquired specifically to assist in the appraisal of the Phoenix gas field in WA-435-P and to target other identified gas prospects and leads in WA-435-P and the adjacent WA-437-P permit.

In conjunction with the 3D seismic programme, 407 km of 2D seismic data was also acquired, providing important well ties and new data over key leads in the area.

The Phoenix 3D & 2D seismic survey finished acquisition on 16 February 2011 with the processed 3D dataset being delivered in July 2011.

Processing of the Phoenix 3D seismic survey is scheduled for completion in 3rd quarter 2011, with detailed velocity analyses and migration being carried out. This will be followed by detailed reservoir analysis and remapping of the Phoenix and Phoenix South structural complex in the WA-435-P permit and also the large Roc Prospect and other follow-up leads in the WA-437-P permit.

In conjunction with the 3D seismic programme, 407 km of 2D seismic data was also acquired, providing important well ties and new data over key leads in the area. Seismic re-processing of pre-existing 2D seismic over the Bandy and other leads in the area is also underway.

In addition, a regional airborne gravity and magnetics survey, recorded over the western blocks in the Bedout Sub-basin, was also interpreted during the June quarter and has provided a regional set of maps to complement the seismic interpretation.

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).

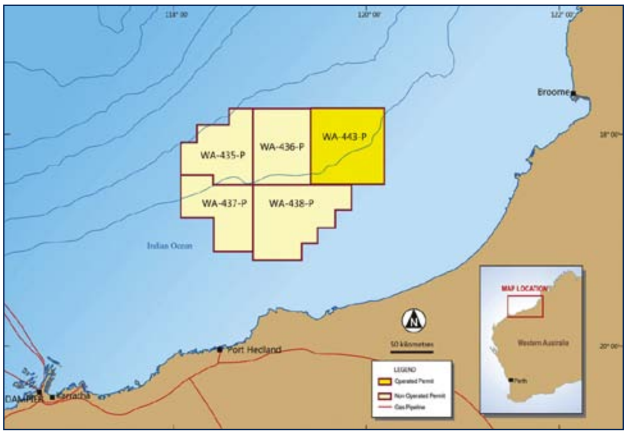


Figure 10. North West Shelf permit map.

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. 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 to15 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 TCFs of recoverable gas, if exploration and appraisal drilling are successful.

WA-443-P AUSTRALIA OFFSHORE NORTHWEST SHELF

(Carnarvon Petroleum 100% Operator)

In April 2010 Carnarvon was successful in its bid for 100% of a new exploration permit gazetted by the Australian government, WA-443-P, offshore Western Australia. This permit is situated adjacent to Carnarvon's four existing permits WA-435-P, WA-436-P, WA-437-P and WA-438-P, in which it holds a 50% interest, within the Bedout Sub-Basin.

The block covers an area of approximate 7,300 km^2.

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

A large Middle Triassic prospect, Jaubert, has previously been recorded in the block as a faulted anticlinal closure. The structural form and size of Jaubert are comparable to the adjacent Phoenix group of potentially large gas accumulations.

Carnarvon acquired 1,500 km of reprocessed 2D seismic data during the 2011 financial year.

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

WA-399-P – AUSTRALIA OFFSHORE NORTHWEST SHELF

(Carnarvon Petroleum 13%, Apache Energy 60% and Operator,Jacka Resources 15% and Rialto Energy 12%)

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

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

The newly acquired 3D seismic data is being processed and the interpretation, anticipated to be complete at the end of 2011, will enable the Joint Venture to further de-risk a number of existing prospects that have already been mapped within the permit.

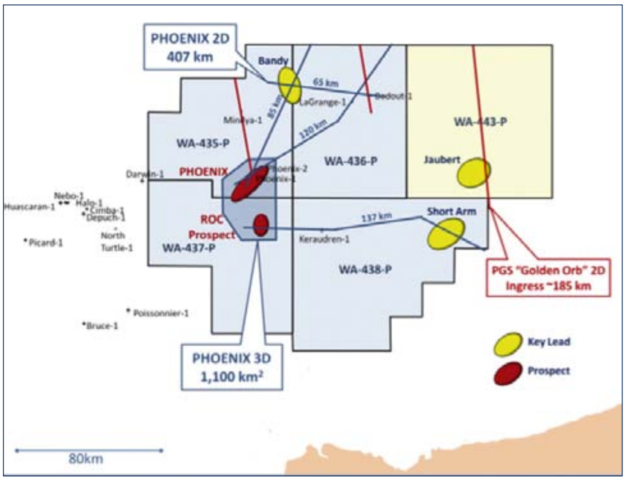


Figure 11. North West Shelf leads and prospects.

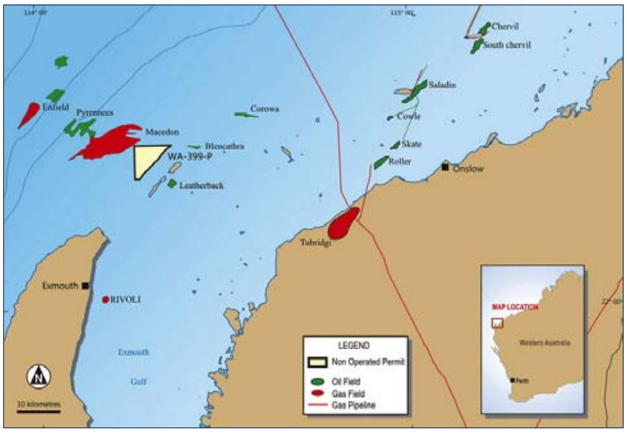


Figure 12. WA-399-P permit map.

INDONESIA

RANGKAS PSC ONSHORE JAVA

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

In September 2009, Carnarvon successfully entered into the Rangkas PSC onshore Indonesia. The proximity to Jakarta ensures that even modest oil and gas accumulations can potentially be commercialized.

The exploration block covers an area of almost 4,000 km^2 and, while containing direct evidence of live oil from seeps in the block, has limited recent exploration, with the most recent well drilled around 20 years ago.

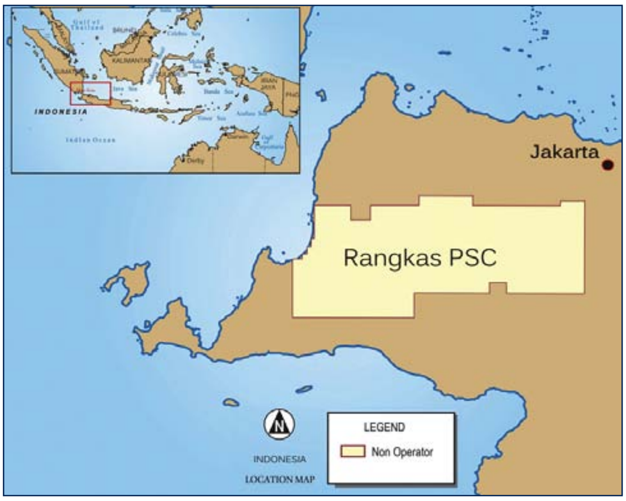


Figure 13. West Java permit map.

During the 2011 financial year around 500 km of new 2D seismic data was acquired, processed and interpreted, in order to better delineate the 12 significant leads identified from the reprocessing of 1000 km of existing 2D data.

The interpretation has highgraded several leads which are geologically promising with significant volumes in the 20-80 MM bbls range gross (5 to 20 MM bbls net to Carnarvon). The joint venture is expected to progress one of these leads to a drillable prospect with drilling anticipated for 2013.

NEW ZEALAND

PEP38524 OFFSHORE TARANAKI

(Carnarvon Petroleum 10%, AWE 60% and Operator, ROC Oil 20%, Kea Oil and Gas 10%)

During the financial year, Carnarvon farmed into exploration block PEP 38254 offshore New Zealand in the southern Taranaki Basin.

Within the permit the Tuatara-1 well was drilled, targeting a significant structure. While the well recorded gas and oil shows over an extensive interval no zones of economic potential were identified.

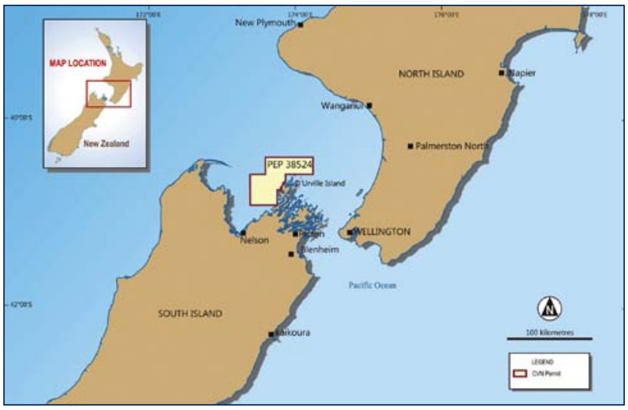
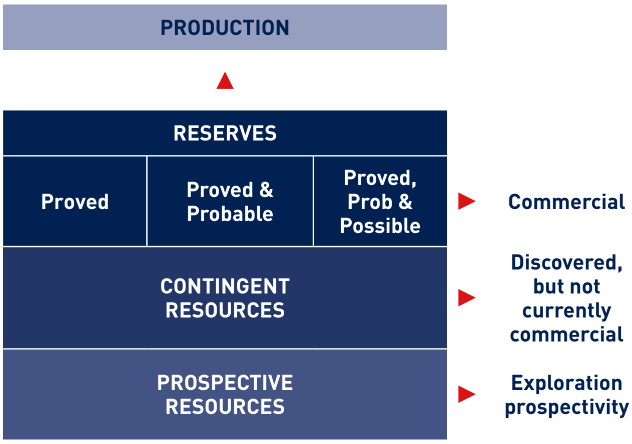


Figure 14. New Zealand permit map.

RESERVE ASSESMENT

PETROLEUM RESOURCE CLASSIFICATION, CATEGORISATION AND DEFINITIONS

Carnarvon calculates reserves and resources according to the SPE/WPC/AAPG/SPEE[11] 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.



[1] *Society of Petroleum Engineers ("SPE"); World Petroleum Council ("WPC"); American Association of Petroleum Geologist ("AAPG") & Society of Petroleum Evaluation Engineers ("SPEE")*
This report is based on information which has been compiled by the Company's Chief Operating Officer, Mr Philip Huizenga, who is a full-time employee of the Company. Mr Huizenga is qualified in accordance with ASX Listing Rule 5.11 and has consented to the form and context in which this statement appears.

PROVED AND PROBABLE (2P) RESERVES THAILAND

Carnarvon's reserves base has been certified by an independent reserves auditor. Over the last few years Gaffney, Cline and Associates ("GCA") has performed this service in line with end of calendar year requirements for the Department of Mineral Fuels ("DMF") in Thailand. GCA certified 20.4 million barrels of 2P oil reserves net to Carnarvon as at 31 December 2010.

	Net Carnarvon Reserves		
	Proved	**Proved + Probable**	**Proved + Probable + Possible**
	1P (million bbls)	**2P (million bbls)**	**3P (million bbls)**
GCA 31 Dec 2010	4.7	20.4	51.9

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

	Net Carnarvon Reserves	
31-Dec-09	**Proved + Probable**	**Reservoir Type**
	2P (million bbls)	
NSE Central	1.2	Volcanic
NSE-F1	2.2	Volcanic
Bo Rang - B	3.7	Volcanic
Bo Rang - A	1.7	Volcanic
L44-W	0.9	Volcanic
NSE South	0.7	Volcanic
Wichian Buri - SST	1.0	Sandstone
Si Thep - SST	0.5	Sandstone
WBExt - Volc	2.2	Volcanic
WBExt - SST	1.4	Sandstone
L33 - Volc	2.4	Volcanic
L33-SST	1.4	Sandstone
Other	1.0	Various
Total	**20.4**	

These reservoirs are schematically reproduced below.

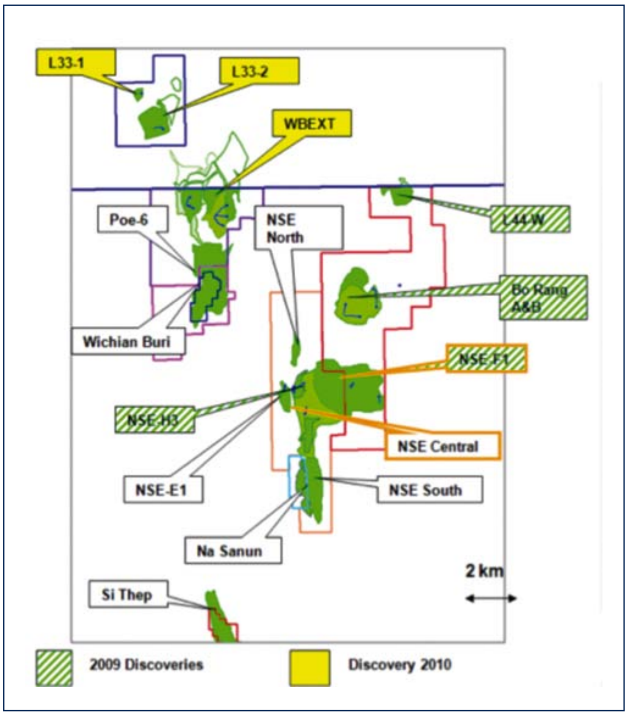


Figure 15. Map showing location of contingent resources.

CONTINGENT RESOURCES

Contingent Resources are those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from known accumulations, but which are not currently considered to be commercially recoverable.

It is generally recommended that if the degree of commitment is not such that the accumulation is expected to be developed and placed on production within a reasonable timeframe, the estimated recoverable volumes for the accumulation be classified as contingent resources.

The Phoenix discovery is one such contingent resource, where the evaluation of the accumulation is still at an early stage.

	Net Carnarvon Contingent Resources
	Best Estimate Recoverable Million bbls / boe (Bscf)
Phoenix Discovery	42.5 (247)
Carnarvon 30 Jun 2011	42.5

PROSPECTIVE RESOURCES

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

Carnarvon has an increasing 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 the likelihood of being included on drilling schedules in the near future 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 priorities.

At the time of writing this report Carnarvon has a seriatim of leads in a number of exploration blocks, most notably in the Phoenix blocks in Australia, the Rangkas block onshore Indonesia and the L20/50, L33/43 and L44/43 Concessions in Thailand. Those leads which have been upgraded to prospects and tentatively placed within a drilling program, and for which prospective (unrisked) volumes have been calculated, have been used to generate the table below. While Carnarvon continues to carry other leads with significant potential recoverable hydrocarbon volumes within the other exploration blocks in Thailand, Australia and Indonesia, none of those have near term drilling programs. Carnarvon continues the process of undertaking additional work to progress those leads to drillable prospects.

	Net Carnarvon Prospective Resources Best Estimate Recoverable (Unrisked) Million bbls / boe (Bscf)
Phoenix South	170 (987)
Wichian Buri Volcanics	42
Wichian Buri Sandstone	6
L20/50	20
Rangkas PSC	10
Carnarvon 30 Jun 2010	**248**

SUSTAINABILITY

Carnarvon is very aware of the effects of the oil and gas industry on the environment and its communities. Carnarvon takes all reasonable steps to mitigate any potential risk, as well as providing several benefits to the local communities that it operates in.

Carnarvon continues to develop, review and improve its Integrated Safety Management System (IMS) that is designed to protect the environment, its communities and all staff and contractors that are directly or indirectly employed by Carnarvon. This safety management system has the full support and backing from all levels of management. All relevant campaigns that are run and operated by Carnarvon adhere to this safety system.

During this financial year Carnarvon has been directly involved, as operator, in the drilling of two wells in its onshore Thailand Concession L20/50. This campaign consisted of well planning, construction of three well pads with up to 10Km of supporting roads, followed by the drilling of the two wells. This campaign reported zero LTI's (Lost Time Incidents).

ENVIRONMENT

Carnarvon carried out an Environmental Impact Assessment (EIA) prior to commencing its L20/50 drilling campaign. This assessment covered all aspects of the environment, waste management through to local community involvement and opinion. An independent company was employed to monitor our compliance with the EIA and submit a report to the Thai authorities on our performance. Due to the nature of the surrounding area, which is mainly agricultural, a high importance was put on protecting this environment. We operated a "zero discharge" campaign and monitored the water table before, during and after the campaign.

COMMUNITY

Carnarvon builds close relationships with the local communities that it works in. We strive to involve the community as much as possible, through employment, communication and cultural activities. We give full respect to all areas of the community, we respect the people, their culture and their heritage. We continue to support local schools in the region and during recent flooding in the area Carnarvon provided food and basic survival kits to support families dislodged from their dwellings.

During the recent campaign we employed in excess of 150 locals in varying roles from construction to security and drilling staff. We used local contractors and local materials as much as practicable throughout this campaign to stimulate the local economy.

Carnarvon also sponsors the Petroleum Engineering department at Curtin University, educating the petroleum engineers of the future.

HEALTH AND WELLBEING

We value our staff as one of our greatest assets. Due to the nature of Carnarvon's operations, staff are required to have a pre-travel medical for the specific region they are travelling to. Staff are also offered an annual health check as part of an ongoing commitment.

SAFETY

We continue to encourage, and actively support, all staff members to have the basics of first aid, which gives a benefit not only to the company but also to protecting their families, friends and others in the community.

During the L2050 Drilling campaign all safety reports were audited with the following results:

	Man hours worked	Avg POB	LTI	NMI
Construction Phase	54844	71	0	0
Drilling Phase	65892	90	0	10

The ten Near Miss Incidents (NMI) were recorded and corrections to operating procedure made, this is a function of our Safety Management System.

	Negative	Positive
Random Breath Test	281	1*

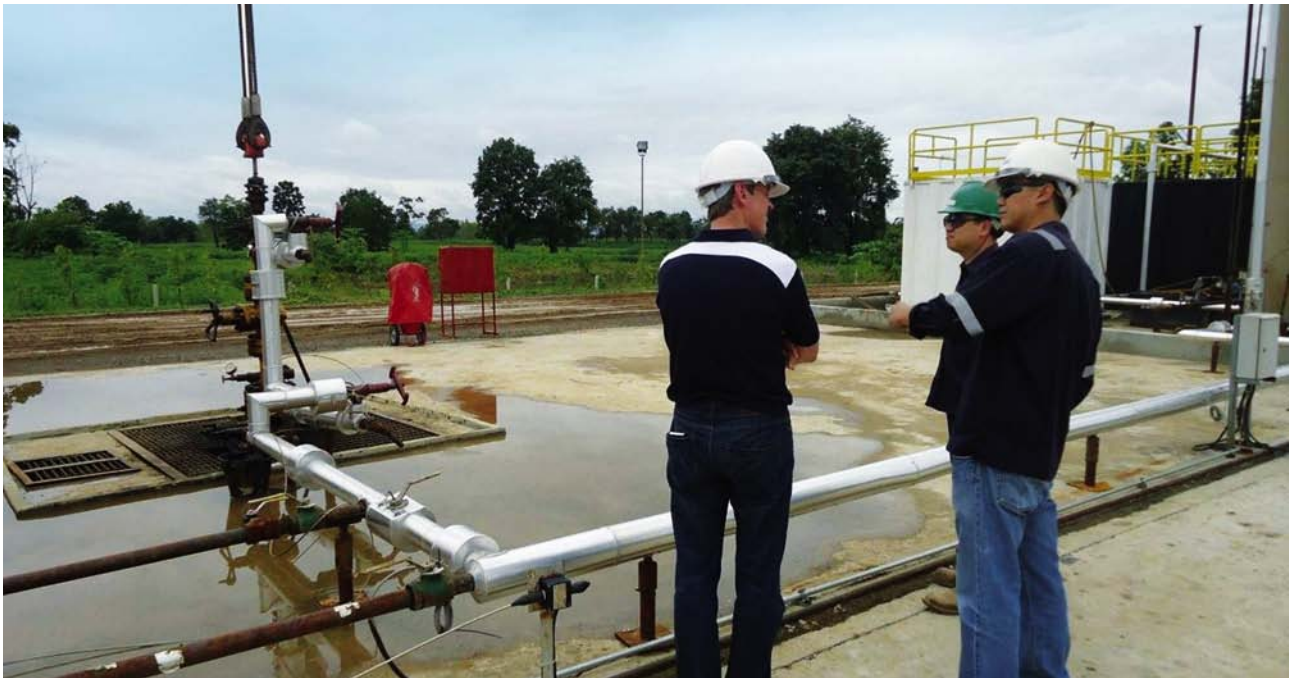
** Disciplinary action followed.*

ECONOMIC

Carnarvon currently has 2P reserves of 20.4 Million barrels as of 31 December 2010. Ongoing production of the L44/43, L33/43 and SWIA Concessions in Thailand provides the Company with a sustainable economic outlook. Further commentary on Economic Sustainability is provided in the Financial Review below.

RISK MANAGEMENT

Carnarvon has a robust risk management framework developed in accordance with the international standards for risk management "AS/NZS ISO 31000:2009". This enables us to continually review and address risks as they arise. All business and operational risks are assessed against financial, health & safety, natural environment, community, reputation and legal compliance criteria allowing Carnarvon to grow in a sustainable risk management framework.



FINANCIAL REVIEW

CONTINUED PROFITABILITY

The Group has now been profitable for four consecutive financial years. Profit after tax for the year ended 30 June 2011 was $2,159,000. Development has continued in the Wichian Buri project in Thailand and the Group is expected to remain profitable in the foreseeable future, with retained profits being made available for the exploration and appraisal of the Company's other assets.

	2011	2010	Change
Production (bbls)	731,544	868,450	▼ 16%
Sales ($'000)	54,750	65,230	▼ 16%
Cost of sales	18,891	21,473	▼ 12%

The decline in production is the main driver of the decrease in sales in the 30 June 2011 financial year. A portion of cost of sales is fixed and as a result, cost of sales did not decrease in line with sales.

The exploration expenditure written off during the 2011 financial year consists of $7,856,000 in relation to the exploration expenses incurred in the L20/50 concession to date and $3,391,00 for the Tuatara well drilled in PEP 38254.

BALANCE SHEET

The Company spent $20,460,000 on the development of the producing fields in Thailand. The balance sheet shows an increase in oil and gas assets of $1,506,000. The difference was due to a translation adjustment resulting from the strengthening of the Australian Dollar against the Thai Baht between 30 June 2010 and 30 June 2011 and depreciation and amortization charges.

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

New venture costs of $983,000 and exploration and evaluation expenditure of $10,851,000 demonstrate Carnarvon's continued efforts to add producing assets to its portfolio. Further detail on Carnarvon's new ventures and exploration can be found in the operating review on page 4.

THE IMPACT OF THE APPRECIATING AUSTRALIAN DOLLAR

The appreciating Australian Dollar over the financial year has had a material impact on the financial statements of the Company. The unrealised foreign exchange loss of $4,463,000 was as a result of the strengthening Australian Dollar against the translation of United States Dollar denominated cash reserves held by the Company.

The exchange differences arising in translation of foreign operations occurred due to the appreciating Australian Dollar against the Thai Baht. The balance sheet of the Whichian Buri assets are denominated in Thai Baht resulting in exchange differences at year end on their conversions into Australian Dollar presentational currency.

The directors present their report together with the financial report of the Group, being the Company, its controlled entities, and the Group's interest in jointly controlled assets, for the financial year ended 30 June 2011, 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 and the Cancer Research Trust.

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

ADRIAN C COOK
Chief Executive Officer and Managing Director
B Bus, CA, MAppFin

Appointed as a director on 1 July 2011

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

Adrian joined Carnarvon on 2 November 2009 and was appointed to the Board on 1 July 2011.

EDWARD (TED) P JACOBSON
Non-Executive Director
B.Sc (Hons Geology)

Appointed as a director on 5 December 2005.

Mr Jacobson is a petroleum geophysicist with 39 years' experience in petroleum exploration principally in the European North Sea, South East Asia, South America and Australia. Within Australia he has been responsible for initiating a number of petroleum discoveries within the Cooper Basin, Barrow Sub Basin and Timor Sea. In 1986, Ted established the consulting company Exploration Study Projects Pty Ltd which advised companies on new venture opportunities in Australia and South East Asia and assisted in capital raisings and corporate activity. In 1991 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 to November 2009). Mr Jacobson was also a director of Smart Rich Energy Finance (Holdings) Ltd (from January 2007 to November 2007), listed on the Hong Kong Stock Exchange.

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

NEIL C FEARIS
Non-Executive Director
LL.B (Hons), FAICD, F Fin

Appointed as a director on 30 November 1999.

Mr Fearis has over 33 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 to December 2009); Perseus Mining Limited (from 2004); Liberty Resources Limited (from June 2007 to November 2008); Magma Metals Limited (from October 2009); and Tiger Resources Limited (from May 2011). Mr Fearis is also a member of several professional bodies associated with commerce and law.

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

WILLIAM (BILL) A FOSTER
Non Executive Director
BE (Chemical)

Appointed as a director on 17 August 2010.

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

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

Mr Foster is 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	9	9
Ted Jacobson	9	9
Neil Fearis	9	9
Bill Foster	7	7
Ken Judge	-	-

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

AUDIT COMMITTEE

Names and qualifications of Audit Committee members
The Committee is to include at least 3 members from 1 July 2009. Current members of the committee are Neil Fearis (Chairman of the Audit Committee), Peter Leonhardt, and Bill Foster. Mr Judge retired as a member on 15 July 2010 and Mr Foster was appointed on 17 August 2010.Qualifications of Audit Committee members are provided in the Directors section of this directors' report.

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

	(a)	(b)
Peter Leonhardt	2	2
Neil Fearis	2	2
Bill Foster	2	2
Ken Judge	-	-

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

REMUNERATION REPORT (AUDITED)

REMUNERATION COMMITTEE

The Remuneration Committee currently comprises Neil Fearis (Chairman), Peter Leonhardt, and Bill Foster. Mr Judge retired as a member on 15 July 2010 and Mr Foster was appointed on 17 August 2010.

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

Remuneration Committee meetings

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

	(a)	(b)
Neil Fearis (Chairman	2	2
Peter Leonhardt	2	2
Bill Foster	2	2
Ken Judge	-	-

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

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

Principles of compensation

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

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

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

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

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

REMUNERATION REPORT (AUDITED) (CONTINUED)

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

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

	30 June 2007	30 June 2008	30 June 2009	30 June 2010	30 June 2011
Share price as at 30 June each year	$0.24	$0.53	$0.815	$0.345	$0.175
Year on year change in the share price	362%	121%	54%	(58%)	(49%)
Consolidated net profit / (loss) from continuing operations ($000)	($1,542)	$15,651	$28,736	$14,423	$2,159
Cumulative net profit / (loss) from continuing operations ($000)	($2,788)	$12,863	$41,599	$56,022	$58,181

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

A non-executive director's base fee is $62,500 per annum and the Chairman receives $105,000 per annum. These fees were last increased with effect from 1 January 2010. Non-executive directors do not receive any performance-related remuneration. Directors' fees cover all main Board activities and membership of Board committees. The Company does not have any terms or schemes relating to incentives or retirement benefits for non-executive directors.

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

Short term incentive scheme
Short term incentives are assessed by the Remuneration Committee at 31 December each year based on two components:

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

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

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

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

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

All short term incentives awarded during the period are included in remuneration, as set out on page 25, and fully vested to each of the directors, named Company executives, and key management personnel during the period.

REMUNERATION REPORT (AUDITED) (CONTINUED)

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

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

The principal provisions of the Plan include:

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

The principal provisions of the loan agreement include:

- the amount lent will be an advance equal to the issue price of the Plan Shares multiplied by the number of Plan Shares issued;
- the loan can be repaid at any time but the Participant must pay any amount outstanding to the Company within 30 days of termination of the Eligible Person's employment. All dividends declared and paid on the Plan Shares will be applied towards the repayment of the advance and there is no interest on the advance;
- the maximum liability in respect of the loan will be the value of the Plan Shares from time to time; and
- a holding lock will be placed on the Plan Shares until the loan is fully repaid.
- loans made under the ESP involve no cash outlay by the Company.

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

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

REMUNERATION REPORT (AUDITED) (CONTINUED)

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

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

Executive Officers	Number of shares issued	Issue date	Issue price per share	Loan
AC Cook	200,000	10/12/2010	$0.44	$88,800
PP Huizenga	200,000	10/12/2010	$0.44	$88,800

The issue price for each issue above was calculated based on the 5 day weighted average closing price prior to the date of offer. The purchases were funded by interest-free loans with a limited recourse security over the Plan Shares and subject to the detailed rules of the ESP. The shares remain subject to the disposal restrictions contained in the Plan Rules summarized above.

Directors' and executive officers' remuneration (Company and consolidated)
Details of the nature and amount of each major element of the remuneration of each director of the Company and each of the named Company and Group executives receiving the highest remuneration are set out on the following page.

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

2011 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
10/12/2010	09/12/2013	$0.195	$0.4	$0.44	60%	4.75%	0%

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

(i) Ted Jacobson, whilst employed as Chief Executive Officer and Managing Director, was engaged on 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. On 30 June 2011 Mr Jacobson retired as Chief Executive Officer and Managing Director and agreed to provide consultancy services to the Company with effect from 1 July 2011.

(ii) Philip Huizenga, Chief Operating Officer, is engaged as an employee. Termination by the Company is with 3 months' notice (or payment in lieu thereof) and payment of 6 months' remuneration. Termination by Mr Huizenga is with 3 months' notice.

(iii) Adrian Cook, was engaged as General Manager (Corporate) during the period and is engaged as an employee. Termination by the Company is with 3 months' notice (or payment in lieu thereof) and payment of 6 months' remuneration. Termination by Mr Cook is with 3 months' notice. Mr Cook will act as the Company's Chief Executive Officer and Managing Director with effect from 1 July 2011.

REMUNERATION REPORT (AUDITED) (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

There were no options over shares in the Company issued as compensation to key management personnel during the reporting period. No options have been issued since the end of the financial year. ESP shares issued as compensation to key management personnel during the year are disclosed on page 22.

There were no shares issued in either 2011 or 2010 on the exercise of options.

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

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

REMUNERATION REPORT (AUDITED) (CONTINUED)

Name	Short Term: Salary and fees ($)	Short Term: Short term cash bonus ($)	Post Employment: Superannuation contributions ($)	Share-based payments: Shares ($)	Total ($)	Proportion of remuneration performance related %	Value of shares as a % of remuneration
Directors							
Non-Executive							
Mr PJ Leonhardt (Chairman)							
2011	$105,000	-	-	-	$105,000	-	-
2010	$104,250	-	-	-	$104,250	-	-
Mr NC Fearis							
2011	$62,500	-	-	-	$62,500	-	-
2010	$61,250	-	-	-	$61,250	-	-
Mr W Foster							
2011 (from 17 August 2011)	$54,457	-	-	-	$54,457	-	-
Mr KP Judge							
2011 (retired 15 July 2010)	-	-	-	-	-	-	-
2010	$61,250	-	-	-	$61,250	-	-
Executive							
Mr EP Jacobson (Chief Executive Officer)							
2011 (to 30 June 2011)	$516,050	$52,325	$46,444	-	$614,819	7.6%	-
2010	$424,656	$80,500	$38,219	-	$543,375	14.8%	-
Executives							
Mr PP Huizenga (General Manager – Operations)							
2011	$375,730	$95,412	$25,000	$39,063	$535,205	17.8%	7.3%
2010	$325,988	$65,801	$29,338	$48,424	$469,551	14.0%	7.3%
Mr AC Cook (General Manager – Corporate)							
2011	$375,730	$95,412	$25,000	$39,063	$535,205	17.8%	
2010 (from 2 November 2009)	$223,065	-	$20,076	$338,747	$581,888	-	58.2%
Mr RA Anderson (CFO / Company Secretary)							
2010 (CFO until 31 May 2010)	$226,875	$24,750	-	-	$251,625	9.8%	-
Total compensation: key management personnel (Company and consolidated)							
2011	$1,489,467	$243,149	$96,444	$78,126	$1,907,186		
2010	$1,427,334	$171,051	$87,633	$387,171	$2,073,189		

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

NON-AUDIT SERVICES

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

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

Audit Services	**Consolidated 2011 ($)**
Auditors of the Company:	
Audit and review of financial reports	122,000

DIRECTORS' INTERESTS

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

Name	**Ordinary Shares**	**Options over ordinary Shares**
PJ Leonhardt	17,000,000	-
AC Cook	1,794,839	-
EP Jacobson	31,037,335	-
NC Fearis	8,600,000	-
WA Foster	-	-

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

SHARE OPTIONS

Options issued to directors and executives of the Company

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

LIKELY DEVELOPMENTS

The likely developments for the 2011 financial year are contained in the operating and financial review as set out on pages 4 to 16.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 2011.

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 2011.

PRINCIPAL ACTIVITIES

During the course of the 2011 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 73 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 4 to 16.

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 2011 is set out on pages 4 to 16 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

No matters or circumstance has arisen since 30 June 2011 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

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

ROUNDING OFF

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

Signed in accordance with a resolution of the directors.

PJ Leonhardt
Director
Perth, 31 August 2011

Crowe Horwath.

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Carnarvon Petroleum Limited for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been:

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

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

Crowe Horwath Perth

CROWE HORWATH PERTH

CYRUS PATELL
Partner

Signed at Perth, 31 August 2011

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

	Notes	Consolidated 2011 $000	Consolidated 2010 $000
Oil Sales		54,750	65,230
Other income	4	93	82
Cost of sales	5	(18,891)	(21,473)
Administrative expenses		(1,724)	(1,396)
Directors' fees		(222)	(227)
Employee benefits expense		(1,686)	(1,497)
Travel related costs		(228)	(392)
Unrealised foreign exchange (loss) / gain		(4,463)	(525)
New venture costs		(983)	(1,124)
Exploration expenditure written off	14	(11,247)	(384)
Share-based payments		(207)	(753)
Finance costs		-	(1)
Profit before income tax		15,192	37,540
Taxes			
Current income tax expense		5,137	10,616
Deferred income tax expense		5,496	8,790
	9 (a)	10,633	19,406
Special remuneratory benefit	9 (b)	2,400	3,711
Total taxes		13,033	23,117
Profit for the year		2,159	14,423
Profit attributable to members of the Company		2,159	14,423
Basic earnings per share (cents per share)	8	0.3	2.1
Diluted earnings per share (cents per share)	8	0.3	2.1

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

	Consolidated	
	2011 $000	**2010 $000**
Profit for the year	2,159	14,423
Other Comprehensive income		
Exchange differences arising in translation of foreign operations	(17,439)	(1,482)
Total Comprehensive (loss) / income for the year	(15,280)	12,941
Total Comprehensive (loss) / income attributable to members of the company	(15,280)	12,941

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

	Notes	Consolidated 2011 $000	Consolidated 2010 $000
Current assets			
Cash and cash equivalents	21(b)	14,798	30,255
Trade and other receivables	10	5,444	7,780
Inventories	12	3,381	4,090
Other assets	13	287	440
Total current assets		23,910	42,565
Non-current assets			
Property, plant and equipment	11	470	635
Exploration and evaluation expenditure	14	5,955	6,351
Oil and gas assets	15	71,682	70,176
Total non-current assets		78,107	77,162
Total assets		102,017	119,727
Current liabilities			
Trade and other payables	17	4,895	5,621
Employee benefits	24	146	91
Current tax		875	6,165
Provisions	18	-	2,172
Total current liabilities		5,916	14,049
Non-current liabilities			
Deferred tax	19	28,802	23,306
Total non-current liabilities		28,802	23,306
Total liabilities		34,718	37,355
Net assets		67,299	82,372
Equity			
Issued capital		68,240	68,240
Reserves		(20,222)	(2,990)
Retained earnings		19,281	17,122
Total equity		67,299	82,372

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2011

	Issued capital $000	Retained earnings $000	Translation reserve $000	Share-based payments reserve $000	Total $000
Balance at 1 July 2009	68,090	2,699	(3,346)	1,131	68,574
Shares issued net of transaction costs	104	-	-	-	104
Share based payments	46	-	-	707	753
Total comprehensive income	-	14,423	(1,482)	-	12,941
Balance at 30 June 2010	68,240	17,122	(4,828)	1,838	82,372
Share based payments	-	-	-	207	207
Total comprehensive income	-	2,159	(17,439)	-	(15,280)
Balance at 30 June 2011	68,240	19,281	(22,267)	2,045	67,299

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

	Notes	Consolidated 2011 $000	2010 $000
Cash flows from operating activities			
Receipts from customers and GST recovered		61,715	71,274
Payments to suppliers and employees		(24,323)	(23,775)
Income tax and special remuneratory benefit paid		(14,055)	(15,277)
Interest received		134	82
Net cash flows generated from operating activities	21(a)	23,471	32,304
Cash flows from investing activities			
Exploration and development expenditure		(34,462)	(34,488)
Cash held as security		-	2,153
Acquisition of property, plant and equipment		(207)	(533)
Net cash flows (used in) investing activities		(34,669)	(32,868)
Cash flows from financing activities			
Payment of share issue costs		-	(7)
Proceeds from repayment of Employee Share Plan loans		-	111
Net cash flows from financing activities		-	104
Net (decrease) in cash and cash equivalents		(11,198)	(460)
Cash and cash equivalents at the beginning of the financial year		30,255	31,099
Effect of exchange rate fluctuations on cash and cash equivalents		(4,259)	(384)
Cash and cash equivalents at the end of the financial year	21(b)	14,798	30,255

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

1. REPORTING ENTITY

The consolidated financial report of Carnarvon Petroleum Limited ('Company') for the financial year ended 30 June 2011 comprises the Company and its controlled entities (the "Group") and the Group's interest in jointly controlled assets.

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

The financial report was authorised for issue by the directors on 31 August 2011.

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.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2010:

- AASB 2009-5 Further *Amendments to Australian Accounting Standards arising from the Annual Improvements Project;*
- AASB 2009-8 *Amendments to Australian Accounting Standards – Group cash-settled Share-based Payment Transactions;*
- AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issues;*
- AASB Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments;*
- AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19*; and
- AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project.*

The adoption of these standards did not have any impact on the amounts for the current period or prior periods.

Basis of measurement

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

2. BASIS OF PREPARATION OF THE FINANCIAL REPORT (CONTINUED)

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are 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
Estimates are made in determining any provision for income and capital gains taxes. The Group recognizes liabilities of anticipated tax based on estimates of taxes due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax expenses, assets or provisions in the year in which such determination is made.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

(A) BASIS OF CONSOLIDATION

Controlled entities
The consolidated financial report comprises the financial statements of the Company and its controlled entities. A controlled entity is any entity controlled by the Company whereby the Company has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities. All inter-company balances and transactions between entities in the 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 Ventures
The Group's shares of the assets, liabilities, revenue and expenses of jointly ventures have been included in the appropriate line items of the consolidated financial statements. Details of the Group's interests are provided in Note 16.

(B) INCOME TAX AND SPECIAL REMUNERATORY BENEFIT

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

Deferred tax is accounted for using the 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 against which the benefits of the deferred tax assets can be utilized.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

(C) PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

Property, plant and equipment: 10% to 33%

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

(D) OIL AND GAS ASSETS

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

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

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

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(G) PROVISIONS

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

Restoration costs

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.

(H) FINANCIAL INSTRUMENTS

Recognition and initial measurement

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

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

Classification and subsequent measurement

Finance instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or cost.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) *Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, where they are expected to mature within 12 months after the end of the reporting period.

(ii) *Available-for-sale financial assets*
Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with changes in such fair value (ie gains or losses) recognised in other comprehensive income (except for impairment losses and foreign exchange gains and losses). When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss Available-for-sale financial assets are included in non-current assets where they are expected to be sold within 12 months after the end of the reporting period. All other financial assets are classified as current assets.

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

(I) SEGMENT REPORTING

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

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

(J) FOREIGN CURRENCY

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

Transactions and balances
Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the exchange rate at balance 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(K) LEASES

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

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

(L) SHARE CAPITAL

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

(M) INVENTORIES

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

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

(N) EMPLOYEE BENEFITS

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(O) EARNINGS PER SHARE

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

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

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

(P) CASH AND CASH EQUIVALENTS

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

(Q) REVENUE

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

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

(R) GOODS AND SERVICES TAX

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

(S) FINANCE INCOME AND EXPENSES

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

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

(T) ROYALTIES

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

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

(U) COMPARATIVE FIGURES

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(V) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods and which the Group has decided not to early adopt. A discussion of those future requirements and their impact on the Group is as follows:

– AASB 9: Financial Instruments (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013).
  This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. The Group has not yet determined any potential impact on the financial statements.
  The key changes made to accounting requirements include:
  - simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
  - simplifying the requirements for embedded derivatives;
  - removing the tainting rules associated with held-to-maturity assets;
  - removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
  - removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
  - allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
  - requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
  - requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

– AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).
  This Standard removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies the definition of a "related party" to remove inconsistencies and simplify the structure of the Standard. No changes are expected to materially affect the Group.

– AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).
  This Standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The Standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The amendments are not expected to impact the Group.

– AASB 2009–14: Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).
  This Standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.
  This Standard is not expected to impact the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

– AASB 2010–4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] (applicable for annual reporting periods commencing on or after 1 January 2011).

  This Standard details numerous non-urgent but necessary changes to Accounting Standards arising from the IASB's annual improvements project. Key changes include:

  - clarifying the application of AASB 108 prior to an entity's first Australian-Accounting-Standards financial statements;
  - adding an explicit statement to AASB 7 that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments;
  - amending AASB 101 to the effect that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes;
  - adding a number of examples to the list of events or transactions that require disclosure under AASB 134; and
  - making sundry editorial amendments to various Standards and Interpretations.

  This Standard is not expected to impact the Group.

– AASB 2010–5: Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] (applicable for annual reporting periods beginning on or after 1 January 2011).

  This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. However, these editorial amendments have no major impact on the requirements of the respective amended pronouncements.

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

  This Standard makes amendments to a range of Australian Accounting Standards and Interpretations as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the entity adopts AASB 9.

  As noted above, the Group has not yet determined any potential impact on the financial statements from adopting AASB 9.

	Consolidated 2011 $000	Consolidated 2010 $000
4. OTHER INCOME		
Finance income on bank deposits	93	82
	93	82
5. COST OF SALES		
Production expenses	(5,143)	(5,438)
Royalty and excise	(3,430)	(4,118)
Transportation	(1,823)	(2,283)
Depreciation - development costs and producing assets	(6,074)	(6,928)
Selling, general and administration	(2,421)	(2,706)
	(18,891)	(21,473)
6. OTHER EXPENSES		
Depreciation – property, plant and equipment	(231)	(251)
Rental premises – operating leases	(212)	(204)
7. AUDITORS' REMUNERATION		
Audit services:		
Auditors of the Company	122	122

8. EARNINGS PER SHARE

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

	2011 Number of shares	2010 Number of shares
Issued ordinary shares at 1 July	686,759,634	683,674,634
Effect of shares issued	590,090	1,723,233
Effect of share options exercised	-	-
Weighted average number of ordinary shares 30 June (basic)	687,349,724	685,397,867
Effect of share options on issue	-	-
Weighted average number of ordinary shares 30 June (diluted)	687,349,724	685,397,867
Profit used in calculating basic and diluted earnings per share from continuing operations	$2,159,000	$14,423,000

9. TAXES

	Consolidated	
	2011	2011
	$000	$000
(a) Income tax expense		
Numerical reconciliation between pre-tax profit and income tax expense:		
Prima facie income tax expense on pre-tax profit at 30% (2010: 30%)	4,558	11,262
Tax effect of:		
Special remuneratory benefit	(1,200)	(1,856)
Effect of higher overseas tax rate	6,725	6,843
Foreign exchange (gains) / losses	(5,142)	303
Non-deductible expenditure	3,861	581
Prior year temporary differences recognised	554	1,166
Current year tax benefit not brought to account	1,277	1,107
Income tax expense on pre tax profit	10,633	19,406
Current income tax	5,137	10,616
Deferred tax	5,496	8,790
	10,633	19,406

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.

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

	Consolidated	
	2011	2011
	$000	$000
(b) Special remuneratory benefit expense		
Special remuneratory benefit	2,400	3,711
	2,400	3,711

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

9. TAXES (CONTINUED)

The SRB, which is tax deductible in the calculation of Thai income taxes (see Note 9 (a)), involves a detailed calculation done on a concession by concession basis. The basis of the calculation is petroleum profits, adjusted for capital spent, being subjected to a sliding scale SRB rate such that profits are not taxed until all capital has been recovered. The sliding scale rate is principally driven by production and pricing but is subject to other adjustments such as changes in Thailand's consumer price index, wholesale price index, cumulative metres drilled on the concession, and, for certain concessions, changes in the exchange rate between the Thai Baht and the USD. The SRB calculation is performed quarterly for each concession at the calculated annual rate at the end of each quarter.

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

10. TRADE AND OTHER RECEIVABLES

	Consolidated	
	2011	**2011**
	$000	**$000**
Current		
Trade and other receivables	4,271	6,348
Cash held as security	1,173	1,432
	5,444	7,780

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

11. PROPERTY, PLANT AND EQUIPMENT

	Consolidated	
	2011	**2010**
	$000	**$000**
Plant and equipment		
Cost:		
Balance at beginning of financial year	447	42
Additions	106	405
Effects of movements in foreign exchange	(58)	-
Balance at end of financial year	495	447
Depreciation and impairment losses:		
Balance at beginning of financial year	116	32
Depreciation charge for year	76	84
Balance at end of financial year	192	116
Carrying amount opening	331	10
Carrying amount closing	303	331

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Consolidated	
	2011	**2010**
Fixtures and fittings		
Cost:		
Balance at beginning of financial year	715	626
Additions	85	96
Effects of movements in foreign exchange	(68)	(7)
Balance at end of financial year	732	715
Depreciation and impairment losses:		
Balance at beginning of financial year	481	334
Depreciation charge for year	140	147
Balance at end of financial year	621	481
Carrying amount opening	234	292
Carrying amount closing	111	234
Land and buildings		
Cost:		
Balance at beginning of financial year	103	65
Additions	17	38
Effects of movements in foreign exchange	(15)	-
Balance at end of financial year	105	103
Depreciation and impairment losses:		
Balance at beginning of financial year	33	14
Depreciation charge for year	16	19
Balance at end of financial year	49	33
Carrying amount opening	70	51
Carrying amount closing	56	70

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Consolidated	
	2011	**2010**
Total		
Cost:		
Balance at beginning of financial year	1,266	733
Additions	207	540
Effects of movements in foreign exchange	(141)	(7)
Balance at end of financial year	1,332	1,266
Depreciation and impairment losses:		
Balance at beginning of financial year	631	380
Depreciation charge for year	231	251
Balance at end of financial year	862	631
Carrying amount opening	635	353
Carrying amount closing	470	635

12. INVENTORIES

Current		
Consumables	3,381	4,090

13. OTHER ASSETS

Current		
Deposits and prepayments	287	440

14. EXPLORATION AND EVALUATION EXPENDITURE

Cost:		
Balance at beginning of financial year	6,351	1,219
Additions	10,851	5,516
Exploration expenditure written off	(11,247)	(384)
Balance at end of financial year	5,955	6,351

The exploration expenditure written off during the 2011 financial year consists of $7,856,000 in relation to the exploration expenses incurred in the L20/50 concession to date and $3,391,00 for the Tuatara well drilled in PEP 38254.

15. OIL AND GAS ASSETS

	Consolidated	
	2011	**2010**
Cost:		
Balance at beginning of financial year	90,127	62,914
Additions	20,460	28,087
Effects of movements in foreign exchange	(13,038)	(874)
Balance at end of financial year	97,549	90,127
Depreciation and impairment losses:		
Balance at beginning of financial year	19,951	13,213
Depreciation charge for year	5,916	6,738
Balance at end of financial year	25,867	19,951
Carrying amount opening	70,176	49,701
Carrying amount closing	71,682	70,176

16. JOINT VENTURES

The Group has the following interests in joint venture assets:

Joint venture	Principal activities	Ownership interest %	
THAILAND		**2011**	**2010**
Phetchabun Basin Concession, Exploration Blocks L44/43 and L33/43 3/2546/60 and 5/2546/62 Concessions	Exploration, development and production of hydrocarbons	40%	40%
Exploration Block L20/50 7/2551/98 Concession	Exploration for hydrocarbons	50%	50%
Exploration Blocks L52/50 and L53/50 3/2553/105 concession	Exploration for hydrocarbons	50%	50%
WESTERN AUSTRALIA			
WA-435-P, WA-436-P, WA-437-P, WA 438-P, Roebuck Basin	Exploration for hydrocarbons	50%	50%
WA-443-P, Roebuck Basin	Exploration for hydrocarbons	100%	100%
WA-399-P, Carnarvon Basin	Exploration for hydrocarbons	13%	50%
INDONESIA			
Rangkas, West Java Basin	Exploration for hydrocarbons	25%	25%
NEW ZEALAND			
PEP 38524	Exploration for hydrocarbons	10%	-

16. JOINT VENTURES (CONTINUED)

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

	2011 $000	2010 $000
Current assets		
Cash and cash equivalents	9,349	7,497
Trade and other receivables	4,504	7,097
Inventories	3,381	4,090
Other assets	264	318
Total current assets	17,498	19,002
Non-current assets		
Property, plant and equipment	408	531
Exploration and evaluation	5,807	6,176
Oil and gas assets	71,682	70,176
Total non-current assets	77,897	76,883
Total assets	95,395	95,885
Current liabilities		
Trade and other payables	4,046	4,927
Current tax	875	6,165
Provisions	-	2,172
Total current liabilities	4,921	13,264
Non-current liabilities		
Deferred tax	28,802	23,306
Total non-current liabilities	28,802	23,306
Total liabilities	33,723	36,570
Net assets	61,672	59,315
Income	54,750	65,275
Expenses	(43,171)	(44,590)
Net profit after tax	11,579	20,685

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

17. TRADE AND OTHER PAYABLES

	Consolidated	
	2011	**2010**
Current		
Trade payables	220	307
Non-trade payables and accrued expenses	4,611	5,298
Owing to related parties	64	16
	4,895	5,621

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

18. PROVISIONS

	Consolidated	
	2011	**2010**
	$000	**$000**
Current		
Special Remuneratory Benefit - Thailand	-	2,172
	-	2,172

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

19. DEFERRED TAX

Recognised deferred tax assets and liabilities
The net deferred tax liability is attributable to the following:

Oil and gas assets	30,241	25,267
Tax value of losses carry forward	(1,439)	(1,961)
Net tax liability	28,802	23,306

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

Unrecognised deferred tax assets and liabilities

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

Australian tax loses	4,256	3,691

The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits. As explained in note 9(a), income tax is not payable in Australia on the profits generated by the Thailand joint venture as under Australian tax law, such profits attributable to the branch are taxed in Thailand and are non-assessable in Australia.

20. CAPITAL AND RESERVES

	Company	
	2011	2010
	Number of shares	
Issued capital		
Balance at beginning of financial year	686,759,634	683,674,634
Employee Share Plan issues	1,061,000	3,085,000
Balance at end of financial year	687,820,634	686,759,634

	Company	
	2011	2010
	$000	$000
Issued capital		
Balance at beginning of financial year	68,240	68,090
Employee Share Plan related movements	-	46
Employee Share Plan loans repaid	-	111
Share issue transaction costs	-	(7)
Balance at end of financial year	68,240	68,240

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

Translation reserve
Movements in the translation reserve are set out in the Statement of Changes in Equity on page 32.

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

Share based payments reserve
Movements in the share based payments reserve are set out in the Statements of Changes in Equity on page 32.

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

21. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated	
	2011	**2010**
	$000	**$000**
(a) Cash flows from operating activities		
Profit for the year	2,159	14,423
Adjustments for:		
Equity settled share based payment expense	207	753
Deferred tax expense	5,496	8,790
Depreciation	6,074	6,930
Foreign exchange losses	4,463	525
Exploration expenditure written off	11,247	-
Operating profit before changes in working capital and provisions:	29,646	31,421
Changes in assets and liabilities:		
Decrease in trade and other receivables	1,736	2,550
Decrease / (increase) in inventories	115	(225)
Decrease in other assets	107	237
(Decrease) in trade and other payables	(726)	(1,280)
(Decrease) in provisions and employee benefits	(7,407)	(399)
Net cash flows generated from operating activities	23,471	32,304
(b) Reconciliation of cash and cash equivalents		
Cash at bank and at call	14,798	30,255

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

Restricted cash of $1,173,000 consolidated is included under trade and other receivables (2010:$1,432,000 consolidated), see Notes 10 and 23. Since the year end, $422,222 has been released from restricted cash to cash and cash equivalents as a result of the completion of the L20/50 drilling campaign.

22. CAPITAL AND OTHER COMMITMENTS

	Consolidated	
	2011	2010
	$000	$000
(a) Joint venture commitments		
Share of capital commitments of joint venture assets:		
Within one year	394	1,572
Capital commitments of the Group to joint venture assets:		
Within one year	4,740	4,864

(b) Exploration expenditure commitments

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

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

	Consolidated	
	2011	2010
	$000	$000
Less than one year	350	5,500
Between one and five years	1,450	4,500
	1,800	10,000

(c) Capital expenditure commitments		
Data licence commitments	236	231

23. CONTINGENCIES

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

Contingent liabilities considered remote
a) The Phetchabun Basin Joint Venture operation, in which the Group has a 40% interest, has procured the issue of bank guarantees for an amount of 40 million Thai Baht (A$1,225,768) as security in lieu of bonds.

The L20/50 Joint Venture, in which the Group has a 50% interest, has procured the issue of bank guarantees for an amount of 20 million Thai Baht (A$612,884) as security in lieu of bonds.

The Company has provided a cash bond of US$450,000 (A$424,620) 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$450,000 (A$424,620) 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 bonds and guarantees totaling $1,173,000 (2010: $1,432,000) is classified under "trade and other receivables".

b) In accordance with normal petroleum industry practice, the Group has entered into joint ventures and farmin agreements with other parties for the purpose of exploring and developing its petroleum permit interests. If a party to a joint venture defaults and does not contribute its share of joint venture obligations, then the other joint venturers are liable to meet those obligations. In this event, the interest in the permit held by the defaulting party may be redistributed to the remaining joint venturers.

24. EMPLOYEE BENEFITS

	Consolidated	
	2011	**2010**
	$000	**$000**
Current:		
Liability for annual leave	146	91

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

The issue price is determined by the directors and is not to be less than the weighted average market price of the Company's shares on the five trading days prior to the date of offer. Eligible Persons use the above-mentioned loan to acquire plan shares.

24. EMPLOYEE BENEFITS (CONTINUED)

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

	1 July 2010	Issued	Repaid	30 June 2011
Number of shares	16,628,199	1,061,000	-	17,689,199
Loan	3,445,013	471,084	-	3,916,097
Average loan per share	$0.21	$.044	-	$0.22

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

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

Fair value of share options and related assumptions	Key management personnel 2011	Key management personnel 2010	Other employees 2011	Other employees 2010
Fair value at measurement date (cents)	19.5	23.7 to 24.2	19.5	24.2 to 27.0
Share price at date of issue (cents)	44.4	54 to 66	44.4	54 to 60.7
Exercise price (cents)	44.4	54 to 55	44.4	54 to 60.7
Expected volatility	60%	62.5%	60%	62.5%
Actual / assumed option life	3 years	3 years	3 years	3 years
Expected dividends	Nil	Nil	Nil	Nil
Risk-free interest rate	4.75%	3.25%	4.75%	3.25% to 3.75%
Share-based expense recognised	$78,126	$387,171	$129,104	$365,997

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

Further details of shares and options issued to directors are set out in Note 28, and in the Remuneration Report set out on pages 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 2011 net receipts from controlled entities totalled $3,873,000 (2010: net receipts from controlled entities $22,093,000).

The carrying value of loans to controlled entities at 30 June 2011 was $14,186,000 (2010: $8,420,000) after provisions of $693,000 (2010: $693,000). These loans are unsecured, non-interest bearing, and have no fixed terms of repayment.

Other related party balances
At 30 June 2011 an amount of $63,903 (2010: $15,906) 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	
	2011 $000	**2010 $000**
Less than one year	252	245
Between one and five years	385	71
	637	316

During the reporting period $245,000 was recognised as an expense in the consolidated income statement in respect of operating leases (2010: $325,000).

27. SEGMENT INFORMATION

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

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

27. SEGMENT INFORMATION (CONTINUED)

Revenue by geographical region

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

	2011 $000	2010 $000
Thailand	54,797	65,275
Australia	46	37
	54,843	65,312

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

Assets by geographical region

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

	2011 $000	2010 $000
Thailand	90,399	94,488
Australia	8,425	23,792
Indonesia	3,193	1,447
	102,017	119,727

28. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

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

	Consolidated	
	2011 $000	2010 $000
Short term employee benefits	1,733	1,598
Post-employment benefits	96	88
Share-based payments	78	387
	1,907	2,073

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.

28. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

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

2011	Balance 1 July 2010 ($)	Balance 30 June 2011 ($)	Highest balance in period ($)	Loaned in period ($)	Repaid in period ($)
Directors					
PJ Leonhardt*	270,000	270,000	270,000	-	-
EP Jacobson*	540,000	540,000	540,000	-	-
Executives					
PP Huizenga	357,500	446,300	446,300	88,800	-
AC Cook	750,000	838,800	838,800	88,800	-

2010	Balance 1 July 2009 ($)	Balance 30 June 2010 ($)	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	253.100	357,500	357,500	104,400	-
RA Anderson	81,065	70,100	81,065	-	10,965
AC Cook	-	750,000	750,000	750,000	-

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

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

	Opening balance ($)	Closing balance ($)	Number in group at 30 June
2011	1,647,500	1,825,100	3
2010	810,253	1,167,500	3

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

	Consolidated	
	2011 $000	2010 $000
Current		
Trade and other payables	65	16

28. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(d) Movements in shares

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

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

2010	Held at 1 July 2009	Net acquired/ (sold)	Award under Employee Share Plan	Received on exercise of options	Held at 30 June 2010
Directors					
PJ Leonhardt	17,000,000	-	-	-	17,000,000
EP Jacobson	30,917,335	120,000	-	-	31,037,335
NC Fearis	8,400,000	-	-	-	8,400,000
KP Judge	10,932,855	(4,000,000)	-	-	6,932,855
Executives					
PP Huizenga	2,100,000	(500,000)	-	-	1,600,000
RA Anderson	1,485,000	(532,000)	-	-	962,000
AC Cook	-	169,839	1,425,000	-	1,594,839

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

In accordance with AASB 2 the issue of shares under the ESP is accounted for using the Black-Scholes model, and their valuation assumptions are set out in Note 24.

Information regarding individual directors' and executives' compensation, including company loans used to finance the purchase of the ESP shares, is provided in the Remuneration Report section of the directors' report as set out on pages 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**	**2011**	**2010**
Company			
Carnarvon Petroleum Ltd			
Controlled entities			
Carnarvon Thailand Ltd	British Virgin Islands	100%	100%
Lassoc Pty Ltd	Australia	100%	100%
SRL Exploration Pty Ltd	Australia	100%	100%
Carnarvon Petroleum (Indonesia) Pty Ltd	Australia	100%	100%
Carnarvon (NZ) Pty Ltd	New Zealand	100%	100%

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

31. SUBSEQUENT EVENTS

No matters or circumstance has arisen since 30 June 2011 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

(iv) The Group's operations; or

(v) The results of those operations; or

(vi) The Group's state of affairs

32. FINANCIAL RISK MANAGEMENT

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

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

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

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

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

Sensitivity analysis
An increase of 10% in the achieved monthly oil sale price would have increased equity and pre tax profit and loss by the amounts shown below. This analysis assumes that all other variables other than royalties, which are directly related to oil revenues, remain constant. The analysis is performed on the same basis for 2010:

	Consolidated	
	Equity $000	**Profit and loss $000**
30 June 2011	5,141	5,141
30 June 2010	6,177	6,177

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 2010:

	Consolidated	
	Equity $000	**Profit and loss $000**
30 June 2011	(5,141)	(5,141)
30 June 2010	(6,177)	(6,177)

(b) Interest rate risk
The significance and management of the risks to the Group is dependent on a number of factors including:

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

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

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	Consolidated	
	2011	**2010**
Carrying amount (A$000)		
Financial assets – cash and cash equivalents	14,798	30,255
Weighted average interest rate (%)		
Financial assets – cash and cash equivalents	0.24%	0.3%

Sensitivity analysis
All other financial assets are non interest bearing.

An increase in 50 basis points from the weighted average year-end interest rates at 30 June would have increased equity and profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2010:

	Consolidated	
	Equity $000	**Profit and loss $000**
30 June 2011	155	155
30 June 2010	188	188

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 2010:

	Consolidated	
	Equity $000	**Profit and loss $000**
30 June 2011	(21)	(21)
30 June 2010	(43)	(43)

(c) Credit risk
Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in a financial loss to the Group, and arises principally from the Group's receivables from customers and cash deposits.

The Group's trade receivables at both June 2011 and June 2010 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 2011 or 30 June 2010 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.

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

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	
	2011	**2010**
	$000	**$000**
Carrying amount:		
Cash and cash equivalents	14,798	30,255
Trade and other receivables	5,444	7,780
	20,242	38,035

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

	Gross	**Impairment**	**Gross**	**Impairment**
	2011	**2011**	**2010**	**2010**
	$000	**$000**	**$000**	**$000**
Not past due	3,757	-	5,884	-
	3,757	-	5,884	-

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

(d) Currency risk

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

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

Cash receipts from the Thai operations, which comprise 100% of the Group revenues, are received in Thai Baht. The majority of the Group's payments, including Thai SRB and income tax, are also payable in THB which effectively creates a natural hedge. The Company's foreign exchange risk predominantly resides in its US$ loans to its controlled entities.

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

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	THB A$000	USD A$000
Consolidated 2011		
Cash and cash equivalents	8,702	5,737
Trade and other receivables	3,891	571
Trade payables and accruals	(3,580)	(466)
SRB and income tax provisions	(874)	-
Gross balance sheet exposure	8,139	5,842
Consolidated 2010		
Cash and cash equivalents	6,878	16,333
Trade and other receivables	5,884	-
Trade payables and accruals	(4,082)	(16)
SRB and income tax provisions	(8,337)	-
Gross balance sheet exposure	343	16,317

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
AUD to:	2011	2010	2011	2010
1 Thai baht	0.033	0.034	0.031	0.036
1 USD	1.02	1.14	0.94	1.17

Sensitivity analysis

A 10% strengthening of the AUD against the THB for the 12 months to 30 June 2011 and 30 June 2010 would have decreased equity and pre tax profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates and the exchange rate between the Thai Baht and USD, remain constant:

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2011		
THB	(11,867)	(3,049)
30 June 2010		
THB	(10,389)	(3,167)

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

A 10% weakening of the AUD against the THB for the 12 months to 30 June 2011 and 30 June 2010 would have increased equity and pre tax profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates and the exchange rate between the Thai Baht and USD, remain constant:

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2011		
THB	14,504	3,954
30 June 2010		
THB	12,675	3,746

(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 2011 $000	Fair Value 2011 $000	Carrying amount 2010 $000	Fair Value 2010 $000
Consolidated				
Loans and receivables	5,444	5,444	7,780	7,780
Cash and cash equivalents	14,798	14,798	30,255	30,255
Trade and other payables	(4,895)	(4,895)	(5,621)	(5,621)
	15,347	15,347	32,414	32,414

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

(f) Liquidity risk

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

The Group currently does not have any available lines of credit.

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	Carrying amount	Contractual cashflows	6 months or less	6 to 12 months
	$000	$000	$000	$000
Consolidated 2011				
Non-derivative financial liabilities				
Trade and other payables	4,895	4,895	4,895	-
SRB and income tax provisions	875	875	875	-
	5,770	5,770	5,770	-
Consolidated 2010				
Non-derivative financial liabilities				
Trade and other payables	5,621	5,621	5,621	-
SRB and income tax provisions	8,337	8,337	6,165	2,172
	13,958	13,958	11,786	2,172

33. PARENT INFORMATION

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

	2011	2010
	$000	$000
STATEMENT OF FINANCIAL POSITION		
Current Assets	6,799	23,717
Non-current assets	17,521	9,439
Total assets	24,320	33,156
Current liabilities	493	418
Non-current liabilities	-	-
Total liabilities	493	418
Equity		
Issued Capital	68,240	68,240
Accumulated losses	(46,458)	(37,340)
Reserves	2,045	1,838
Total equity	23,827	32,738
STATEMENT OF COMPREHENSIVE INCOME		
Total profit / (loss)	(9,102)	14,011
Total comprehensive income	(9,102)	14,011

33. PARENT INFORMATION (CONTINUED)

PARENT CONTINGENCIES

The Company has provided a cash bond of US$450,000 (A$424,620) 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$450,000 (A$424,620) 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.This restricted cash held by the banks as security for these bonds and guarantees is classified under "trade and other receivables".

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.

	Parent	
	2011	**2010**
	$000	**$000**
PARENT CAPITAL AND OTHER COMMITMENTS		
(a) Joint venture commitments		
Capital commitments of the Group to joint venture assets:		
Within one year	4,740	4,864

(b) Exploration expenditure commitments

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

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

Less than one year	350	5,500
Between one and five years	1,450	4,500
	1,800	10,000
(c) Capital expenditure commitments		
Data licence commitments	236	230
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	145	149
Between one and five years	318	14
	463	163

DIRECTORS' DECLARATION

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

(a) the financial statements and notes of the Group set out on pages 29 to 69 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and

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

(b) the financial statements comply with International Financial Reporting Standards as set out in Note 2; and

(c) the remuneration disclosures that are contained in the Remuneration Report in the Directors Report comply with Australian Accounting Standard AASB 124 Related Party Disclosures, the Corporations Act 2001 and the Corporations Regulations 2001; and

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

(2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2011.

Signed in accordance with a resolution of the directors.

PJ Leonhardt
Director
Perth, 31 August 2011

Crowe Horwath™

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

Report on the Financial Report
We have audited the accompanying financial report of Carnarvon Petroleum Limited and its controlled entities (the consolidated entity), which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report
The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

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

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

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

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

Auditor's Opinion
In our opinion:

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

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

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

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

Crowe Horwath

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 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Carnarvon Petroleum Limited for the year ended 30 June 2011 complies with section 300A of the Corporations Act 2001.

Crowe Horwath Perth

CROWE HORWATH PERTH

CYRUS PATELL
Partner

Signed at Perth, 31 August 2011

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

INTRODUCTION

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

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

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

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

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

- Corporate governance disclosures and explanations;
- Statement of Board and management functions;
- Composition of the Board and new appointments;
- Committees of the Board;
- Summary of code of conduct for directors;
- Summary of policy on securities trading;
- Audit Committee Charter;
- 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 2010 to 30 June 2011 (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.

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, Ted Jacobson, Neil Fearis, and Bill Foster.

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

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

NUMBER OF AUDIT COMMITTEE MEETINGS AND NAMES OF ATTENDEES

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

NAMES AND QUALIFICATIONS OF AUDIT COMMITTEE MEMBERS

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

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

A) SHAREHOLDINGS AS AT 30 AUGUST 2011

Substantial shareholders

There are no substantial shareholder notices lodged with the Company.

Voting Rights

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

Twenty Largest Shareholders

Name of Shareholder	Number of Shares	% held
J P Morgan Nominees Australia Limited	49,030,654	7.10
HSBC Custody Nominees (Australia) Limited	37,143,913	5.38
National Nominees Limited	32,267,354	4.67
Mr Edward Patrick Jacobson	12,917,903	1.87
Citicorp Nominees Pty Limited	11,927,116	1.73
Jacobson Geophysical Services Pty Ltd	9,728,390	1.41
Pendomer Investments Pty Ltd	8,600,000	1.25
J P Morgan Nominees Australia Limited ←cash income a/c→	8,504,085	1.23
Mr Peter James Leonhardt	7,700,000	1.12
Mr James Mark Dack	7,000,000	1.01
Arne Investments Pty Ltd	6,710,493	0.97
Mr Edward Patrick Jacobson	6,000,000	0.87
Geolyn Pty Ltd	6,000,000	0.87
Mr Philip Paul Huizenga	4,400,000	0.64
Arne Investments Pty Ltd	3,991,906	0.58
Mr Nigel Roy Goldthorpe	3,910,432	0.57
Seawell Super Pty Ltd	3,810,000	0.55
Macquarie Bank Limited	3,564,598	0.52
Loong Phoong Pty Ltd	3,431,000	0.50
Mr William Douglas Goodfellow	3,400,853	0.49
	230,038,697	**33.33**

A) SHAREHOLDINGS AS AT 30 AUGUST 2011 (CONTINUED)

Distribution of equity security holders

Size of Holding			Number of shareholders	Number of fully paid shares
1	to	1,000	551	308,791
1,001	to	5,000	2,246	7,121,900
5,001	to	10,000	1,998	16,956,622
10,001	to	100,000	4,677	167,651,397
100,001	and over		792	498,281,924
			10,264	690,320,634

The number of shareholders holding less than a marketable parcel of ordinary shares is 704.

B) OPTION HOLDINGS AS AT 31 AUGUST 2011

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 Raisama	50% 42.5% 7.5%	Carnarvon
L52/50, & L53/50	Surat-Khiensa / Thailand	Carnarvon Pearl Oil	50% 50%	Pearl Oil
Rangkas PSC	West Java / Indonesia	Carnarvon Lundin Petroleum Tap Oil	25% 51% 24%	Lundin Petroleum
EP321	Perth / Australia	Carnarvon	2.5% of 38.25%	Latent Petroleum
EP407	Perth / Australia	Carnarvon	2.5% of 42.5%	Latent Petroleum
WA-399-P	Carnarvon / Australia	Carnarvon Apache Rialto Energy Jacka	13% 60% 12% 15%	Apache
WA-435-P, WA-436-P, WA-437-P, WA-438-P	Roebuck / Australia	Carnarvon Finder Exploration	50% 50%	Finder Exploration
WA-443-P	Roebuck / Australia	Carnarvon	100%	Carnarvon
PEP38524	Taranaki	Carnarvon AWE ROC Oil Kea Oil & Gas	10% 60% 20% 10%	AWE

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www.carnarvon.com.au