CARNARVON
PETROLEUM
LIMITED
ABN 60 002 688 851

CARNARVON PETROLEUM LIMITED
ABN 60 002 688 851

HALF-YEAR REPORT
31 DECEMBER 2003

CONTENTS

CORPORATE DIRECTORY

Directors

AG Shelton - *Non-Executive Chairman*
DJ Orth - *Executive Director & Chief Operating Officer*
NC Fearis - *Non-Executive Director*

Company Secretary

T S Irwin

Principal and Registered Office

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Share Registry – Australia

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Stock Exchange Listing

Carnarvon Petroleum Limited is listed on
the Australian Stock Exchange

Australian Stock Exchange Code: CVN

DIRECTORS' REPORT

Your directors submit their report for the half-year ended 31 December 2003.

Directors
The names and details of the directors of the Company in office during the half-year and until the date of this report are:

Andrew Shelton (Chairman)
Neil Fearis
David Orth
Kenneth Tregonning

Directors were in office for the entire period.
Kenneth Tregonning resigned a director of the Company effective 5th January 2004.

REVIEW OF RESULTS AND OPERATIONS

During the half-year ended 31 December 2003 Carnarvon Petroleum Limited and its controlled entities incurred an operating loss of $689,045 and a net decrease in cash of $120,736. Administration expenses for the half year included the cost of the severance package paid following the resignation of the Managing Director and Chief Executive Officer Dr Ken Tregonning as well as seasonal costs for production / mail-out of the annual report, costs associated with the Annual General Meeting, costs associated with the placements (noted below). Leaving aside these one-off corporate and seasonal costs, the Company is continuing to achieve its internal cost base targets.

During the second quarter, the Company raised $952,261 at 3.7 cents per share through a private placement of 25,736,783 ordinary fully paid shares. Since December 31 2003, the Company raised $2,474,489 through a private placement and non renouncable rights issue to shareholders on the same terms. A placement of 29,599,148 ordinary fully paid shares at 3.3 cents was announced to the ASX on 29th January 2004. The non renouncable share issue to shareholders, of approximately 45,385,360 ordinary shares at an issue price on the same terms of 3.3 cents with 22,692,680 attaching options exercisable at 6 cents per share in December 2005, was completed on 5th March 2004 fully subscribed. These funds will be used by the Company to fund its share of Wichian Buri Oilfield development.

In December,2003, the Company participated in the drilling of exploration well Huai Phai-1 (HP-1), the first well in the three-well Phase III Program, during the quarter. After initial indications of crude oil both on the electric logs and RFTs, and on production testing, the Joint Venture participants confirmed that production from this well was unlikely to be at commercial rates. Phase III Development planning for the drilling of wells WB-N7 and WB-N8 was completed during the second quarter with contract arrangements with various service companies finalized ahead of the spud date of 11 February 2004. The drilling of WB-N7 and N8 was successfully completed in February, infrastructure has been installed, and the wells are currently being tested. The purpose of the drilling of N7 and N8 was to make application for Production License 3 and to increase production respectively.

The Company announced the resignation of the former Managing Director and Chief Executive Officer Dr Ken Tregonning from the Board on the 5th January 2004. The Company once again thanks Dr Tregonning for his efforts.

The Company requested and was delisted from the New Zealand Stock Exchange (NZSE) in December 2003 to further reduce costs as activity occurring on the exchange was limited.

Summarised Financial Results

	6 months to 31 Dec 2003 $	6 months to 31 Dec 2002$
The consolidated loss after tax for the consolidated entity was	(689,045)	(773,996)
This loss included:		
- revenue from ordinary activities	517,936	516,763
- other revenue from ordinary activities	2,319	7,515

Signed in accordance with a resolution of the directors.

AG Shelton
DIRECTOR
15 March 2004

CONDENSED STATEMENT OF FINANCIAL PERFORMANCE
HALF-YEAR ENDED 31 DECEMBER 2003

	Notes	Consolidated 6 months ended 31 Dec 2003 $	Consolidated 6 months ended 31 Dec 2002 $
Revenues from ordinary activities	2(a)	520,255	524,278
Cost of sales	2(b)	(412,544)	(465,839)
Exploration expenses	2(c)	(10,845)	(4,277)
Other expenses from ordinary activities	2(c)	(799,910)	(795,790)
Unrealised foreign exchange gain / (loss) on translation of integrated subsidiary	2(d)	13,999	(32,368)
Loss from ordinary activities before income tax expense		(689,045)	(773,996)
Income tax expense relating to ordinary activities		-	-
Loss from ordinary activities after income tax attributable to members of Carnarvon Petroleum Limited		(689,045)	(773,996)
Share Issue Costs		(66,537)	(146,574)
Total revenues, expenses and valuation adjustments attributable to members of Carnarvon Petroleum Limited and recognised directly in equity		(66,537)	(146,574)
Total changes in equity other than those resulting from transactions with owners as owners attributable to members of Carnarvon Petroleum Limited		(755,582)	(920,570)
Basic earnings per share (cents per share)		(0.4)	(0.5)
Diluted earnings per share (cents per share)		(0.4)	(0.5)

CONDENSED STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2003

	Notes	Consolidated As at 31 Dec 2003 $	Consolidated As at 30 June 2003 $
CURRENT ASSETS			
Cash assets		236,376	357,112
Inventories		44,901	73,359
Receivables		135,927	140,603
Prepayments and other assets		85,859	68,806
TOTAL CURRENT ASSETS		503,063	639,880
NON-CURRENT ASSETS			
Receivables		194,025	158,160
Other financial assets		212,697	212,697
Plant and equipment		163,185	171,950
Deferred exploration evaluation and development costs		4,952,035	4,387,531
TOTAL NON-CURRENT ASSETS		5,521,942	4,930,338
TOTAL ASSETS		6,025,005	5,570,218
CURRENT LIABILITIES			
Payables		587,190	369,798
Provisions		-	25,812
TOTAL CURRENT LIABILITIES		587,190	395,610
TOTAL LIABILITIES		587,190	395,610
NET ASSETS		5,437,815	5,174,608
EQUITY			
Contributed equity		43,076,345	42,124,094
Accumulated losses		(37,638,530)	(36,949,486)
TOTAL EQUITY		5,437,815	5,174,608

CONDENSED STATEMENT OF CASH FLOWS
HALF-YEAR ENDED 31 DECEMBER 2003

	Notes	Consolidated 6 months ended 31 Dec 2003 $	Consolidated 6 months ended 31 Dec 2002 $
Cash Flows From Operating Activities			
Receipts from customers		522,612	397,388
Payments to suppliers and employees		(1,083,149)	(1,352,767)
Interest received		2,319	7,515
Exploration costs		(10,845)	(4,277)
Net Cash Flows Used In Operating Activities		**(569,063)**	**(952,141)**
Cash Flows From Investing Activities			
Payments for exploration and development expenditure		(493,153)	(1,712,890)
Contribution for development expenditure		-	1,473,704
Proceeds from sale of permits		-	-
Purchase of plant and equipment		(14,310)	(36,630)
Proceeds from sale of plant and equipment		-	-
Net Cash Flows Used In Investing Activities		**(507,463)**	**(275,816)**
Cash Flows From Finance Activities			
Proceeds from issue of securities		1,018,788	1,977,075
Share issue costs		(66,537)	(146,574)
Net Cash Flows From Financing Activities		**952,251**	**1,830,501**
Net Increase/(Decrease) In Cash Held		(124,725)	**602,544**
Add opening cash brought forward		357,112	466,928
Effects of exchange rate changes on opening cash		3,539	(905)
Closing Cash Carried Forward		**236,376**	**1,068,567**

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS
31 DECEMBER 2003

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the Annual Financial Report of Carnarvon Petroleum Limited as at 30 June 2003. It is also recommended that the half-year financial report be considered together with any public announcements made by Carnarvon Petroleum Limited and its controlled entities during the half-year ended 31 December 2003 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

The half-year financial report has been prepared in accordance with the historical cost convention.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

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

Income tax expense and deferred tax balances presented in this financial report do not take into account the impact of adjustments, if any, that may arise should the group elect to enter into a tax consolidation group. Carnarvon Petroleum Limited has not yet decided whether it will tax consolidate under the recently enacted tax consolidation provisions. Therefore any losses may only be utilised to offset taxable income of the specific entity that has the losses.

Going Concern

The consolidated financial report has been prepared on a going concern basis, which contemplates continuity of normal business activities and realisation of assets and discharge of liabilities in the ordinary course of business.

The consolidated entity is in net current asset deficiency of $84,127 and has incurred an operating loss of $689,045 for the financial period ended 31 December 2003. The ability of the consolidated entity to continue as a going concern, and therefore whether it will be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report, is dependent upon:

- oil sales revenue derived from the SW1A Joint Venture
- generation of future profits from the SW1A Joint Venture; and
- injection of capital

Without the generation of future profits and the injection of capital, there is significant uncertainty as to whether the consolidated entity will be able to continue as a going concern and therefore whether it will be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS
31 DECEMBER 2003

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (Continued)

It is on the basis that the consolidated entity will generate profits in the future from oil sales derived from the SW1A Joint Venture and an injection of capital will occur to cover future exploration and development expenditure, that the directors have prepared the financial report on a going concern basis. Consequently, no adjustments have been made relating to the recoverability and classification of recorded asset amounts or to the amount and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS
31 DECEMBER 2003

	Consolidated 6 months ended 31 Dec 2003 $	Consolidated 6 months ended 31 Dec 2002 $
2 OPERATING LOSS		
(a) **Revenues from operating activities**		
Sales revenue		
Oil-SW1A Concession	517,936	516,763
Total revenues from operating activities	517,936	516,763
Revenues from non-operating activities		
Interest – other persons/corporations	2,319	7,515
Total other revenues from non-operating activities	2,319	7,515
Total revenues from ordinary activities	520,255	524,278
(b) **Cost of sales**		
Production	(156,439)	(152,681)
Royalty and excise	(28,666)	(71,257)
Amortisation of exploration and development costs	(9,186)	(7,322)
Depreciation of production assets	(20,000)	(20,000)
Transportation	(38,250)	(35,167)
Selling, general and administration	(160,003)	(179,412)
Total cost of sales	(412,544)	(465,839)
(c) **Other expenses from ordinary activities**		
Exploration costs incurred and expensed	(10,845)	(4,277)
Corporate administration costs:		
Administration	(801,737)	(705,772)
Depreciation – plant and equipment	(6,532)	(4,493)
Loss on sale of non-current assets	-	-
Reversal of Provision for non-recovery – employee share loans	35,865	23,820
Rental of premises	(27,506)	(109,345)
Total corporate administration costs	(799,910)	(795,790)
(d) **Gains/(Losses)**		
Unrealised foreign exchange gain/(loss) on translation of integrated subsidiary	13,999	(32,368)

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS
31 DECEMBER 2003

3 SEGMENT INFORMATION

Geographical Segments

	Australia		Thailand		Papua New Guinea		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	$	$	$	$	$	$	$	$
Revenue								
Sales to customers outside the consolidated entity	-	-	517,936	516,763	-	-	517,936	516,763
Other revenue from customers outside the consolidated entity	2,319	7,515	-	-	-	-	2,319	7,515
Total segment revenue	2,319	7,515	517,936	516,763	-	-	520,255	524,278
Results								
Segment result	(808,436)	(792,552)	119,391	18,556	-	(4,277)	(689,045)	(773,996)

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

4 CONTINGENT ASSETS AND LIABILITIES

During June 2003, the operator of the SWIA joint venture, Pacific Tiger Energy (Thailand) Inc. made a cash call to Carnarvon for $218,000 which represented the unbudgeted cost over runs associated with the Phase II development costs. The directors believed this was outside the guidelines of the joint venture operating agreement. Therefore Carnarvon only booked $60,000 of this amount which represents 5% of the total Phase II development budgeted costs, consistent with the Joint Venture Operating Agreement. After a thorough technical and accounting review of the cost over runs and extensive discussions with the Operator, Carnarvon has accepted that the expenditures were necessary to the conduct of operations and has put in place a mechanism for payment.

There have been no other material changes of any contingent liabilities or contingent assets since the last annual reporting date.

5 EVENTS SUBSEQUENT TO BALANCE DATE

A placement of 29,599,148 ordinary fully paid shares at 3.3 cents per share was announced to the ASX on the 29th January 2004 with funds amounting to $976,772 to be used by the Company for the conduct of seismic and Phase III drilling operations in Thailand.

The Company with its joint venture partner, Pacific Tiger Energy Inc concluded Phase III Drilling during February 2004. Both wells WBN-7 and WBN-8 drilled during this campaign are on production test for results to be announced to the market in the next week.

The Company announced on the 9th March 2004 that the offer by the Company of approximately 45,385,360 ordinary shares and 22,692,680 options to shareholders of the Company via a non-renounceable rights issue was subscribed by shareholders to a total of 16,296,817 shares with the balance of 29,088,543 shares placed with clients of Australian broking houses. Funds raised of $1,497,717 will be used as working capital by the Company to fund its share of the development drilling program in the Wichian Buri Oilfield in Central Thailand in which the Company has a 40% interest.

DIRECTORS' DECLARATION
31 DECEMBER 2003

In accordance with a resolution of the directors of Carnarvon Petroleum Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity:

 (i) give a true and fair view of the financial position as at 31 December 2003 and the performance for the half-year ended on that date of the consolidated entity; and

 (ii) comply with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

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

On behalf of the Board.

AG Shelton
DIRECTOR

Tuesday 15 March 2004

INDEPENDENT REVIEW REPORT

To the members of Carnarvon Petroleum Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows and accompanying notes to the financial statements for the consolidated entity comprising Carnarvon Petroleum Limited and the entities it controlled during the period, and the Directors' Declaration for the company for the half year ended 31 December 2003.

The Directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 1029 "Interim Financial Reporting", in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the Corporations Act 2001, Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.
Review Statement
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report, as defined in the scope section, of the consolidated entity comprising Carnarvon Petroleum Limited and the entities it controlled during the period is not in accordance with:

(a) the Corporations Act 2001, including:
(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2003 and its performance for the half-year ended on that date; and
complying with Accounting Standard AASB 1029 "Interim Financial Reporting", and the Corporations Regulations 2001;

(b) other mandatory professional reporting requirements in Australia.

Inherent uncertainty regarding going concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1 of the financial report relating to going concern, there is significant uncertainty whether Carnarvon Petroleum Limited will be able to continue as a going concern without obtaining further funds to continue its exploration and development activities and therefore whether it will be able to pay its debts as and when they fall due and realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the entity not continue as a going concern.

Ernst + Young

Ernst & Young

R C Piltz
Melbourne
Date: 15 March 2004