Caravel
ENERGY LIMITED

ABN 38 119 047 693

Financial Report for the Half-year Ended 31 December 2013

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CORPORATE DIRECTORY

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Mr Brian McMaster (Executive Chairman)
Dr Emma Rasolovoahangy (Executive Director)
Mr Matthew Wood (Non-Executive Director)

Company Secretary
Mr. Jonathan Hart

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Auditor's Independence Declaration to the Directors of Caravel Energy Limited

In relation to our review of the financial report of Caravel Energy Limited for the half-year ended 31 December 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

F Drummond
Partner
25 July 2014

DIRECTORS' REPORT

The Directors of Caravel Energy Limited submit the financial report of Caravel Energy Limited ("the Company") and its controlled entities ("the Group" or "Consolidated Entity") for the half-year ended 31 December 2013. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

DIRECTORS

The names of directors who held office during or since the end of the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Mr Brian McMaster	Executive Chairman
Mr Timothy Flavel	Executive Director (resigned 3 September 2013)
Mr Matthew Wood	Non-Executive Director
Mr Jonathan Hart	Executive Director (resigned 3 September 2013)
Dr Emma Rasolovoahangy	Executive Director
Dr Robert Wrixon	Non-Executive Director (resigned 3 September 2013)

RESULTS OF OPERATIONS

The loss after tax for the half-year ended 31 December 2013 was $4,847,864 (31 December 2012: loss of $975,723).

REVIEW OF OPERATIONS

During the period the Company continued to source funding to finance its exploration programmes at the Bezaha Oil Project. As a result the securities of Caravel Energy Limited remained in voluntary suspension at the request of the Company. Caravel advises that negotiations to facilitate an acceptable financing structure are in the final stages.

The Company has been reviewing its South Australian tenements and is considering its strategy with regards to these tenements.

Corporate

Mr Timothy Flavel, Dr Robert Wrixon and Mr Jonathan Hart resigned from their position as Directors of the Company on 3 September 2013.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 11 June 2014, the Company announced that it has sold its 25% interest (ability to earn up to 80%) in PetroMad Mauritius Limited (being the company which owns a 100% interest in the Bezaha Oil Project concession located in Southern Madagascar). The purchaser of the asset is ASX listed company Tellus Resources Limited (TLU).

The consideration for the acquisition is the issue of 85 million TLU shares (of which 60 million are to be issue to Caravel Energy and the other 25 million to certain unrelated nominated Caravel Energy creditors). Additionally, TLU will assume certain liabilities associated with PetroMad. Settlement of the acquisition is conditional on obtaining all shareholder approvals required under the ASX listing Rules and the Corporations Act to effect the transaction.

The Company now intends to renew its focus on its existing Olympic Dam copper assets where significant potential exists to identify and drill copper targets.

On the 16 July 2014 the Group secured an interim finance facility from Avonglade Enterprises Pty Ltd ('Avonglade') to make a secured loan available to Caravel Energy of up to $250,000. Of the $250,000 available, $50,000 has been drawn down to pay trade payables that are due and payable. The balance of the loan will be drawn down to pay remaining trade payables and for working capital until funds are raised via an equity raising in the second quarter of the 2015 financial year. The Avonglade loan has a flat rate of interest of 10% and is secured over all of Caravel's present and after acquired assets and undertakings. The loan is payable by 31 October 2014.

There are no other significant events subsequent to reporting date.

AUDITOR INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, Ernst &Young, to provide the directors of the company with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on page 2 and forms part of this directors' report for the half-year ended 31 December 2013.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to s.306(3) of the Corporations Act 2001.

Brian McMaster
Chairman
Perth, Western Australia
25 July 2014

Consolidated Statement of Comprehensive Income *for the half-year ended 31 December 2013*

	Note	31 December 2013 $	31 December 2012 $
Interest revenue		1,198	11,002
		1,198	11,002
Serviced office and outgoings		(60,000)	(60,000)
Exploration expenditure		(10,496)	(56,336)
Listing and share registry expenses		(46,573)	(38,997)
Professional and consulting fees		(386,791)	(288,470)
Finance costs		(756,164)	-
Share based payments	4	-	(19,261)
Impairment of investment in associate	6	(3,453,621)	-
Share of loss from associate	6	(70,245)	(467,422)
Other expenses	5	(65,172)	(56,239)
Loss before income tax		**(4,847,864)**	**(975,723)**
Income tax expense		-	-
Loss after income tax		**(4,847,864)**	**(975,723)**
Net loss for the half-year		**(4,847,864)**	**(975,723)**
Other Comprehensive Income *Items in other comprehensive income that may be reclassified through profit and loss*			
Share of foreign currency translation reserve of equity accounted investment	6	140,037	(88,466)
Foreign currency translation		-	5
Other comprehensive loss for the half-year, net of tax		140,037	(88,461)
Total comprehensive loss for the half-year		**(4,707,827)**	**(1,064,184)**
Loss per share attributable to owners of Caravel Energy Limited			
Basic loss per share (cents)		(0.59)	(0.13)
Diluted loss per share (cents)		(0.59)	(0.13)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position *as at 31 December 2013*

	Note	31 December 2013 $	30 June 2013 $
ASSETS			
Current Assets			
Cash and cash equivalents		128,498	682,158
Other receivables		12,362	14,100
Total Current Assets		140,860	696,258
Non-Current Assets			
Investment in an associate	6	3,766,542	7,011,246
Total Non-Current Assets		3,766,542	7,011,246
Total Assets		3,907,402	7,707,504
LIABILITIES			
Current Liabilities			
Trade and other payables	7	1,648,761	741,035
Borrowings	8	1,500,000	1,500,000
Total Current Liabilities		3,148,761	2,241,035
Total Liabilities		3,148,761	2,241,035
Net Assets		**758,641**	**5,466,469**
EQUITY			
Issued capital	9	20,994,255	20,994,255
Reserves		2,395,581	2,255,545
Accumulated losses		(22,631,195)	(17,783,331)
Total Equity		**758,641**	**5,466,469**

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows *for the half-year ended 31 December 2013*

	31 December 2013 $	31 December 2012 $
Cash flows from operating activities		
Payments to suppliers and employees	(401,883)	(343,907)
Payments for exploration expenditure	(10,486)	(56,336)
Interest received	1,198	11,002
Interest paid	-	-
Net cash flows used in operating activities	**(411,171)**	**(389,241)**
Cash flows from investing activities		
Cost of investment in associate	(139,126)	(859,052)
Net cash flows used in investing activities	**(139,126)**	**(859,052)**
Cash flows from financing activities		
Proceeds from issue of shares	-	1,752,551
Proceeds from borrowings	-	100,000
Payments for share issue costs	-	(21,154)
Net cash provided by financing activities	**-**	**1,831,397**
Net increase/(decrease) in cash and cash equivalents	(550,297)	583,104
Cash and cash equivalents at beginning of period	682,158	643,698
Net foreign exchange differences	(3,363)	**-**
Cash and cash equivalents at the end of the period	**128,498**	**1,226,802**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity *for the half-year ended 31 December 2013*

	Issued capital $	Accumulated losses $	Option reserve $	Foreign currency translation reserve $	Share based payment reserve $	Total $
At 1 July 2013	**20,994,255**	**(17,783,331)**	**1,613,319**	**495,226**	**147,000**	**5,466,469**
Loss for the half-year	-	(4,847,864)	-	-	-	(4,847,864)
Other comprehensive income	-		-	140,036	-	140,036
Total comprehensive loss for the half-year	-	(4,847,864)	-	140,036	-	(4,707,828)
Transactions with owners in their capacity as owners	-	-	-	-	-	-
Balance at 31 December 2013	**20,994,255**	**(22,631,195)**	**1,613,319**	**635,262**	**147,000**	**758,641**
At 1 July 2012	**19,245,319**	**(15,082,988)**	**1,612,822**	**(4,118)**	**108,792**	**5,879,827**
Loss for the half-year	-	(975,723)	-	-	-	(975,723)
Other comprehensive income	-		-	(88,461)	-	(88,461)
Total comprehensive loss for the half-year	-	(975,723)	-	(88,461)	-	(1,064,184)
Transactions with owners in their capacity as owners						
Conversion of listed options	1,364,197	-	-	-	-	1,364,197
Option conversion funds received, shares not yet allotted	388,355	-	-	-	-	388,355
Costs of issue	(21,154)	-	-	-	-	(21,154)
Share based payments	-	-	-	-	19,261	19,261
Balance at 31 December 2012	**20,976,717**	**(16,058,711)**	**1,612,822**	**(92,579)**	**128,053**	**6,566,302**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

1. Corporate

The consolidated half-year financial report of Caravel Energy Limited (the Company) for the half-year ended 31 December 2013 was authorised for issue in accordance with a resolution of the directors on 25 July 2014.

Caravel Energy Limited is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange. The nature of the operations and principal activities of the Group are described in the Directors Report.

2. Basis Of Preparation And Accounting Policies

(a) Basis of preparation

These general purpose condensed financial statements for the half-year ended 31 December 2013 have been prepared in accordance with Australian Accounting Standard 134 Interim Financial Reporting and the Corporations Act 2001.

These half-year financial statements do not include all the notes of the type normally included in annual financial statements 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 statements. Accordingly, these half-year financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2013 and any public announcements made by Caravel Energy Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The half-year report has been prepared on an accruals basis and is based on historical costs.

Apart from the changes in accounting policy noted below, the accounting policies and methods of computation are the same as those adopted in the most recent annual financial statements.

Going Concern

This report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

The Group incurred a net loss after tax for the half-year ended 31 December 2013 of $4,847,864 and experienced net cash outflows from operating activities of $411,171 and net cash outflows from investing activities of $139,126. At 31 December 2013, the Group had net current liabilities of $3,007,901. The cash and cash equivalents balance at the date of issuing this report is $12,760. The directors recognize the need to raise additional funds via equity raisings for future exploration activities. Notwithstanding this, the Directors believe that there are reasonable grounds to believe that the Group will be able to continue as a going concern, after consideration of the following:

- On 13 June 2012, Executive Directors Brian McMaster and Matthew Wood resolved that they would withhold director's fees until such time that the Group is in a financial position that enables the payment of the fees. The Directors have also received confirmation from certain other creditors that they will not call for payment of outstanding amounts until such time as the Group is in a financial position to pay these amounts.

- On 16 July 2014, the Group signed an interim finance facility agreement with Avonglade Enterprises Pty Ltd ('Avonglade') to provide a secured loan to Caravel Energy of up to $250,000. Of the $250,000 available, $50,000 has to date been drawn down to pay trade payables that are due and payable. The balance of the loan will be drawn down to pay remaining trade payables that do not have a deferral arrangement and for working capital until funds are raised via an equity raising in the second quarter of the 2015 financial year. The Avonglade loan has a flat rate of interest of 10% per annum and is secured over all of Caravel's present and after acquired assets and undertakings. The loan is payable by 31 October 2014.

- On 11 June 2014, the Company announced that it had reached an agreement to sell its 25% interest (and its ability to earn up to 80%) in PetroMad Mauritius Limited (being the company which owns a 100% interest in the Bezaha Oil Project concession located in Southern Madagascar to ASX listed company Tellus Resources Limited (TLU). The consideration for the sale is the issue of 85 million TLU shares, of which 60 million are to be issued to Caravel Energy and the other 25 million to certain unrelated nominated Caravel Energy creditors. The issue of shares to the creditors will settle the liability by Caravel to these creditors These creditors had a total outstanding balance of $2,396,909 as at 31 December 2013. Additionally, TLU will assume certain liabilities associated with PetroMad Mauritius. Settlement of the sale is conditional on obtaining all shareholder approvals required under the ASX listing Rules and the Corporations Act to effect the transaction. In the event that approvals are not received then these creditors will be immediately due and payable.

- The Directors are currently in negotiations with other parties in relation to facilitating a capital raising in the second quarter of the 2015 financial year.

In considering the above, the directors have reviewed the Group's financial position and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe the Group will be successful in securing additional funds through an equity issue.

Should the Group not achieve the outstanding matters as set out above, there is significant uncertainty whether the Group will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The financial report does not contain any adjustments relating to the recoverability and classification of recorded assets or to the amounts or classification of recorded assets or liabilities that might be necessary should the Group not be able to continue as a going concern.

(b) Changes in accounting policies

From 1 July 2013, the Group has adopted all new and amended Standards and Interpretations, effective from 1 July 2013; including

- *AASB 10 Consolidated Financial Statements:* AASB 10 establishes a new control model that applies to all entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations. The adoption of AASB 10 had no effect on the financial position or performance of the Group.

- *AASB 11 Joint Arrangements*: AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. The adoption of AASB 11 had no effect on the financial position or performance of the Group.

- *AASB 12 Disclosure of Interests in Other Entities*: AASB 12 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of and risks associated with its interests in other entities, and the effects of those interests on its financial position, financial performance and cash flows. Additional disclosures, where required will be included in the consolidated financial statements for the year ending 30 June 2014.

- *AASB 13 Fair Value Measurement:* AASB 13 establishes a single source of guidance under AASB for all fair value measurements. AASB 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under AASB. AASB 13 defines fair value as an exit price. Application of AASB 13 has not materially impacted the fair value measurements of the Group. Additional disclosures are set out in note 13.

- *AASB 119 Employee Benefits (Revised 2011)*: The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. This standard resulted in a change in the accounting policy but did not have a material impact on the financial statements.

The Group has not elected to early adopt any new standards or amendments.

3. Segment Reporting

Management has determined the operating segments based on the reports reviewed by the board of directors that are used to make strategic decisions. The entity does not have any operating segments with discrete financial information.

The Board of Directors review internal management reports on a monthly basis that are consistent with the information provided in the statement of comprehensive income, statement of financial position and statement of cash flows. As a result no reconciliation is required because the information as presented is what is used by the Board to make strategic decisions.

4. Share based payments expenses

Share based payment transactions recognised as operating expenses in the statement of comprehensive income during the half-year were as follows:

	31 December 2013 $	31 December 2012 $
Operating expenses		
Employee share based payment	-	19,261

There were no options granted to consultants during the half-year period ending 31 December 2013.

The table below summarises options granted to consultants during the half-year period ending 31 December 2012:

Grant Date	Expiry date	Exercise price	Balance at start of the period Number	Granted during the period Number	Exercised during the period Number	Forfeited during the period Number	Balance at end of the period Number	Exercisable at end of the period Number
1/07/2011	1/07/2014	$0.02	-	10,000,000	-	-	10,000,000	5,000,000
Weighted average exercise price				$0.02			$0.02	

The weighted average of the fair value of the options issued at the grant date is $0.02.

	31 December 2013 $	31 December 2012 $
5. Other Expenses		
Accounting, audit and taxation fees	(14,680)	(20,213)
Administration expense	(1,800)	(2,700)
Travel and accommodation	(26,364)	(7,358)
Other	(22,328)	(25,968)
	(65,172)	(56,239)

	31 December 2013 $	30 June 2013 $
6. Investment in associate		
Investment in Petromad (Mauritius) Limited	**3,766,542**	7,011,246

The Group holds an investment in Petromad (Mauritius) Limited (Petromad) which is the licence holder of Concession Block 3114 located in the Morondava Oil Basin in Southern Madagascar. The carrying amount of the investment is accounted for using the equity method. The Group has a 25% interest in Petromad at 31 December 2013 (30 June 2013: 25%).

On 11 June 2014, the Company announced that it has sold its 25% interest (ability to earn up to 80%) in PetroMad Mauritius Limited (being the company which owns a 100% interest in the Bezaha Oil Project concession located in Southern Madagascar). The purchaser of the asset is ASX listed company Tellus Resources Limited (TLU). The consideration for the acquisition is the issue of 85 million TLU shares (of which 60 million are to be issue to Caravel Energy and the other 25 million to certain unrelated nominated Caravel Energy creditors). Settlement of the acquisition is conditional on obtaining shareholder approval from both Caravel Energy and TLU shareholders.

Petromad is a private entity that is not listed on any public exchange. The following table illustrates summarised financial information of Caravel's investment in Petromad (including the effects of Caravel's fair value exercise and adjustments to align differences in accounting policy):

	31 December 2013 $	30 June 2013 $
Reconciliation of movement in carrying amount of investment in associate		
Balance at the beginning of period	7,011,246	5,089,007
Cost of investment in associate	139,126	2,882,968
Impairment of investment in associate	(3,453,621)	-
Share of loss from associate	(70,245)	(1,459,247)
Share of foreign currency translation reserve of associate	140,036	498,518
Carrying amount of investment in associate	**3,766,542**	**7,011,246**

In considering the impairment of the investment in associate Management has assessed the carrying value of the investment using fair value less costs to sell for the sale of Petromad. Fair value has been assessed by reference to the value of the transaction as it is the best indicator of the value of the investment in associate. The value of the transaction has been estimated using a closing share price of TLU shares on the 11 June 2014, being the date of the release of sale to the market.

7. Trade and other payables		
Trade payables	674,852	527,309
Accruals	77,000	74,000
Interest payable	896,909	139,726
	1,648,761	**741,035**

8. Borrowings		
Loans payable	**1,500,000**	**1,500,000**

Caravel Energy has entered into unsecured loan agreements with Parimont Global Limited and Celtic Capital Pty Ltd, both unrelated parties, which provides the Company with loan facilities totalling $1,500,000. The loans have been fully drawn down, and the funds used to fund past exploration activities and for general working capital purposes.

The Loan Agreements are unsecured and are for a period of 120 days. The Company has the option to rollover the Loan Agreements for a total of two further consecutive periods of 120 days with a final maturity date being 365 days from first drawn down date. The loan principal is to be repaid in cash on the final maturity date. The interest payable under the Loan Agreements will be by way of issue of fully paid ordinary shares in the Company. The amount of interest payable is determined by a formula based on the number of days that the loan has remained outstanding.

These loans will be settled as part of the sale of the investment in Petromad to TLU via the issue of shares in TLU to their creditors. A deed of debt conversion and release will be settled as part of the TLU transaction.

9. Issued Capital

	31 December 2013	30 June 2013
	$	$
Ordinary shares fully paid	20,994,255	20,994,255

	2013		2012	
	No.	$	No.	$
Movements in ordinary shares on issue				
Opening balance	825,839,108	20,994,255	706,157,758	19,245,319
Conversion of listed options	-	-	90,946,443	1,364,197
Option conversion funds received, shares not yet allotted			-	388,355
Costs of issue	-	-	-	(21,154)
Closing balance	825,839,108	20,994,255	797,104,201	20,976,717

10. Contingent Liabilities & Commitments

There has been no change in commitments, contingent liabilities or contingent assets since the last annual reporting date.

11. Subsequent Events

On 11 June 2014, the Company announced that it has sold its 25% interest (ability to earn up to 80%) in PetroMad Mauritius Limited (being the company which owns a 100% interest in the Bezaha Oil Project concession located in Southern Madagascar). The purchaser of the asset is ASX listed company Tellus Resources Limited (TLU).

The consideration for the acquisition is the issue of 85 million TLU shares (of which 60 million are to be issue to Caravel Energy and the other 25 million to certain unrelated nominated Caravel Energy creditors). Additionally, TLU will assume certain liabilities associated with PetroMad. Settlement of the acquisition is conditional on obtaining all shareholder approvals required under the ASX listing Rules and the Corporations Act to effect the transaction.

On the 16 July 2014 the Group secured an interim finance facility from Avonglade Enterprises Pty Ltd (‘Avonglade’) to make a secured loan available to Caravel Energy of up to $250,000. Of the $250,000 available, $50,000 has been drawn down already to pay trade payables that are due and payable. The balance of the loan will be drawn down to pay remaining trade payables that do not have a deferral arrangement and for working capital until funds are raised via an equity raising in the near term. The Avonglade loan has a flat rate of interest of 10% and is secured over all of Caravel’s present and after acquired assets and undertakings. The loan is payable by 31 October 2014.

There are no other significant events subsequent to reporting date.

12. Dividends

No dividends have been paid or provided for during the half-year.

13. Financial Instruments

At 31 December 2013 the carrying value of all financial assets and liabilities is considered to approximate fair values.

DIRECTORS' DECLARATION

In the opinion of the directors of Caravel Energy Limited ('the company'):

1. The financial statements and notes thereto, as set out on pages 3 to 10, are in accordance with the Corporations Act 2001 including:

    a. complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and

    b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year then ended.

2. There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable subject to the matters set out in Note 2(a).

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to s.303(5) of the Corporations Act 2001.

Brian McMaster
Chairman

Perth, Western Australia
25 July 2014

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To the members of Caravel Energy Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Caravel Energy Limited, which comprises the consolidated statement of financial position as at 31 December 2013, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, 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 half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* . As the auditor of Caravel Energy Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Building a better working world

Basis for Qualified Opinion

Caravel Energy Limited's investment in Petromad (Mauritius) Limited, a foreign associate accounted for by the equity method, was carried at $7,011,246 on the statement of financial position as at 30 June 2013, and Caravel Energy Limited's share of Petromad (Mauritius) Limited's net loss of $1,459,247 was included in Caravel Energy Limited's statement of comprehensive income for the year then ended. Management were unable to obtain data which would support the value of the underlying assets of Petromad (Mauritius) Limited as at the 30 June 2013. We were therefore unable to obtain sufficient appropriate audit evidence regarding the carrying amount of Caravel Energy Limited's investment in Petromad (Mauritius) Limited as at 30 June 2013. Consequently, we were unable to determine whether any impairment adjustment to the carrying value was necessary at the 30 June 2013. Our audit report for the year ended 30 June 2013 was qualified in relation to this matter.

As detailed in Note 6, management have recognised an impairment adjustment with respect to the carrying value of the investment in Petromad (Mauritius) Limited as at the 31 December 2013 after assessing the recoverable amount with reference to the fair value less costs to sell as a result of the transaction to sell the investment in Petromad (Mauritius) to Tellus Resources Limited. Based on the above, we are unable to determine the period the impact arose and therefore whether the impairment expense recognised in the statement of comprehensive income for the half year ended 31 December 2013 is materially correct.

Qualified Opinion

Except for the possible effects of the matter described in the Basis for Qualified opinion paragraph, based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Caravel Energy Limited is not in accordance with the Corporations Act 2001, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2(a) in the financial report in relation to principal conditions that raise doubt about the consolidated entities' ability to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Ernst & Young

Ernst & Young

F Drummond
Partner
Perth
25 July 2014