

**CARNARVON PETROLEUM LIMITED
ABN 60 002 688 851
AND CONTROLLED ENTITIES**

**INTERIM FINANCIAL REPORT
31 December 2016**

CORPORATE DIRECTORY

Directors

PJ Leonhardt (Chairman)
AC Cook (Managing Director)
EP Jacobson (Non-Executive Director) (Retired 23 January 2017)
W Foster (Non-Executive Director)
P Moore (Non-Executive Director)

Company Secretary

TO Naude

Auditors

Ernst & Young

Bankers

Australia and New Zealand Banking Group Limited
Commonwealth Bank of Australia
National Australia Bank Limited
HSBC (Thailand)

Registered Office

Level 2
76 Kings Park Road
West Perth WA 6005
Telephone: +61 8 9321 2665
Facsimile: +61 3 9321 8867
Email: admin@cvn.com.au
Website: www.carnarvon.com.au

Share Registry

Link Market Services Limited
Level 4,
152 St Georges Terrace
Perth, WA 6000 Australia

Investor Enquiries: 1300 554 474 (within Australia)
Investor Enquiries: +61 2 8280 7111 (outside Australia)
Facsimile: +61 2 9287 0303

Stock Exchange Listing

Securities of Carnarvon Petroleum Limited are listed on the Australian Securities Exchange.
ASX Code: CVN - Ordinary shares
CVNO - Options

CONTENTS

Directors' Report	3-4
Auditors' Independence Declaration	5
Consolidated Income Statement	6
Consolidated Statement of Comprehensive Income	7
Consolidated Statement of Financial Position	8
Consolidated Statement of Changes in Equity	9
Consolidated Statement of Cash Flows	10
Notes to the Consolidated Financial Statements	11-14
Directors' Declaration	15
Independent Auditor's Review Report	16-17
Additional Shareholder Information	18

DIRECTORS' REPORT

The directors present their report together with the consolidated interim financial report for the half-year ended 31 December 2016, and the independent review report thereon.

Directors

The directors of the Company in office at any time during or since the end of the half-year are as follows. Directors were in office for this entire period unless otherwise stated.

Peter Leonhardt
Adrian Cook
Edward (Ted) Jacobson (Retired 23 January 2017)
William (Bill) Foster
Peter Moore

Review of Operations

The Group's operations comprise oil and gas exploration in Australia with the Group's main interests located in the North West Shelf of Western Australia.

The Group's Loss after tax from continuing operations for the half year ending 31 December 2016 was \$31,996,000 (2015: Profit \$3,334,000).

During the half year, Carnarvon, along with its Joint Venture partner, made a gas and condensate discovery in the Phoenix South-2 well in the WA-435-P permit of the North West Shelf. This followed the successful flow test in the Roc-2 well in the WA-437-P permit, which exceeded all pre-drill expectations. With a string of successes in this greater Phoenix and Roc area, the company continues to advance towards commercialising this significant opportunity.

The Company capitalised an additional \$13,502,000 (2015: \$1,031,000) in exploration expenditure during the period. This includes costs associated with the drilling of the Phoenix South-2 and Roc-2 wells in addition to the purchase of 3D seismic and technical work.

Carnarvon incurred \$2,023,000 (2015: \$2,926,000) in new ventures and advisory costs as the Company continues to recognise and pursue significant investment opportunities in the North West Shelf of Australia. Through a number of cost management initiatives, the Company has kept administrative expenses to \$804,000 (2015: \$958,000) during the period.

The Company recognised an impairment loss of \$22,153,000 (December 2015: nil) on the deferred consideration asset that was recognised in relation to the divestment of its Thai assets to Loyz Energy Limited ("Loyz") in March 2014. The Company impaired the carrying value of the deferred consideration asset due to a number of factors including the performance of the underlying Thai assets, a sustained decline in oil prices since the divestment and the financial position of Loyz. More specifically, Loyz was unable to make the deferred consideration payment that was due in December 2016 and the Company reached an agreement to delay the deferred consideration payment by 12 months. The impairment of the deferred consideration asset of \$22,153,000 is not a cash expense and can be reversed in future periods in line with changes to these factors.

Exploration expenditure impaired during the half year ended 31 December 2016 of \$10,278,000 (2015: \$100,000) was in relation to exploration and drilling expenses incurred in the Outtrim East-1 well in the WA-155-P(1) Permit in Western Australia as the Company does not have any substantive plans for future exploration activities or expenditure in this permit at this time.

During the financial year, there was an unrealised gain on foreign exchange movements of \$2,180,000 (2015: \$5,903,000) due to the depreciation of the AUD against the Company's USD cash and financial assets. The Company manages its cash position in US Dollars and Australian Dollars to naturally hedge its foreign exchange exposures.

Subsequent events

No other matter or circumstance has arisen since 31 December 2016 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 of amounts

The Company is an entity of the kind referred to in the Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016. As a result, amounts in these interim financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Auditors' Independence Declaration

The lead auditors' Independence Declaration, as required under section 307C of the Corporations Act 2001, is set out on page 5 and forms part of this directors' report for the half-year ended 31 December 2016.

Signed in accordance with a resolution of the directors.



PJ Leonhardt
Director

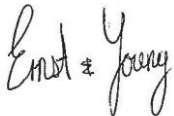
Perth
24 February 2016.

Auditor's Independence Declaration to the Directors of Carnarvon Petroleum Limited

As lead auditor for the review of Carnarvon Petroleum Limited for the half-year ended 31 December 2016, I declare 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Carnarvon Petroleum Limited and the entities it controlled during the financial period.



Ernst & Young



R J Curtin
Partner
24 February 2017

CARNARVON PETROLEUM LIMITED
31 DECEMBER 2016 INTERIM FINANCIAL REPORT

CONSOLIDATED INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 December 2016

	Note	Half-year 31 December 2016 \$000	Half-year 31 December 2015 \$000
Other income		1,773	3,863
Administrative expenses		(804)	(958)
Employee benefits expense		(518)	(443)
Directors' fees		(173)	(177)
Unrealised foreign exchange gain		2,180	5,903
New venture and advisory expenditure		(2,023)	(2,926)
Evaluation and exploration expenditure impaired	4	(10,278)	(100)
Remeasurement of deferred consideration asset	5	-	(1,828)
Impairment of deferred consideration asset	5	(22,153)	-
(Loss)/profit before tax from continuing operations		(31,996)	3,334
Income tax expense		-	-
(Loss)/profit after tax from continuing operations		(31,996)	3,334
Net (loss)/profit for the period attributable to members of the entity		(31,996)	3,334
(Loss)/earnings per share:			
Basic, (loss)/profit for the period attributable to members of the entity (cents per share)		(3.1)	0.3
Diluted, (loss)/profit for the period attributable to members of the entity (cents per share)		(3.1)	0.3

The consolidated income statement should be read in conjunction with the notes to the consolidated interim financial report.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 December 2016**

	Half-year 31 December 2016 \$000	Half-year 31 December 2015 \$000
Net (loss)/profit for the period	<u>(31,996)</u>	<u>3,334</u>
Other comprehensive income <i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>		
Exchange differences arising in translation of foreign operations	(2)	34
Total other comprehensive (loss)/income net of tax	<u>(2)</u>	<u>34</u>
Total comprehensive (loss)/profit for the period attributable to members of the entity	<u>(31,998)</u>	<u>3,368</u>

The consolidated statement of comprehensive income should be read in conjunction with the notes to the consolidated interim financial report.

CARNARVON PETROLEUM LIMITED
31 DECEMBER 2016 INTERIM FINANCIAL REPORT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 December 2016

		31 December	30 June
		2016	2016
	Notes	\$000	\$000
Current assets			
Cash and cash equivalents		59,953	87,847
Trade and other receivables		2,571	297
Deferred consideration asset	5	-	1,542
Other assets		143	466
Total current assets		<u>62,667</u>	<u>90,152</u>
Non-current assets			
Deferred consideration asset	5	-	18,509
Property, plant and equipment		153	165
Exploration and evaluation expenditure	4	42,784	29,282
Total non-current assets		<u>42,937</u>	<u>47,956</u>
Total assets		<u>105,604</u>	<u>138,108</u>
Current liabilities			
Trade and other payables		1,532	2,130
Employee benefits		262	268
Total current liabilities		<u>1,794</u>	<u>2,398</u>
Non-current liabilities			
Employee benefits		210	202
Total non-current liabilities		<u>210</u>	<u>202</u>
Total liabilities		<u>2,004</u>	<u>2,600</u>
Net assets		<u>103,600</u>	<u>135,508</u>
Equity			
Issued capital		95,487	95,401
Reserves		(306)	(308)
Retained earnings		8,419	40,415
Total equity		<u>103,600</u>	<u>135,508</u>

The consolidated statement of financial position should be read in conjunction with the notes to the consolidated interim financial report.

CARNARVON PETROLEUM LIMITED
31 DECEMBER 2016 INTERIM FINANCIAL REPORT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 December 2016

	Issued Capital \$000	Reserve shares \$000	Retained earnings \$000	Translation reserve \$000	Share based payments reserve \$000	Total \$000
Balance at 1 July 2015	93,011	(2,786)	45,782	-	2,421	138,428
Comprehensive income						
Profit for the period	-	-	3,334	-	-	3,334
Other comprehensive income	-	-	-	34	-	34
Total comprehensive income for the half year	-	-	3,334	34	-	3,368
Transactions with owners and other transfers						
Share based payments	-	-	-	-	123	123
Issue of ESP shares	131	(131)	-	-	-	-
Proceeds from exercised options	75	-	-	-	-	75
Total transactions with owners and other transfers	206	(131)	-	-	123	198
Balance at 31 December 2015	93,217	(2,917)	49,116	34	2,544	141,994
Balance at 1 July 2016	95,401	(3,190)	40,415	28	2,854	135,508
Comprehensive income						
Loss for the period	-	-	(31,996)	-	-	(31,996)
Other comprehensive loss	-	-	-	0	-	(2)
Total comprehensive loss for the half year	-	-	(31,996)	0	-	(31,998)
Transactions with owners and other transfers						
Share based payments	-	-	-	-	90	90
Issue of ESP shares	86	(86)	-	-	-	-
Total transactions with owners and other transfers	86	(86)	-	-	90	90
Balance at 31 December 2016	95,487	(3,276)	8,419	26	2,944	103,600

The consolidated statement of changes in equity should be read in conjunction with the notes to the consolidated interim financial report.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 December 2016

	Half-year 31 December 2016 \$000	Half-year 31 December 2015 \$000
Cash flows from operating activities		
Payments to suppliers and employees	(4,052)	(1,782)
Income taxes refunded	347	2,212
Interest received	249	163
Net cash flows (used in)/provided by operating activities	<u>(3,456)</u>	<u>593</u>
Cash flows from investing activities		
Exploration, evaluation and development expenditure	(26,021)	(2,756)
Acquisition of property, plant and equipment	(13)	(10)
Proceeds from deferred consideration	-	138
Net cash flows used in investing activities	<u>(26,034)</u>	<u>(2,628)</u>
Cash flows from financing activities		
Proceeds from exercised options	-	75
Net cash flows provided by financing activities	<u>-</u>	<u>75</u>
Net (decrease) in cash and cash equivalents	(29,490)	(1,960)
Cash and cash equivalents at beginning of the half-year	87,847	97,302
Effects of exchange rate fluctuations on cash and cash equivalents	1,596	4,671
Cash and cash equivalents at end of the half-year	<u>59,953</u>	<u>100,013</u>

The consolidated statement of cash flows should be read in conjunction with the notes to the consolidated interim financial report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting entity

Carnarvon Petroleum Limited ("Carnarvon") is a company domiciled in Australia.

The consolidated interim financial report as at and for the six months ending 31 December 2016 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled assets.

The 31 December 2016 interim financial statements were authorised for issue by the board of directors on 24 February 2017.

2. Basis of preparation

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report and any public announcements made during the half year.

The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is an entity of the kind referred to in the Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016. As a result, amounts in these interim financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2016 annual financial report for the financial year ended 30 June 2016.

The adoption of any new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior periods.

3. Contingent assets and liabilities

There have been no changes of a material nature in contingent liabilities or contingent assets since the last annual reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Exploration and evaluation expenditure

	31 December 2016 \$000	31 December 2015 \$000
Balance at beginning of financial year	29,282	17,352
Additions	23,780	1,131
Exploration expenditure impaired	(10,278)	(100)
Balance at end of financial year	<u>42,784</u>	<u>18,383</u>

The exploration expenditure impaired during the half year ended 31 December 2016 of \$10,278,000 (2015: \$100,000) was in relation to exploration and drilling expenses incurred in the Outtrim East-1 well in the WA-155-P(1) Permit in Western Australia as the Company does not have any substantive plans for future exploration activities or expenditure in this permit at this time. Included in additions is \$23,780,000 (2015: \$1,131,000) spent on exploration expenditure in concessions where the company has joint control. This includes expenditure in relation to the Phoenix South-2, Roc-2 and Outtrim East-1 wells.

5. Deferred consideration asset

	Half-year ending 31 December 2016 \$000	Year ended 30 June 2016 \$000
Deferred consideration receivable		
Current deferred consideration asset	-	1,542
Non-current deferred consideration asset	-	18,509
	<u>-</u>	<u>20,051</u>

Reconciliation

Reconciliation of the fair values at the beginning and end of the current financial year are set out below:

Opening fair value	20,051	23,624
Effective interest	1,403	3,490
Repayments	-	(916)
Remeasurement of deferred consideration asset	-	(6,925)
Effects of exchange rate fluctuations	699	778
Impairment of deferred consideration asset	(22,153)	-
Closing fair value	<u>-</u>	<u>20,051</u>

On 23 January 2017, Carnarvon entered into a supplemental agreement with Loyz Energy by which:

- Subsequent payments continue to be on 30 November each year,
- With exception to the receivable payment due 30 November 2016 which shall be deferred until 31 December 2017.
- Loyz Energy will pay USD\$5,000 interest per month in consideration for the deferment, with the first interest payment to be made on 31 January 2017.

The Company impaired the carrying value of the deferred consideration asset due to a number of factors including the performance of the underlying Thai assets, a sustained decline in oil prices since the divestment and the financial position of Loyz. More specifically, Loyz was unable to make the deferred consideration payment that was due in December 2016 and the Company reached an agreement to delay the deferred consideration payment by 12 months.

The deferred consideration asset has been accounted for as an available for financial asset under Australian Accounting Standards and classified as a "level 3" financial asset under the fair value hierarchy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Equity securities issued

	31 December 2016	31 December 2015
	Shares	Shares
<i>Issue of ordinary shares during the half-year</i>		
Shares issued under the Employee Share Plan	1,200,000	1,695,511
Exercised options from Entitlement Offer	-	3,338,721
	<u>1,200,000</u>	<u>5,034,232</u>
<i>Issue of options during the half-year</i>		
Options issued to directors	-	1,000,000
	<u>-</u>	<u>1,000,000</u>
	Number of Shares	Nominal Value
		\$000
<i>Movements in employee share plan issued with limited recourse employee loans</i>		
Opening balance – 1 July 2016	37,427,100	3,190
Issued during period	<u>1,200,000</u>	<u>86</u>
Closing balance – 31 December 2016	<u>38,627,100</u>	<u>3,276</u>

The 1,200,000 plan shares were issued to Mr. Adrian Cook. 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 following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in plan shares during the year:

	Number	WAEP	Number	WAEP
	December	December	June 2016	June 2016
	2016	2016		
Outstanding at beginning of period/year	37,427,100	0.16	31,401,589	0.17
Granted during the year	1,200,000	0.13	6,025,511	0.14
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at end of period/year	38,627,000	0.16	37,427,100	0.16
Exercisable at end of period/year	38,627,000	0.16	37,427,100	0.16

Shares granted under the ESP are accounted for as “in-substance” options due to the limited recourse nature of the loan between the employees and the Company to finance the purchase of ordinary shares. The fair value at grant date for the various tranches of shares issued under the ESP is determined using a Black Scholes methodology using the following model inputs:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Equity securities issued (continued)

Fair value of ESP shares and related assumptions	Key management personnel December 2016
Fair value at measurement date (cents)	5.8
Share price at date of issue (cents)	10
Exercise price (cents)	13
Expected volatility	88%
Expected life of ESP share	4 years
Expected dividends	Nil
Risk-free interest rate	1.5%
Share-based expense recognised	\$69,857

7. 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 the chief operating decision maker.

8. Subsequent events

No other matter or circumstance has arisen since 31 December 2016 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

DIRECTORS' DECLARATION

The directors of the Carnarvon Petroleum Limited (the "Company") declare that:

1. The financial statements and notes, as set out on pages 6 to 14 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 2016 and of its performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



PJ Leonhardt
Director

Perth
24 February 2017.

Independent auditor's report to the members of Carnarvon Petroleum Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Carnarvon Petroleum Limited, which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated income statement, 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 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 2016 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 Carnarvon Petroleum 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.

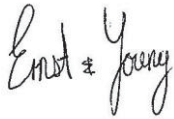
Independence

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.

Conclusion

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 Carnarvon Petroleum 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 2016 and of its performance for the for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



R J Curtin
Partner
Perth
24 February 2017

ADDITIONAL SHAREHOLDER INFORMATION

Details of associates and joint venture assets

<i>Joint venture</i>	<i>Principal activities</i>	<i>31 December 2016 Ownership interest %</i>	<i>31 December 2015 Ownership interest %</i>
<i>Western Australia</i>			
WA-435-P, WA-437-P, Roebuck Basin	Exploration for hydrocarbons	20%	20%
WA-436-P, WA 438-P, Roebuck Basin	Exploration for hydrocarbons	30%	30%
WA-521-P, Roebuck Basin	Exploration for hydrocarbons	100%	-
WA-155-P(1), Barrow Basin	Exploration for hydrocarbons	28.5%	-
EP-490, EP491, TP/27, EP475, Barrow Basin	Exploration for hydrocarbons	100%	100%
WA-523-P, Bonaparte Basin	Exploration for hydrocarbons	100%	-
WA-524-P, Dampier Basin	Exploration for hydrocarbons	100%	-