

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

**INTERIM FINANCIAL REPORT
31 December 2017**

CORPORATE DIRECTORY

Directors

PJ Leonhardt (Chairman)
AC Cook (Managing Director)
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

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Website: www.carnarvon.com.au

Share Registry

Link Market Services Limited
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Investor Enquiries: 1300 554 474 (within Australia)
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Stock Exchange Listing

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

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DIRECTORS' REPORT

The directors present their report together with the consolidated interim financial report for the half-year ended 31 December 2017, 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
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 profit after tax from continuing operations for the half year ending 31 December 2017 was \$391,000 (2016: Loss \$31,996,000).

During the half year, Carnarvon made significant progress on the Buffalo project in the WA 523 P permit by completing its technical work which identified the potential for redeveloping the existing Buffalo oil field. In addition, Carnarvon along with its joint venture partner Quadrant Energy, began preparation for the Phoenix South-3 well in the WA 435 P permit and the Dorado-1 well in the WA 437 P permit. The wells are expected to commence in March 2018 and May 2018 respectively. The company was also awarded two new permits AC/P62 (Condor) and EP 497 (Santa Cruz) during the half year as it continues its strategy to acquire high quality assets within the highly prospective North-West Shelf of Australia.

The Company capitalised an additional \$1,054,000 (2016: \$13,502,000) in exploration expenditure during the period. This includes costs associated with technical work within the permits Carnarvon operates and long lead costs for the upcoming Phoenix South-3 and Dorado-1 drilling program.

Carnarvon incurred \$1,481,000 (2016: \$2,023,000) in new ventures and advisory costs as the Company continues to build its significant regional database which has been integral in identifying highly prospective opportunities within the North-West shelf of Australia. This work has lead to the acquisition of two promising permits during the half year. In addition, the Company has reduced its administrative and head office costs during the period to \$637,000 (2016: \$804,000).

At the end of the period, Carnarvon recorded an available for sale financial asset of A\$2,860,000 (2016: \$0). This reflects the current value of the shares held by Carnarvon in CWX Global Limited (formerly Loyz Energy). The shares were received as settlement of the deferred consideration asset relating to 2014 sale of half of Carnarvon's former interests in its producing concessions in Thailand.

During the financial year, there was an unrealised loss on foreign exchange movements of \$730,000 (2016: Profit \$2,180,000) due to the appreciation 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 2017 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 2017.

Signed in accordance with a resolution of the directors.

A handwritten signature in blue ink, appearing to read 'PJ Leonhardt', with a stylized flourish at the end.

PJ Leonhardt
Director

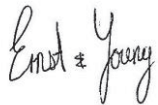
Perth
26 February 2018.

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 2017, 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
26 February 2018

CARNARVON PETROLEUM LIMITED
31 DECEMBER 2017 INTERIM FINANCIAL REPORT

CONSOLIDATED INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 December 2017

		Half-year 31 December 2017 \$000	Half-year 31 December 2016 \$000
	Note		
Other income	4	3,811	1,773
Administrative expenses		(637)	(804)
Employee benefits expense		(433)	(518)
Directors' fees		(139)	(173)
Unrealised foreign exchange gain		(730)	2,180
New venture and advisory expenditure		(1,481)	(2,023)
Evaluation and exploration expenditure impaired	5	-	(10,278)
Impairment of deferred consideration asset		-	(22,153)
Profit/(loss) before tax from continuing operations		391	(31,996)
Income tax expense		-	-
Net profit/(loss) after tax from continuing operations		391	(31,996)
Net profit/(loss) for the period attributable to members of the entity		391	(31,996)
Earnings/(loss) per share:			
Basic, profit/(loss) per share for the period attributable to members of the entity (cents per share)		0.04	(3.14)
Diluted, profit/(loss) per share for the period attributable to members of the entity (cents per share)		0.04	(3.14)

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 2017**

	Half-year 31 December 2017 \$000	Half-year 31 December 2016 \$000
Net profit/(loss) for the period	391	(31,996)
Other comprehensive income		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>		
Change in fair value of available for sale financial asset	(653)	-
Exchange differences arising in translation of foreign operations	(15)	(2)
Total other comprehensive loss net of tax	(668)	(2)
Total comprehensive loss for the period attributable to members of the entity	(277)	(31,998)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 December 2017

		31 December 2017 \$000	30 June 2017 \$000
	Notes		
Current assets			
Cash and cash equivalents		48,495	53,050
Trade and other receivables		298	400
Available for sale financial asset	6	2,860	-
Other assets		158	459
Total current assets		51,811	53,909
Non-current assets			
Property, plant and equipment		59	80
Exploration and evaluation expenditure	5	47,992	46,938
Total non-current assets		48,051	47,018
Total assets		99,862	100,927
Current liabilities			
Trade and other payables		650	1,341
Employee benefits		313	379
Total current liabilities		963	1,720
Non-current liabilities			
Employee benefits		168	279
Total non-current liabilities		168	279
Total liabilities		1,131	1,999
Net assets		98,731	98,928
Equity			
Issued capital		95,945	95,865
Reserves		(1,043)	(375)
Retained earnings		3,829	3,438
Total equity		98,731	98,928

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 December 2017

	Issued Capital \$000	Reserve shares \$000	Retained earnings \$000	Translation reserve \$000	Fair value reserve \$000	Share based payments reserve \$000	Total \$000
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	-	-	-	(2)	-	-	(2)
Total comprehensive loss for the half year	-	-	(31,996)	(2)	-	-	(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
Balance at 1 July 2017	95,865	(3,654)	3,438	26	-	3,253	98,928
Comprehensive income							
Profit for the period	-	-	391	-	-	-	391
Other comprehensive loss	-	-	-	(15)	(653)	-	(668)
Total comprehensive loss for the half year	-	-	391	(15)	(653)	-	(277)
Transactions with owners and other transfers							
Share based payments	-	-	-	-	-	80	80
Issue of ESP shares	80	(80)	-	-	-	-	-
Total transactions with owners and other transfers	80	(80)	-	-	-	80	80
Balance at 31 December 2017	95,945	(3,734)	3,829	11	(653)	3,333	98,731

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 2017

	Half-year 31 December 2017 \$000	Half-year 31 December 2016 \$000
Cash flows from operating activities		
Payments to suppliers and employees	(3,047)	(4,052)
Income taxes refunded	-	347
Interest received	287	249
Net cash flows used in by operating activities	<u>(2,760)</u>	<u>(3,456)</u>
Cash flows from investing activities		
Exploration and evaluation expenditure	(1,054)	(26,021)
Acquisition of property, plant and equipment	(6)	(13)
Net cash flows used in investing activities	<u>(1,060)</u>	<u>(26,034)</u>
Net decrease in cash and cash equivalents	(3,820)	(29,490)
Cash and cash equivalents at beginning of the half-year	53,050	87,847
Effects of exchange rate fluctuations on cash and cash equivalents	(735)	1,596
Cash and cash equivalents at end of the half-year	<u>48,495</u>	<u>59,953</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 2017 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled assets.

The 31 December 2017 interim financial statements were authorised for issue by the board of directors on 26 February 2018.

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 available for sale financial assets that have been measured at fair value. 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 2017 annual financial report for the financial year ended 30 June 2017.

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. Other income

	31 December 2017 \$000	31 December 2016 \$000
Gain on settlement of deferred consideration asset (see note 6)	3,514	-
Finance income on bank deposits	287	444
Net (loss) gain on foreign currency transactions	10	(173)
Unwinding of interest on deferred consideration asset	-	1,404
ATO Refund	-	98
Balance at end of financial year	<u>3,811</u>	<u>1,773</u>

5. Exploration and evaluation expenditure

	31 December 2017 \$000	31 December 2016 \$000
Carrying value at the beginning of period	46,938	29,282
Additions	1,054	23,780
Exploration expenditure impaired	-	(10,278)
Carrying value at the end of period	<u>47,992</u>	<u>42,784</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Available for sale financial asset

	Half-year ending 31 December 2017 \$000	Year ended 30 June 2017 \$000
Available for sale financial asset	2,860	-
<i>Reconciliation</i>		
Reconciliation of the fair values at the beginning and end of the current financial year are set out below:		
Carrying value at the beginning of period	-	-
Receipt of shares in CWX Global Limited on settlement of deferred consideration asset	3,514	-
Fair value movements	(654)	-
Carrying value at the end of period	2,860	-

On 2 May 2017, Carnarvon entered into an agreement with CWX Global Limited (formerly Loyz Energy Limited) ("CWX") to settle the outstanding deferred consideration payable to Carnarvon for a sum of US\$4.0m with \$0.05m paid on the agreement date and the balance payable on 30 June 2017 in cash or shares in CWX; and in addition, Carnarvon would be entitled to 12% of any sale proceeds over US\$45m, should CWX sell the concession. In June 2017, Carnarvon gave CWX an extension until 31 October 2017 to complete the settlement of the deferred consideration, subject to certain conditions being met.

The deferred consideration asset element of the sale was for US\$32,000,000 of future payments based on 12% of the acquirer's share of revenue in the Concessions. This was in addition to US\$30,000,000 received in cash.

CWX made the US\$3.95m in settlement for the deferred consideration asset by issue of shares as it was unable to make a cash settlement. On 6 September 2017, the issue of 331,653,000 shares in CWX (equating to a fair value of US\$3.95m) to Carnarvon (in settlement of the deferred consideration asset) was approved by the shareholders of CWX. Settlement occurred on 14 November 2017. The settlement of the deferred consideration asset resulted in a gain of \$3,514,000 which has been reflected in other income in the income statement (note 4).

The shares in CWX held by Carnarvon at 31 December 2017 has been accounted for as an available for sale financial asset under Australian Accounting Standards and classified as a "level 1" financial asset under the fair value hierarchy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Equity securities issued

	31 December 2017 Shares	31 December 2016 Shares
<i>Issue of ordinary shares during the half-year</i>		
Shares issued under the Employee Share Plan	<u>1,600,000</u>	<u>1,200,000</u>

	Number of Shares	Nominal Value \$000
<i>Movements in employee share plan issued with limited recourse employee loans</i>		
Opening balance – 1 July 2017	45,453,192	3,654
Issued during period	<u>1,600,000</u>	<u>80</u>
Closing balance – 31 December 2017	<u>47,053,192</u>	<u>3,734</u>

Of the 1,600,000 plan shares issued during the period, 1,500,000 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 December 2017	WAEP December 2017	Number June 2017	WAEP June 2017
Outstanding at beginning of period/year	45,453,192	0.15	37,427,100	0.16
Granted during the year	1,600,000	0.10	8,026,092	0.10
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at end of period/year	47,053,192	0.15	45,453,192	0.15
Exercisable at end of period/year	47,053,192	0.15	45,453,192	0.15

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Equity securities issued (continued)

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:

Fair value of ESP shares and related assumptions	Key management personnel December 2017	Other employees December 2017
Fair value at measurement date (cents)	4.1	4.1
Share price at date of issue (cents)	7.9	8.0
Exercise price (cents)	10	10
Expected volatility	68%	68%
Expected life of ESP share	5 years	5 years
Expected dividends	Nil	Nil
Risk-free interest rate	1.5%	1.5%
Share-based expense recognised	\$61,226	\$4,156

8. 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.

9. Subsequent events

No other matter or circumstance has arisen since 31 December 2017 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 15 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 2017 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.

A handwritten signature in blue ink, appearing to read 'PJ Leonhardt', with a large, sweeping flourish extending to the left.

PJ Leonhardt
Director

Perth
26 February 2018.

Independent Auditor's Review Report to the Members of Carnarvon Petroleum Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Carnarvon Petroleum Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated income statement, 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.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial 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*.

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 control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

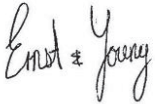
Auditor's Responsibility

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, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2017 and its consolidated financial 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 the Group, 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*.



Ernst & Young



R J Curtin
Partner
Perth
26 February 2018

ADDITIONAL SHAREHOLDER INFORMATION

Details of associates and joint venture assets

<i>Joint venture</i>	<i>Principal activities</i>	<i>31 December 2017 Ownership interest %</i>	<i>31 December 2016 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%	100%
WA-155-P(1), Barrow Basin	Exploration for hydrocarbons	28.5%	28.5%
EP-490, EP491, TP/27, EP475, Barrow Basin	Exploration for hydrocarbons	100%	100%
EP-497, Barrow Basin	Exploration for hydrocarbons	100%	-
WA-523-P, Bonaparte Basin	Exploration for hydrocarbons	100%	100%
AC/P62, Bonaparte Basin	Exploration for hydrocarbons	100%	-
WA-524-P, Dampier Basin	Exploration for hydrocarbons	100%	100%