

A large, abstract graphic composed of several overlapping, semi-transparent blue geometric shapes, primarily triangles and parallelograms, arranged in a diagonal pattern from the top right towards the bottom left. The colors range from a light sky blue to a deep navy blue.

2016 Annual Report

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Directors

PJ Leonhardt (Chairman)
AC Cook (Managing Director)
EP Jacobson (Non-Executive Director)
WA Foster (Non-Executive Director)
P Moore (Non-Executive Director)

Company Secretary

T Naude

Auditors

Ernst & Young

Bankers

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HSBC

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Share Registry

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Stock Exchange Listing

Carnarvon Petroleum Limited's shares are quoted on the Australian Securities Exchange.

ASX Code: CVN - ordinary shares

Chairman's Review

After a number of years of transition, this marks Carnarvon Petroleum Limited's ("Carnarvon") first full financial year as a pure North West Shelf focused oil & gas company. Carnarvon's transition has been a measured process and our underlying objectives remain driven by the need to deliver our shareholders an appropriate return from our investment endeavors. Following the divestment of our Thailand business unit, we have been in the fortunate position where we have been able to make important progress in building our technical team and proprietary technical database to maximize value from our Australian portfolio and to add new acreage to the portfolio.



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We have been able to take advantage of the industry downturn by adding a number of quality assets to the Company's portfolio, particularly this year. The Company acquired an interest in the Outtrim East oil project where drilling commenced during the year. In addition to this the company has acquired a new permit adjacent to the successful Phoenix and Roc area and a third permit in the established Bonaparte basin.

The Company continued to make material progress in the greater Phoenix area following the successful discovery in the Phoenix South-1 well in 2014 with a consecutive discovery this year containing gas and

condensate in the Roc-1 well. It's very encouraging to see Carnarvon and our partner Quadrant Energy moving quickly in this area with the Roc-2 appraisal well underway. Recent technical work also shows a number of material and encouraging opportunities in the region in addition to the Phoenix South and Roc discoveries that will be considered in more detail once we understand the results of the current Roc-2 well.

This year the Board approved bonus payments and employee shares issued to the Company's executives and staff. We are particularly aware of the sensitivity of remuneration matters for shareholders given the current



share and oil price environment. It is in fact in these more challenging times, where more effort and care is required of management to effectively execute the Company's strategy. These incentives were awarded after careful assessment of personal performance together with the delivery of key milestones which include the successful discovery in the Roc-1 well, the award of the new and highly prospective permits WA-521-P and WA-523-P, the acquisition of the Outtrim East oil project and significant progress on the Company's North West Shelf regional mapping program and database construction. The options issued to Mr Bill Foster and Dr Peter Moore were approved by shareholders at last year's annual general meeting. It was agreed to issue these options in lieu of additional

time required of these directors during this important stage of the Company's transformation.

I would finally like to thank Adrian and his team for their outstanding contribution during the year which has also been recognised within the industry for its technical excellence and capabilities. It is with much anticipation that I and my fellow directors, together with our shareholders, look forward to an exciting year of growth.

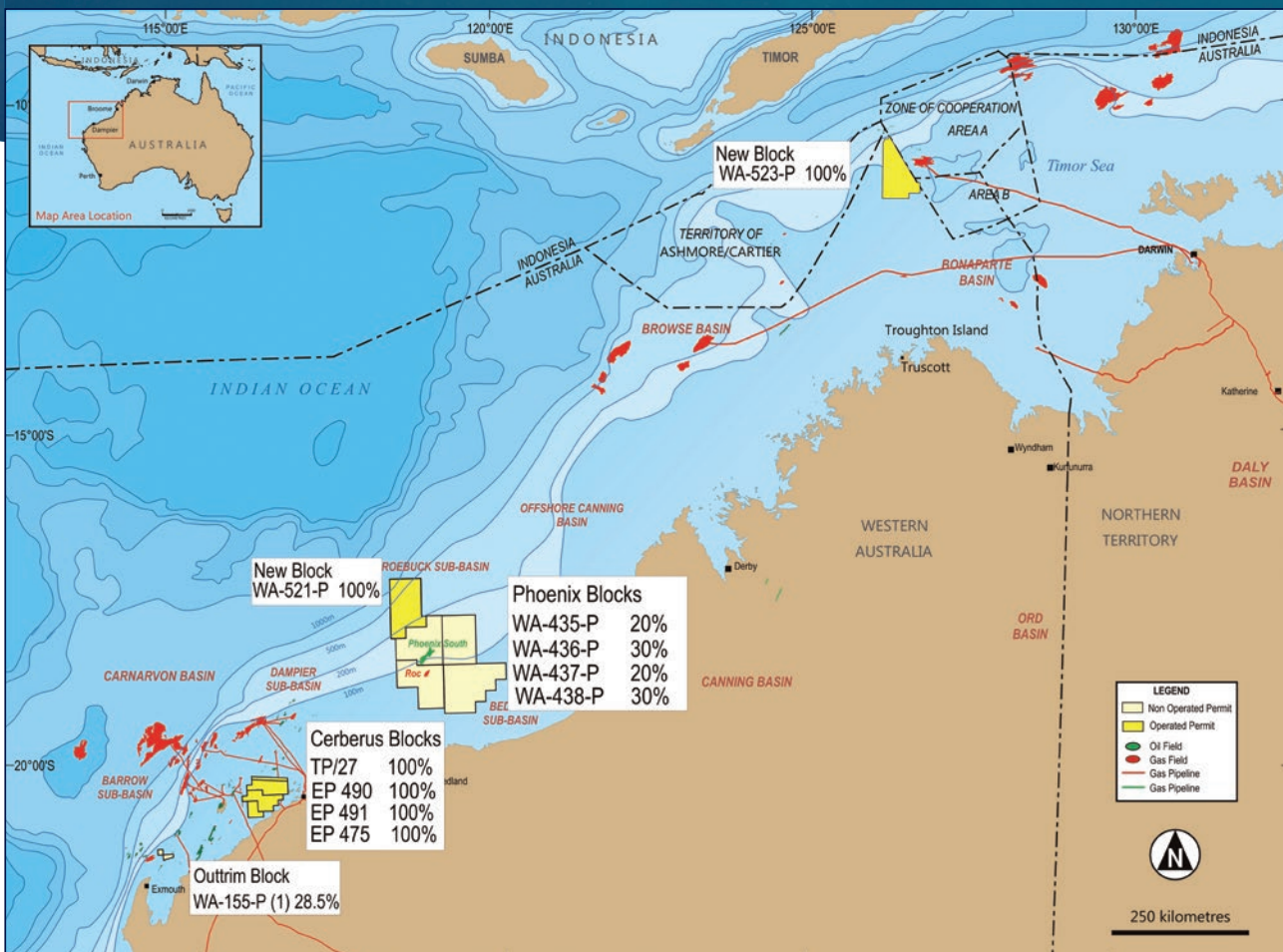
Peter Leonhardt
Chairman

OVERVIEW OF OPERATIONS

The highlights for the Company during the 2016 financial year were:

- > The discovery of gas and substantial condensate in the Roc-1 well in the WA-437-P permit;
- > The discovery of oil in the Outtrim East-1 well in the WA-155-P(1) permit;
- > Continued expansion of Carnarvon’s exploration footprint at minimal cost with the addition of permits:
 - WA-521-P adjoining the Phoenix blocks
 - WA-523-P in the Bonaparte basin surrounded by quality oil and gas fields

Figure 1: Carnarvon Interests as at 30 June 2016 in Australia



Phoenix Project

In 2008 Carnarvon secured exploration acreage offshore of Western Australia comprising four exploration permits (WA-435-P, WA-436-P, WA-437-P and WA-438-P) covering approximately 22,000km². These permits are situated in the north-western region of the Bedout Sub-basin within the greater Roebuck Basin. The permits lie between the prolific Carnarvon Basin hydrocarbon province to the southwest and the Browse Basin to the northeast. The town of Port Hedland lies approximately 150km to the south of the permits and Broome lies 250km to the northeast.

The Joint Venture embarked on an extensive geological study, acquiring 1,100 km² of multi-client 3D seismic and another 407km² of 2D seismic data through to mid-2013. A study of the first set of 3D data confirmed two significant prospects, Phoenix South within WA-435-P; and Roc in WA-437-P.

The Joint Venture was successfully expanded with new partners being introduced to fund well costs for drilling exploratory wells.

The Phoenix South-1 well was drilled in the WA-435-P permit in mid calendar 2014 discovering light oil and the Roc-1 well commenced drilling in WA-437-P in late 2015 to discover condensate rich gas. These two wells, successfully drilled in the current exploration phase, are complemented by the Phoenix-1 and Phoenix-2 hydrocarbon discoveries made some 30 years previously.

Further multi-client seismic data was acquired over the permits and surrounding areas after the success of those exploration wells, with a total of approximately 10,000 km² of high quality 3D data and 10,000 line kilometres of 2D seismic data being acquired for prospect and regional interpretation.

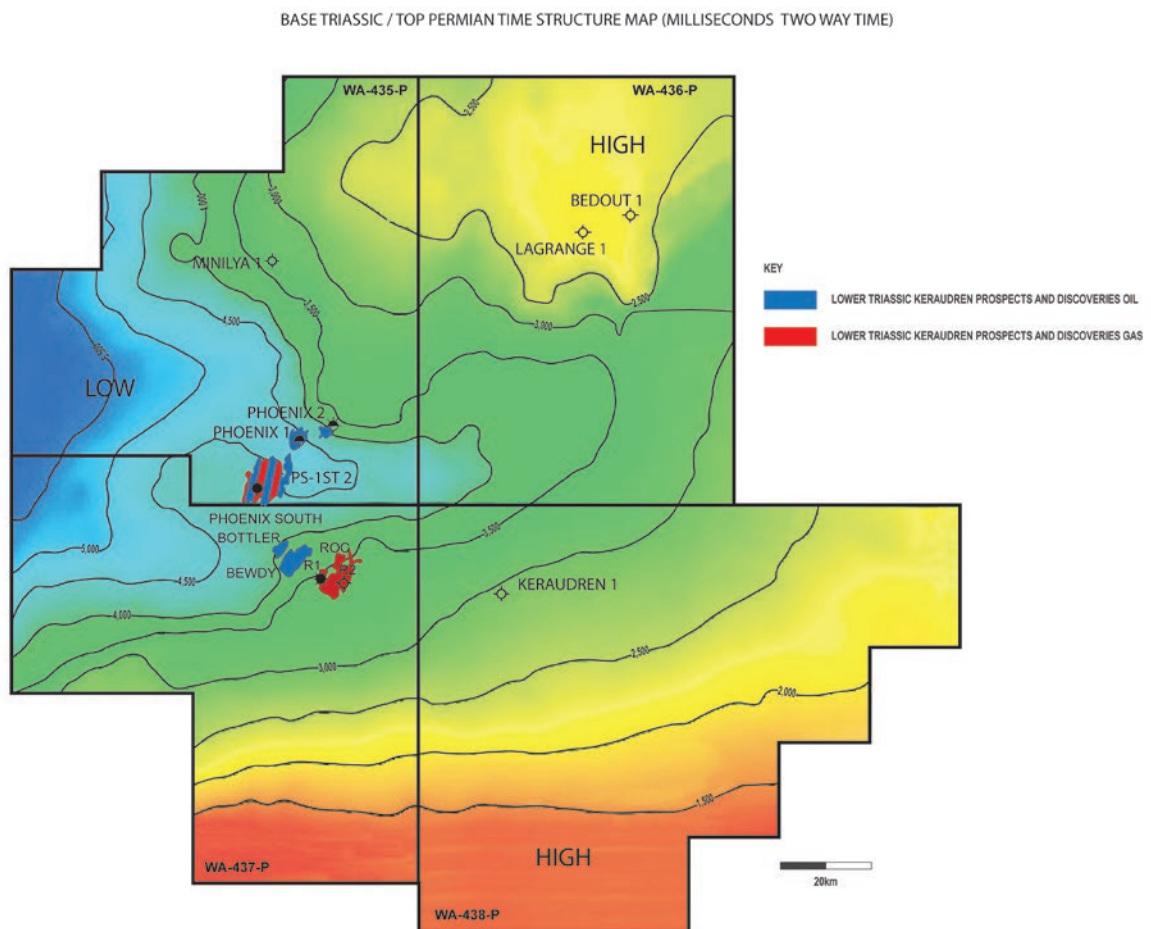


Figure 2: Phoenix Area Discoveries and Prospect map

Operating and Financial Review

Roc Gas and Condensate (WA-437-P permit) (Carnarvon 20%, Quadrant Energy is the Operator)

In January 2016, gas and condensate was discovered in the Roc-1 well. Post-well analysis indicated the Roc-1 well intersected the edge of the large Roc structure.

Roc-1 encountered a gross reservoir section of around 120 metres in the Caley member, with the top 40 metres being hydrocarbon bearing. The hydrocarbon is interpreted to be gas, with a significant condensate to gas ratio of up to 60 bbls per mmscf.

The first tranche of sidewall core analysis from Roc-1 shows permeability of the reservoir is up to 500mD, with Carnarvon's interpreted average being approximately 130mD. This is significantly better than the permeability required to achieve commercial flow rates.

Preliminary technical work indicates that the gas and condensate can be brought to surface and will be confirmed by a flow test in the current Roc-2 well. The forthcoming Roc-2 well is targeting the interpreted crest of the Roc structure, thereby testing the extent of the contingent and prospective resources. A successful result would not only clarify the current contingent resource but also enable the re-categorisation of the prospective resource into contingent resource.

The Roc-2 well is designed to appraise the Roc-1 Caley reservoir section in an up-dip location, around 5km to the east of the Roc-1 well. The Roc-2 appraisal well commenced drilling after the year end with no results available at the time of releasing this report.

Phoenix South Light Oil (WA-435-P permit) (Carnarvon 20%, Quadrant Energy is the Operator)

The Phoenix South-1 well encountered an overall sand rich package between 4,160m and TD. The well intersected at least four discrete oil columns ranging in thickness from 26 to 46 metres. Six oil samples were recovered from these sands.

The oils recovered are light black oils with API gravities of 46 to 48 degrees, which is high quality oil. Reservoir permeability inferred from pressure build-up during oil sampling ranges from tens to hundreds of millidarcies. The ability for oil to flow from the reservoir is demonstrated by the recovery of these six oil samples, as well as being supported by the reservoir permeability results and is indicative of a productive oil reservoir. The oils are significantly under-saturated and there is no indication of a primary gas cap.

Analysis of the results from this well have been ongoing, with special core analysis (SCAL) reports being released to the joint venture in June 2016. The SCAL work supports the results from wireline logging tools that the permeability in the sands range from multi-100's of millidarcy down to tens to ones of millidarcy. Importantly the data suggests that commercial flow is feasible from these lower porosity reservoirs.

What is most encouraging about these results, for both the Phoenix South reservoir and exploration in the surrounding acreage, is that permeability has been preserved even down to these depths of over 4,000 metres.

Phoenix Area Exploration (WA-436-P and WA-438-P permits) (Carnarvon 30%, Quadrant Energy is the Operator)

The discovery of light oil in the Phoenix South-1 well in the second half of 2014, and condensate rich gas at Roc-1 at the end of 2015, has excited the industry and importantly changed the perception of the Bedout sub-basin.

The discovery opened up the prospectivity of this largely underexplored basin, demonstrating the first new play concept in the North West Shelf since the prolific Exmouth sub-basin some 20 years previously. This is the first time an oil discovery has been made in Lower Triassic aged sediments on the North West Shelf. Along with ongoing analysis and appraisal of the Phoenix South and Roc discoveries, the results of which has established an excellent petroleum system in the region, the joint venture has been focusing on the follow up potential in the region. A number of exciting leads have already been identified.

The first 3D in the area was the Phoenix MC3D which covered an area of approximately 1,100 km² or approximately 5% of Carnarvon's total permit holding of 22,000 km². Following the initial success in these permits, the joint venture partners licensed the Zeester MC3D seismic survey that covers the northern parts of WA-436-P and WA-435-P. The Zeester survey covers an area of 3,854 km² and incorporates the very large Bandy lead amongst others.

The joint venture partners also acquired and licensed the Capreolus MC3D. This survey contains an additional 6,500 km² of 3D seismic coverage in the basin. The joint venture partners have commenced interpretation of the data and have identified two new leads to the south of the Roc discovery.

In addition to the Capreolus 3D seismic acquisition, the joint venture partners are acquiring and licensing approximately 10,000 km of 2D seismic data to further understand the prospectivity in the south eastern portion of the acreage. This acquisition is approximately 85% complete (Billby MC2D).

Collectively the new data will provide important new insights regarding the regional geology and its prospectivity. The objective will be to use these data to identify new and refine currently identified prospects and leads for possible future drilling.

Outtrim and Outtrim East (WA-155-P(1)) (Carnarvon 28.5%, Quadrant Energy is the Operator)

Carnarvon Petroleum secured a 28.5% interest in the WA-155-P(1) permit in January 2016. The WA-155-P(1) permit contains the Outtrim discovery, previously undeveloped due to the size of the resource. The Outtrim area is a recognized oil prone area, with several nearby discoveries of significant size.

Carnarvon's rationale for acquiring this permit is to aggregate sufficient oil resources to underpin a field development, either through exploration drilling or combining with other nearby undeveloped resources

Shortly after entering the permit, the Joint Venture drilled the Outtrim East-1 well, intending to explore for additional hydrocarbon bearing sands to the north and east of the hydrocarbon reservoir seen at the Outtrim-1 oil discovery.

Outtrim East-1 was completed in July 2016 and was declared an oil discovery.

The well was drilled down to final depth of 1,441 metres and a total of 91 metres of core was cut through the reservoir section with virtually 100% of the core being recovered to surface. The core is currently being evaluated in laboratories in Perth.

The core evaluation is critical to determine the size and quality of the net reservoir and estimate the in place and recoverable volumes of oil in the Outtrim and Outtrim East structures. While preliminary photographs of the core have been released with excellent indications of hydrocarbon fluorescence, a number of months of laboratory work are necessary before the Company will be in a position to report on these final results.

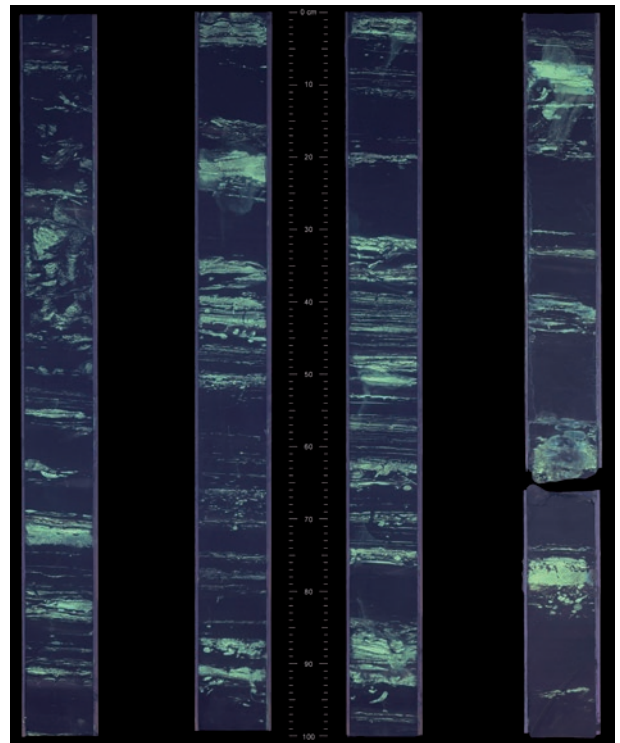


Figure 3: Preliminary ultraviolet light photographs of the Outtrim East-1 core outlining the fluorescence (light sections) where there are hydrocarbon occurrences in the reservoir.

Phoenix Expansion (WA-521-P) (Carnarvon 100% and operator)

Carnarvon was awarded the offshore exploration permit, WA-521-P in April 2016, located in the Roebuck Basin and positioned immediately adjacent to the Phoenix/Roc acreage on the North West Shelf.

For the past five years Carnarvon has been technically evaluating the potential of the Lower Triassic petroleum system that Carnarvon believes lies along the entire length of the NWS. The discovery of hydrocarbons (oil, condensate and gas) at the Phoenix South-1 and Roc-1 wells in this Lower Triassic stratigraphy validates this theory and provided the justification for securing WA-521-P.

Preliminary technical work indicates that the Lower Triassic source rocks have potentially generated and trapped migrated oil and gas into the shallower overlying Jurassic sands, and our technical team has identified several target structures that are significantly larger than the Phoenix South and Roc discovery areas.

Operating and Financial Review

Like the Phoenix area prior to the Phoenix South and Roc discoveries, WA-521-P has seen very little exploration activity in the last decade and Carnarvon believes the area would benefit from modern exploration

processes and technologies together with the new geological information that has arisen from the Phoenix South and Roc discoveries.

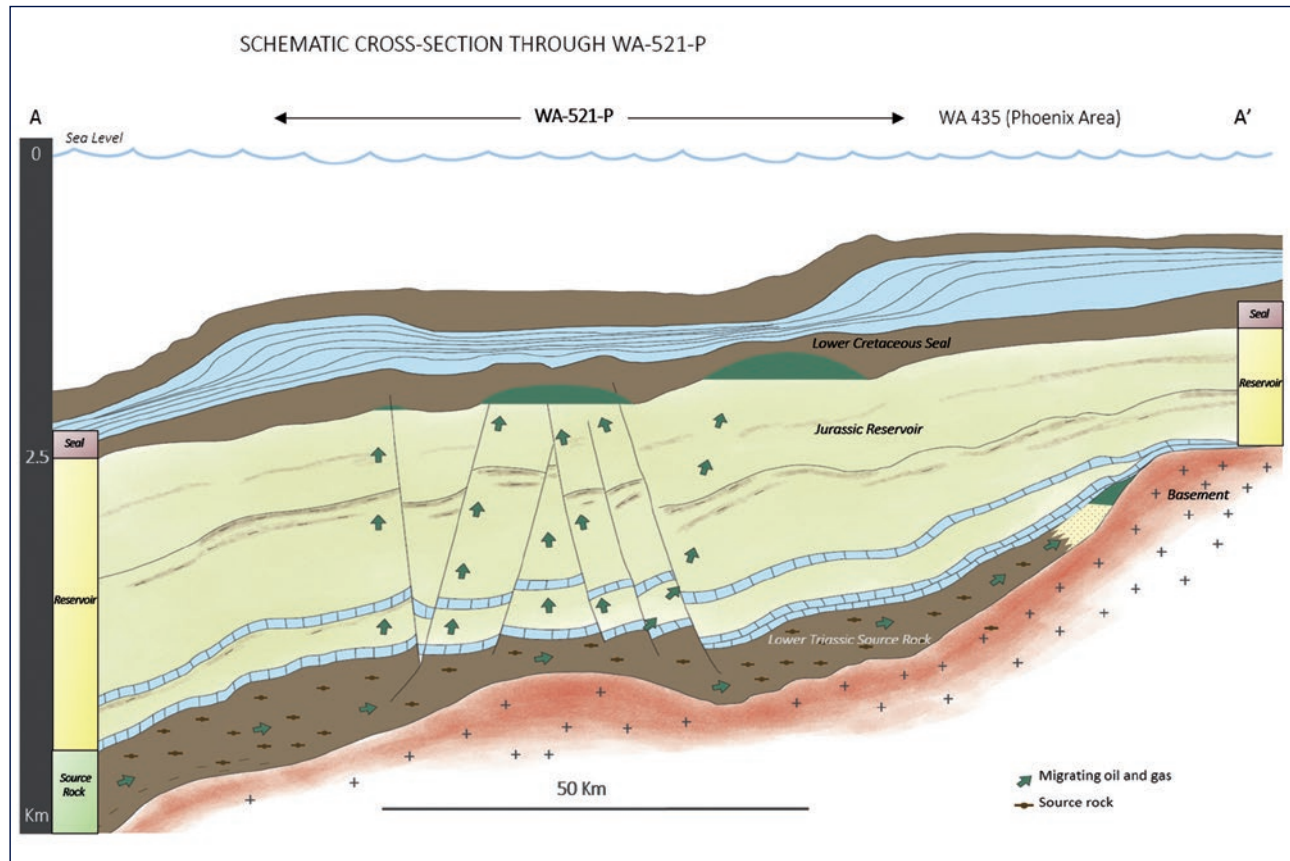


Figure 4: Cross section through the WA-521-P exploration permit

Buffalo Project – WA-523-P (Carnarvon 100% and operator)

Carnarvon added another high quality exploration asset to its growing portfolio with the acquisition of the WA-523-P permit in May 2016 through the Government gazettal process. This large permit is surrounded by producing oil and gas fields, with existing infrastructure for the processing of hydrocarbons within tens of kilometers from the block boundaries.

WA-523-P includes the previously developed Buffalo Oil Field and the undeveloped oil discoveries in the Bluff-1 and Buller-1 wells. The permit is also closely proximal to the currently producing oilfields at Laminaria and Corallina and the producing gas-condensate fields of Bayu-Undan. The recently shut-in field of Kitan, that is being considered for redevelopment, and sister fields in

Jahal, and Kuda Tasi all lay within 15km's of WA-523-P. In total, within about 40km around WA-523-P, these discovered fields are estimated to collectively contain about 730 million barrels of oil and 3.4 Tcf of gas.

Carnarvon Petroleum has commenced a review of the Buffalo Oil Field that produced around 20 million barrels of high quality oil and was flowing around 4,000 barrels of oil a day when operations ceased in 2004. Depending on oil price and remapping of the field, Buffalo may be a commercially attractive re-development opportunity in the future, perhaps for tie-back to nearby facilities.

In looking at historical drilling across the area, Carnarvon Petroleum observes that the absence of accurate seismic depth imaging of the target reservoirs has resulted in a very poor track record for well depths 'coming in on prognosis', even when they are drilled

close to existing well control. This problem in getting the depth mapping right has resulted in major difficulty defining field development locations and prospects, describing volumes, reducing risk and justifying drilling. Carnarvon's proposed new seismic imaging processes are intended to address these historical depth imaging challenges by using modern processes that the company has been testing on other permits in its portfolio.

In the past three years, advances in computing technology now enable very significant geophysical capabilities that were previously only theoretically possible. Of particular relevance to the seismic data in

WA-523-P is the recent emergence of Full Waveform Inversion (FWI) as a working tool to provide the required higher resolution velocity field measurement for input to Pre-Stack Depth Migration ("PSDM") and to provide the required improved depth imaging.

A key component of Carnarvon's work program for WA-523-P is therefore application of FWI, and other modern processing technologies to the reprocessing of the existing 3D data to deliver greatly improved depth imaging. The improved data will enable detailed remapping, and facilitate work towards a drilling program.

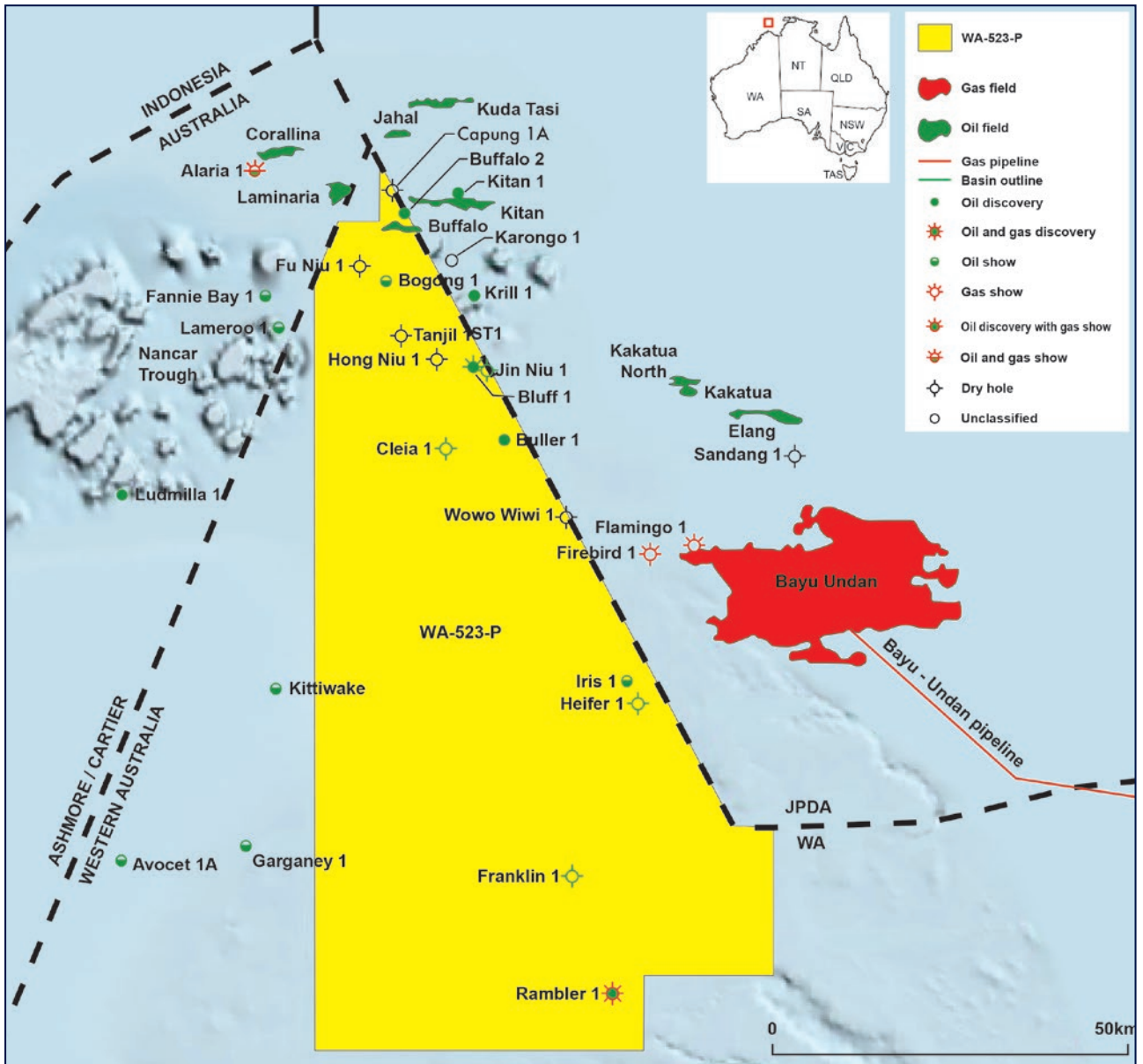


Figure 5: WA-523-P is located proximal to significant oil and gas producing fields

Operating and Financial Review

Cerberus Project (EP-475, EP-490, EP-491 and TP/27 permits) (Carnarvon 100%)

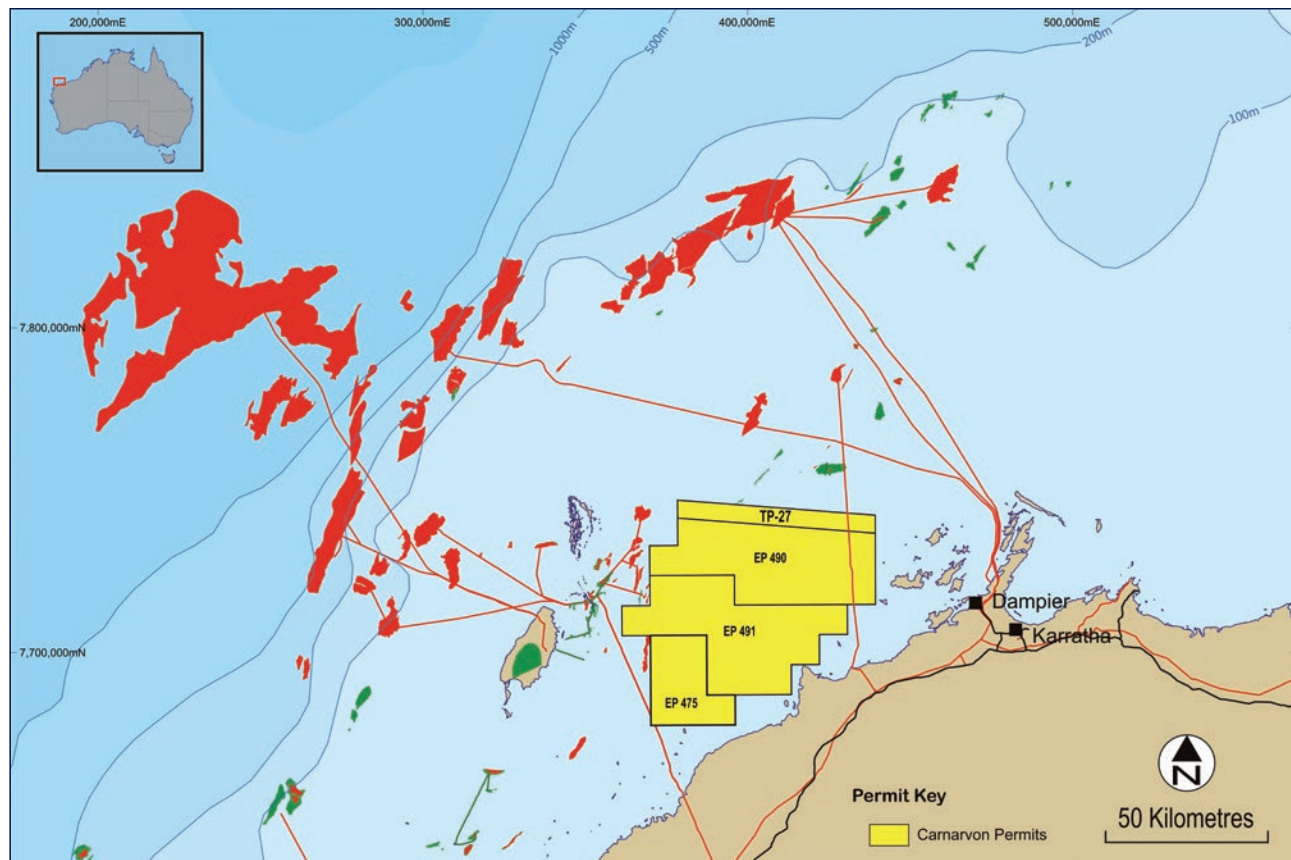


Figure 6: Location map of the 100% owned Permits in the Carnarvon Basin

Carnarvon was awarded three contiguous blocks on the eastern flank of the prolific oil producing Barrow Sub basin, Exploration Permits EP-490, TP/27 and EP-491, in May 2014, and acquired a fourth contiguous block EP-475-P which are collectively grouped as the Cerberus Project.

Carnarvon was awarded these blocks as part of the government's gazettal process. The blocks were attractive because of their proximity to a known oil producing province, and importantly, they were acquired with minimal cost commitments in the primary term with drilling not required until the fourth year of the work program, being a discretionary commitment.

Two major hydrocarbon accumulations occur immediately adjacent to the blocks. The Wandoo Oilfield is located approximately 46 kilometres to the north with its primary reservoir at a depth of approximately 600 metres in the Early Cretaceous M. australis Sandstone.

Original recoverable oil is estimated to be approximately 100 million barrels. The Stag Oilfield is located only 24 kilometres to the north with its primary reservoir at a depth of approximately 700 metres. Original recoverable oil is estimated to be around 50 million barrels. Both fields lie in approximately 50 metres of water.

The discovery of oil at Phoenix South-1 and gas condensate at Roc-1, in an area thought to be gas prone and undrilled for over a quarter of a century, demonstrates the ability to find hydrocarbons in underexplored areas and underexplored play types within the North West Shelf of Western Australia. The particular discovery of oil in the deeper and older Lower Keraudren reservoir highlights the ability for other similar sparsely explored blocks, such as Carnarvon's Cerberus blocks to unlock the potential oil and gas reservoirs long overlooked by others in the industry.

Operating and Financial Review

As part of the work program across these permits, Carnarvon has re-interpreted modern reprocessed 3D seismic data and has identified a number of new material oil prospects. These prospects are associated with Lower Triassic source rocks that have been identified in nearby wells through recently completed geochemistry, petrophysics and biostratigraphy studies. The Triassic source rocks are analogous to proven oil-prone source rocks at Phoenix and the Perth Basin. These Triassic sourced targets are in addition to the more traditional oil plays across the area, which are primarily sourced from the Jurassic and Cretaceous aged sediments like the Stag, Wandoo and Harriet oil fields nearby.

In particular the Belfon (Upper Permian) and Honeybadger (Early Triassic) prospects are estimated to contain significant volumes of recoverable oil. Detailed analysis is ongoing to refine these prospect volume estimates and further updates are planned to provide shareholders with this information in due course. Five Jurassic prospects exist (1,000-1,500 metre target depths) with a further set of Cretaceous shallow (circa 500 metres target depth) oil prospects which could be large in the context of North West Shelf oil prospects and are the focus of the current stage of geoscience studies.

The investment case in this area is particularly attractive because of the combination of very sizable targets and low exploration costs. The shallow water depths (approximately 40m) and shallow oil target depths (500m - 3,000m) means drilling and development costs are expected to be low relative to normal expectations in the North West Shelf. Multiple development options are available due to shallow depths, proximity to shore and existing production infrastructure.

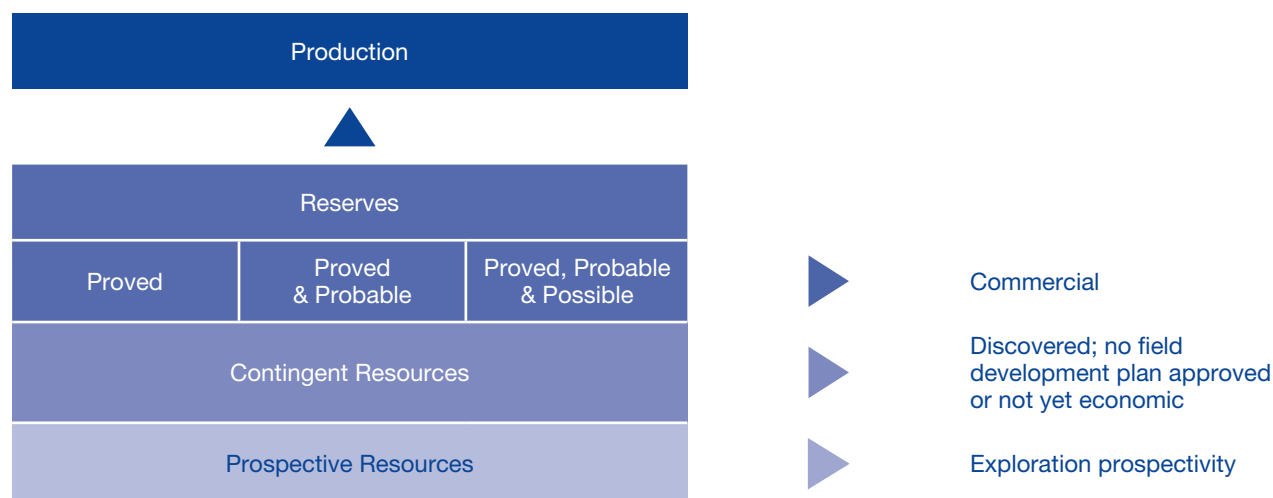
The Company is looking to progress its exploration plans with a partner with the intention of drilling one or more prospects while retaining a significant equity interest in the project.

Work commitments for the primary three year period entail reprocessing the existing 3D seismic, geological studies and will not add any significant cost exposure to Carnarvon's already low future commitments which have largely been satisfied to date.

RESERVE ASSESSMENT

Petroleum Resource Classification, Categorisation and Definitions

Carnarvon calculates reserves and resources according to the SPE/WPC/AAPG/SPEE¹ Petroleum Resource Management System (“SPE-PRMS”) definition of petroleum resources. This definition was first published in 1997 by the SPE, and in an effort to standardise reserves reporting, has been further clarified by the SPE-PRMS in 2007. Carnarvon reports reserves in line with ASX Listing Rules.



Reserves

Reserves are defined as those quantities of hydrocarbons which are anticipated to be commercially recovered from known accumulations from a given date forward. Reserves estimates are necessary to determine appropriate development strategies and for accounting purposes.

Carnarvon has no reported reserves.

Contingent Resources

Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations but the applied projects are not yet considered mature enough for commercial development due to one or more contingencies. Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality.

Based on the results of drilling and testing to date, the following Contingent Resource estimates are provided.

¹ Society of Petroleum Engineers (“SPE”); World Petroleum Council (“WPC”); American Association of Petroleum Geologists (“AAPG”) & Society of Petroleum Evaluation Engineers (“SPEE”)

Australia Region Gross Contingent Resources

Australia Region - Gross at 30 June 2015

	Light Oil			Natural Gas			Condensate			Barrels of Oil Equivalent		
	MMSTB	MMSTB	MMSTB	BSCF	BSCF	BSCF	MMSTB	MMSTB	MMSTB	MMBOE	MMBOE	MMBOE
	1C	2C	3C	1C	2C	3C	1C	2C	3C	1C	2C	3C
Phoenix	3.0	9.0	28.0	-	-	-	-	-	-	3.0	9.0	28.0
Phoenix South	6.0	19.0	56.0	-	-	-	-	-	-	6.0	19.0	56.0
Roc	-	-	-	-	-	-	-	-	-	-	-	-
Total	9.0	28.0	84.0	-	-	-	-	-	-	9.0	28.0	84.0

Australia Region - Technical Revision

	Light Oil			Natural Gas			Condensate			Barrels of Oil Equivalent		
	MMSTB	MMSTB	MMSTB	BSCF	BSCF	BSCF	MMSTB	MMSTB	MMSTB	MMBOE	MMBOE	MMBOE
	1C	2C	3C	1C	2C	3C	1C	2C	3C	1C	2C	3C
Phoenix	-	-	-	-	-	-	-	-	-	-	-	-
Phoenix South	-	-	-	-	-	-	-	-	-	-	-	-
Roc (i)	-	-	-	41.8	269.7	371.9	2.0	13.0	18.2	9.3	60.3	83.4
Total	-	-	-	41.8	269.7	371.9	2.0	13.0	18.2	9.3	60.3	83.4

Australia Region - Gross at 30 June 2016

	Light Oil			Natural Gas			Condensate			Barrels of Oil Equivalent		
	MMSTB	MMSTB	MMSTB	BSCF	BSCF	BSCF	MMSTB	MMSTB	MMSTB	MMBOE	MMBOE	MMBOE
	1C	2C	3C	1C	2C	3C	1C	2C	3C	1C	2C	3C
Phoenix	3.0	9.0	28.0	-	-	-	-	-	-	3.0	9.0	28.0
Phoenix South	6.0	19.0	56.0	-	-	-	-	-	-	6.0	19.0	56.0
Roc	-	-	-	41.8	269.7	371.9	2.0	13.0	18.2	9.3	60.3	83.4
Total	9.0	28.0	84.0	41.8	269.7	371.9	2.0	13.0	18.2	18.3	88.3	167.4

(i) Roc volumes added due to successful Roc-1 well as per ASX announcement 17 March 2016

Australia Region Net Contingent Resources

Australia Region - Net at 30 June 2016

	Light Oil			Natural Gas			Condensate			Barrels of Oil Equivalent		
	MMSTB	MMSTB	MMSTB	BSCF	BSCF	BSCF	MMSTB	MMSTB	MMSTB	MMBOE	MMBOE	MMBOE
	1C	2C	3C	1C	2C	3C	1C	2C	3C	1C	2C	3C
Phoenix	0.6	1.8	5.6	-	-	-	-	-	-	0.6	1.8	5.6
Phoenix South	1.2	3.8	11.2	-	-	-	-	-	-	1.2	3.8	11.2
Roc	-	-	-	8.4	53.9	74.4	0.4	2.6	3.6	1.9	12.1	16.7
Total	1.8	5.6	16.8	8.4	53.9	74.4	0.4	2.6	3.6	3.7	17.7	33.5

Operating and Financial Review

Prospective Resource Estimates

Prospective resources describe hydrocarbon volumes that may be produced in the event that they are discovered by an exploration well.

Australia Region Gross Prospective Resources

Australia Region - Gross at 30 June 2016

	Light Oil			Natural Gas			Condensate			Barrels of Oil Equivalent			Probability Geological Success
	MMSTB	MMSTB	MMSTB	BSCF	BSCF	BSCF	MMSTB	MMSTB	MMSTB	MMBOE	MMBOE	MMBOE	
	Low	Mid	High	Low	Mid	High	Low	Mid	High	Low	Mid	High	
Bewdy	2.8	8.8	25.5	-	-	-	-	-	-	2.8	8.8	25.5	42%
Bottler	2.0	6.6	19.7	-	-	-	-	-	-	2.0	6.6	19.7	42%
Phoenix-2	1.3	4.3	14.2	-	-	-	-	-	-	1.3	4.3	14.2	27%
Roc	-	-	-	86.6	192.6	327.6	4.1	9.2	16.2	19.3	43.0	73.7	80%
Total	6.1	19.7	59.4	86.6	192.6	327.6	4.1	9.2	16.2	25.4	62.7	133.1	

Australia Region - Net at 30 June 2016

	Light Oil			Natural Gas			Condensate			Barrels of Oil Equivalent			Probability Geological Success
	MMSTB	MMSTB	MMSTB	BSCF	BSCF	BSCF	MMSTB	MMSTB	MMSTB	MMBOE	MMBOE	MMBOE	
	Low	Mid	High	Low	Mid	High	Low	Mid	High	Low	Mid	High	
Bewdy	0.6	1.8	5.1	-	-	-	-	-	-	0.6	1.8	5.1	42%
Bottler	0.4	1.3	3.9	-	-	-	-	-	-	0.4	1.3	3.9	42%
Phoenix-2	0.3	0.9	2.8	-	-	-	-	-	-	0.3	0.9	2.8	27%
Roc	-	-	-	17.3	38.5	65.5	0.8	1.8	3.2	3.9	8.6	14.7	80%
Total	1.2	3.9	11.9	17.3	38.5	65.5	0.8	1.8	3.2	5.1	12.5	26.6	

Further to these calculated prospective resource assessments, Carnarvon's permits contain a significant number of leads and prospects which are currently undergoing evaluation in order to mature to a level whereby estimates of recoverable resources can be calculated and disclosed in accordance with ASX Listing Rules. The Company will update prospective resources as these projects mature.

Notes on Petroleum Resource Estimates

The estimates of contingent and prospective resources included in this report have been prepared in accordance with the definitions and guidelines set forth in SPE-PRMS.

Unless otherwise stated, all petroleum resource estimates are quoted as at 30 June 2016 at standard oilfield conditions of 14.696 psi (101.325 kPa) and 60 degrees Fahrenheit (15.56 deg Celsius).

Carnarvon is not aware of any new information or data that materially affects the information included in this report. All the material assumptions and technical parameters underpinning the estimates in this report continue to apply and have not materially changed.

Carnarvon uses both deterministic and probabilistic methods for estimation of petroleum resources at the field and project levels. Unless otherwise stated, all petroleum estimates reported at the company level are aggregated by arithmetic summation by category.

MMBOE means millions of barrels of oil equivalent. Dry gas volumes, defined as 'C4 minus' hydrocarbon components and non-hydrocarbon volumes that are present in sales product, are converted to oil equivalent volumes via a constant conversion factor, which for

Carnarvon is 5.7 Bcf of dry gas per 1 MMboe. Volumes of oil and condensate, defined as 'C5 plus' petroleum components, are converted from MMbbl to MMboe on a 1:1 ratio.

The estimates of petroleum resources are based on and fairly represent information and supporting documentation prepared by qualified petroleum reserves and resources evaluators. The estimates have been approved by the Company's Chief Operating Officer, Mr Philip Huizenga, who is a full-time employee of the Company. Mr Huizenga has over 20 years' experience in petroleum exploration and engineering. Mr Huizenga holds a Bachelor Degree in Engineering and a Master's Degree in Petroleum Engineering and is a member of the Society of Petroleum Engineers. Mr Huizenga is qualified in accordance with ASX Listing Rules and has consented to the form and context in which this statement appears.

There are numerous uncertainties inherent in estimating reserves and resources, and in projecting future production, development expenditures, operating expenses and cash flows. Oil and gas reserve engineering and resource assessment must be recognised as a subjective process of estimating subsurface accumulations of oil and gas that cannot be measured in an exact way.

FINANCIAL REVIEW

The Group reports an after-tax loss of \$5,367,000 for the financial year ending 30 June 2016 (2015: Profit for the year \$24,967,000).

Carnarvon's financial resources have remained strong with cash and cash equivalents of \$87,847,000 (2015: \$97,302,000), no debt and minimal commitments going forward.

In addition, Carnarvon holds a A\$20,051,000 Deferred Consideration Asset which reflects the present discounted value of US\$32,000,000 in future consideration which arose from the Thailand asset divestment to Loysz Energy in March 2014, less the first payment received of A\$916,000. Due to adjustments in expected future oil prices and production rates, the Company recorded a remeasurement of the asset of (\$6,914,000) during the year (2015: (\$4,343,000)).

Carnarvon has significantly advanced its North West Shelf database in-line with the Company's primary focus on high impact opportunities in the North West

Shelf. As such, Carnarvon spent \$4,552,000 (2015: \$3,740,000) in new venture and advisory costs. In addition, the Company invested a further \$11,930,000 in maximizing the value of its existing assets in the Phoenix area following the Roc-1 and Phoenix South-1 discoveries, and in the newly acquired WA-155-P Permit, in which the Outtrim-1 well was recently completed with core analysis currently underway.

During the financial year there was an unrealized gain on foreign exchange of \$3,748,000 (2015: \$11,781,000) due to the effect of a depreciation of AUD against the Company's USD cash and financial assets. The Group does not currently use derivative financial instruments to hedge financial risk exposures and therefore it is exposed to daily movements in the international oil prices, exchange rates, and interest rates. The Company manages its cash positions in US Dollars and Australian Dollars to naturally hedge its foreign exchange rate exposures having regard for likely future expenditure.

Operating and Financial Review

Permit Interests

Permit	Basin	Equity	Joint Venture Partner(s)	Partner Interest	Indicative Forward Program
Australia					
EP-490	Carnarvon	100%	-	-	G & G Studies
EP-491	Carnarvon	100%	-	-	G & G Studies
EP-475	Carnarvon	100%	-	-	G & G Studies
TP/27	Carnarvon	100%	-	-	G & G Studies
WA-521-P	Roebuck	100%	-	-	G & G Studies
WA-523-P	Bonaparte	100%	-	-	G & G Studies
WA-435-P	Roebuck	20%	Quadranti	80%	G & G Studies, Appraisal
WA-436-P	Roebuck	30%	Quadranti	70%	G & G Studies
WA-437-P	Roebuck	20%	Quadranti	80%	G & G Studies, Appraisal
WA-438-P	Roebuck	30%	Quadranti	70%	G & G Studies
WA-155-P(1)	Barrow	28.5%	Quadranti	71.5%	G & G Studies, Exploration well
EP321	Perth	2.50% of 38.25% (ii)	-	-	Appraisal
EP407	Perth	2.50% of 42.5% (ii)	-	-	Appraisal

Note:

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

Statutory Information

The directors present their report together with the financial report of the Group, being the Company, its controlled entities, and the Group's interest in jointly controlled assets, for the financial year ended 30 June 2016, and the auditor's report thereon.

Carnarvon Petroleum Limited is a listed public company incorporated and domiciled in Australia.

Directors

The names and details of the Company's directors in office at any time during or since the end of the financial year are as follows. Directors were in office for this entire period unless otherwise stated.

Peter J Leonhardt
Chairman

FCA, FAICD (Life)
Appointed as a director on 17 March 2005 and appointed Chairman in April 2005.

Mr Leonhardt is an independent company director and adviser with extensive business, financial and corporate experience. He is a Chartered Accountant, former Senior Partner of PricewaterhouseCoopers and National Board member and Managing Partner of Coopers & Lybrand in Western Australia.

During the past three years Mr Leonhardt has served as a director of CTI Logistics Limited (from August 1999). He was previously a foundation Chairman of Voyager Energy Limited until its agreed acquisition by ARC Energy Limited. Mr Leonhardt is also a director of the Cancer Research Trust and retired as a director of The Harry Perkins Institute of Medical Research in April 2016 following 17 years' service

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

Adrian C Cook
Chief Executive Officer and Managing Director

B Bus, CA, MAppFin, GAICD
Appointed as a director on 1 July 2011

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

During the past three years Mr Cook has not served as a Director of any other listed company. Mr Cook joined Carnarvon on 2 November 2009 and was appointed to the Board on 1 July 2011.

Directors' Report

Edward (Ted) P Jacobson
Non-Executive Director

B.Sc (Hons Geology)
Appointed as a director on 5 December 2005.

Mr Jacobson is a petroleum geophysicist with over 40 years' experience in petroleum exploration principally in the European North Sea, South East Asia, South America and Australia. Within Australia he has been responsible for initiating a number of petroleum discoveries within the Cooper Basin, Barrow Sub Basin and Timor Sea. In 1986, Mr Jacobson established the consulting company Exploration Study Projects Pty Ltd which advised companies on new venture opportunities in Australia and South East Asia and assisted in capital raisings and corporate activity. In 1991 Mr Jacobson was co-founder of Discovery Petroleum NL and from 1996 co-founder and technical director of Tap Oil Ltd which grew to a market capitalisation of over \$400 million under his technical leadership. Mr Jacobson retired from Tap in September 2005.

During the past three years Mr Jacobson has not served as director of any other listed company.

William (Bill) A Foster
Non-Executive Director

BE (Chemical)
Appointed as a director on 17 August 2010.

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

During the past three years Mr Foster served as a director of Hawkley Oil & Gas Limited and was a former independent director of Tap Oil Ltd and of the E&P companies that were formed through his advisory services to the Japanese trading company.

Mr Foster is Chairman of the Remuneration and Nomination Committee and the Audit and Risk Committee.

Peter Moore
Non-Executive Director

B.Sc (Hons Geology), MBA, PhD, GAICD.
Appointed as a director on 18 June 2015.

Peter has extensive experience in exploration and production in Australia and internationally gained through senior roles with a number of globally recognised companies. Peter led Woodside's worldwide exploration efforts as the Executive Vice President Exploration reporting to the CEO and was the Head of the Geoscience function (Exploration, Development, Production, M&A).

During the past three years Dr Moore served as a non-executive Director of Central Petroleum Ltd, an executive Director of Earth Sciences WA, as the Chair of the Curtin Graduate School of Business Advisory Board and a member of Elsevier's Geofacets Oil and Gas Advisory Board.

Dr Moore is a member of the Audit and Risk Committee and the Remuneration and Nomination Committee.

Company Secretary

Mr Thomson Naude was appointed Company Secretary in November 2013. Mr Naude is a qualified Chartered Accountant, a member of Chartered Secretaries Australia and the Chief Financial Officer at Carnarvon Petroleum.

Directors' meetings

The number of directors' meetings held and attended by each of the directors during the reporting period was as follows:

	(a)	(b)
Peter Leonhardt	9	9
Ted Jacobson	9	9
Bill Foster	9	8
Adrian Cook	9	9
Peter Moore	9	9

(a) Number of meetings held during period of office

(b) Number of meetings attended

Audit and Risk Committee

Names and qualifications of Audit and Risk Committee members

The Committee is to include at least 3 members from 1 July 2009. Current members of the committee are Bill Foster (Chairman of the Audit and Risk Committee), Peter Leonhardt and Peter Moore. Qualifications of Audit and Risk Committee members are provided in the Directors section of this directors' report.

Audit and Risk Committee meetings

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

	(a)	(b)
Peter Leonhardt	2	2
Bill Foster	2	2
Peter Moore	2	2

(a) Number of meetings held during period of office

(b) Number of meetings attended

Directors' Report

Remuneration Report (Audited)

Remuneration & Nomination Committee

The Committee is to include at least 3 members. Members of the committee during the 30 June 2016 financial year were Bill Foster (Chairman of the Remuneration & Nomination Committee), Peter Leonhardt and Peter Moore. Qualifications of Remuneration & Nomination Committee members are provided in the Directors section of this directors' report.

Remuneration Committee meetings

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

	(a)	(b)
Bill Foster	2	2
Peter Leonhardt	2	2
Peter Moore	2	2

(a) Number of meetings held during period of office

(b) Number of meetings attended

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

Principles of compensation

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

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

The Remuneration & Nomination Committee ultimately determines its compensation practices in terms of their effectiveness to:

- Provide a strategic and value based reward for employees and executives who make a contribution to the success of the Company;
- Align executives and employees interests with the interests of shareholders;
- Promote the retention of executives and employees; and
- Promote the long term success of the Company;

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

Remuneration Report (Audited) (continued)

Principles of compensation (continued)

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

On 1 August 2008 the Board adopted a policy that prohibits those that are issued share-based payments as part of their remuneration from entering into other arrangements that limit their exposure to losses that would result from share price decreases.

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

	30 June 2012	30 June 2013	30 June 2014	30 June 2015	30 June 2016
Share price as at 30 June each year	\$0.105	\$0.041	\$0.075	\$0.115	\$0.100
Year on year change in the share price	(40%)	(61%)	83%	53%	(13%)
Consolidated net profit / (loss) from continuing operations (\$000)	(2,498)	(8,385)	16,787	24,967	(5,367)

Non-executive directors

Total remuneration for all non-executive directors, last voted upon by shareholders at a General Meeting in November 2015, is not to exceed \$400,000 per annum.

A non-executive director's base fee is \$75,000 per annum, the Chairman of the board receives \$115,000 per annum, the Chairman of the Audit Committee receives an additional \$2,500 and the Chairman of the Remuneration Committee receives an additional \$2,500. These fees were last increased with effect from 1 January 2014. Non-executive directors do not receive any performance-related remuneration. The Company does not have any terms or schemes relating to incentives or retirement benefits for non-executive directors.

Fixed compensation

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

Short term incentive scheme

Short term incentives are assessed by the Remuneration & Nomination Committee based on two components:

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

Directors' Report

Remuneration Report (Audited) (continued)

The value of any short term incentive paid in cash is restricted to a maximum 50% of an individual's Fixed Compensation.

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

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

All short term incentives awarded during the period are included in remuneration, as set out on page 26, and fully vested to each named Company executives, and key management personnel during the period. Each year, the Board of the Company set a number of strategic and value based targets for its executives and employees. The targets that have been outperformed in the 30 June 2016 financial year were as follows:

- Made a gas and condensate discovery in the Roc-1 well;
- Award of new and highly prospective permits WA-521-P and WA-523-P;
- Acquisition of Outtrim East oil project; and
- Materially advancing Carnarvon's proprietary North West Shelf database, including regional mapping and software maturity.

Long term incentive scheme - Employee Share Plan

The Carnarvon Employee Share Plan ("ESP") was implemented following shareholder approval at the 1997 Annual General Meeting ("AGM") and was last updated and ratified by shareholders at the AGM on 13 November 2015.

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

The Plan is considered to be the most appropriate long term incentive scheme for the size and nature of the Company. The plan only rewards long term share price growth, rather than relative performance. Unlike performance rights, the Plan shares are only of value to the holder of the shares to the extent to which the share price increases to exceed at least 120% of the share price when the offer is made to the employee. Furthermore, the Plan does not give rise to a tax liability on issue (unlike some options) thus encouraging long term holdings. The Company Employee Share Plan is considered to be an effective way to align the objectives of management with the interests of shareholders.

The principal provisions of the Plan include:

- The Plan is available to all executive Directors, employees or consultants of the Company or any of its subsidiaries ("Eligible Person");
- Non-Executive Directors are not eligible to participate in the Plan;
- The Company may at any time, in its absolute discretion, make an offer to an Eligible Person;
- The number of Plan Shares issued to any Eligible Person and the issue price is to be determined by the directors of the Company;
- The issue price is to be determined by the Board, provided that the issue price is at least 120% of the market price of the Company's Shares, being the weighted average sale price of Shares sold through the ASX on the 5 trading days prior to the proposed date of an offer under the Plan.;
- The offer may be accepted by an Eligible Person or an associate of that Eligible Person, within the given acceptance period;
- The person accepting the offer ("Participant") will be taken to have agreed to borrow from the Company on the terms of the loan agreement referred to below an amount to fund the purchase of the Plan Shares;
- The Plan Shares will rank *pari passu* with all issued fully paid ordinary shares in respect of voting rights, dividends and entitlement to participate in any bonus or rights issues;

Remuneration Report (Audited) (continued)

- Plan participants may not dispose of any ESP Shares within one year of the issue date but, subject to repayment of any associated loan, may dispose of up to 25% of their ESP Shares after one year, 50% after two years, 75% after three years and 100% after four years.
- Until the loan to the Participant is fully repaid, the Company has control over the disposal of the Plan Shares. Once the loan is repaid in full, the Participant may deal with the Plan Shares as he wishes;
- The aggregate number of Plan Shares and other shares and options issued in the previous 5 years under any other employee incentive scheme of the Company must not exceed 5% of the issued capital of the Company; and
- Applications will be made as soon as practicable after the allotment of the Plan Shares for listing for quotation on ASX.

The principal provisions of the loan agreement include:

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

***Loans made under the ESP involve no cash outlay by the Company.
The ESP shares are treated in principle as options.***

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

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

The Board of the Company set a number of strategic and value based targets for its executives and employees which are considered when issuing Plan Shares. The targets that have been outperformed in the 30 June 2016 financial year were as follows:

- Made a gas and condensate discovery in the Roc-1 well;
- Award of new and highly prospective permits WA-521-P and WA-523-P;
- Acquisition of Outtrim East oil project; and
- Materially advancing Carnarvon's proprietary North West Shelf database, including regional mapping and software maturity.

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

Directors' and executive officers' remuneration (Company and consolidated)

Details of the nature and amount of each major element of the remuneration of each director of the Company and each of the named Company and Group executives receiving the highest remuneration are set out on the following page.

Directors' Report

Remuneration Report (Audited) (continued)

Service contracts

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

- (i) Adrian Cook, Chief Executive Officer, is engaged as an employee. Termination by the Company is with 12 months' notice or payment in lieu thereof. Termination by Mr Cook is with 6 months' notice.
- (ii) Philip Huizenga, Chief Operating Officer, is engaged as an employee. Termination by the Company is with 3 months' notice or payment in lieu thereof and an additional payment of 3 months' remuneration. Termination by Mr Huizenga is with 3 months' notice.
- (iii) Thomson Naude, Chief Financial Officer, is engaged as an employee. Termination by the Company is with 3 months' notice or payment in lieu thereof. Termination by Mr Naude is with 3 months' notice.

Equity instruments

- (i) Shares

There were no shares in the Company issued as compensation to key management personnel during the reporting period, other than the Plan Shares issued as described on page 22.

- (ii) Plan Shares

During the current financial year the following Plan Shares were issued to Executive Officers of the Company based on the outperformance on the strategic based targets detailed above:

Executive Officers	Number of shares issued	Grant date	Exercise price per share	Fair value at grant date
AC Cook*	1,159,917*	30/06/2015*	\$0.15*	\$0.072*
PP Huizenga	970,000	15/06/2016	\$0.13	\$0.067
TO Naude	570,000	15/06/2016	\$0.13	\$0.067

The exercise price for each issue above was calculated based on at least a 20% premium on the 5-day weighted average closing price prior to the date of offer. The purchases were funded by interest-free loans with a limited recourse security over the Plan Shares and subject to the detailed rules of the ESP. The shares remain subject to the disposal restrictions contained in the Plan Rules summarized above.

* Approved by shareholders at the AGM on 13 November 2015.

In order to determine the cost of Plan Shares issued in a period, the Company uses the Black-Scholes Option Pricing Model, calculated at the date of issue of the Plan Shares, assuming a 4 year life and nil cash consideration. For this purpose, Plan Shares are treated as having vested immediately and the cost calculated under the Black-Scholes Option Pricing Model is recognised as an expense entirely in the current period, notwithstanding restrictions on their disposal and the period over which the benefits arise. The following factors and assumptions were used in determining the fair value of Plan Shares at grant date in the current reporting period:

2016				ASX quoted price of shares at grant date	Expected volatility	Risk free interest rate	Dividend yield
Grant date	Assumed expiry date	Fair value per option	Exercise price				
30/06/2015	29/06/2019	\$0.072	\$0.15	\$0.120	89%	2.00%	0%
15/06/2016	13/06/2020	\$0.067	\$0.13	\$0.110	89%	1.75%	0%

Remuneration Report (Audited) (continued)

(iii) Options

Details of options granted and vested to directors and executive officers during the reporting period are as follows. All options were issued for nil cash consideration, vest immediately, and have been recognised as an expense in the current period.

	Numbers of options granted	Grant date	Fair value per option at grant date	Exercise price per option	Assumed Expiry date
<i>Directors</i>					
W Foster	500,000*	13/11/2015	0.079	0.15	20/11/2020
P Moore	500,000*	13/11/2015	0.079	0.15	20/11/2020

* Approved by shareholders at the AGM on 13 November 2015.

During the financial year there was no forfeiture or vesting of options granted in previous periods. At the end of the reporting period there were no unvested options on issue. All options expire on the expiry date but do not expire as a result of the termination of the holder's engagement with the Company.

The movement during the reporting period, by value, of options over ordinary shares, including shares issued under the Company's ESP, for each company director and company executive and granted as part of remuneration is detailed below:

	Granted in year (\$)	Exercised in year (\$)	Forfeited in the year (\$)	Total option value in year (\$)
<i>Directors</i>				
W Foster	12,209	-	-	12,209
P Moore	12,209	-	-	12,209

The value of options granted in the year is the fair value of the options at grant date using the Black-Scholes Option Pricing Model.

The value of options exercised during the year is calculated as the market price of shares of the Company on the Australian Securities Exchange as at the close of trading on the date the options were exercised, after deducting the price paid to exercise the options.

Directors' Report

Name	Short Term		Post-Employment		Long Term		Proportion of remuneration performance related %	Value of shares as a % of remuneration
	Salary and fees (\$)	Short term cash bonus (\$)	Superannuation contributions (\$)	Shares/ Options (\$)	Total (\$)			
Directors								
<i>Non-Executive</i>								
Mr PJ Leonhardt (Chairman)								
2016	\$115,000	-	-	-	\$115,000	-	-	-
2015	\$115,000	-	-	-	\$115,000	-	-	-
Mr W Foster								
2016	\$80,000	-	-	\$12,209 ^{1,2}	\$92,209	-	13.2%	-
2015	\$80,000	-	-	-	\$80,000	-	-	-
Mr EP Jacobson								
2016	\$75,000	-	-	-	\$75,000	-	-	-
2015	\$75,000	-	-	-	\$75,000	-	-	-
Dr P Moore								
2016	\$75,000	-	-	\$12,209 ^{1,2}	\$87,209	-	14.0%	-
2015	\$2,679	-	-	-	\$2,679	-	-	-
<i>Executive</i>								
Mr AC Cook (Chief Executive Officer)								
2016	\$547,420	\$68,493	\$28,651	\$83,875 ^{1,3}	\$728,439	20.9%	11.5%	-
2015	\$521,635	\$83,556	\$42,015	\$109,384 ^{1,4}	\$756,590	25.5%	14.5%	-
Executives								
Mr PP Huizenga (Chief Operating Officer)								
2016	\$518,946	\$54,795	\$27,345	\$54,482	\$655,568	16.7%	8.3%	-
2015	\$494,054	\$83,556	\$41,811	\$58,879 ¹	\$678,300	21.0%	8.7%	-
Mr TO Naude (Chief Financial Officer) ⁵								
2016	\$230,594	\$27,397	\$24,509	\$24,373	\$306,873	16.9%	7.9%	-
2015	-	-	-	-	-	-	-	-
Total compensation: key management personnel (Company and consolidated)								
2016	\$1,641,960	\$150,685	\$80,505	\$187,148 ¹	\$2,060,298	16.4%	9.1%	-
2015	\$1,288,368	\$167,112	\$83,826	\$168,263 ¹	\$1,707,569	19.6%	9.9%	-

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

¹ Accounting cost as determined using the Black-Scholes Option Pricing Model

² 2016 options issued to Mr W Foster and Dr P Moore relate to 2015 financial year remuneration approved at the AGM on 13 November 2015 and issued 20 November 2015.

³ 2016 share-based payments to Mr AC Cook relate to 2015 financial year remuneration approved at the AGM on 13 November 2015 and issued 20 November 2015.

⁴ 2015 share-based payments to Mr AC Cook relate to 2014 financial year remuneration approved at the AGM on 14 November 2014 and issued 10 December 2014.

⁵ Appointed CFO on 1 July 2015.

Remuneration Report (Audited) (continued)

Ordinary shares held by key management personnel

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

2016	Held at 1 July 2015	Net acquired/ (sold)	Award under Employee Share Plan	Received on exercise of options	Held at 30 June 2016
<i>Directors</i>					
PJ Leonhardt	17,750,000	-	-	-	17,750,000
EP Jacobson	34,188,267	(5,414,792)	-	390,625	29,164,100
W Foster	528,205	-	-	156,250	684,455
AC Cook	8,000,000	-	1,159,917	640,000	9,799,917
P Moore	-	-	-	-	-
<i>Executives</i>					
PP Huizenga	7,397,421	-	970,000	-	8,367,421
TO Naude	1,305,281	67,228	570,000	-	1,942,509

Plan shares held by key management personnel

Included in the above are plan shares held by key management personnel. The balance and movement during the reporting period in the number of plan shares directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2016	Held at 1 July 2015	Granted as compensation	Employee Share Plan cancellations	Exercised	Held at 30 June 2016
<i>Directors</i>					
PJ Leonhardt	3,000,000	-	-	-	3,000,000
EP Jacobson	6,000,000	-	-	-	6,000,000
W Foster	-	-	-	-	-
AC Cook	5,875,000	1,159,917	-	-	7,034,917
P Moore	-	-	-	-	-
<i>Executives</i>					
PP Huizenga	6,897,421	970,000	-	-	7,867,421
TO Naude	1,158,436	570,000	-	-	1,728,436

Options over equity instruments held by key management personnel

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

2016	Held at 1 July 2015	Granted as compensation	Acquired/ (sold)	Exercised	Held at 30 June 2016
<i>Directors</i>					
W Foster	-	500,000*	-	-	500,000
P Moore	-	500,000*	-	-	500,000

* Approved by shareholders at the AGM on 13 November 2015.

End of Remuneration Report

Directors' Report

Non-audit services

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

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

Audit Services	Consolidated 2016 (\$)
<i>Auditors of the Company:</i>	
Crowe Horwath	5,712
Ernst & Young	67,500

Directors' interests

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

Name	Ordinary Shares	Options over ordinary Shares
PJ Leonhardt	17,750,000	-
AC Cook	9,799,917	-
EP Jacobson	29,164,100	-
WA Foster	684,455	500,000
P Moore	-	500,000

Shares issued under the Company's ESP are included under the heading Ordinary Shares. Options over ordinary shares issued to directors are included under the heading Share options.

Diversity

For the year ending 30 June 2016, women made up 28% of the Company's general work force. Currently, there are no women on the board or in senior executive positions.

The Board has set the diversity objective of providing mentoring and support to female employees for the 2016 financial year.

Likely developments

The likely developments for the 2016 financial year are contained in the operating and financial review as set out on pages 4 to 16.

Environmental regulation and performance

The Group's oil and gas exploration and development activities are concentrated in Western Australia. Environmental obligations are regulated under both State and Federal Law in Western Australia. No significant environmental breaches have been notified by any government agency during the year ended 30 June 2016.

Dividends

No dividends were paid during the year and the directors do not recommend payment of a dividend in respect of the current financial year (2015: Nil).

Auditor's independence declaration

The auditor's Independence Declaration under Section 307C of the Corporations Act is set out on page 31 and forms part of the directors' report for the financial year ended 30 June 2016.

Principal activities

During the course of the 2016 financial year the Group's principal activities continued to be directed towards oil and gas exploration, development and production.

Identification of independent directors

The independent directors are identified in the Company's Corporate Governance Statement. The Corporate Governance Statement is available on Carnarvon Petroleum's website at: carnarvon.com.au/about-us/corporate-governance/.

Significant changes in state of affairs

In the opinion of the directors no significant changes in the state of affairs of the Group occurred during the current financial year other than as outlined in the operating and financial review as set out on pages 4 to 16.

Indemnification and insurance of directors and officers

During the period the Company paid a premium to insure the directors and officers of the Company and its controlled entities. The policy prohibits the disclosure of the nature of the liabilities covered and the amount of the premium paid.

Deeds of Access and Indemnity have been executed by the Company with each of the directors and Company Secretary. The deeds require the Company to indemnify each director and Company Secretary against any legal proceedings, to the extent permitted by law, made against, suffered, paid or incurred by the directors or Company Secretary pursuant to, or arising from or in any way connected with the director or Company Secretary being an officer of the Company.

Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of the proceedings. The Company was not a party to any such proceedings during the year.

Operating and financial review

An operating and financial review of the Group for the financial year ended 30 June 2016 is set out on pages 4 to 16 and forms part of this report.

Indemnity of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Events subsequent to reporting date

No matters or circumstance has arisen since 30 June 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' Report

Rounding off

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 the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors.

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

PJ Leonhardt
Director

Perth, 26 August 2016



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Perth WA 6000 Australia
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Auditor's Independence Declaration to the Directors of Carnarvon Petroleum Limited

As lead auditor for the audit of Carnarvon Petroleum Limited for the financial year ended 30 June 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 audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Ernst & Young

R J Curtin
Partner
26 August 2016



Corporate Governance Statement

The Board is committed to achieving and demonstrating the highest standards of corporate governance. As such, Carnarvon Petroleum Limited and its Controlled Entities ('the Group') have adopted the third edition of the Corporate Governance Principles and Recommendations which was released by the ASX Corporate Governance Council on 27 March 2015 and became effective for financial years beginning on or after 1 July 2015.

The Group's Corporate Governance Statement for the financial year ending 30 June 2016 is dated as at 30 June 2016 and was approved by the Board on 26 August 2015. The Corporate Governance Statement is available on Carnarvon Petroleum's website at carnarvon.com.au/about-us/corporate-governance/.

Consolidated Income Statement

For the year ended 30 June 2016

		Consolidated	
	Notes	2016 \$000	Restated 2015 \$000
Continued operations			
Other income	2	6,209	12,521
Administrative expenses		(1,710)	(1,590)
Directors' fees		(345)	(273)
Employee benefits expense		(1,559)	(2,072)
Unrealised foreign exchange gain		3,748	11,781
New venture and advisory costs		(4,552)	(3,740)
Exploration expenditure written off	13	(244)	(2,310)
Finance costs		-	(203)
Remeasurement of deferred consideration asset		(6,914)	(4,343)
(Loss) / profit before income tax from continuing operations		(5,367)	9,771
Taxes			
Current income tax expense	8(a)	-	-
(Loss) / profit for the year from continuing operations		(5,367)	9,771
Discontinued operations			
Profit after tax for the year from discontinued operations	3	-	15,196
(Loss) / Profit for the year		(5,367)	24,967
(Loss) / Profit attributable to members of the Company		(5,367)	24,967
(Loss) / Earnings per share (EPS):			
Basic, (loss) / profit for the period attributable to members of the entity (cents per share)	7	(0.5)	2.5
Diluted, (loss) / profit for the period attributable to members of the entity (cents per share)	7	(0.5)	2.4
(Loss) / Earnings per share for continuing operations:			
Basic, (loss) / profit from continuing operations attributable to members of the entity (cents per share)	7	(0.5)	1.0
Diluted (loss) / profit from continuing operations attributable to members of the entity (cents per share)	7	(0.5)	0.9

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

Consolidated Statement Of Other Comprehensive Income

For the year ended 30 June 2016

	Consolidated	
	2016	Restated
	\$000	2015
		\$000
(Loss) / profit for the year	(5,367)	24,967
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences arising in translation of foreign operations, net of income tax	28	8,226
Total comprehensive (loss) / income for the year	(5,339)	33,193
Total comprehensive (loss) / income attributable to members of the company	(5,339)	33,193

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

Consolidated Statement Of Financial Position

As at 30 June 2016

		Consolidated	
	Notes	2016 \$000	Restated 2015 \$000
Current assets			
Cash and cash equivalents	18(b)	87,847	97,302
Trade and other receivables	9	297	446
Deferred consideration asset	10	1,542	916
Other assets	12	466	504
Total current assets		90,152	99,168
Non-current assets			
Deferred consideration asset	10	18,509	22,708
Property, plant and equipment	11	165	178
Exploration and evaluation expenditure	13	29,282	17,352
Total non-current assets		47,956	40,238
Total assets		138,108	139,406
Current liabilities			
Trade and other payables	16	2,130	585
Employee benefits	21	268	252
Total current liabilities		2,398	837
Non-current liabilities			
Employee benefits	21	202	141
Total non-current liabilities		202	141
Total liabilities		2,600	978
Net assets		135,508	138,428
Equity			
Issued capital	17	95,401	93,011
Reserves	17	(308)	(365)
Retained earnings		40,415	45,782
Total equity		135,508	138,428

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

Consolidated Statement Of Changes In Equity

For the year ended 30 June 2016

	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 2014	90,213	-	20,815	(8,226)	-	1,958	104,760
Restatement of Comparatives (Note 31)	2,250	(2,250)	-	-	-	-	-
Balance at 1 July 2014 (restated)	92,463	(2,250)	20,815	(8,226)	-	1,958	104,760
Comprehensive income							
Profit for the year as reported in 2014	-	-	25,206	-	-	-	25,206
Restatement of comparatives (note 31)	-	-	4,104	-	-	-	4,104
Restated profit for the period	-	-	29,310	-	-	-	29,310
Other comprehensive income / (loss) as reported in 2014	-	-	-	12,330	(4,343)	-	7,987
Restated other comprehensive income /(loss)	-	-	(4,343)	(4,104)	4,343	-	(4,104)
Restated other comprehensive income / (loss)	-	-	(4,343)	8,226	-	-	3,883
Total comprehensive income for the year	-	-	24,967	8,226	-	-	33,193
Transactions with owners and other transfers							
Share based payments	-	-	-	-	-	463	463
Proceeds from entitlement issue	12	-	-	-	-	-	12
Issue of ESP shares	-	-	-	-	-	-	-
Restatement of comparatives (note 31)	536	(536)	-	-	-	-	-
Restated issue of ESP shares	536	(536)	-	-	-	-	-
Reclassification on disposal	-	-	4,104	(4,104)	-	-	-
Restatement of comparatives (note 31)	-	-	(4,104)	4,104	-	-	-
Restated reclassification on partial disposal	-	-	-	-	-	-	-
Total transactions with owners and other transfers	548	(536)	-	-	-	463	475
Balance at 30 June 2015	93,011	(2,786)	45,782	-	-	2,421	138,428

Consolidated Statement Of Changes In Equity

For the year ended 30 June 2016

	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 2015	90,225	-	50,125	-	(4,343)	2,421	138,428
Restated of comparatives (note 31)	2,786	(2,786)	(4,343)	-	4,343	-	-
Balance at 1 July 2015 (restated)	93,011	(2,786)	45,782	-	-	2,421	138,428
Comprehensive income							
Loss for the year	-	-	(5,367)	-	-	-	(5,367)
Other comprehensive income	-	-	-	28	-	-	28
Total comprehensive income for the year	-	-	(5,367)	28	-	-	(5,339)
Transactions with owners and other transfers							
Share based payments	-	-	-	-	-	433	433
Issue of ESP shares	404	(404)	-	-	-	-	-
Proceeds from exercised options	1,986	-	-	-	-	-	1,986
Total transactions with owners and other transfers	2,390	(404)	-	-	-	433	2,419
Balance at 30 June 2016	95,401	(3,190)	40,415	28	-	2,854	135,508

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

Consolidated Statement Of Cash Flows

For the year ended 30 June 2016

	Notes	Consolidated	
		2016 \$000	2015 \$000
Cash flows from operating activities			
Receipts from customers and GST recovered		-	8,083
Payments to suppliers and employees		(5,805)	(7,394)
Income tax and special remuneratory benefit paid		-	(2,776)
Interest received		398	284
Research and development tax credit received		3,164	-
Net cash used in operating activities	18(a)	(2,243)	(1,803)
Cash flows from investing activities			
Exploration and development expenditure		(13,126)	(19,892)
Cash held as security		-	(644)
Acquisition of property, plant and equipment	11	(126)	(18)
Proceeds from farm-out activities		-	2,000
Outflows from options investment		-	(203)
Proceeds from sale of Thai assets		-	55,553
Proceeds from deferred consideration asset		1,128	-
Net cash (used in)/provided by investing activities		(12,124)	36,796
Cash flows from financing activities			
Proceeds from exercised options		1,986	12
Net cash provided by financing activities		1,986	12
Net (decrease) increase in cash and cash equivalents held		(12,381)	35,005
Cash and cash equivalents at the beginning of the financial year		97,302	49,580
Effect of exchange rate fluctuations on cash and cash equivalents		2,926	12,717
Cash and cash equivalents at the end of the financial year	18(b)	87,847	97,302

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

1. Reporting entity

The consolidated financial report of Carnarvon Petroleum Limited ('Company') for the financial year ended 30 June 2016 comprises the Company and its controlled entities (the "Group") and the Group's interest in jointly controlled assets.

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

Carnarvon Petroleum Limited is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The financial report was authorised for issue by the directors on 26 August 2016.

The basis for the preparation of the following notes can be found in note 31 and the significant accounting policies used in the preparation can be found in note 32.

2. Other income

	Consolidated	
	2016	2015
	\$000	\$000
Finance income on bank deposits	409	276
Research and development tax credit received	1,948	-
Other income	121	-
Unwinding of interest on deferred consideration asset (note 10)	3,490	2,645
Net gain on foreign currency transactions	113	7,600
Gain on farm-out	-	2,000
Gain on sale of shares	128	-
	6,209	12,521

Notes to the Financial Statements

3. Discontinued operations

On the 4 December 2014, Carnarvon announced that it had entered into a Sale and Purchase Agreement (SPA) to divest its remaining 20% interest in the Thailand oil production Concessions L44/43, L33/43 and SW1A (Thai Assets) on the effective date of 1 October 2014 to Berlanga Group.

The sale was completed on the 18 February 2015, with Carnarvon receiving a consideration of US\$52,000,000. The operations from the Thai Assets have been classified as a discontinued operation. The profit after tax from the discontinued operations are presented below:

		Consolidated	
		2016	2015
		\$000	\$000
Oil sales		-	7,455
Other income		-	8
(Loss) on sale of joint operations	4	-	(12,611)
Cost of sales			
Production expenses		-	(557)
Royalty and excise		-	(417)
Transportation		-	(196)
Depreciation - development costs and producing assets		-	(1,365)
Selling, general and administration		-	(285)
Profit (loss) before tax from a discontinued operations		-	(7,968)
Taxes			
Current income tax expense		-	(1,787)
Deferred income tax (benefit) / expense		-	24,951
	8(a)	-	23,164
Profit after income tax from discontinued operations		-	15,196
Basic profit per share on discontinued operations (cents per share)		-	1.5
Diluted profit per share on discontinued operations (cents per share)		-	1.5
Cash flows from discontinued operations:			
Net cash inflow from operating activities		-	3,788
Net cash outflow from investing activities		-	54,282
Net cash inflow from financing activities		-	-
Net cash inflow from discontinued operations		-	58,070

	Consolidated	
	2016	2015
	\$000	\$000
4. (Loss) on sale of joint operations		
Cash consideration	-	59,599
Deferred consideration	-	-
Less transaction costs	-	(1,889)
	<hr/>	<hr/>
	-	57,710
Asset and liability adjustments:		
Cash and cash equivalents	-	(2,157)
Trade and other receivables	-	(4,235)
Inventories	-	(3,095)
Other assets	-	(200)
Property, plant and equipment	-	(254)
Oil and gas assets	-	(66,283)
Trade and other payables	-	1,441
Current tax liability	-	358
Exchange difference on foreign operations accumulated in other comprehensive income reclassified on disposal	-	4,104
	<hr/>	<hr/>
	-	(12,611)

5. Other expenses

The following expenses are included in administrative and employee benefit expenses in the income statement:

Depreciation – property, plant and equipment	(139)	(164)
Rental premises – operating leases	(251)	(171)
Defined contribution – superannuation expense	(233)	(230)
	<hr/>	<hr/>

6. Auditors' remuneration

Audit and review services:

Ernst & Young	(68)	-
Crowe Horwath	(5)	(63)
	<hr/>	<hr/>
	(73)	(63)

Notes to the Financial Statements

7. Earnings per share

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

	2016	2015
	Number of shares	
Issued ordinary shares at 1 July	994,066,022	987,176,977
Effect of shares issued	11,649,541	1,413,739
Weighted average number of ordinary shares 30 June (basic)	1,005,715,563	988,590,716
Effect of share options on issue ⁽¹⁾	-	48,427,191
Weighted average number of ordinary shares 30 June (diluted)	1,005,715,563	1,037,017,907
	2016	2015
	\$	\$
(Loss) / profit used in calculating basic and diluted earnings per share	(5,367,000)	24,967,000
(Loss) / profit used in calculating basic and diluted earnings per share from continuing operations	(5,367,000)	9,771,000

⁽¹⁾ As the consolidated entity incurred a loss for the year ended 30 June 2016, the effect of options on issue is considered to be antidilutive and thus not factored in determining the diluted earnings per share.

8. Taxes

(a) Income tax expense

Numerical reconciliation between pre-tax profit and income tax expense:

	Consolidated	
	2016 \$000	2015 \$000
Prima facie income tax expense on pre-tax profit at 30% (2015: 30%)	(1,610)	613
Tax effect of:		
Effect of higher overseas tax rate	-	929
Effect of foreign exchange	(1,124)	761
Non-deductible expenditure	(2,973)	812
Prior year temporary differences recognised	1,531	65
Effect of deferred tax on disposal of Thai Asset	-	(29,192)
Current year tax benefit not brought to account	4,176	2,848
Income tax benefit	-	(23,164)
Current income tax	-	1,787
Deferred tax	-	(24,951)
	-	(23,164)
(b) Current tax liability	-	-

Tax Consolidation

Effective 1 July 2003, for the purposes of Australian income taxation, Carnarvon and its 100%-owned Australian controlled entities formed a tax consolidated group. The head entity of the tax consolidated group is Carnarvon.

The impact of consolidating for tax purposes is that Carnarvon's Australian controlled entities are treated as divisions of Carnarvon rather than as separate entities for tax purposes. The members of the group will, if required, enter into a tax sharing arrangement in order to allocate group tax related liabilities to contributing members on a reasonable basis. The agreement will provide for the allocation of income tax liabilities between entities should the head entity default on its tax payment obligations.

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

(c) Unrecognised deferred tax assets and liabilities

Deferred tax asset on Australian tax losses	12,596	9,951
Deferred tax liability on capitalised exploration and evaluation expenditure	(8,785)	(5,206)
Net deferred tax not recognised	3,811	4,745

The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

Notes to the Financial Statements

	Consolidated	
	2016	2015
	\$000	\$000
9. Trade and other receivables		
<i>Current</i>		
Trade and other receivables	68	228
Cash held as security	229	218
	297	446

The Group's exposure to credit and currency risks is disclosed in Note 28.

10. Deferred consideration asset

Current deferred consideration asset	1,542	916
Non-current deferred consideration asset	18,509	22,708
	20,051	23,624

Reconciliation

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

Opening fair value	23,624	21,480
Effective interest	3,490	2,645
Repayments	(916)	-
Fair value movement	(6,925)	(4,343)
Effects of exchange rate fluctuations	778	3,842
Closing fair value	20,051	23,624

Carnarvon completed the sale of half of its 40% interest in its producing Concessions in Thailand during the 2015 financial year to Loyz Energy which included a US\$32,000,000 deferred consideration based on 12% of the acquirer's share of revenue in the Concessions. 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.

Refer to note 29 for further information on fair value measurement.

	Consolidated	
	2016	2015
	\$000	\$000
11. Property, plant and equipment		
<i>Plant and equipment</i>		
Cost:		
Balance at beginning of financial year	-	423
Additions	-	-
Disposal of Thai Assets	-	(452)
Effects of movements in foreign exchange	-	29
Balance at end of financial year	-	-
Depreciation and impairment losses:		
Balance at beginning of financial year	-	313
Disposal of Thai Assets	-	(328)
Depreciation charge for year	-	15
Balance at end of financial year	-	-
Carrying amount opening	-	110
Carrying amount closing	-	-
<i>Fixtures and fittings</i>		
Cost:		
Balance at beginning of financial year	415	1,051
Additions	126	18
Disposals	-	(260)
Disposal of Thai Assets	-	(424)
Effects of movements in foreign exchange	-	30
Balance at end of financial year	541	415
Depreciation and impairment losses:		
Balance at beginning of financial year	237	671
Disposals	-	(260)
Disposal of Thai Assets	-	(315)
Depreciation charge for year	139	141
Balance at end of financial year	376	237
Carrying amount opening	178	380
Carrying amount closing	165	178

Notes to the Financial Statements

	Consolidated	
	2016	2015
	\$000	\$000
11. Property, plant and equipment (continued)		
<i>Land and buildings</i>		
Cost:		
Balance at beginning of financial year	-	84
Additions	-	6
Disposal of Thai Assets	-	(98)
Effects of movements in foreign exchange	-	8
Balance at end of financial year	-	-
Depreciation:		
Balance at beginning of financial year	-	63
Disposal of Thai Assets	-	(67)
Depreciation charge for year	-	4
Balance at end of financial year	-	-
Carrying amount opening	-	21
Carrying amount closing	-	-
<i>Total</i>		
Cost:		
Balance at beginning of financial year	415	1,608
Additions	126	23
Disposals	-	(260)
Disposal of Thai Assets	-	(1,023)
Effects of movements in foreign exchange	-	67
Balance at end of financial year	541	415
Depreciation and impairment losses:		
Balance at beginning of financial year	237	1,104
Disposals	-	(260)
Disposal of Thai Assets	-	(767)
Depreciation charge for year	139	160
Balance at end of financial year	376	237
Carrying amount opening	178	504
Carrying amount closing	165	178

	Consolidated	
	2016 \$000	2015 \$000
12. Other assets		
<i>Current</i>		
Deposits and prepayments	466	504

13. Exploration and evaluation expenditure

Cost:		
Balance at beginning of financial year	17,352	2,300
Additions	12,174	17,362
Exploration expenditure written off	(244)	(2,310)
Balance at end of financial year	29,282	17,352

The exploration expenditure written off during the financial year ended 30 June 2016 of \$244,000 was in relation to exploration expenses incurred in the EP490, EP491, EP475 and TP/27 Permits in Western Australia (2015:\$2,310,000). Included in additions is \$11,603,000 (2015: \$16,122,000) spent on concessions where the company has joint control (refer to Note 15).

14. Oil and gas assets

Cost:		
Balance at beginning of financial year	-	73,165
Additions	-	1,271
Disposal of Thai Asset	-	(80,384)
Effects of movements in foreign exchange	-	5,948
Balance at end of financial year	-	-
Depreciation and impairment losses:		
Balance at beginning of financial year	-	21,157
Depreciation charge for year	-	1,327
Disposal of Thai Asset	-	(22,484)
Balance at end of financial year	-	-
Carrying amount opening	-	52,008
Carrying amount closing	-	-

Notes to the Financial Statements

15. Joint operations

The Group has the following interests in joint operation assets:

Joint operation	Principal activities	Ownership interest %	
		2016	2015
<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-155-P(1), Barrow sub Basin	Exploration for hydrocarbons	28.5%	-

The Company has accounted for its interest in the above Concessions as Joint Operations as the company has joint control.

Consolidated	
2016	2015
\$000	\$000

16. Trade and other payables

Current

Trade payables	2,057	521
Non-trade payables and accrued expenses	73	64
	<u>2,130</u>	<u>585</u>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 28

17. Capital and reserves

	Company	
	2016	2015
	Number of shares	
Issued capital		
Balance at beginning of financial year	994,066,022	987,176,977
Issued for cash	19,858,914	126,855
Employee Share Plan issues	6,016,781	6,762,190
Employee Share Plan cancellations	-	-
Balance at end of financial year	1,019,941,717	994,066,022

	Company	
	2016	Restated 2015
	\$000	
Issued capital		
Balance at beginning of financial year	93,011	92,463
Reserve employee shares	404	536
Proceeds from exercised options	1,986	12
Balance at end of financial year	95,401	93,011

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

	Company	
	2016	2015
	Number of shares	
Reserve shares (plan shares)		
Balance at beginning of financial year	31,401,589	24,639,399
Employee Share Plan issues	6,025,511	6,762,190
Employee Share Plan cancellations	-	-
Balance at end of financial year	37,427,100	31,401,589

	Company	
	2016	Restated 2015
	\$000	
Reserve shares (plan shares)		
Balance at beginning of financial year	2,786	2,250
Employee Share Plan issues	404	536
Employee Share Plan cancellations	-	-
Balance at end of financial year	3,190	2,786

Translation reserve

Movements in the translation reserve are set out in the Statement of Changes in Equity on pages 36 and 37.

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

Share based payments reserve

Movements in the share based payments reserve are set out in the Statements of Changes in Equity on pages 36 and 37. This reserve represents the fair value of shares issued under the Company's ESP.

Notes to the Financial Statements

	Consolidated	
	2016	2015
	\$000	\$000
18. Reconciliation of cash flows from operating activities		
<i>(a) Cash flows from operating activities</i>		
(Loss) / profit for the year	(5,367)	24,967
<i>Adjustments for:</i>		
Equity settled share based payment expense	433	464
Deferred tax expense	-	(21,908)
Depreciation	139	1,586
Foreign exchange (loss) / gain	(415)	278
Exploration expenditure written off	244	2,310
Operating profit / (loss) before changes in working capital and provisions:	(4,966)	7,697
 Changes in assets and liabilities:		
Decrease) / (Increase) in trade and other receivables	1,064	(6,956)
(Increase) in inventories	-	(144)
Decrease / (increase) in other assets	38	(262)
Increase / (decrease) in trade and other payables	1,544	(2,766)
Increase in provisions and employee benefits	77	186
Net cash flows used in operating activities	(2,243)	(1,803)
 <i>(b) Reconciliation of cash and cash equivalents</i>		
Cash at bank and at call	44,164	12,390
Cash on deposit	43,683	84,912
	87,847	97,302

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 28.

Restricted cash of \$229,000 consolidated is included under trade and other receivables (2015:\$ 862,227 consolidated), see Notes 9 and 20.

19. Capital and other commitments

(a) Exploration expenditure commitments

Due to the nature of the Group's operations in exploring and evaluating areas of interest it is necessary to incur expenditure in order to retain the Group's present permit interests. Expenditure commitments on exploration permits can be reduced by selective relinquishment of exploration tenure, by the renegotiation of expenditure commitments, or by farming out portions of the Group's equity. Failure to meet Joint Operation cash requirements may result in a reduction in equity in that particular Joint Operation.

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

	Consolidated	
	2016	2015
	\$000	\$000
Less than one year	1,533	400
Between one and five years	2,766	-
	4,299	400
(b) Capital expenditure commitments		
Data licence commitments	443	415
	443	415

20. Contingencies

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

21. Employee benefits

Current:

Liability for annual leave and long service leave	268	252
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Non-Current:

Provision for long service leave	202	141
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Total Employee benefits	470	393
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Employee Share Plan

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

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

Notes to the Financial Statements

21. Employee benefits (continued)

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in plan shares during the year:

	Number 2016	WAEP 2016	Number 2015	WAEP 2015
Outstanding at 1 July	31,401,589	0.17	24,639,399	0.17
Granted during the year	6,025,511	0.14	6,762,190	0.15
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at 30 June	37,427,100	0.16	31,401,589	0.17
Exercisable at 30 June	37,427,100	0.16	31,401,589	0.17

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 2016	Key management personnel 2015	Other employees 2016	Other employees 2015
Fair value at measurement date (cents)	7.2	8.4	6.7	6.2
Share price at date of issue (cents)	12	15	11	12
Exercise price (cents)	15	13	13	15
Expected volatility	89%	89%	89%	89%
Expected life of ESP share	4 years	3 years	4 years	3 years
Expected dividends	Nil	Nil	Nil	Nil
Risk-free interest rate	2.0%	2.0%	2.0%	2.0%
Share-based expense recognised	\$187,148	\$168,263	\$245,728	\$294,837

Further details of shares granted under the ESP to directors are set out in Note 25, and in the Remuneration Report set out on pages 20 to 27.

21. Employee benefits (continued)

Options and rights over equity instruments

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

2016	Held at 1 July 2015	Granted as compensation	Acquired/ (sold)	Exercised	Held at 30 June 2016
<i>Directors</i>					
W Foster	-	500,000*	-	-	500,000
P Moore	-	500,000*	-	-	500,000

* Approved by shareholders at the AGM on 13 November 2015.

Options granted as compensation vest immediately. During the financial year there was no forfeiture or vesting of options granted in previous periods. There were no options on issue that were still to vest at the end of the reporting period.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	Number 2016	WAEP 2016	Number 2015	WAEP 2015
Outstanding at 1 July	-	-	-	-
Granted during the year	1,000,000	0.15	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at 30 June	1,000,000	0.15	-	-
Exercisable at 30 June	1,000,000	0.15	-	-

The fair value of share options issued is measured by reference to their fair value using the Black-Scholes model, as set out below:

Fair value of share option and related assumptions	2016	2015
Fair value at measurement date (cents)	7.9	-
Share price at date of issue (cents)	12	-
Exercise price (cents)	15	-
Expected volatility	89%	-
Expected life of ESP share	5 years	-
Expected dividends	Nil	-
Risk-free interest rate	2.0%	-
Share-based expense recognised	\$24,418	-

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome

Notes to the Financial Statements

22. Related party disclosures

Ultimate parent

Carnarvon Petroleum Limited is the ultimate parent company.

Wholly-owned group transactions

During the reporting period there have been transactions between the Company and its controlled entities and joint arrangements. The Company provided accounting and administrative services to its controlled entities for which it did not charge a management fee.

The carrying value of loans to controlled entities at 30 June 2016 was \$647,000 (2015: \$629,000). These loans are unsecured, non-interest bearing, and have no fixed terms of repayment.

Other related party balances and transactions

At 30 June 2016 an amount of \$41,250 (2015: \$43,765) is included in Company and consolidated trade and other payables for outstanding director fees and expenses.

No consulting fees were paid to any related entities in relation to exploration advisory services during the year.

23. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Consolidated	
	2016	2015
	\$000	\$000
Less than one year	188	181
Between one and five years	399	587
	<hr/>	<hr/>
	587	768

During the reporting period \$168,000 was recognised as an expense in the consolidated income statement in respect of operating leases (2015: \$305,000).

The property lease is a non-cancellable lease with the five-year term, with rent payable in advance. Contingent rental provisions within the lease agreement require that minimum lease payment shall be increased by 4% per annum.

24. 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.

Basis of accounting for purposes of reporting by operating segments

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

Revenue by geographical region

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

	2016	2015
	\$000	\$000
Thailand	-	7,463
Australia	6,209	12,520
	<u>6,209</u>	<u>19,983</u>

In 2015, the Group derived 100% of its sales revenue from one customer in the oil and gas exploration, development and production segment.

Non-current assets (excluding financial assets) by geographical region

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

	2016	2015
	\$000	\$000
Australia	29,447	17,530
	<u>29,447</u>	<u>17,530</u>

Notes to the Financial Statements

25. Key management personnel disclosures

(a) Key management personnel compensation

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

	Consolidated	
	2016	2015
	\$000	\$000
Short term employee benefits	1,792	1,456
Post-employment benefits	81	84
Share-based payments	187	168
	<hr/>	<hr/>
	2,060	1,708

Information regarding individual directors and executives' compensation and some equity instruments disclosures, as permitted by Corporations Regulation 2M.3.03, are provided in the Remuneration Report section of the directors' report as set out on pages 20 to 27.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

(b) Other key management personnel transactions

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

	Consolidated	
	2016	2015
	\$000	\$000
<i>Current</i>		
Trade and other payables	41	44
	<hr/>	<hr/>

25. Key management personnel disclosures (continued)*(c) Ordinary shares held by key management personnel*

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

	Held at 1 July 2015	Net acquired/ (sold)	Award under Employee Share Plan	Received on exercise of options	Held at 30 June 2016
2016					
<i>Directors</i>					
PJ Leonhardt	17,750,000	-	-	-	17,750,000
EP Jacobson	34,188,267	(5,414,792)	-	390,625	29,164,100
W Foster	528,205	-	-	156,250	684,455
AC Cook	8,000,000	-	1,159,917	640,000	9,799,917
P Moore	-	-	-	-	-
<i>Executives</i>					
PP Huizenga	7,397,421	-	970,000	-	8,367,421
TO Naude	1,305,281	67,228	570,000	-	1,942,509
2015					
<i>Directors</i>					
PJ Leonhardt	17,750,000	-	-	-	17,750,000
EP Jacobson	34,188,267	-	-	-	34,188,267
W Foster	528,205	-	-	-	528,205
AC Cook	6,890,000	110,000	1,000,000	-	8,000,000
P Moore	-	-	-	-	-
<i>Executives</i>					
PP Huizenga	6,400,000	-	997,421	-	7,397,421
TO Naude	536,845	85,000	683,436	-	1,305,281

Notes to the Financial Statements

25. Key management personnel disclosures (continued)

(d) Plan shares held by key management personnel

Included in the above are plan shares held by key management personnel. The balance and movement during the reporting period in the number of plan shares directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2016	Held at 1 July 2015	Granted as compensation	Employee Share Plan cancellations	Exercised	Held at 30 June 2016
<i>Directors</i>					
PJ Leonhardt	3,000,000	-	-	-	3,000,000
EP Jacobson	6,000,000	-	-	-	6,000,000
W Foster	-	-	-	-	-
AC Cook	5,875,000	1,159,917	-	-	7,034,917
P Moore	-	-	-	-	-
<i>Executives</i>					
PP Huizenga	6,897,421	970,000	-	-	7,867,421
TO Naude	1,158,436	570,000	-	-	1,728,436
2015	Held at 1 July 2014	Granted as compensation	Employee Share Plan cancellations	Exercised	Held at 30 June 2015
<i>Directors</i>					
PJ Leonhardt	3,000,000	-	-	-	3,000,000
EP Jacobson	6,000,000	-	-	-	6,000,000
W Foster	-	-	-	-	-
AC Cook	4,875,000	1,000,000	-	-	5,875,000
P Moore	-	-	-	-	-
<i>Executives</i>					
PP Huizenga	5,900,000	997,421	-	-	6,897,421
TO Naude	475,000	683,436	-	-	1,158,436

25. Key management personnel disclosures (continued)

(e) Options over equity instruments held by key management personnel

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

2016	Held at 1 July 2015	Granted as compensation	Acquired/ (sold)	Exercised	Held at 30 June 2016
<i>Directors</i>					
W Foster	-	500,000*	-	-	500,000
P Moore	-	500,000*	-	-	500,000

* Approved by shareholders at the AGM on 13 November 2015.

Options granted as compensation vest immediately. During the financial year there was no forfeiture or vesting of options granted in previous periods. There were no options on issue that were still to vest at the end of the reporting period.

26. Consolidated entities

Name	Country of Incorporation	Ownership interest	
		2016	2015
<i>Company</i>			
Carnarvon Petroleum Ltd			
<i>Controlled entities</i>			
Carnarvon Thailand Ltd	British Virgin Islands	100%	100%
Lassoc Pty Ltd	Australia	100%	100%
SRL Exploration Pty Ltd	Australia	100%	100%
Carnarvon Petroleum (Indonesia) Pty Ltd	Australia	100%	100%

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

27. Subsequent events

No other matters or circumstance has arisen since 30 June 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

28. Financial risk management

The Group's activities expose it to market risk (including currency risk and interest rate risk), credit risk and liquidity risk. This note presents qualitative and quantitative information about the Group's exposure to each of the above risks, their objectives, policies and procedures for managing risk, and the management of capital. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

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

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

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

(a) Interest rate risk

The significance and management of the risks to the Group is dependent on a number of factors including:

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

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

At the reporting date, the effective interest rates of variable rate interest bearing financial instruments of the Group were as follows.

	Consolidated	
	2016	2015
<i>Carrying amount (A\$000)</i>		
Financial assets – cash and cash equivalents	87,847	97,302
<i>Weighted average interest rate (%)</i>		
Financial assets – cash and cash equivalents	0.69%	0.37%

All other financial assets and liabilities are non-interest bearing.

28. Financial risk management (continued)*Sensitivity analysis*

An increase in 25 basis points from the weighted average year-end interest rates at 30 June would have increased equity and profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2015:

	Consolidated	
	Equity \$000	Profit and loss \$000
30 June 2016	219	219
30 June 2015	170	170

A decrease in 25 basis points from the weighted average year-end interest rates at 30 June would have decreased equity and profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2015:

	Consolidated	
	Equity \$000	Profit and loss \$000
30 June 2016	(219)	(219)
30 June 2015	(272)	(272)

Notes to the Financial Statements

28. Financial risk management (continued)

(b) Credit risk

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

The Group's trade receivables are all due from the Australian Taxation office and an entity located in Singapore and listed on the Singapore Stock Exchange. This entity has an appropriate credit history with the Group. There were no receivables at 30 June 2016 or 30 June 2015 that were past due.

Cash transactions are limited to financial institutions considered to have a suitable credit rating.

Credit risk further arises in relation to financial guarantees given to certain parties, refer to Note 16.

Exposure to credit risk is monitored on an ongoing basis. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	Consolidated	
	2016 \$000	2015 \$000
<i>Carrying amount:</i>		
Cash and cash equivalents	87,847	97,302
Trade and other receivables	1,542	1,362
Deferred consideration asset	18,509	22,708
	<hr/>	<hr/>
	107,898	121,372

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

	Gross	Impairment	Gross	Impairment
	2016 \$000	2016 \$000	2015 \$000	2015 \$000
Not past due	1,542	-	916	-
	<hr/>	<hr/>	<hr/>	<hr/>
	1,542	-	916	-

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

28. Financial risk management (continued)

(c) Currency risk

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

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

Cash receipts from the Thai operations, which comprised 100% of the Group revenues in 2015, were received in Thai Baht. The majority of the Group's 2015 payments, including Thai SRB and income tax, were also payable in THB which effectively creates a natural hedge. The Company's foreign exchange risk predominantly resides in its US\$ cash, cash equivalents and deferred consideration asset.

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

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

	THB A\$000	USD A\$000
<i>Consolidated 2016</i>		
Cash and cash equivalents	220	82,628
Trade and other receivables	-	-
Deferred consideration asset	-	20,051
Trade payables and accruals	-	-
SRB and income tax provisions	-	-
Gross balance sheet exposure	220	102,679
<i>Consolidated 2015</i>		
Cash and cash equivalents	-	92,141
Trade and other receivables	228	-
Deferred consideration asset	-	22,708
Trade payables and accruals	-	-
SRB and income tax provisions	-	-
Gross balance sheet exposure	228	114,849

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2016	2015	2016	2015
AUD to:				
1 Thai baht	0.039	0.037	0.038	0.039
1 USD	1.373	1.201	1.344	1.306

Notes to the Financial Statements

28. Financial risk management (continued)

(d) Currency risk (continued)

Sensitivity analysis

A 5% strengthening of the AUD against the THB for the 12 months to 30 June 2016 and 30 June 2015 would have decreased equity and pre-tax profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates and the exchange rate between the Thai Baht and USD, remain constant:

	Consolidated	
	Equity \$000	Profit and loss \$000
<i>30 June 2016</i>		
THB	(10)	(10)
<i>30 June 2015</i>		
THB	(21)	(21)

A 5% weakening of the AUD against the THB for the 12 months to 30 June 2016 and 30 June 2015 would have increased equity and pre-tax profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates and the exchange rate between the Thai Baht and USD, remain constant:

	Consolidated	
	Equity \$000	Profit and loss \$000
<i>30 June 2016</i>		
THB	12	12
<i>30 June 2015</i>		
THB	25	25

A 5% strengthening of the AUD against the USD for the 12 months to 30 June 2016 and 30 June 2015 would have decreased equity and pre-tax profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant:

	Consolidated	
	Equity \$000	Profit and loss \$000
<i>30 June 2016</i>		
USD	(4,896)	(4,896)
<i>30 June 2015</i>		
USD	(10,336)	(10,336)

28. Financial risk management (continued)*(d) Currency risk (continued)*

A 5% weakening of the AUD against the USD for the 12 months to 30 June 2016 and 30 June 2015 would have increased equity and pre-tax profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant:

	Consolidated	
	Equity \$000	Profit and loss \$000
<i>30 June 2016</i>		
USD	5,411	5,411
<i>30 June 2015</i>		
USD	12,633	12,633

(f) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The Group's approach to managing this risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due under a range of financial conditions. The groups significant balance of cash and cash equivalents are considered to be adequately address this risk.

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

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

	Carrying amount \$000	Contractual cash flows \$000	6 months or less \$000	6 to 12 months \$000
<i>Consolidated 2016</i>				
<i>Non-derivative financial liabilities</i>				
Trade and other payables	2,130	2,130	2,130	-
<i>Consolidated 2015</i>				
<i>Non-derivative financial liabilities</i>				
Trade and other payables	585	585	585	-

Notes to the Financial Statements

29. Fair value measurement

Fair value hierarchy

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Consolidated - 2016	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Deferred consideration available-for-sale	-	-	20,051	20,051
Total assets	-	-	20,051	20,051

Consolidated - 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Deferred consideration available-for-sale	-	-	22,708	22,708
Total assets	-	-	22,708	22,708

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

Valuation techniques for fair value measurements categorised within level 2 and level 3

Deferred consideration available-for-sale has been valued using a discounted cash flow model applied to the following:

- Production volumes - Estimate production volumes are based on the production profiles of proven and probable reserves for the fields and take into account development plans for the fields agreed by management as part of the long-term planning process, which have been independently verified;
- Crude oil price – forecast crude oil prices are based on independent data;
- Discount rate – A discount rate of 14%;
- Foreign exchange rate – An AUD/USD foreign exchange rate of 0.74409.

29. Fair value measurement (continued)

Level 3 assets and liabilities

Movements in level 3 assets and liabilities during the current and previous financial year are set out below:

Consolidated	Available- for-sale \$'000	Total \$'000
Balance at 30 June 2015	23,624	21,480
Repayments	(916)	
Effective interest	3,490	2,645
Asset revaluation	(6,925)	(4,343)
Unrealised foreign exchange gain	778	3,842
	<hr/>	<hr/>
Balance at 30 June 2016	22,051	23,624

The level 3 assets and liabilities unobservable inputs and sensitivity are as follows:

Description	Unobservable inputs	Weighted average	Sensitivity
Available-for sale	Discount rate	14%	1.00% change would increase fair value by \$907,000 / decrease fair value by \$868,000
Available-for sale	Net 2P production	34,664 MSTB	1.00% change would increase/decrease fair value by \$106,000
Available-for sale	Oil price	\$44STB - \$63STB	5.00% change would increase fair value by \$530,000 / decrease fair value by \$540,000.
Available-for sale	Foreign exchange rate	0.744	5.00% change would increase fair value by 1,059,000 /decrease fair value by \$959,000

Notes to the Financial Statements

30. Parent Information

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

	2016 \$000	Restated 2015 \$000
Statement of financial position		
Current Assets	89,932	98,939
Non-current assets	47,956	40,197
Total assets	<u>137,888</u>	<u>139,136</u>
Current liabilities	2,398	780
Non-current liabilities	202	141
Total liabilities	<u>2,600</u>	<u>921</u>
Equity		
Issued Capital	95,401	93,011
Accumulated losses	40,223	45,569
Reserves	(336)	(365)
Total equity	<u>135,288</u>	<u>138,215</u>
Statement of comprehensive income		
Total (loss) / Profit	<u>(5,334)</u>	<u>57,045</u>
Total comprehensive income	<u>(5,334)</u>	<u>57,045</u>

Parent Contingencies

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

30. Parent Information (continued)

	Parent	
	2016	2015
	\$000	\$000
Parent capital and other commitments		
<i>(a) Exploration expenditure commitments</i>		
Due to the nature of the Company's operations in exploring and evaluating areas of interest it is necessary to incur expenditure in order to retain the Company's present permit interests. Expenditure commitments on exploration permits can be reduced by selective relinquishment of exploration tenure, by the renegotiation of expenditure commitments, or by farming out portions of the Company's equity. Failure to meet Joint Operation cash requirements may result in a reduction in equity in that particular Joint Operation.		
Exploration expenditure commitments forecast but not provided for in the financial statements are as follows:		
Less than one year	1,533	400
Between one and five years	2,766	-
	4,299	400
<i>(b) Capital expenditure commitments</i>		
Data licence commitments	443	415
	443	415
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	188	181
between one and five years	399	587
	587	768

Notes to the Financial Statements

31. Basis of preparation of the financial report

(a) Statement of compliance

The financial report is a general purpose financial report prepared in accordance with Australian Accounting Standards (“AASBs”), including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (“AASB”), and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards (“IFRSs”). Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

Adoption of new and revised Accounting Standards

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2015 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

(b) Basis of measurement

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

Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Key estimate – income and capital gains taxes

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

Exploration and evaluation expenditures

The application of the Company’s accounting policy for exploration and evaluation expenditure requires judgement to determine whether it is likely that future economic benefits are likely, from future either exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself an estimation process that requires varying degrees of uncertainty depending on how the resources are classified. These estimates directly impact when the Company defers exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular, whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in profit or loss in the period when the new information becomes available.

31. Basis of preparation of the financial report (continued)

Key estimate – reserve quantities

Reserves are estimates of the amount of product that can be economically and legally extracted from the consolidated entity's properties. In order to estimate economically recoverable reserves, assumptions are required about a range of geological, technical, legal and economic factors, including quantities, production techniques, reversion rights, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates.

Estimating the quantity of reserves requires the size, shape and depth of fields to be determined by analysing geological drilling and production data. This process may require complex and difficult judgements to interpret the data. Because the economic assumptions used to estimate economically recoverable reserves change from period to period, and because additional data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the consolidated entity's financial results and financial position in a number of ways, including the following:

- Asset carrying values (note 14) may be affected due to changes in estimated future cash flows;
- Depreciation charged in the income statement (note 5) may change as such charges are determined by the units of production basis; and
- The carrying value of deferred tax assets (note 8) may change due to changes in the estimates of the likely recovery of the tax benefits.

Key judgement – functional currency

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

Classification of deferred consideration

The deferred consideration asset has been classified as an available for sale financial asset as the Company may not recover substantially all of its initial investment for the reasons other than credit deterioration. Nor has the deferred consideration asset been recognised as held-to-maturity as it does not have fixed or determinable payments.

The deferred consideration asset is measured at fair value but the interest is calculated at an effective interest rate that takes into account the cash flows expected at origination. Subsequent changes in expected cash flows are recognised in profit and loss.

Key judgements – other

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

Restatement of Comparative Information

The comparative information in these financial statements has been restated to adjust for the following to ensure compliance with Australian Accounting Standards:

- Transfer of \$4,104,000 in respect of the exchange differences on foreign operations accumulated in the translation reserve from the statement of changes in equity to income statement on disposal (under discontinued operations) of the Thai Joint Operation to ensure compliance with AASB 121: *The Effects of Changes in Foreign Exchange Rates*.
- Gross up of "Issued Capital" with a corresponding debit to "Reserve Shares" within the statement of changes in equity to reflect the nominal value of ESP shares on issue to ensure compliance with AASB 132: *Financial Instruments: Presentation* and AASB 2: *Share Based Payments*.
- Reclassification of the accumulated remeasurement loss on the deferred consideration asset of \$4,343,000 as at 1 July 2015 from the fair value reserve to retained earnings to ensure compliance with AASB 139: *Financial Instruments - Recognition and Measurement*.

Notes to the Financial Statements

31. Basis of preparation of the financial report (continued)

Restatement of Comparative Information (continued)

These have been restated for each of the affected 30 June 2015 year financial statement line items for the prior period, as follows:

	30 June 2015 Restated \$'000	30 June 2015 As previously stated \$'000
Consolidated Income Statement		
Remeasurement of deferred consideration asset	(4,343)	-
Profit from continuing operations	9,771	14,114
Profit from discontinued operations	15,196	11,092
Statement of Other Comprehensive Income		
Deferred consideration asset revaluation	-	(4,343)
Total comprehensive income	33,193	29,089
Statement of Changes in Equity		
Issued capital	93,011	90,225
Reserve shares	(2,786)	-

**increase/
(decrease) in EPS**

Earnings per share for continuing operations:

Basic, (Loss) from continuing operations attributable to members of the entity (cents per share)	(0.4) cents/share
Diluted (Loss) from continuing operations attributable to members of the entity (cents per share)	(0.5) cents/share

The corrections did not impact the income statement and other comprehensive income for the current period.

32. Significant accounting policies

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

(a) Basis of consolidation

Controlled entities

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Joint Operations

The Group's shares of the assets, liabilities, revenue and expenses of joint operations have been included in the appropriate line items of the consolidated financial statements. Details of the Group's interests are provided in Note 19.

32. Significant accounting policies (continued)

(b) Income tax and special remuneratory benefit

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

32. Significant accounting policies (continued)

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

Tax consolidation

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

(c) Property, plant and equipment

Recognition and measurement

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

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

Impairment

The carrying amount of property, plant and equipment is reviewed at each balance date to determine whether there are any objective indicators of impairment that may indicate the carrying values may not be recoverable in whole or in part. Impairment testing is carried out in accordance with Note 32(f).

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

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

Depreciation

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

Property, plant and equipment: 10% to 33%

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

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

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

32. Significant accounting policies (continued)

(d) Oil and gas assets

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

Where the directors decide that specific costs will not be recovered from future development, those costs are charged to the income statement during the financial period in which the decision is made. The carrying amount of Oil and gas assets is reviewed at each balance date to determine whether there are any objective indicators of impairment that may indicate the carrying values may not be recoverable in whole or in part. Impairment testing is carried out in accordance with Note 32(f).

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

(e) Exploration and evaluation

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that the Group's rights of tenure to the area are current and that the costs are expected to be recouped through the successful development of the area, or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Each area of interest is assessed for impairment to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Impairment testing is carried out in accordance with Note 32(f).

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation costs attributable to that area of interest are first tested for impairment and then reclassified from exploration and evaluation to oil and gas assets.

The Company does not record any expenditure made by the farmee on its account. It also does not recognise any gain or loss on its exploration and evaluation farm-out arrangements but redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

(f) Recoverable amount of assets and impairment testing

Assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment by estimating their recoverable amount.

Assets that are subject to depreciation are reviewed annually to determine whether there is any indication of impairment. Where such an indicator exists, a formal assessment of recoverable amount is then made. Where this is less than carrying amount, the asset is written down to its recoverable amount.

32. Significant accounting policies (continued)

Recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from the asset or cash generating unit. In estimating value in use, a pre-tax discount rate is used which reflects the current market assessments of the time value of money and the risks specific to the asset. Any resulting impairment loss is recognised immediately in the income statement.

For the purposes of impairment testing assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

(g) Provisions

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

(h) Financial instruments

Recognition and initial measurement

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

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

Classification and subsequent measurement

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

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

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

32. Significant accounting policies (continued)

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

(i) *Loans and receivables*

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

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

(ii) *Available-for-sale financial assets*

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

When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss. Available-for-sale financial assets are included in non-current assets where they are expected to be sold within 12 months after the end of the reporting period. All other financial assets are classified as current assets.

(iii) *Financial liabilities*

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

(i) Segment reporting

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

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

(j) Foreign currency

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the exchange rate at balance date. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

32. Significant accounting policies (continued)

Foreign operations

The financial performance and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at exchange rates prevailing at balance date
- income and expenses are translated at average exchange rates for the period

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve as a separate component of equity. These differences are recognised in the income statement upon disposal of the foreign operation.

(k) Discontinued operations

A discontinued operation is a component of the consolidated entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of profit or loss and other comprehensive income.

(l) Leases

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

Operating leases

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

(m) Share capital

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

(n) Inventories

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

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

(o) Employee benefits

Wages and salaries, annual leave

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

Notes to the Financial Statements

32. Significant accounting policies (continued)

Share based payments

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

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

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

(p) Earnings per share

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

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

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

(q) Cash and cash equivalents

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

(r) Revenue

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

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

(s) Goods and services tax

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

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

32. Significant accounting policies (continued)

(t) Finance income and expenses

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

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

(u) Royalties

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

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

(v) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

32. Significant accounting policies (continued)

(w) New Accounting Standards for Application in Future Periods

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2016. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below:

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9	Financial Instruments	<p>AASB 9 (December 2014) is a new standard which replaces AASB 139. This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.</p> <p>AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early adoption. The own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments.</p> <p>Classification and measurement</p> <p>AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139. There are also some changes made in relation to financial liabilities.</p> <p>The main changes are described below.</p> <p>Financial assets</p> <p>a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.</p> <p>b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p>	1 January 2018	1 July 2018

32. Significant accounting policies (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9 (continued)		<p>Financial liabilities</p> <p>Changes introduced by AASB 9 in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss (FVPL) using the fair value option.</p> <p>Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows:</p> <ul style="list-style-type: none"> • The change attributable to changes in credit risk are presented in other comprehensive income (OCI) • The remaining change is presented in profit or loss <p>AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains or losses attributable to changes in the entity's own credit risk would be recognised in OCI. These amounts recognised in OCI are not recycled to profit or loss if the liability is ever repurchased at a discount.</p> <p>Impairment</p> <p>The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more-timely basis.</p> <p>Hedge accounting</p> <p>Amendments to AASB 9 (December 2009 & 2010 editions and AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.</p> <p>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E.</p> <p>AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014.</p> <p>AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after 1 January 2015.</p>		

Notes to the Financial Statements

32. Significant accounting policies (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2014-3	Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11]	<p>AASB 2014-3 amends AASB 11 Joint Arrangements to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require:</p> <p>(a) the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 Business Combinations, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11</p> <p>(b) the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations</p> <p>This Standard also makes an editorial correction to AASB 11.</p>	1 January 2016	1 July 2016
AASB 15	Revenue from Contracts with Customers	<p>AASB 15 <i>Revenue from Contracts with Customers</i> replaces the existing revenue recognition standards AASB 111 <i>Construction Contracts</i>, AASB 118 <i>Revenue</i> and related Interpretations (Interpretation 13 <i>Customer Loyalty Programmes</i>, Interpretation 15 <i>Agreements for the Construction of Real Estate</i>, Interpretation 18 <i>Transfers of Assets from Customers</i>, Interpretation 131 <i>Revenue—Barter Transactions Involving Advertising Services and Interpretation 1042 Subscriber Acquisition Costs in the Telecommunications Industry</i>). AASB 15 incorporates the requirements of IFRS 15 <i>Revenue from Contracts with Customers</i> issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB).</p> <p>AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:</p> <p>(a) Step 1: Identify the contract(s) with a customer</p> <p>(b) Step 2: Identify the performance obligations in the contract</p>	1 January 2018	1 July 2018

32. Significant accounting policies (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 15 (continued)		<p>(c) Step 3: Determine the transaction price</p> <p>(d) Step 4: Allocate the transaction price to the performance obligations in the contract</p> <p>(e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation</p> <p>AASB 2015-8 amended the AASB 15 effective date so it is now effective for annual reporting periods commencing on or after 1 January 2018. Early application is permitted.</p> <p>AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.</p> <p><i>AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15</i> amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a license and provides further practical expedients on transition to AASB 15.</p>		
AASB 1057	Application of Australian Accounting Standards	<p>This Standard lists the application paragraphs for each other Standard (and Interpretation), grouped where they are the same. Accordingly, paragraphs 5 and 22 respectively specify the application paragraphs for Standards and Interpretations in general. Differing application paragraphs are set out for individual Standards and Interpretations or grouped where possible.</p> <p>The application paragraphs do not affect requirements in other Standards that specify that certain paragraphs apply only to certain types of entities.</p>	1 January 2016	1 July 2016

Notes to the Financial Statements

32. Significant accounting policies (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle	<p>The subjects of the principal amendments to the Standards are set out below:</p> <p><i>AASB 5 Non-current Assets Held for Sale and Discontinued Operations:</i></p> <ul style="list-style-type: none"> Changes in methods of disposal – where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or visa versa), an entity shall not follow the guidance in paragraphs 27–29 to account for this change. <p><i>AASB 7 Financial Instruments: Disclosures:</i></p> <ul style="list-style-type: none"> Servicing contracts - clarifies how an entity should apply the guidance in paragraph 42C of AASB 7 to a servicing contract to decide whether a servicing contract is ‘continuing involvement’ for the purposes of applying the disclosure requirements in paragraphs 42E–42H of AASB 7. Applicability of the amendments to AASB 7 to condensed interim financial statements - clarify that the additional disclosure required by the amendments to AASB 7 <i>Disclosure–Offsetting Financial Assets and Financial Liabilities</i> is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with AASB 134 <i>Interim Financial Reporting</i> when its inclusion would be required by the requirements of AASB 134. <p><i>AASB 119 Employee Benefits:</i></p> <ul style="list-style-type: none"> Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level. <p><i>AASB 134 Interim Financial Reporting:</i></p> <ul style="list-style-type: none"> Disclosure of information ‘elsewhere in the interim financial report’ - amends AASB 134 to clarify the meaning of disclosure of information ‘elsewhere in the interim financial report’ and to require the inclusion of a cross-reference from the interim financial statements to the location of this information. 	1 January 2016	1 July 2016

32. Significant accounting policies (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB’s Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.	1 January 2016	1 July 2016
AASB 16	Leases	<p>The key features of AASB 16 are as follows:</p> <p>Lessee accounting</p> <ul style="list-style-type: none"> • Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. • A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. • Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. • AASB 16 contains disclosure requirements for lessees. <p>Lessor accounting</p> <ul style="list-style-type: none"> • AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. • AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor’s risk exposure, particularly to residual value risk. 	1 January 2019	1 July 2019

Notes to the Financial Statements

32. Significant accounting policies (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 16 (continued)		<p>AASB 16 supersedes:</p> <p>(a) AASB 117 Leases</p> <p>(b) Interpretation 4 Determining whether an Arrangement contains a Lease</p> <p>(c) SIC-15 Operating Leases—Incentives</p> <p>(d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease</p> <p>The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16.</p>		
2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]	This Standard amends AASB 112 <i>Income Taxes</i> (July 2004) and AASB 112 <i>Income Taxes</i> (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017	1 July 2017
IFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions [Amendments to IFRS 2]	<p>This standard amends to IFRS 2 <i>Share-based Payment</i>, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:</p> <ul style="list-style-type: none"> • The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments • Share-based payment transactions with a net settlement feature for withholding tax obligations • A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled 	1 January 2018	1 July 2018

The Company has decided not to early adopt any of the new and amended pronouncements. The Company is in the process of evaluating the impact of the above standards.

Directors' Declaration

- (1) In the opinion of the directors of Carnarvon Petroleum Limited:
- (a) the financial statements and notes of the Group set out on pages 33 to 88 are in accordance with the Corporations Act 2001, including:
 - (i) Giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) Complying with Accounting Standards and the Corporations Regulations 2001; and
 - (b) The financial statements comply with International Financial Reporting Standards as set out in Note 31; and
 - (c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2016.

Signed in accordance with a resolution of the directors.



PJ Leonhardt
Director

Perth, 26 August 2016

Independent Auditor Report



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

Report on the financial report

We have audited the accompanying financial report of Carnarvon Petroleum Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 31, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

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

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. 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. We confirm that the Auditor's Independence Declaration would be in the same terms if given to the directors as at the time of this auditor's report.



Opinion

In our opinion:

- a. the financial report of Carnarvon Petroleum Limited is in accordance with the *Corporations Act 2001* , including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001* ; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 31 .

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001* . Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Carnarvon Petroleum Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001* .

A handwritten signature in black ink, appearing to read 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink, appearing to be 'R J Curtin'.

R J Curtin
Partner
Perth
26 August 2016

Additional Shareholder Information

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

(a) Shareholdings as at 24 August 2016

Substantial shareholders

There are no substantial shareholder notices lodged with the Company.

Voting Rights

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

Twenty Largest Shareholders

Name of Shareholder	Number of Shares	% held
J P Morgan Nominees Australia Limited	38,700,411	3.79
Citicorp Nominees Pty Limited	30,601,134	3.00
HSBC Custody Nominees (Australia) Limited	23,554,428	2.31
Log Creek Pty Ltd	12,881,702	1.26
Jacobson Geophysical Services Pty Ltd	11,674,068	1.14
Woss Group Film Productions Pty Ltd	9,525,000	0.93
Pendomer Investments Pty Ltd	9,500,000	0.93
Elgar Park Pty Ltd	8,417,578	0.83
Arne Investments Pty Ltd	8,353,950	0.82
47 Eton Pty Ltd	8,000,000	0.76
Mr Philip Paul Huizenga	7,767,421	0.76
Mr Peter James Leonhardt	7,700,000	0.75
ABN Amro Clearing Sydney Nominees Pty Ltd	7,660,237	0.75
Mr Craig Carter	7,000,000	0.69
Mr Edward Patrick Jacobson	6,315,982	0.62
Mr Edward Patrick Jacobson	6,000,000	0.59
Geolyn Pty Ltd	6,000,000	0.59
Mr Adrian Caldwell Cook	5,609,917	0.55
Scarborough Equities Pty Ltd	5,200,000	0.51
Culloden Investments Pty Ltd	5,000,000	0.49
Arne Investment Pty Ltd	4,790,288	0.47
	230,252,116	22.58

Distribution of equity security holders

Size of Holding	Number of shareholders	Number of fully paid shares
1 to 1,000	555	225,839
1,001 to 5,000	1,829	5,856,554
5,001 to 10,000	1,611	13,669,175
10,001 to 100,000	4,682	190,797,803
100,001 and over	1,448	809,392,346
	10,105	1,019,941,717

Additional Shareholder Information

(b) Option holdings as at 26 August 2016

	Number on issue	Number of holders
Options over ordinary shares issued	1,000,000	2

(c) On-market buyback

There is no current on-market buyback.

(d) Schedule of permits

Permit	Basin/Country	Joint Venture Partners	Equity %	Operator
WA-435-P, WA-437-P	Roebuck / Australia	Carnarvon	20%	Quadrant Energy
		Quadrant Energy	80%	
WA-436-P, WA-438-P	Roebuck / Australia	Carnarvon	30%	Quadrant Energy
		Quadrant Energy	70%	
WA-155-P(1)	Barrow / Australia	Carnarvon	28.5%	Quadrant Energy
		Quadrant Energy	71.5%	
EP-490, EP-491, EP-475, TP/27	Barrow / Australia	Carnarvon	100%	Carnarvon
WA-521-P	Roebuck / Australia	Carnarvon	100%	Carnarvon
WA-523-P	Bonaparte / Australia	Carnarvon	100%	Carnarvon
EP321	Perth / Australia	Carnarvon	2.5% of 38.25%	Transerv Energy
EP407	Perth / Australia	Carnarvon	2.5% of 42.5%	Transerv Energy



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