CARNARVON
PETROLEUM LTD

2017 Annual Report

Carnarvon Petroleum Limited
ABN 60 002 688 851

Contents

Corporate Directory

Directors

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

Company Secretary

T Naude

Auditors

Ernst & Young

Bankers

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

Registered Office

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Corporate Governance statement:	carnarvon.com.au/about-us/corporate-governance/

Share Registry

Link Market Services Limited
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250 St Georges Terrace
Perth, WA 6000 Australia

Investor Enquiries:	1300 554 474 (within Australia)
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Stock Exchange Listing

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

ASX Code: CVN - ordinary shares

CARNARVON
PETROLEUM LTD

Chairman’s Review

Since 2012 Carnarvon Petroleum Limited (“Carnarvon”) has established itself as a major explorer on the North West Shelf (“NWS”) of Australia. The timely divestment of Carnarvon’s Asian assets and the investment in and building of a world class NWS technical database during a downturn in the industry has enabled the Company to take advantage of several very exciting opportunities. The Company now has 2C contingent resources of 20.3 million barrels of oil equivalent and mean prospective resources of 2.5 billion barrels of oil equivalent. This strong and growing resource base puts Carnarvon in a strong position to capitalise as industry and global economic conditions improve.

Clearly the 2017 financial year has been a difficult one in the industry and frustrating for our shareholders. Nevertheless I believe we have made strong underlying progress with a focused and well-defined strategy. Carnarvon along with its Joint Venture partner Quadrant Energy drilled the Roc-2 well and successfully flowed gas and condensate to the surface. The flow rates exceeded the Joint Venture’s expectations, which confirmed the quality of the reservoir within the basin and proved that the resource can be produced at commercial rates. The results are significant for the Joint Venture’s other discoveries in the greater Phoenix/Roc area and give us tremendous optimism for the future as the Company prepares to drill the Phoenix South-3 well in early 2018 and advances plans to drill the Dorado prospect.

Following the Roc-2 well, the Company drilled the Phoenix South-2 well, which discovered gas and condensate at the top of the Caley interval. The greater than expected pressures encountered prevented the Joint Venture from drilling further and completing its reservoir evaluation. However, the results enabled Carnarvon to increase its volume estimates for the Phoenix South Caley interval. Preparations to re-drill the reservoir through the Phoenix South-3 well are well advanced. At the same time, the Company is working with its insurance underwriters to cover a significant portion of the Phoenix South-3 well cost based on well control initiatives required during the drilling of the Phoenix South-2 well.

During the year Carnarvon made important progress in its technical work on the Labyrinth Project that lies adjacent to the Phoenix permits. A number of very large prospects have been identified. The Company will continue to advance this project towards being ready to drill and test the strongest prospects.

Toward the end of the 2017 financial year, Carnarvon completed its technical work on the Buffalo project in the Timor Sea. Through the reprocessing of seismic utilising state of the art Full Waveform Inversion technology, Carnarvon's technical work has provided significant evidence of the presence of economically recoverable oil remaining in the previously producing Buffalo oil field. Carnarvon is currently progressing its analysis to unlock the opportunity to redevelop the oil field and the Company has engaged an independent expert who has validated the resource estimates.

The Board of Carnarvon is conscious of the fact that the Company has achieved some important milestones in recent years, however these achievements are not currently reflected in the share price. Accordingly, the Board has maintained a conservative approach sensitive to the market environment in its remuneration practices this year. Most notably fixed remuneration has been limited to cost of living increases, cash bonuses have not been awarded and the linkage between Employee Share Plan ("ESP") shares and the focus on improving the Company's share price has been emphasized.

After 12 years with Carnarvon as both Managing Director and non-executive director, Mr. Ted Jacobson announced his retirement from the Company. I would like to thank him for his immense contribution to Carnarvon during this time and acknowledge Ted's well-earned recognition for his impact in the industry during an outstanding lifetime career.

The Carnarvon team led so ably by Adrian Cook bring their skills to bear on our objectives with great energy and enthusiasm and I thank them for their continuing strong performance. Their efforts have guided the Company through immensely challenging times in the industry and have set the foundation for some incredibly exciting years to come. In closing, I believe my fellow directors bring an excellent balance of experience and skills to our deliberations and I thank them for their counsel and support.

Peter Leonhardt
Chairman

> " Carnarvon is currently progressing its analysis to unlock the opportunity to redevelop the oil field and the Company has engaged an independent expert who has validated the resource estimates.

Operating and Financial Review

OVERVIEW OF OPERATIONS

The 2017 financial year continued where the 2016 year ended with the successful well testing of the Roc-2 well and the drilling of the Phoenix South-2 gas and condensate discovery. Carnarvon also expanded its exploration footprint through adding the WA-524-P (Maracas project) exploration block to the portfolio. Carnarvon's technical work was ongoing and resulted in the progression of the WA-523-P (Buffalo project) and WA-521-P (Labyrinth project) permits, the latter having significant volumes of oil reported for the high graded prospects. Finally, Carnarvon is preparing for drilling in the 2018 financial year, most particularly with the Phoenix South-3 well expected to commence between 1 February 2018 and 1 April 2018.

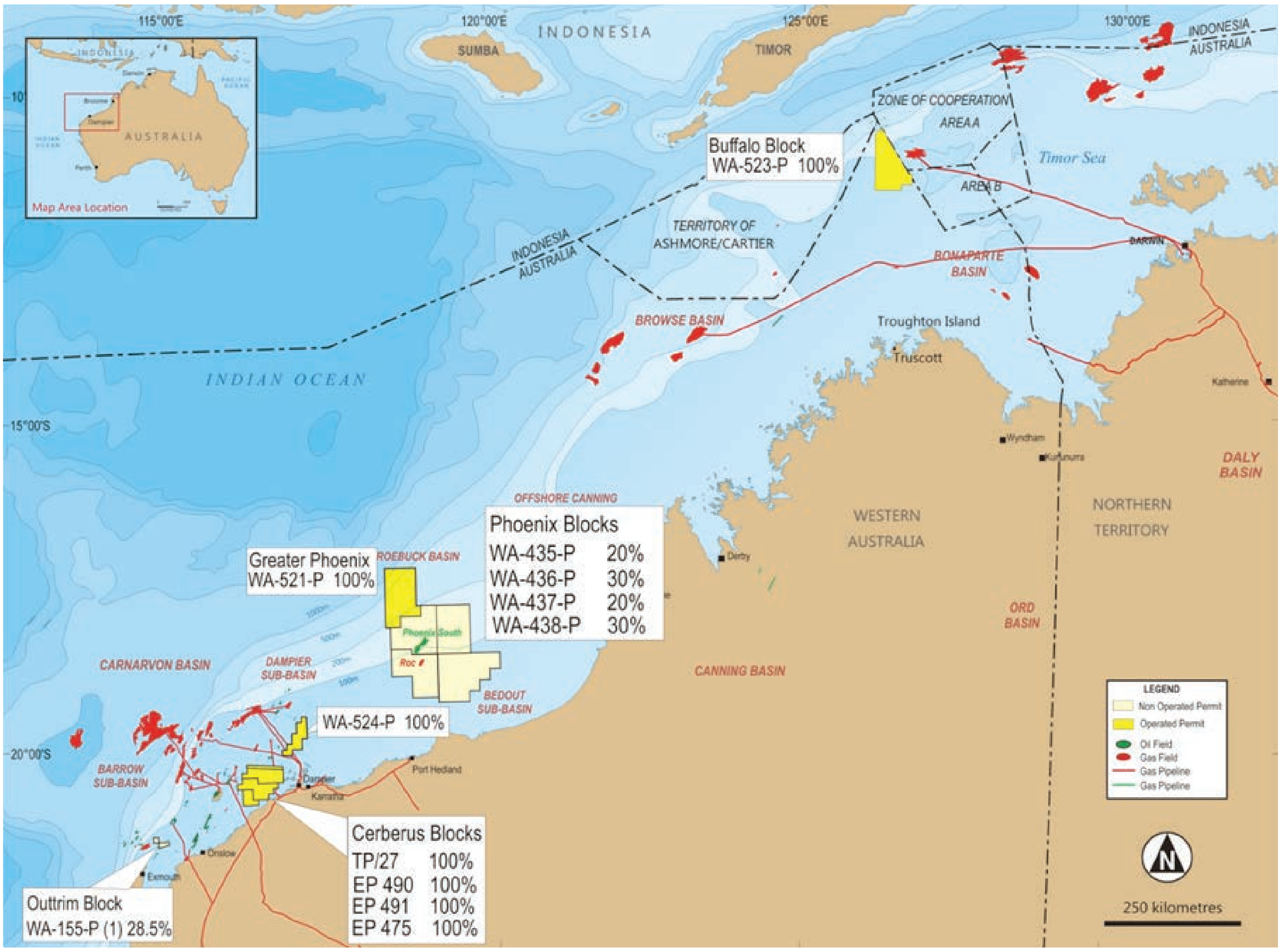


Figure 1: Carnarvon Interests as at 30 June 2017 in Australia

Phoenix Project Background

In 2007, Carnarvon recognised that the Phoenix-1 and 2 gas discoveries were significant, however they were in a under-explored area and were lacking in extensive seismic data. Carnarvon secured the acreage in 2009 with four exploration permits (WA-435-P, WA-436-P, WA-437-P and WA-438-P) covering a total area of some 22,000 km². 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 150 km to the south of the permits and Broome lies 250 km's to the northeast.

Carnarvon, along with its Joint Venture partner Quadrant Energy, acquired approximately 1,100 km² of modern 3D seismic data and 407 km of additional 2D seismic data to better understand the sub-surface. Interpretation of this data, together with extensive geological studies, confirmed two significant prospects in Roc and Phoenix South.

The Phoenix South-1 well was drilled in 2014 and discovered light oil while the Roc-1 well was drilled in 2015 and discovered a condensate rich gas. On the basis of these discoveries the Joint Venture significantly expanded the seismic data coverage with the acquisition of an additional 10,000 km² of high quality 3D data and 10,000 km of new 2D data. A number of leads and prospects have emerged after interpretation of this new technical work, as outlined below.

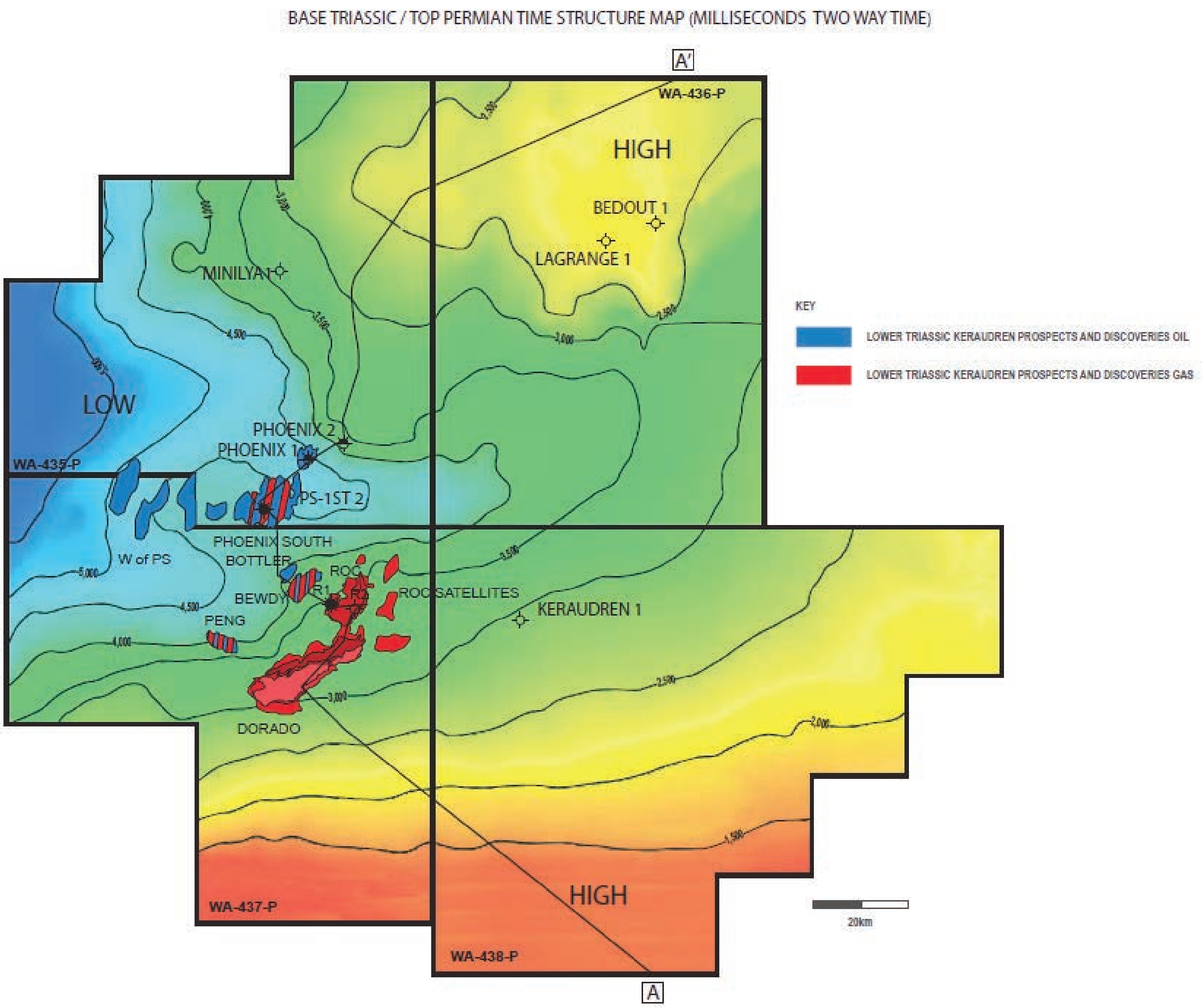


Figure 2: Phoenix Area Discoveries, Prospects and Leads map

Operating and Financial Review

Phoenix South Oil, Gas and Condensate (WA-435-P) (Carnarvon 20%, Quadrant Energy is the Operator)

Oil was discovered in the Barret interval of the Phoenix South structure with the drilling of Phoenix South-1 while gas and condensate were discovered within the Caley interval with the drilling of Phoenix South-2.

The Caley interval was not fully evaluated at Phoenix South-2 as drilling stopped when high pressures where encountered, although the nature of the hydrocarbons encountered and the pressure observed resulted in an upgrade to the resource estimates as per the table on page 14. The current mean gross estimate of Prospective Resources was revised to 489 bscf of recoverable gas and 57 million barrels of associated condensate.

The drilling observations also indicate that the Caley sands encountered are of a permeable nature and indicate good reservoir.

The successful control of the increased pressure encountered in the Phoenix South-2 well led Carnarvon to submit a cost recovery claim under its insurance policy. The claim is currently in the final stages of assessment by the insurance underwriters. Proceeds from the claims are expected to cover a substantial amount of the cost of drilling the Phoenix South-3 well allowing for a full evaluation of the Caley interval.

The Joint Venture has contracted the GSF Development Driller-1, a sixth-generation semi-submersible drilling rig from Transocean Limited to drill the Phoenix South-3 well and drilling is expected to commence between 1 February 2018 and 1 April 2018.

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

Gas and condensate were discovered in the Caley interval of the Roc structure with the drilling of the Roc-1 well and confirmed with the Roc-2 well. In addition, in October 2016, a successful flow test was completed in the Roc-2 well. The flow test achieved a peak flow rate of 55 million scf/day and 3,000 barrels of condensate per day, which is equal to approximately 11,500 barrels of oil equivalent per day. These rates were achieved through an approximate 1 ½” choke and were equipment constrained flow rates; meaning the well flowed at the maximum rate possible with the equipment being used.

The flow test followed the discovery of a high-quality reservoir within the Caley interval of the Roc-2 well, which is saturated with gas and condensate. Porosities of up to 15% were observed with an average of around 9%, which is an excellent result for a reservoir at this depth.

Figure 3: Image of the Ocean Monarch flow testing at the Roc-2 well

These results exceeded the pre-drill expectations by quite some margin and resulted in the reassessment of the quality of the reservoir at different depths in the basin. These are positive implications on the capability of hydrocarbons to flow from quality reservoirs in the basin including not only the Roc gas and condensate discoveries but also for the Phoenix South-2 discovery and the chain of prospects in the greater exploration area.

The results from the Roc-2 well enabled Carnarvon to increase the resources assigned to the Roc structure with gross 2C contingent resources now calculated to be 332 Bscf of gas and 20 million barrels of condensate as per the tables on page 14.

With discovered 2C resources around minimum economic levels, and an ongoing exploration program to assess additional resources to aid commercial development considerations, the Joint Venture has commenced studies to analyse the options to commercialise the gas and condensate at Roc.

Exploration – Greater Phoenix Area (WA-435-P, WA-436-P, WA-437-P and WA-438-P) (Carnarvon 20%, Quadrant Energy is the Operator)

The success at Phoenix South and Roc has established the existence of an excellent petroleum system in the region and has also confirmed that the Barret and Caley formations can produce at commercial rates.

The Joint Venture has been focussing on the follow up potential and a number of prospects and leads have already been identified with the most exciting of these being the Dorado prospect.

The Dorado prospect is positioned South of the Roc-1 and Roc-2 wells. Dorado contains a significant structure in the Caley interval, which contained gas and condensate in the Roc-1, Roc-2 and Phoenix South-2 wells. In addition, Dorado contains deeper targets in the Baxter Sandstone and Milne Sandstone, which could potentially unlock a new structural play type for the basin. The Joint Venture is currently considering drilling the Dorado-1 well in 2018.

The prospects and leads surrounding the Roc and Phoenix South areas are listed in the Prospective Resource table on page 15. Further leads have been identified across the rest of the acreage and these are currently under technical review.

Labyrinth Project – WA-521-P (Carnarvon 100% and operator)

Carnarvon acquired the exploration permit in March 2016 by committing to undertake a work program that included the reprocessing of existing 2D seismic data and geological / geophysical studies.

The permit is located in the Roebuck Basin in the North West Shelf of Western Australia and covers an area of approximately 5,000 km^2. The permit is contiguous to the WA-435-P permit which contains the recently discovered Phoenix South oil, gas and condensate fields.

The interpretation of newly reprocessed 2D seismic on the permit, as part of the WA-521-P first year work program, has revealed a suite of significant prospects and leads, in the middle and early Jurassic deltaic reservoirs. The largest prospect identified is Labyrinth, with an aerial extent of 90km^2 at the Lower Depuch Formation level.

Operating and Financial Review

The Labyrinth Prospect is located in 200 metres water depth, with the target reservoir, the mid-Jurassic Lower Depuch sandstone, occurring at a relatively shallow depth of burial, approximately 2,700 metres below sea level. The Lower Depuch reservoir is typically of excellent quality, with porosities averaging around 30% and consisting of hundreds of metres of thick deltaic sandstones. At the Labyrinth location, these sandstones are overlain with approximately 200m-300m of seismically mapped sealing facies, indicating an effective seal.

A further seven prospects and leads have been high-graded and are listed in the prospective resources table on page 15, with at least a dozen additional structures identified.

Geological similarities with the highly prospective southern Browse Basin are clearly apparent from the early technical work and provide a very exciting analogue to the prospectivity of the WA-521-P permit. The Browse Basin contains extensive petroleum resources, with discovered ultimate recovery of hydrocarbons totalling over 1 billion barrels of oil and condensate, 34 Tcf of gas and 350 million barrels of LPG within the Icthys, Poseidon, Brecknock/Calliance/Torosa, Prelude, Argus, Cornea, Crown, Crux and Gwydion fields[1].

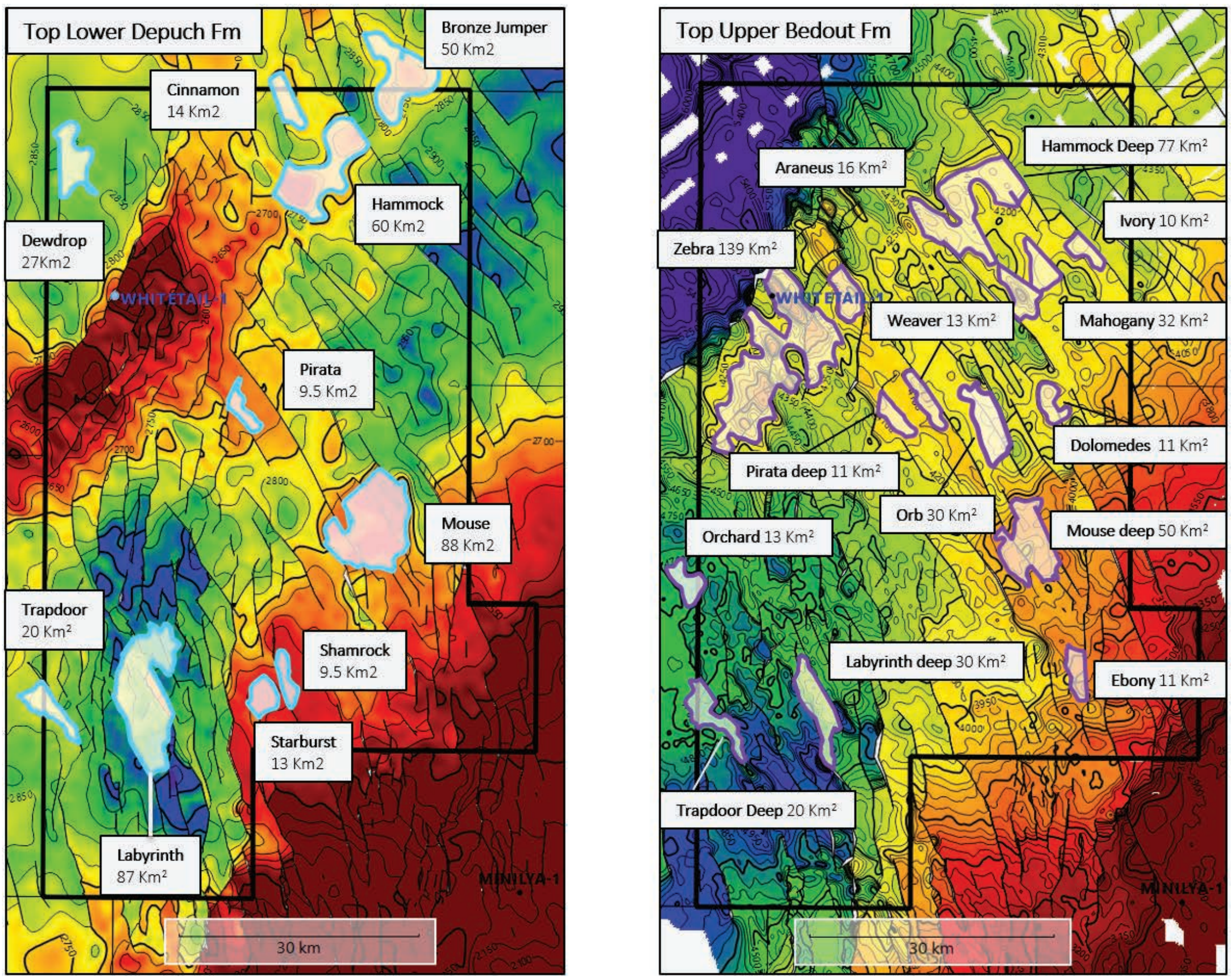


Figure 4: Prospect and lead inventory for WA-521-P.

[1] *Le Poidevin, S. R., Kuske, T. J., Edwards, D. S. and Temple, P. R. 2015. Australian Petroleum Accumulations Report 7 Browse Basin: Western Australia and Territory of Ashmore and Cartier Islands adjacent area, 2nd edition. Record 2015/10. Geoscience Australia, Canberra.*

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

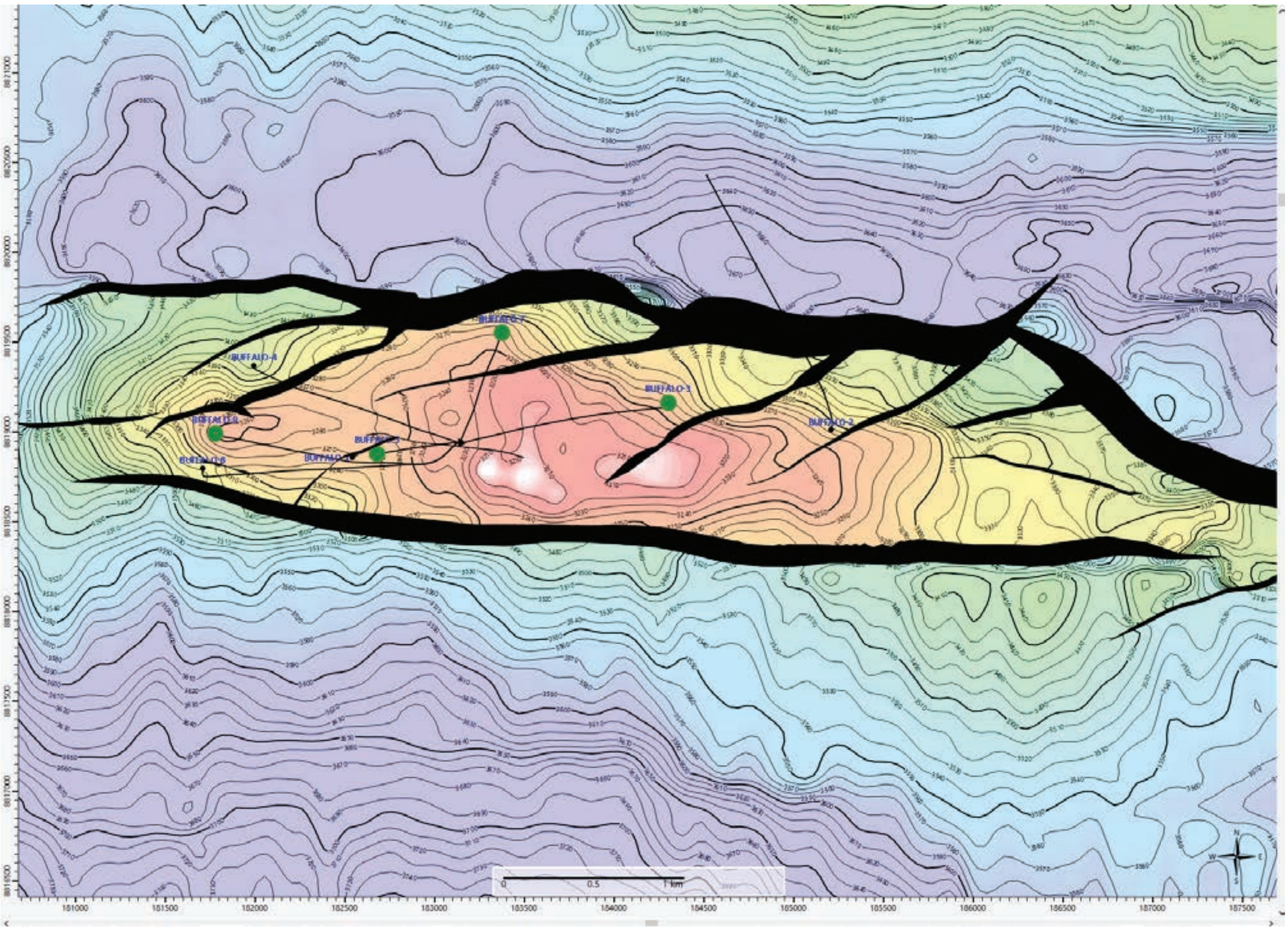


Figure 5: Depth structure map to the top of the reservoir in the Buffalo field

Carnarvon acquired the WA-523-P exploration permit in May 2016 by committing to undertake a work program that included reprocessing the existing 3D seismic data.

The permit is located in the Bonaparte Basin in the north of the North West Shelf of Western Australia.

The WA-523-P permit is in a proven petroleum system with the permit containing the Buffalo oil field that was producing around 4,000 barrels of oil per day when it was shut in. The permit also contains two proven but undeveloped oil pools at Bluff-1 and Buller-1. There are also significant oil fields within adjoining permits including the 200 million-barrel Laminaria-Corallina field.

Previous drilling in the area shows that there were significant challenges targeting oil filled structures because of seismic velocity control issues. Carnarvon has been able to correct these seismic velocity control issues with modern Full Wave Inversion ("FWI") processing technologies not previously available.

Following FWI reprocessing, the data quality has been considerably improved allowing clearer analysis of key intervals in and around the Buffalo oil field. As a result, Carnarvon's new seismic interpretation of the field has identified a potentially significant undrilled and unproduced area up dip of the original Buffalo development.

Operating and Financial Review

Maracas Project – WA-524-P
(Carnarvon 100% and operator)

Carnarvon was awarded the WA-524-P permit in September 2016.

WA-524-P is situated on the flanks of the Dampier Sub-Basin, an important part of the highly prospective Greater Carnarvon Basin, on Western Australia's North West Shelf. This large 1,210km² permit is located on the Enderby Terrace, which contains a number of untested yet attractive play types in a proven basin which includes the Stag, Wandoo and Legendre oil fields, plus the Reindeer gas field.

Carnarvon was attracted to the Permo-Triassic stratigraphy within the permit. The success of drilling the Early Triassic play types in the Roebuck Basin is well documented, and Carnarvon has identified, through its regional technical work, the potential for a similar pre-Jurassic play on the flanks of the Dampier Barrow Sub-Basin.

Carnarvon has identified three potential leads within the block and aims to de-risk the elements of the play, with a number of geoscience work flows. This will include a regional source rock study and 3D seismic reprocessing with modern Full Wave Form Inversion (FWI) aimed at greatly improving the quality of the 3D seismic interpretation, which also act as a precursor to rock physics studies aimed at improving our confidence around the reservoir properties. These work flows allow Carnarvon to add significant value to the asset by undertaking a forward work program that has a modest financial obligation.

Carnarvon's technical team will also further investigate the potential of a secondary play system in the shallower Cretaceous stratigraphy, which has seen great success in the nearby Stag and Wandoo oil accumulations.
As at the financial year end, Carnarvon was continuing the reprocessing of the existing 3D seismic data over the permit. The reprocessing includes the application of FWI technology that has demonstrated clear improvements in both the Phoenix and Buffalo projects. The reprocessed data is expected to assist with the mapping of existing leads and identifying new prospects. It is also expected to enable Carnarvon to study the potential for hydrocarbon bearing sands in the permit.

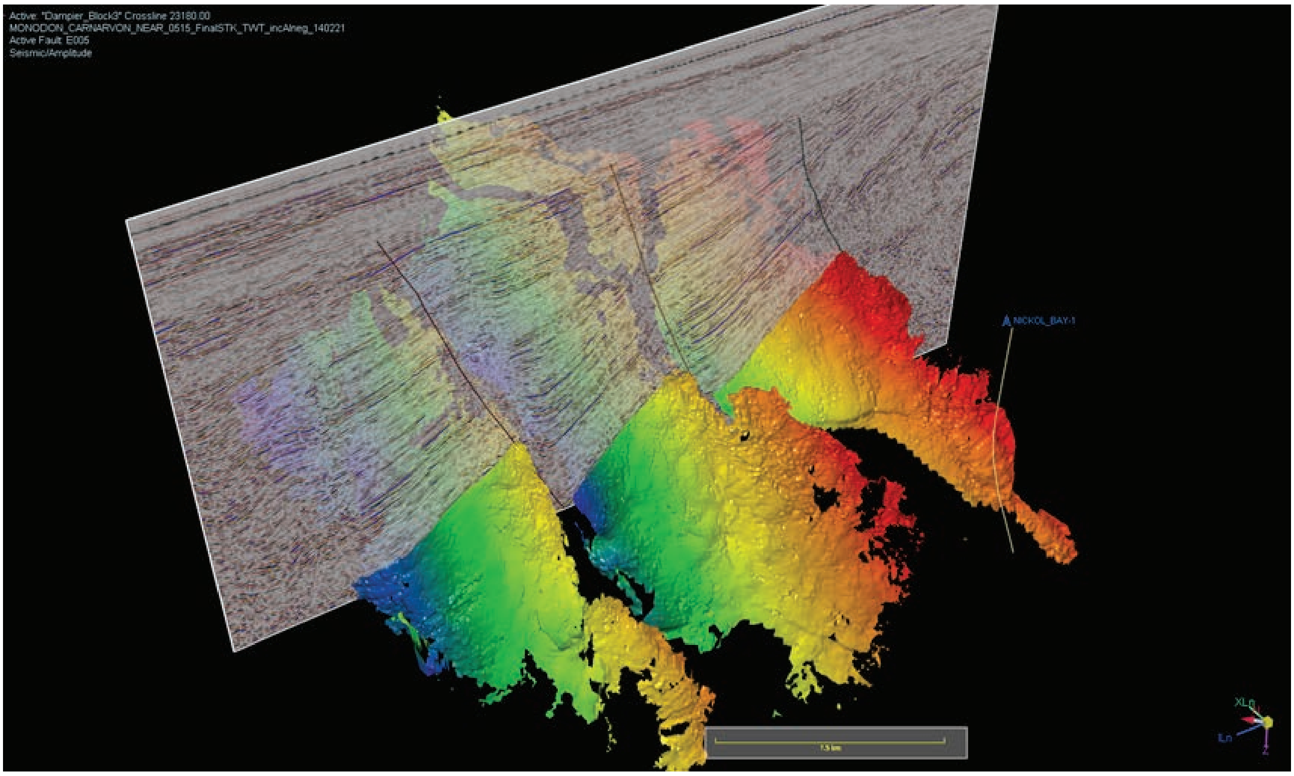


Figure 6: 3D interpretation of the top reservoir highlighting the large throw of the fault blacks

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

Carnarvon entered the WA-155-P(1) Outtrim Project in January 2016. The objective of this project is to discover and aggregate sufficient oil resources to underpin a field development. The Outtrim Project already contained the Outtrim oil discovery and was adjacent to the Blencathra oil discovery.

Central to this strategy was the drilling of the Outtrim East-1 well which, in addition to testing the extent of oil discovered in the Outtrim-1 reservoir, was planned to investigate the potential for new oil charged sands to the north and east of the original 1984 well. The well was completed in July 2016.

The Outtrim East-1 well was announced as a discovery at the beginning of this financial year (see ASX Announcement 11 July 2016) and successfully acquired 91 metres of wellbore core wholly contained within the reservoir section.

Core analysis has shown sands to be more laminated than originally interpreted which has complicating the technical evaluation of this well.

While Carnarvon is progressing with technical work on the Outtrim East-1 well, further regional work is ongoing and is particularly focused on structures in the Triassic Mungaroo that comprises the extension of the Gorgon and Rankin trend. In particular, work has been focussed on the Belgravia project, which is similar in size and geology to the nearby Woodside operated Swell Triassic prospect. The Belgravia prospect contains an estimated recoverable 440 billion cubic feet of gas (Bcf) and 18 million barrels (Mmbbls) of condensate (gross Pmean) as

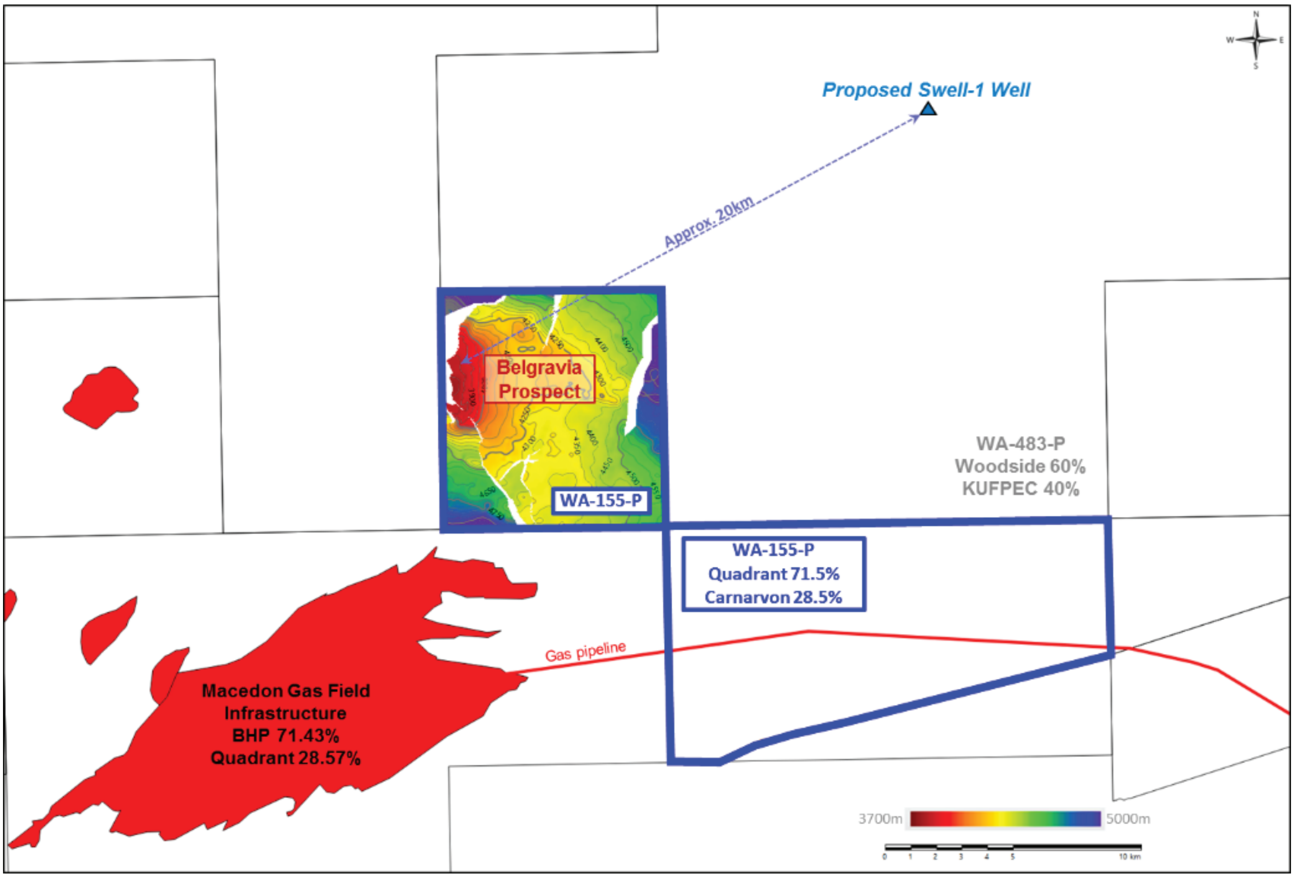


Figure 7 shows:
(1) The WA-155-P(1) permit boundary outline in blue;
(2) Belgravia prospect : Top Triassic depth map (red depicting the structural high to the fault bound trap);
(3) The approximate distance between the Belgravia prospect and Swell-1 well location; and
(4) The distance between the Belgravia prospect and the Macedon Gas field and its associated infrastructure.

listed in the Prospective Resources table on page 15. The Triassic Belgravia prospect lies within the north westerly graticular block of the WA-155-P(1) permit, adjacent to the proposed location of the Swell-1 exploration well (Figure 6). A discovery at Swell-1 would be particularly relevant to the Belgravia prospect, given its geological similarity, its immediate proximity, and the fact that the Belgravia structure lies directly updip of the Swell Triassic prospect.

Belgravia is an upper Triassic tilted fault block that is covered by 3D seismic data. The Belgravia structure has a $45km^2$ closure in water depths of less than 180 metres. The reservoir is expected to be Upper Triassic in age, as part of the greater Upper Triassic play system within the Northern Carnarvon Basin.

The Upper Triassic play system is the most successful petroleum play within the North West Shelf creating a heartland of LNG and gas condensate discoveries. Upper Triassic reservoirs have underpinned fields such as Gorgon, Rankin and Wheatstone. The petroleum trapped within this play tends to be simple fault block structures.

Reservoir quality is excellent and dependant on facies and depth of burial. Wells at the Zola gas discovery and Gorgon gas field (North East of the area of interest) have proven that Upper Triassic stratigraphy can preserve good reservoir quality and flow hydrocarbons from depths over 4,000 metres.

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

Carnarvon recently received approval for a one-year suspension and extension of the permit work program, particularly in relation to deferring commitments to drill two exploration wells. This allows Carnarvon sufficient time to prepare for a contingent well in 2018 and to secure a partner to help fund the project.

Additionally, Carnarvon has identified the existence of a lower Triassic play in the Kes Prospect. The lower Triassic plays across the North-West Shelf have been significantly de-risked following Carnarvon's recent success in the Roebuck basin and its continued technical studies in the Cerberus area.

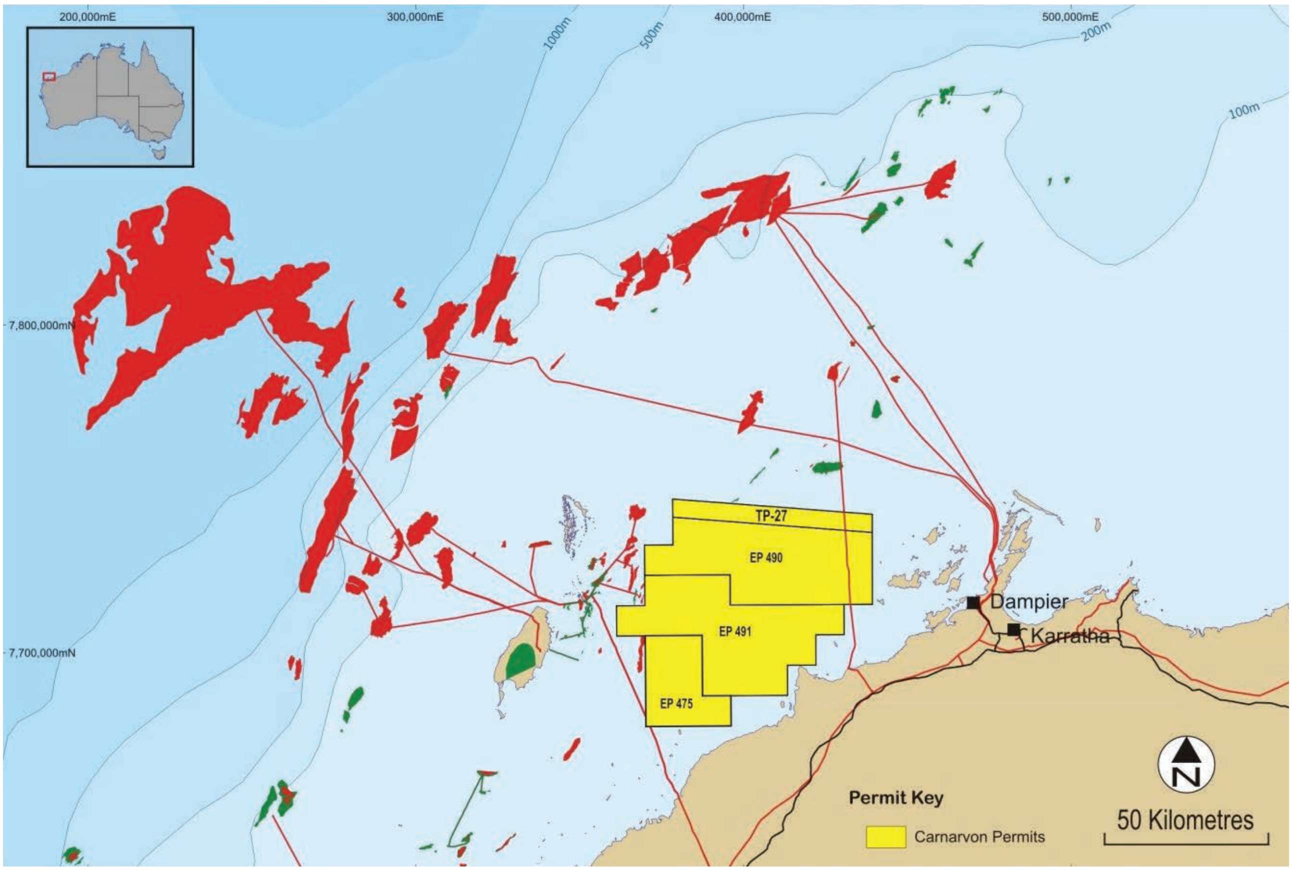
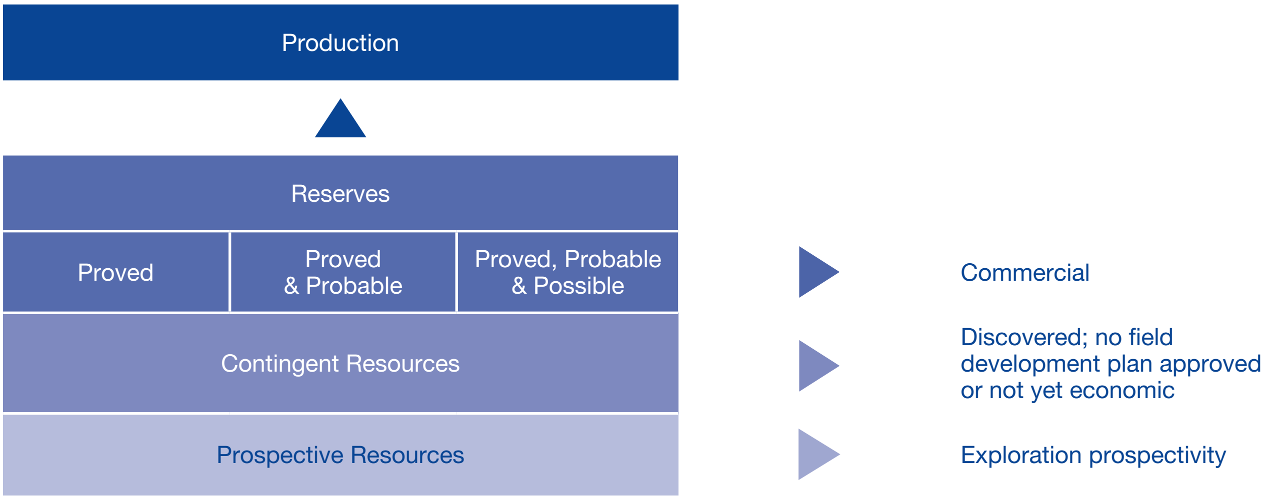


Figure 8: Location map of the 100% owned Permits in the Carnarvon Basin

RESERVE ASSESSMENT

Petroleum Resource Classification, Categorisation and Definitions

Carnarvon calculates reserves and resources according to the SPE/WPC/AAPG/SPEE[2] 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 represent that part of resources which are commercially recoverable and have been justified for development, while contingent and prospective resources are less certain because some significant commercial or technical hurdle must be overcome prior to there being confidence in the eventual production of the volumes. Carnarvon does not yet have any reported reserves.

Contingent Resources

Contingent resources are less certain than reserves. These are resources that are potentially recoverable but not yet considered mature enough for commercial development due to technological or business hurdles.

For contingent resources to move into the reserves category, the key conditions, or contingencies, that prevented commercial development must be clarified and removed. As an example, all required internal and external approvals should be in place or determined to be forthcoming, including environmental and governmental approvals. There also must be evidence of firm intention by a company's management to proceed with development within a reasonable time frame (typically 5 years, though it could be longer).

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

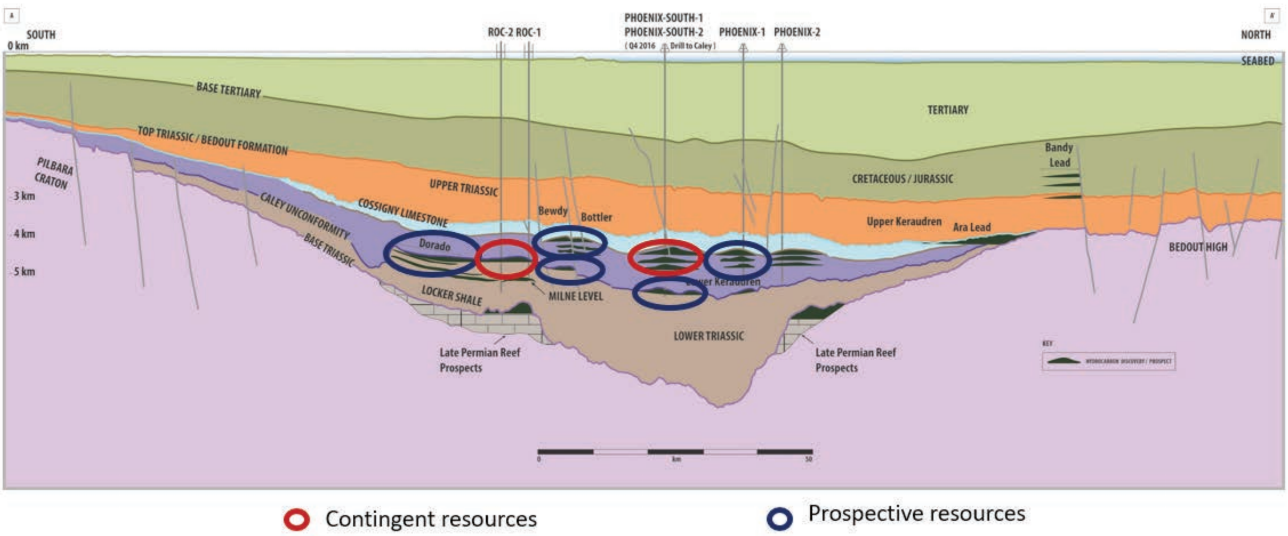


Figure 9: Cross section as indicated in Figure 2

[2] *Society of Petroleum Engineers ("SPE"); World Petroleum Council ("WPC"); American Association of Petroleum Geologist ("AAPG") & Society of Petroleum Evaluation Engineers ("SPEE")*

Operating and Financial Review

Gross Contingent Resources

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
	Permit	1C	2C	3C	1C	2C	3C	1C	2C	3C	1C	2C	3C
Roc	**WA-437-P**	-	-	-	41.8	269.7	371.9	2.0	13.0	18.2	9.3	60.3	83.4
Phoenix South	**WA-435-P**	6.0	19.0	56.0	-	-	-	-	-	-	6.0	19.0	56.0
Phoenix	**WA-437-P**	3.0	9.0	28.0	-	-	-	-	-	-	3.0	9.0	28.0
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**

Technical Revision

		Light Oil			Natural Gas			Condensate			Barrels of Oil Equivalent		
		MMSTB	MMSTB	MMSTB	BSCF	BSCF	BSCF	MMSTB	MMSTB	MMSTB	MMBOE	MMBOE	MMBOE
	Permit	1C	2C	3C	1C	2C	3C	1C	2C	3C	1C	2C	3C
Roc (i)	**WA-437-P**	-	-	-	162.7	62.1	208.4	9.9	6.6	16.6	38.4	17.5	53.2
Phoenix South (ii)	**WA-435-P**	0.8	-2.3	-26.4	-	-	-	-	-	-	0.8	-2.3	-26.4
Phoenix (iii)	**WA-437-P**	-1.0	-2.0	-12.0	-	-	-	-	-	-	-1.0	-2.0	-12.0
Total		**-0.2**	**-4.3**	**-38.4**	**162.7**	**62.1**	**208.4**	**9.9**	**6.6**	**16.6**	**38.2**	**13.2**	**14.8**

Gross at 30 June 2017

		Light Oil			Natural Gas			Condensate			Barrels of Oil Equivalent		
		MMSTB	MMSTB	MMSTB	BSCF	BSCF	BSCF	MMSTB	MMSTB	MMSTB	MMBOE	MMBOE	MMBOE
	Permit	1C	2C	3C	1C	2C	3C	1C	2C	3C	1C	2C	3C
Roc	**WA-437-P**				204.5	331.8	580.3	11.9	19.6	34.8	47.8	77.8	136.6
Phoenix South	**WA-435-P**	6.8	16.7	29.6	-	-	-	-	-	-	6.8	16.7	29.6
Phoenix	**WA-437-P**	2.0	7.0	16.0							2.0	7.0	16.0
Total		**8.8**	**23.7**	**45.6**	**204.5**	**331.8**	**580.3**	**11.9**	**19.6**	**34.8**	**56.6**	**101.5**	**182.2**

(i) Roc volumes added due to successful Roc-2 well as per ASX announcement 14 November 2016
(ii) Phoenix South oil volumes changed due to results of Phoenix South-2 as per ASX announcement 28 March 2017
(iii) Phoenix volumes adjusted as a result of updated reservoir parameters following additional Roc-2 and Phoenix South-2 wells

Net Contingent Resources

Net at 30 June 2017

		Light Oil			Natural Gas			Condensate			Barrels of Oil Equivalent		
		MMSTB	MMSTB	MMSTB	BSCF	BSCF	BSCF	MMSTB	MMSTB	MMSTB	MMBOE	MMBOE	MMBOE
	Permit	1C	2C	3C	1C	2C	3C	1C	2C	3C	1C	2C	3C
Roc	**WA-437-P**	-	-	-	40.9	66.4	116.1	2.4	3.9	7.0	9.6	15.6	27.3
Phoenix South	**WA-435-P**	1.4	3.3	5.9	-	-	-	-	-	-	1.4	3.3	5.9
Phoenix	**WA-437-P**	0.4	1.4	3.2	-	-	-	-	-	-	0.4	1.4	3.2
Total		**1.8**	**4.7**	**9.1**	**40.9**	**66.4**	**116.1**	**2.4**	**3.9**	**7.0**	**11.3**	**20.3**	**36.4**

Prospective Resource Estimates

Prospective resources are estimated volumes associated with undiscovered accumulations. These represent quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from oil and gas deposits identified on the basis of indirect evidence but which have not yet been drilled. This class represents a higher risk than contingent resources since the risk of discovery is also added. For prospective resources to become classified as contingent resources, hydrocarbons must be discovered, the accumulations must be further evaluated and an estimate of quantities that would be recoverable under appropriate development projects prepared.

Net Prospective Resources

		Light Oil				Natural Gas				Condensate				Barrels of Oil Equivalent				Probability Geological Success	Risked MMBOE Pmean
	Permit	MMBBL P90	MMBBL P50	MMBBL Pmean	MMBBL P10	BSCF P90	BSCF P50	BSCF Pmean	BSCF P10	MMBBL P90	MMBBL P50	MMBBL Pmean	MMBBL P10	MMBOE P90	MMBOE P50	MMBOE Pmean	MMBOE P10		
Phoenix South Caley (iv)	WA-435-P	-	-	-	-	25.6	80.2	97.8	192.6	2.1	7.9	11.4	24.4	6.6	22.0	28.5	58.2	71%	20.2
Roc-2 C/D (v)	WA-437-P	-	-	-	-	10.5	22.0	24.0	39.8	0.6	1.3	1.4	2.4	2.5	5.2	5.6	9.4	66%	3.7
Dorado Caley	WA-437-P	-	-	-	-	11.7	67.6	109.0	252.0	0.5	3.3	6.3	15.0	2.6	15.2	25.4	59.2	36%	9.2
Roc Satellites (vi)	WA-437-P	-	-	-	-	5.7	22.6	28.7	60.1	0.3	1.3	1.7	3.6	1.3	5.3	6.7	14.1	59%	4.0
Phoenix	WA-435-P	-	-	-	-	7.4	27.4	38.8	83.4	0.4	1.4	2.2	5.2	1.7	6.2	9.0	19.8	52%	4.7
Bewdy	WA-437-P	0.2	2.0	5.3	12.8	0.0	1.7	5.5	16.9	0.0	0.1	0.3	1.0	0.2	2.4	6.6	16.8	32%	2.1
Bottler	WA-437-P	0.4	2.5	6.2	14.8	-	-	-	-	-	-	-	-	0.4	2.5	6.2	14.8	32%	2.0
Peng	WA-437-P	0.1	0.8	1.9	4.7	1.0	3.6	4.5	9.3	0.1	0.2	0.3	0.6	0.3	1.7	3.0	6.9	59%	1.8
West of PS (vii)	WA-437-P	2.2	7.4	10.6	22.0	-	-	-	-	-	-	-	-	2.2	7.4	10.6	22.0	40%	4.2
Phoenix South Hove (viii)									To be determined										
Dorado Milne A (ix)	WA-437-P	-	-	-	-	9.1	53.2	85.8	203.2	0.4	2.6	5.0	11.9	2.0	12.0	20.0	47.6	23%	4.7
Dorado Milne B (ix)	WA-437-P	-	-	-	-	7.3	59.0	87.6	205.0	0.3	2.9	5.1	12.2	1.6	13.2	20.4	48.1	23%	4.8
Dorado Milne C (ix)	WA-437-P	-	-	-	-	16.5	83.2	113.0	249.6	0.7	4.0	6.6	15.1	3.6	18.6	26.4	58.9	23%	6.1
Dorado Milne D (ix)	WA-437-P	-	-	-	-	10.3	81.8	111.0	250.2	0.5	3.9	6.4	15.1	2.3	18.2	25.9	59.0	23%	6.0
Belgravia	WA-155-P	-	-	-	-	4.6	50.7	125.4	314.9	0.1	1.4	5.1	12.8	0.9	10.3	27.1	68.1	29%	7.9
Honeybadger	EP-491	12.0	86.0	144.0	340.0	-	-	-	-	-	-	-	-	12.0	86.0	144.0	340.0	15%	21.6
Kes	EP-475	3.0	21.0	50.0	126.0	-	-	-	-	-	-	-	-	3.0	21.0	50.0	126.0	18%	9.0
Belfon	EP-491	4.0	25.0	40.0	92.0	-	-	-	-	-	-	-	-	4.0	25.0	40.0	92.0	17%	6.8
Rudder	EP-491	4.0	26.0	36.0	80.0	-	-	-	-	-	-	-	-	4.0	26.0	36.0	80.0	25%	9.0
Bunji	EP-491	3.0	10.0	18.0	39.0	-	-	-	-	-	-	-	-	3.0	10.0	18.0	39.0	25%	4.5
Sparrow	EP-491	4.0	15.0	22.0	46.0	-	-	-	-	-	-	-	-	4.0	15.0	22.0	46.0	25%	5.5
Westy	EP-491	7.0	52.0	114.0	281.0	-	-	-	-	-	-	-	-	7.0	52.0	114.0	281.0	17%	19.4
Mighty	EP-491	10.0	50.0	94.0	226.0	-	-	-	-	-	-	-	-	10.0	50.0	94.0	226.0	11%	10.3
Gallant	EP-490	3.0	79.0	200.0	544.0	-	-	-	-	-	-	-	-	3.0	79.0	200.0	544.0	12%	24.0
Labyrinth	WA-521-P	27.0	226.0	420.0	1,083.0	-	-	-	-	-	-	-	-	27.0	226.0	420.0	1,083.0	34%	142.8
Labyrinth deep	WA-521-P	8.0	55.0	81.0	186.0	-	-	-	-	-	-	-	-	8.0	55.0	81.0	186.0	13%	10.5
Mouse	WA-521-P	50.0	267.0	361.0	793.0	-	-	-	-	-	-	-	-	50.0	267.0	361.0	793.0	26%	93.9
Mouse deep	WA-521-P	4.0	35.0	57.0	135.0	-	-	-	-	-	-	-	-	4.0	35.0	57.0	135.0	9%	5.1
Zebra	WA-521-P	6.0	113.0	214.0	541.0	-	-	-	-	-	-	-	-	6.0	113.0	214.0	541.0	10%	21.4
Hammock	WA-521-P	33.0	217.0	297.0	667.0	-	-	-	-	-	-	-	-	33.0	217.0	297.0	667.0	22%	65.3
Hammock deep	WA-521-P	3.0	47.0	80.0	196.0	-	-	-	-	-	-	-	-	3.0	47.0	80.0	196.0	9%	7.2
Dewdrop	WA-521-P	5.0	24.0	31.0	67.0	-	-	-	-	-	-	-	-	5.0	24.0	31.0	67.0	21%	6.5
Total		**188.9**	**1,360.7**	**2,283.1**	**5,496.4**	**109.8**	**553.1**	**831.1**	**1,877.0**	**6.0**	**30.4**	**51.8**	**119.3**	**214.1**	**1,488.1**	**2,480.7**	**5,944.9**		**544.3**

(iv) Phoenix South gas and condensate Prospective Resources reflect the results from the Phoenix South-2 well as per ASX announcement 28 March 2017
(v) The Roc C/D sands were interpreted to be hydrocarbon bearing at Roc-1 and Roc-2 based on petrophysical data, however lack of definitive hydrocarbon sampling has resulted in Carnarvon prudently placing these sands into the prospective category as per ASX Announcement 14 November 2016
(vi) The Roc Satellites are an arithmetic addition of the recoverable from Roc North, North-East, East and South-East satellite structures
(vii) The range of satellite prospects west of the Phoenix South discovery have been collated and added arithmetically and appear in the form as "West of PS"
(viii) Hydrocarbon shows were encountered in the Hove Member while drilling the Phoenix South-2 well however resource estimates are not able to be calculated for this package until further data is available as per ASX announcement 28 March 2017
(ix) The Dorado Milne prospects are additional prospective horizons recognised from seismic that may occur deeper in the formation then the Caley

Operating and Financial Review

Notes on Petroleum Resource Estimates

Unless otherwise stated, all petroleum resource estimates are quoted as at 30 June 2017 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 the Reserves Statement. All the material assumptions and technical parameters underpinning the estimates in the Reserves Statement 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 Carnarvon. 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 $36,977,000 for the financial year ending 30 June 2017 (2016: $5,367,000). The key drivers of this result, outlined in detail below, comprised prudent write offs of exploration expenditure ($10,104,000), an impairment loss on receivables ($22,153,000) and an unrealised foreign exchange loss ($1,462,000).

Carnarvon's balance sheet remained strong with cash and cash equivalents of $53,050,000 (2016: $87,847,000), no debt and minimal commitments going forward.

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 $2,894,000 (2016: $4,552,000) in new venture and advisory costs. Carnarvon invested a further $27,760,000 on its exploration properties including the Roc-2 and Phoenix South-3 wells and further technical work aimed at maximizing the value of Carnarvon's assets. A conservative write off of $10,104,000 (2016: $244,000) of exploration expenditure relates to the WA-155-P(1) permit as it is not certain that these costs will be recovered through the production or sale of the oil discovered in the Outtrim East-1 well.

Carnarvon booked an impairment loss of $22,153,000 (2016: $6,914,000) on the deferred consideration asset that was previously carried in relation to the divestment of its Thai assets to Loyz Energy Limited ("Loyz") in March 2014. The impairment was due to a number of factors including the performance of the underlying Thai assets, a sustained decline in oil prices since the divestment and the financial position of Loyz. More specifically, Loyz was unable to make the deferred consideration payment that was due in December 2016 and by agreement extended to May 2017. Carnarvon has since given Loyz a further extension to complete the settlement to 31 October 2017. The impairment of the deferred consideration asset of $22,153,000 is not a cash expense and can be reversed in future periods in line with changes to these factors. The settlement of the deferred consideration payment would be recognised in Carnarvon's financial statements in the period that the settlement occurs.

During the financial year there was an unrealized loss on foreign exchange of $1,462,000 (2016: Profit: $3,748,000) due to the effect of an appreciation of AUD against the Carnarvon'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. Carnarvon manages its cash positions in US Dollars and Australian Dollars to naturally hedge its foreign exchange rate exposures having regard for likely future expenditure.

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-524-P	Dampier	100%	-	-	G & G Studies
WA-435-P	Roebuck	20%	Quadrant Energy [(i)]	80%	G & G Studies, Appraisal
WA-436-P	Roebuck	30%	Quadrant Energy [(i)]	70%	G & G Studies
WA-437-P	Roebuck	20%	Quadrant Energy [(i)]	80%	G & G Studies, Appraisal
WA-438-P	Roebuck	30%	Quadrant Energy [(i)]	70%	G & G Studies
WA-155-P (1)	Barrow	28.5%	Quadrant Energy [(i)]	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*

Directors' Report

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 2017, 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, FAICD
Appointed as a director on 1 July 2011

Mr Cook has over 30 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. Mr. Cook is a fellow of the Australian Institute of Company Directors.

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.

Edward (Ted) P Jacobson
Non-Executive Director

B.Sc (Hons Geology)
Appointed as a director on 5 December 2005. Retired as Director on 23 January 2017.

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 Oil Ltd 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 plus year period. He has been an advisor to a major Japanese trading company for the last 25 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.

Dr Moore has extensive experience in exploration and production in Australia and internationally gained through senior roles with a number of globally recognised companies. Dr Moore 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.

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)
PJ Leonhardt	9	9
WA Foster	9	9
AC Cook	9	9
P Moore	9	9
EP Jacobson	4	4

(a) Number of meetings held and eligible to attend 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 Mr Foster (Chairman of the Audit and Risk Committee), Mr Leonhardt and Dr 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)
PJ Leonhardt	2	2
WA Foster	2	2
P Moore	2	2

(a) Number of meetings held during period of office
(b) Number of meetings attended

REMUNERATION REPORT (AUDITED)

The Board recognises that 23.75% of votes were cast against the 2016 Remuneration Report at the 2016 Annual General Meeting. While this result did not constitute a 'first strike', the Board has consulted with stakeholders in relation to its remuneration practices with the following outcomes:

Issue Raised	Commentary
There were concerns with respect to the level of short-term incentive payments made given the financial performance and share price performance of the Company.	The Company is not an earnings driven business given and is in the exploration and appraisal phase of its projects.Carnarvon is an event driven business and the executives should be rewarded when certain events or milestones are achieved such as exploration success. The Board recognises that the Company's share price has not reflected achievements the Company has made this year, therefore, the decision was made to award executives ESP shares which reward long term share price appreciation. No short term incentive payments were made in the 30 June 2017 financial year. Clear measurable objectives have been set for the 30 June 2018 financial year.
A significant portion of the Employee Share Plan ("Plan") shares vest within less than three years from grant.	In response to this issue, the Company has increased the vesting period of new Plan shares. As a result, participants cannot dispose any share within two years of issue, participants may dispose of up to 25% of their ESP Shares after two years, 50% after three years, 75% after four years and 100% after five years of issue.
Plan shares are only subject to share price appreciation hurdle.	The quantum of Plan shares issued to executives is determined by the extent to which they achieve strategic goals set by the board. Given many of these objectives are closely linked to strategy, it has not been possible for the Company to publicly disclose the objectives until they are achieved. Clear measurable objectives have been set in the Company's medium / long-term strategic plan.
Non-executive directors received options as part of their remuneration.	No options were issued to directors during the 30 June 2017 financial year.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Principles of remuneration

Shareholders approve total non-executive directors' fees and the Remuneration & Nomination Committee (Committee) is responsible for the allocation of those fees amongst the individual members of the Board.

Ultimately, the Board is responsible for the Company's remuneration policy and practices. To assist the Board with this, it has established the Committee. The Committee's role is to review and make recommendations to the Board on remuneration policies and practices and to ensure that the remuneration policies and practices are consistent with the strategic goal of the Board to build and deliver value to shareholders over the long term.

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 Committee obtains, when required, independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally.

The Committee 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 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.

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 the most effective structure to meet its objectives and attract, retain and motivate appropriately qualified and experienced executives.

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.

	30 June 2013	30 June 2014	30 June 2015	30 June 2016	30 June 2017
Share price as at 30 June each year	$0.041	$0.075	$0.115	$0.100	$0.079
Year on year change in the share price	(61%)	83%	53%	(13%)	(21%)

REMUNERATION REPORT (AUDITED) (CONTINUED)

The Board of the Company also set a number of strategic and value based objectives for its executives and employees which were considered when ESP shares were issued. The objectives that were met during the 30 June 2017 financial year were as follows:

- Achieved a successful Roc-2 flow test;
- Gas and condensate discovery at Phoenix South-2 and associated insurance cost recovery;
- Award of WA-524-P (Maracas Project);
- Materially advanced the North-West Shelf database
- Completion of the Buffalo project reprocessing and initial prospect mapping
- Completion of the Labyrinth project technical work identifying two significant prospects

The Board of Carnarvon is conscious of the fact that the Company has made some important achievements in recent years, however these achievements are not currently reflected in the share price. As a result, it amended the executive remuneration structure this year, where no cash bonuses were paid and there was a focus on the Plan shares. The issue of ESP shares rewards executives for material and sustained increases in the Carnarvon share price. We believe this better aligns Carnarvon's management team and shareholders.

The Board also set objectives and targets for its executives and employees for the 30 June 2018 financial year. The quantum of short-term incentive payments and long term incentive payments to be made to executives are determined by the extent to which they achieve strategic objectives set by the board. Given many of these objectives are closely linked to strategy, it is not possible for the Company to publicly disclose the objectives until they are achieved. These objectives are summarised, to the extent possible, as follows:

Short-term Objectives:

- There are five key short term objectives that have been identified;
- Within these five objectives, there are a total of 13 key actions to be met;
- Four of these objectives are with respect to progressing assets that the Company currently owns, namely the Phoenix Project, Buffalo Project, Outtrim Project and the Labyrinth Project;
- One objective is with respect to new opportunities; and
- New objectives and actions may be recognised and added during the year as a result of changing circumstances. This is in recognition that one of the Company's strengths is being nimble and able to react quickly to the changing environment and new opportunities.

Medium and Long-term Objectives:

- There are 14 medium and long term objectives that have been identified;
- Within these 14 objectives, there are a total of 32 key actions to be met;
- Medium to long term objectives have been set for each of the Company's projects
- The company has set long term objectives with respect to appropriate new opportunities being introduced to the business

REMUNERATION REPORT (AUDITED) (CONTINUED)

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.

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.

There were no short-term incentives awarded during the period as set out on page 30, to each of the directors, named executives, and key management personnel during the period.

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.

REMUNERATION REPORT (AUDITED) (CONTINUED)

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;
- Plan participants may not dispose of any ESP Shares within two years of the issue date but, subject to repayment of any associated loan (equal to the issue price), participants may dispose of up to 25% of their ESP Shares after two years, 50% after three years, 75% after four years and 100% after five 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.

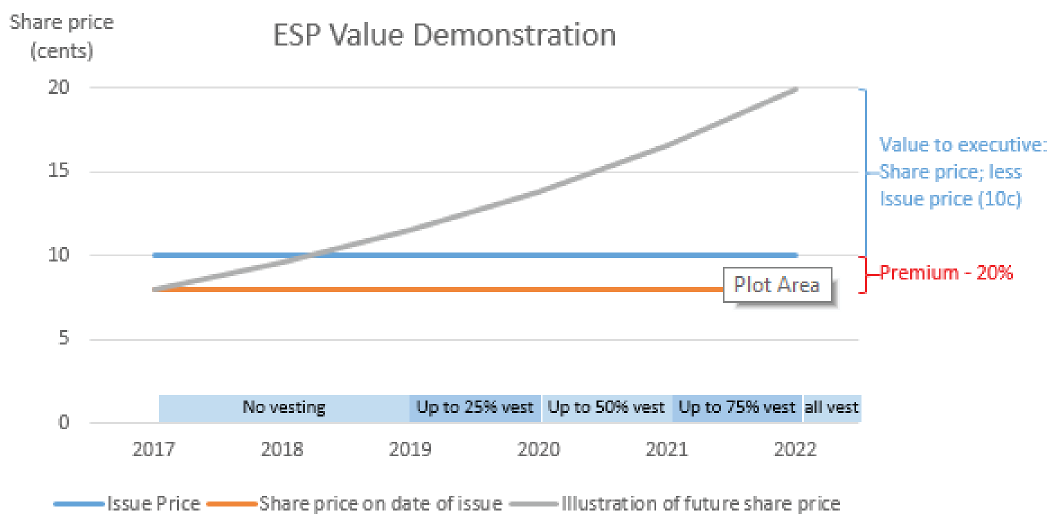
The principal provisions of the loan agreement include:

- 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.

Directors’ Report

REMUNERATION REPORT (AUDITED) (CONTINUED)

There has been some misunderstanding with respect to the Company’s ESP scheme. Unlike performance rights where executives enjoy the entire value of the share upon vesting,the Company’s ESP scheme only rewards the holder of the share to the extent the share price exceeds the issue price of the share. The graph below as an example demonstrates how the ESP scheme effectively works in relation to an issue made in 2017.



<u>Loans made under the ESP involve no cash outlay by the Company. The ESP shares are treated in principle as options as demonstrated in the graph above.</u>

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.

REMUNERATION REPORT (AUDITED) (CONTINUED)

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 page 30.

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 24.

(ii) Plan Shares

During the current financial year the following Plan Shares, which are in-substance options, were granted to Executive Officers of the Company based on the out performance on the strategic based targets detailed above:

Executive Officers	Number of plan shares issued	Grant date	Exercise price per plan share	Fair value at grant date
AC Cook*	1,200,000*	25/11/2016*	$0.13*	$0.067*
PP Huizenga	1,125,000	30/06/2017	$0.10	$0.041
TO Naude	750,000	30/06/2017	$0.10	$0.041

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 25 November 2016.

REMUNERATION REPORT (AUDITED) (CONTINUED)

The following factors and assumptions were used in determining the fair value of Plan Shares at grant date in the current reporting period:

2017

Grant date	Assumed expiry date	Fair value per option	Exercise price	ASX quoted price of shares at grant date	Expected volatility	Risk free interest rate	Dividend yield
25/11/2016	14/06/2020	$0.052	$0.13	$0.110	89%	1.75%	0%
30/06/2017	13/06/2020	$0.041	$0.10	$0.079	68%	1.50%	0%

(iii) Options

There were no options over shares in the Company issued as compensation to key management personnel during the reporting period. No options have been issued since the end of the financial year.

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 ($)	Expense recognised in year ($)	Exercised in year ($)	Forfeited in the year ($)	Total option value in year ($)
Directors					
WA Foster	-	19,983*	–	–	32,192
P Moore	-	19,983*	–	–	32,192

*Options approved by shareholders at the AGM and granted on 13 November 2015.

The value of options expensed 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.

REMUNERATION & NOMINATION COMMITTEE

The Committee is to include at least 3 members. Members of the committee during the 30 June 2017 financial year were Mr Foster (Chairman of the Remuneration & Nomination Committee), Mr Leonhardt and Mr 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)
WA Foster	2	2
PJ Leonhardt	2	2
P 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.

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

Name	Short Term: Salary and fees ($)	Short Term: Short term cash bonus ($)	Post–Employment: Superannuation contributions ($)	Long Term: Shares/ Options ($)	Total ($)	Proportion of remuneration performance related %	Value of shares/ options as a % of remuneration
Directors							
Non–Executive							
Mr PJ Leonhardt (Chairman)							
2017	$115,000	–	–	–	$115,000	–	–
2016	$115,000	–	–	–	$115,000	–	–
Mr WA Foster							
2017	$80,000	–	–	$19,983[1,2]	$99,983	–	20.0%
2016	$80,000	–	–	$12,209[1,2]	$92,209	–	13.2%
Mr EP Jacobson[3]							
2017	$41,610	–	–	–	$41,610	–	–
2016	$75,000	–	–	–	$75,000	–	–
Dr P Moore							
2017	$75,000	–	–	$19,983[1,2]	$94,983	–	21.0%
2016	$75,000	–	–	$12,209[1,2]	$87,209	–	14.0%
Executive							
Mr AC Cook (Chief Executive Officer)							
2017	$543,896	–	$37,060	$54,370[1,4]	$635,326	8.6%	8.6%
2016	$547,420	$68,493	$28,651	$83,875[1,5]	$728,439	20.9%	11.5%
Executives							
Mr PP Huizenga (Chief Operating Officer)							
2017	$513,974	–	$37,933	$45,919[1]	$597,826	7.7%	7.7%
2016	$518,946	$54,795	$27,345	$54,482[1]	$655,568	16.7%	8.3%
Mr TO Naude (Chief Financial Officer)							
2017	$235,205	–	$24,225	$30,613[1]	$290,043	10.6%	10.6%
2016	$230,594	$27,397	$24,509	$24,373[1]	$306,873	16.9%	7.9%
Total compensation: key management personnel (Company and consolidated)							
2017	$1,604,685	–	$99,218	$170,868[1]	$1,874,771	9.1%	9.1%
2016	$1,641,960	$150,685	$80,505	$187,148[1]	$2,060,298	16.4%	9.1%

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 and 2017 options issued to Mr Foster and Dr Moore relate to 2015 financial year remuneration approved at AGM on 13 November 2015, issued 20 November 2015.

[3] Mr Jacobson ceased to be a director on 23 January 2017.

[4] 2017 share-based payments to Mr Cook relate to 2017 financial year remuneration approved at the AGM on 25 November 2016 and issued 23 December 2016.

[5] 2016 share-based payments to Mr Cook relate to 2016 financial year remuneration approved at the AGM on 13 November 2015 and issued 20 November 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:

2017	Held at 1 July 2016	Net acquired/ (sold)	Award under Employee Share Plan	Received on exercise of options	Held at 30 June 2017
Directors					
PJ Leonhardt	17,750,000	–	–	–	17,750,000
EP Jacobson*	29,164,100	–	–	–	29,164,100
WA Foster	684,455	–	–	–	684,455
AC Cook	9,799,917	–	1,200,000	–	10,999,917
P Moore	–	–	–	–	–
Executives					
PP Huizenga	8,367,421	–	1,125,000	–	9,492,421
TO Naude	1,942,509	–	750,000	–	2,692,509

* Mr Jacobson ceased to be a director on 23 January 2017.

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:

2017	Held at 1 July 2016	Granted as compensation	Employee Share Plan cancellations	Exercised	Held at 30 June 2017
Directors					
PJ Leonhardt	3,000,000	–	–	–	3,000,000
EP Jacobson*	6,000,000	–	–	–	6,000,000
WA Foster	–	–	–	–	–
AC Cook	7,034,917	1,200,000	–	–	8,234,917
P Moore	–	–	–	–	–
Executives					
PP Huizenga	7,867,421	1,125,000	–	–	8,992,421
TO Naude	1,728,436	750,000	–	–	2,478,436

* Mr Jacobson ceased to be a director on 23 January 2017.

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:

2017	Held at 1 July 2016	Granted as compensation	Acquired/ (sold)	Exercised	Held at 30 June 2017
Directors					
WA Foster	500,000	–	–	–	500,000
P Moore	500,000	–	–	–	500,000

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 2017 ($)
Auditors of the Company:	
Ernst & Young	55,925

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

* Mr Jacobson ceased to be a director on 23 January 2017.

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 2017, women made up 33% 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 2017 financial year.

All employees receive ongoing training and professional support in the development of their career and no diversity distinction exists for these activities.

Likely developments

The likely developments for the 2017 financial year are contained in the operating and financial review as set out on pages 4 to 17.

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 2017.

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 (2016: Nil).

Auditor's independence declaration

The auditor's Independence Declaration under Section 307C of the Corporations Act is set out on page 35 and forms part of the directors' report for the financial year ended 30 June 2017.

Principal activities

During the course of the 2017 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 17.

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 2017 is set out on pages 4 to 17 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 2017 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

(i) The Group's operations; or
(ii) The results of those operations; or
(iii) The Group's state of affairs.

Rounding 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.

PJ Leonhardt
Director

Perth, 30 August 2017

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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 2017, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the 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
30 August 2017

Corporate Governance Statement

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 2017 is dated as at 30 June 2017 and was approved by the Board on 30 August 2017. 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 2017

	Notes	Consolidated 2017 $000	Consolidated 2016 $000
Other income	2	3,690	6,209
Administrative expenses		(1,587)	(1,710)
Directors' fees		(312)	(345)
Employee benefits expense		(2,155)	(1,559)
Unrealised foreign exchange (loss)/gain		(1,462)	3,748
New venture and advisory costs		(2,894)	(4,552)
Exploration expenditure written off	11	(10,104)	(244)
Remeasurement of deferred consideration asset	8	(22,153)	(6,914)
Loss before income tax		(36,977)	(5,367)
Taxes			
Current income tax expense	6(a)	–	–
Loss for the year		(36,977)	(5,367)
Loss attributable to members of the Company		(36,977)	(5,367)
Loss per share:			
Basic loss for the period attributable to members of the entity (cents per share)	5	(3.6)	(0.5)
Diluted loss for the period attributable to members of the entity (cents per share)	5	(3.6)	(0.5)

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 2017

	Consolidated	
	2017 $000	**2016 $000**
Loss for the year	(36,977)	(5,367)
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences arising on translation of foreign operations, net of income tax	(2)	28
Total comprehensive loss for the year	(36,979)	(5,339)
Total comprehensive loss attributable to members of the company	(36,979)	(5,339)

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 2017

	Notes	Consolidated 2017 $000	Consolidated 2016 $000
Current assets			
Cash and cash equivalents	15(b)	53,050	87,847
Trade and other receivables	7	400	297
Deferred consideration asset	8	–	1,542
Other assets	10	459	466
Total current assets		53,909	90,152
Non-current assets			
Deferred consideration asset	8	–	18,509
Property, plant and equipment	9	80	165
Exploration and evaluation expenditure	11	46,938	29,282
Total non-current assets		47,018	47,956
Total assets		100,927	138,108
Current liabilities			
Trade and other payables	13	1,341	2,130
Employee benefits	18	379	268
Total current liabilities		1,720	2,398
Non-current liabilities			
Employee benefits	18	279	202
Total non-current liabilities		279	202
Total liabilities		1,999	2,600
Net assets		98,928	135,508
Equity			
Contributed equity	14	95,865	95,401
Reserves	14	(375)	(308)
Retained earnings		3,438	40,415
Total equity		98,928	135,508

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 2017

	Issued capital $000	Reserve shares $000	Retained earnings $000	Translation reserve $000	Share based payments reserve $000	Total $000
Balance at 1 July 2015	93,011	(2,786)	45,782	-	2,421	138,428
Comprehensive loss						
Loss for the year	–	–	(5,367)	–	–	(5,367)
Other comprehensive income	–	–	–	28	–	28
Total comprehensive loss 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
Balance at 1 July 2016	95,401	(3,190)	40,415	28	2,854	135,508
Comprehensive loss						
Loss for the year	–	–	(36,977)	–	–	(36,977)
Other comprehensive loss	–	–	–	(2)	–	(2)
Total comprehensive loss for the year	–	–	(36,977)	(2)	–	(36,979)
Transactions with owners and other transfers						
Share based payments	–	–	–	–	399	399
Issue of ESP shares	464	(464)	–	–	–	–
Total transactions with owners and other transfers	464	(464)	–	–	399	399
Balance at 30 June 2017	95,865	(3,654)	3,438	26	3,253	98,928

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 2017

	Notes	Consolidated 2017 $000	2016 $000
Cash flows from operating activities			
Payments to suppliers and employees		(7,345)	(5,805)
Interest received		480	398
Research and development tax credit received		1,822	3,164
Net cash used in operating activities	15(a)	(5,043)	(2,243)
Cash flows from investing activities			
Exploration and development expenditure		(27,760)	(13,126)
Acquisition of property, plant and equipment	9	(17)	(126)
Proceeds from deferred consideration asset		93	1,128
Net cash used in investing activities		(27,684)	(12,124)
Cash flows from financing activities			
Proceeds from exercised options		–	1,986
Net cash provided by financing activities		–	1,986
Net decrease in cash and cash equivalents held		(32,727)	(12,381)
Cash and cash equivalents at the beginning of the financial year		87,847	97,302
Effect of exchange rate fluctuations on cash and cash equivalents		(2,070)	2,926
Cash and cash equivalents at the end of the financial year	15(b)	53,050	87,847

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

Notes to the Financial Statements

1. REPORTING ENTITY

The consolidated financial report of Carnarvon Petroleum Limited ('Company') for the financial year ended 30 June 2017 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 30 August 2017.

The basis for the preparation of the following notes can be found in note 28 and the significant accounting policies used in the preparation can be found in note 29.

	Consolidated 2017 $000	2016 $000

2. OTHER INCOME

	2017 $000	2016 $000
Finance income on bank deposits	480	409
Research and development tax credit received	1,822	1,948
Other income	93	121
Unwinding of interest on deferred consideration asset (note 8)	1,403	3,490
Net (loss) gain on foreign currency transactions	(108)	113
Gain on sale of shares	–	128
	3,690	6,209

3. OTHER EXPENSES

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

	2017 $000	2016 $000
Depreciation – property, plant and equipment	(102)	(139)
Rental premises – operating leases	(275)	(251)
Defined contribution – superannuation expense	(293)	(233)

4. AUDITORS' REMUNERATION

	2017 $000	2016 $000
Audit and review services:		
Ernst & Young	(56)	(68)
Crowe Horwath	–	(5)
	(56)	(73)

5. LOSS PER SHARE

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

	2017 Number of shares	2016 Number of shares
Issued ordinary shares at 1 July	1,019,941,717	994,066,022
Effect of shares issued	1,275,448	11,649,541
Weighted average number of ordinary shares 30 June (basic)	1,021,217,165	1,005,715,563
Effect of share options on issue[1]	–	–
Weighted average number of ordinary shares 30 June (diluted)	1,021,217,165	1,005,715,563

	2017 $	2016 $
Loss used in calculating basic and diluted loss per share	(36,977,000)	(5,367,000)

[1] As the consolidated entity incurred a loss for the year ended 30 June 2017, the effect of options on issue is considered to be antidilutive and thus naot factored in determining the diluted earnings per share.

Notes to the Financial Statements

6. TAXES

(a) Income tax expense

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

	Consolidated 2017 $000	Consolidated 2016 $000
Prima facie income tax benefit on pre-tax loss at 27.5% (2016: 30%)	(10,169)	(1,610)
Tax effect of:		
Effect of foreign exchange	402	(1,124)
Non-deductible expenditure	5,896	(2,973)
R&D grant not assessable	(501)	–
Prior year temporary differences recognised	–	1,531
Current year tax benefit not brought to account	4,372	4,176
Income tax benefit	–	–
Current income tax	–	–
Deferred tax	–	–
	–	–
(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

	2017 $000	2016 $000
Deferred tax asset on Australian tax losses	20,773	12,596
Deferred tax liability on capitalised exploration and evaluation expenditure	(12,908)	(8,785)
Net deferred tax asset not recognised	7,865	3,811

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.

7. TRADE AND OTHER RECEIVABLES

	Consolidated 2017 $000	Consolidated 2016 $000
Current		
Trade and other receivables	175	68
Cash held as security	225	229
	400	297

The Group's exposure to credit and currency risks is disclosed in Note 25.

8. DEFERRED CONSIDERATION ASSET

	Consolidated 2017 $000	Consolidated 2016 $000
Current portion of deferred consideration asset	–	1,542
Non-current portion of deferred consideration asset	–	18,509
	–	20,051

Reconciliation

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

	2017	2016
Opening fair value	20,051	23,624
Effective interest	1,403	3,490
Repayments	–	(916)
Fair value movement	(22,153)	(6,925)
Effects of exchange rate fluctuations	699	778
Closing fair value	–	20,051

Carnarvon completed the sale of half of its 40% interest in its producing Concessions in Thailand during the 2014 financial year to Loyz Energy Limited ("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.

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

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

On 2 May 2017, Carnarvon entered into an agreement with Loyz Energy to settle the outstanding deferred consideration payable:

- For a sum of US$4.0m payable on 30 June 2017 in cash or share in Loyz Energy
- In addition, Carnarvon is entitled to 12% of any sale proceeds over US$45m, should Loyz Energy sell the asset

In June 2017, Carnarvon gave Loyz Energy an extension until 31 October 2017 to complete the settlement of the deferred consideration, subject to certain conditions being met.

Carnarvon impaired the carrying value of the deferred consideration asset due to a number of factors including the performance of the underlying Thai assets, a sustained decline in oil prices since the divestment and the financial position of Loyz. More specifically, Loyz was unable to make the deferred consideration payment that was due in December 2016 and agreement to settle the deferred consideration for US$4.0m (as detailed above) by 30 June 2017, which was extended to 31 October 2017.

9. PROPERTY, PLANT AND EQUIPMENT

	Consolidated 2017 $000	Consolidated 2016 $000
Fixtures and fittings		
Cost:		
Balance at beginning of financial year	541	415
Additions	17	126
Disposals	–	–
Effects of movements in foreign exchange	–	–
Balance at end of financial year	558	541
Depreciation and impairment losses:		
Balance at beginning of financial year	376	237
Disposals	–	–
Depreciation charge for year	102	139
Balance at end of financial year	478	376
Carrying amount opening	165	178
Carrying amount closing	80	165

10. OTHER ASSETS

	2017 $000	2016 $000
Current		
Deposits and prepayments	459	466

11. EXPLORATION AND EVALUATION EXPENDITURE

	2017 $000	2016 $000
Cost:		
Balance at beginning of financial year	29,282	17,352
Additions	27,760	12,174
Exploration expenditure written off	(10,104)	(244)
Balance at end of financial year	46,938	29,282

The exploration expenditure written off during the financial year ended 30 June 2017 of $10,104,000 was in relation to exploration expenses incurred in the WA-155-P and EP-490 Permits in Western Australia (2016:$244,000) as the Company does not have any substantive plans for future exploration activities or expenditure in this permit at this time. Included in additions is $26,166,000 (2016: $11,603,000) spent on concessions where the company has joint control (refer to Note 12).

12. JOINT OPERATIONS

The Group has the following interests in joint operations:

Joint operation	Principal activities	Ownership interest %	
Western Australia		*2017*	*2016*
WA-435-P, WA437-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%	28.5%

With respect to oil and gas in the Phoenix South resource, within WA-435-P, Carnarvon has an arrangement with the operator whereby Carnarvon funds 5% of the Phoenix South-2 and Phoenix South-3 well costs (net of insurance proceeds) and Carnarvon will contribute the balance of its 20% interest into any future work at Phoenix South plus a small promote to be offset against future production.

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

13. TRADE AND OTHER PAYABLES

	Consolidated	
	2017 $000	2016 $000
Current		
Trade payables	1,263	2,057
Non-trade payables and accrued expenses	78	73
	1,341	2,130

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 25.

Notes to the Financial Statements

14. CAPITAL AND RESERVES

	Company 2017	Company 2016
	Number of shares	
Contributed equity		
Balance at beginning of financial year	1,019,941,717	994,066,022
Issued for cash	–	19,858,914
Employee Share Plan issues	8,028,092	6,016,781
Balance at end of financial year	1,027,969,809	1,019,941,717

	Company 2017 $000	Company Restated 2016 $000
Issued capital		
Balance at beginning of financial year	95,401	93,011
Reserve employee shares	464	404
Proceeds from exercised options	–	1,986
Balance at end of financial year	95,865	95,401

Ordinary shares have the right to one vote per share at meetings of Carnarvon, to receive dividends as declared and, in the event of a winding-up of Carnarvon, 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 2017	Company 2016
	Number of shares	
Reserve shares (plan shares)		
Balance at beginning of financial year	37,427,100	31,401,589
Employee Share Plan issues	8,028,092	6,025,511
Balance at end of financial year	45,455,192	37,427,100

	Company 2017 $000	Company 2016 $000
Reserve shares (plan shares)		
Balance at beginning of financial year	3,190	2,786
Employee Share Plan issues	464	404
Balance at end of financial year	3,654	3,190

Translation reserve

Movements in the translation reserve are set out in the Statement of Changes in Equity on page 40.

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 page 40. This reserve represents the fair value of shares issued under the Carnarvon's ESP.

15. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated	
	2017 $000	2016 $000
(a) Cash flows from operating activities		
(Loss) for the year	(36,977)	(5,367)
Adjustments for:		
Equity settled share based payment expense	399	433
Impairment of deferred consideration asset	22,153	–
Depreciation	102	139
Foreign exchange (loss)	1,362	(415)
Exploration expenditure written off	10,104	244
Operating (loss) before changes in working capital and provisions:	(2,857)	(4,966)
Changes in assets and liabilities:		
(Increase) / decrease in trade and other receivables	(1,594)	1,064
Decrease in other assets	8	38
(Decrease) / increase in trade and other payables	(789)	1,544
Increase in provisions and employee benefits	189	77
Net cash flows used in operating activities	(5,043)	(2,243)
(b) Reconciliation of cash and cash equivalents		
Cash at bank and at call	13,938	44,164
Cash on deposit	39,112	43,683
	53,050	87,847

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 25.

Restricted cash of $225,000 consolidated is included under trade and other receivables (2016:$ 229,000 consolidated), see Note 7.

16. 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	
	2017 $000	2016 $000
Less than one year	2,707	1,533
Between one and five years	3,297	2,766
	6,004	4,299

(b) Capital expenditure commitments

Data licence commitments	493	443

17. 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.

18. EMPLOYEE BENEFITS

	Consolidated	
	2017 $000	2016 $000
Current:		
Liability for annual leave and long service leave	379	268
Non-Current:		
Provision for long service leave	279	202
Total Employee benefits	658	470

Employee Share Plan

18. EMPLOYEE BENEFITS (CONTINUED)

Under the terms of the Carnarvon Employee Share Plan (“ESP”), as approved by shareholders, Carnarvon may, in its absolute discretion, make an offer of ordinary fully paid shares in Carnarvon 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 Carnarvon’s shares on the five trading days prior to the date of offer. Eligible Persons use the above-mentioned loan to acquire plan shares.

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

	Number 2017	WAEP 2017	Number 2016	WAEP 2016
Outstanding at 1 July	37,427,100	0.16	31,401,589	0.17
Granted during the year	8,026,092	0.10	6,025,511	0.14
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	–	–
Expired during the year	–	–	–	–
Outstanding at 30 June	45,453,192	0.15	37,427,100	0.16
Exercisable at 30 June	45,453,192	0.15	37,427,100	0.16

Shares granted under the ESP are accounted for as “in-substance” options due to the limited recourse nature of the loan between the employees and Carnarvon 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 2017	Key management personnel 2016	Other employees 2017	Other employees 2016
Fair value at measurement date (cents)	6.7	7.2	4.1	6.7
Share price at date of issue (cents)	11	12	8	11
Exercise price (cents)	13	15	10	13
Expected volatility	89%	89%	68%	89%
Expected life of ESP share	4 years	4 years	5 years	4 years
Expected dividends	Nil	Nil	Nil	Nil
Risk-free interest rate	1.75%	2.0%	1.5%	2.0%
Share-based expense recognised	$80,289	$187,148	$279,051	$245,728

Further details of shares granted under the ESP to directors are set out in Note 22, and in the Remuneration Report set out on pages 21 to 31.

18. EMPLOYEE BENEFITS (CONTINUED)

Options 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:

2017	Held at 1 July 2016	Granted as compensation	Acquired/ (sold)	Exercised	Held at 30 June 2017
Directors					
W Foster	500,000	–	–	–	500,000
P Moore	500,000	–	–	–	500,000

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 2017	WAEP 2017	Number 2016	WAEP 2016
Outstanding at 1 July	1,000,000	0.15	–	–
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	1,000,000	0.15
Exercisable at 30 June	1,000,000	0.15	1,000,000	0.15

The weighted average remaining contractual life for the share options outstanding as at 30 June 2017 was 3 years (2016: 4 years).

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	2017	2016
Fair value at measurement date (cents)	7.9	7.9
Share price at date of issue (cents)	12	12
Exercise price (cents)	15	15
Expected volatility	89%	89%
Expected life of ESP share	5 years	5 years
Expected dividends	Nil	Nil
Risk-free interest rate	2.0%	2.0%
Share-based expense recognised	$39,966	$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

19. 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 Carnarvon and its controlled entities and joint arrangements. Carnarvon 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 2017 was $0 (2016: $647,000). These loans are unsecured, non-interest bearing, and have no fixed terms of repayment.

Other related party balances and transactions

At 30 June 2017 an amount of $130,978 (2016: $41,250) is included in Carnarvon and consolidated trade and other payables for outstanding director fees and expenses.

20. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Consolidated	
	2017 $000	**2016 $000**
Less than one year	196	188
Between one and five years	203	399
	399	587

During the reporting period $188,000 was recognised as an expense in the consolidated income statement in respect of operating leases (2016: $168,000).

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.

21. 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.

The capitalised exploration and evaluation expenditure reflected on the statement of financial position is in respect of exploration projects in Australia.

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.

22. 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	
	2017 $000	2016 $000
Short term employee benefits	1,605	1,792
Post-employment benefits	99	81
Share-based payments	171	187
	1,875	2,060

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 21 to 31.

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	
	2017 $000	2016 $000
Current		
Trade and other payables	131	41

22. 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:

2017	Held at 1 July 2016	Net acquired/ (sold)	Award under Employee Share Plan	Received on exercise of options	Held at 30 June 2017
Directors					
PJ Leonhardt	17,750,000	–	–	–	17,750,000
EP Jacobson[1]	29,164,100	–	–	–	29,164,100
WA Foster	684,455	–	–	–	684,455
AC Cook	9,799,917	–	1,200,000	–	10,999,917
P Moore	–	–	–	–	–
Executives					
PP Huizenga	8,367,421	–	1,125,000	–	9,492,421
TO Naude	1,942,509	–	750,000	–	2,692,509

2016	Held at 1 July 2015	Net acquired/ (sold)	Award under Employee Share Plan	Received on exercise of options	Held at 30 June 2016
Directors					
PJ Leonhardt	17,750,000	–	–	–	17,750,000
EP Jacobson[1]	34,188,267	(5,414,792)	–	390,625[2]	29,164,100
WA Foster	528,205	–	–	156,250[2]	684,455
AC Cook	8,000,000	–	1,159,917	640,000[2]	9,799,917
P Moore	–	–	–	–	–
Executives					
PP Huizenga	7,397,421	–	970,000	–	8,367,421
TO Naude	1,305,281	67,228	570,000	–	1,942,509

[1] Mr Jacobson ceased to be a director on 23 January 2017.

[2] Listed options granted on 24 December 2013 to shareholders who participated in the Entitlement offer announced on 20 November 2013.

22. 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:

2017	Held at 1 July 2016	Granted as compensation	Employee Share Plan cancellations	Exercised	Held at 30 June 2017
Directors					
PJ Leonhardt	3,000,000	–	–	–	3,000,000
EP Jacobson*	6,000,000	–	–	–	6,000,000
WA Foster	–	–	–	–	–
AC Cook	7,034,917	1,200,000	–	–	8,234,917
P Moore	–	–	–	–	–
Executives					
PP Huizenga	7,867,421	1,125,000	–	–	8,992,421
TO Naude	1,728,436	750,000	–	–	2,478,436

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

* Mr Jacobson ceased to be a director on 23 January 2017.

(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:

2017	Held at 1 July 2016	Granted as compensation	Acquired/ (sold)	Exercised	Held at 30 June 2017
Directors					
WA Foster	500,000	–	–	–	500,000
P Moore	500,000	–	–	–	500,000

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.

23. CONSOLIDATED ENTITIES

Name	Country of Incorporation	Ownership interest 2017	Ownership interest 2016
Company			
Carnarvon Petroleum Ltd			
Controlled entities			
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%

24. SUBSEQUENT EVENTS

No other matters or circumstance has arisen since 30 June 2017 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

(i) The Group’s operations; or
(ii) The results of those operations; or
(iii) The Group’s state of affairs

25. 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	
	2017	**2016**
Carrying amount (A$000)		
Financial assets – cash and cash equivalents	53,050	87,847
Weighted average interest rate (%)		
Financial assets – cash and cash equivalents	1.07%	0.69%

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

25. 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 2016:

	Consolidated	
	Equity	Profit and loss
	$000	$000
30 June 2017	132	132
30 June 2016	219	219

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 2016:

	Consolidated	
	Equity	Profit and loss
	$000	$000
30 June 2017	(132)	(132)
30 June 2016	(219)	(219)

25. 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 (in 2016). This entity has an appropriate credit history with the Group. There were no receivables at 30 June 2017 or 30 June 2016 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	
	2017	**2016**
	$000	**$000**
Carrying amount:		
Cash and cash equivalents	53,050	87,847
Trade and other receivables	400	1,542
Deferred consideration asset	–	18,509
	53,450	107,898

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

	Gross 2017 $000	**Impairment 2017 $000**	**Gross 2016 $000**	**Impairment 2016 $000**
Not past due	400	–	1,542	–
	400	–	1,542	–

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

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Currency risk

Currency risk arises from 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 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	USD
	A$000	A$000
Consolidated 2017		
Cash and cash equivalents	–	49,827
Trade payables and accruals	–	379
Gross balance sheet exposure	–	50,206
Consolidated 2016		
Cash and cash equivalents	220	82,628
Deferred consideration asset	–	20,051
Gross balance sheet exposure	220	102,679

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
AUD to:	2017	2016	2017	2016
1 Thai baht	0.038	0.039	0.038	0.038
1 USD	1.325	1.373	1.301	1.344

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Currency risk (continued)

Sensitivity analysis

A 5% strengthening of the AUD against the THB for the 12 months to 30 June 2017 and 30 June 2016 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
30 June 2017		
THB	–	–
30 June 2016		
THB	(10)	(10)

A 5% weakening of the AUD against the THB for the 12 months to 30 June 2017 and 30 June 2016 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
30 June 2017		
THB	–	–
30 June 2016		
THB	12	12

A 5% strengthening of the AUD against the USD for the 12 months to 30 June 2017 and 30 June 2016 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
30 June 2017		
USD	(2,372)	(2,372)
30 June 2016		
USD	(4,896)	(4,896)

A 5% weakening of the AUD against the USD for the 12 months to 30 June 2017 and 30 June 2016 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
30 June 2017		
USD	2,622	2,622
30 June 2016		
USD	5,411	5,411

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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
Consolidated 2017				
Non-derivative financial liabilities				
Trade and other payables	1,263	1,263	1,263	–
Consolidated 2016				
Non-derivative financial liabilities				
Trade and other payables	2,130	2,130	2,130	–

26. 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 - 2017	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Deferred consideration available-for-sale	–	–	–	–
Total assets	–	–	–	–

Consolidated - 2016	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Deferred consideration available-for-sale	–	–	20,051	20,051
Total assets	–	–	20,051	20,051

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

The Company impaired the carrying value of the deferred consideration asset in 2017 as detailed in Note 8.

At 30 June 2016, the deferred consideration was valued using a discounted cash flow model applying the following inputs:

- 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 0.7686.

26. 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	2017 $'000	2016 $'000
Balance at the beginning of the year	20,051	23,624
Repayments	–	(916)
Effective interest	1,403	3,490
Asset revaluation	–	(6,925)
Unrealised foreign exchange gain	699	778
Impairment of deferred consideration asset	(22,153)	–
Balance at the end of the year	–	22,051

27. 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:

	2017 $000	2016 $000
Statement of financial position		
Current Assets	53,909	89,932
Non-current assets	47,018	47,956
Total assets	100,927	137,888
Current liabilities	1,720	2,398
Non-current liabilities	279	202
Total liabilities	1,999	2,600
Equity		
Issued Capital	95,865	95,401
Accumulated Profits	3,438	40,223
Reserves	(375)	(336)
Total equity	98,928	135,288
Statement of comprehensive income		
Total loss	(36,977)	(5,334)
Total comprehensive loss	(36,977)	(5,334)

Notes to the Financial Statements

27. PARENT INFORMATION (CONTINUED)

Parent Contingencies

In accordance with normal petroleum industry practice, Carnarvon 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.

	Parent	
	2017	**2016**
	$000	**$000**
Parent capital and other commitments		

(a) Exploration expenditure commitments

Due to the nature of Carnarvon's operations in exploring and evaluating areas of interest it is necessary to incur expenditure in order to retain Carnarvon'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 Carnarvon'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	2,707	1,533
Between one and five years	3,297	2,766
	6,004	4,299

(b) Capital expenditure commitments

Data licence commitments	493	443

Non-cancellable operating lease rentals are payable as follows:

Less than one year	196	188
Between one and five years	203	399
	399	587

28. 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 2016 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.

28. 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:

- Depreciation charged in the income statement (note 3) may change as such charges are determined by the units of production basis; and
- The carrying value of deferred tax assets (note 6) 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.

29. 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 2017. 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 12.

29. 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.

29. 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 29(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.

29. 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 29(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 29(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.

29. 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.

29. 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.

29. 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.

29. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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.

29. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

(w) 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.

Notes to the Financial Statements

29. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) 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 2017. 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 2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	The amendments to AASB 107 *Statement of Cash Flows* are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).	1 January 2017	1 July 2017
AASB 2017-2	Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle	This Standard clarifies the scope of AASB 12 *Disclosure of Interests in Other Entities* by specifying that the disclosure requirements apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.	1 January 2017	1 July 2017
AASB 9, and relevant amending standards	Financial Instruments	AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement*. Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held. There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch.	1 January 2018	1 July 2018

29. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9, and relevant amending standards (continued)		Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss. For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB 9, including the embedded derivative separation rules and the criteria for using the FVO. The incurred credit loss model in AASB 139 has been replaced with an expected credit loss model in AASB 9. The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies in the hedge accounting model in AASB 139. Based on an initial impact assessment, the new standard is not expected to significantly impact the recognition and measurement of financial instruments.		

29. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 15, and relevant amending standards	Revenue from Contracts with Customers	AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111 *Construction Contracts*, AASB 118 *Revenue*, AASB Interpretation 13 *Customer Loyalty Programmes*, AASB Interpretation 15 *Agreements for the Construction of Real Estate*, AASB Interpretation 18 *Transfers of Assets from Customers* and AASB Interpretation 131 *Revenue – Barter Transactions Involving Advertising Services*) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 (or AASB 16 *Leases*, once applied). 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 an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps: • Step 1: Identify the contract(s) with a customer • Step 2: Identify the performance obligations in the contract • Step 3: Determine the transaction price • Step 4: Allocate the transaction price to the performance obligations in the contract • Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. As the company does not generate any revenue at the moment, AASB 15 is not expected to have a significant impact on the financial performance of the company.	1 January 2018	1 July 2018

29. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3 *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. • AASB 2015-10 defers the mandatory effective date (application date) of AASB 2014-10 so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2016.	1 January 2018	1 July 2018
AASB 2016-5	Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions	This Standard amends AASB 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: • 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
AASB Interpretation 22	Foreign Currency Transactions and Advance Consideration	The Interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.	1 January 2018	1 July 2018

29. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 16	*Leases*	AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases. The Group has yet to fully assess the impact on the Group's financial results when it is first adopted for the year ended 30 June 2020	1 January 2019	1 July 2019

29. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Application date of standard	Application date for Group
IFRIC 23	*Uncertainty over Income Tax Treatments*	The Interpretation clarifies the application of the recognition and measurement criteria in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following: • Whether an entity considers uncertain tax treatments separately • The assumptions an entity makes about the examination of tax treatments by taxation authorities • How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates • How an entity considers changes in facts and circumstances.	1 January 2019	1 July 2019

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 37 to 83 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 2017 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 and notes comply with International Financial Reporting Standards as set out in Note 28; 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 directors by the chief executive officer and chief financial officer in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2017.

Signed in accordance with a resolution of the directors.

PJ Leonhardt
Director

Perth, 30 August 2017

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

Report on the audit of the financial report

Opinion

We have audited the financial report of Carnarvon Petroleum Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board’s APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor’s Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

RC:KW:CARNARVON:014

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1. Carrying value of capitalised exploration and evaluation

Why significant	How our audit addressed the key audit matter
As disclosed in note 11, the Group held capitalised exploration and evaluation expenditure of $46,938,000 as at 30 June 2017. The carrying value of exploration and evaluation assets is subjective as it is based on the Group's ability and intention to continue to explore the asset. The carrying value may also be impacted by the results of exploration and evaluation work indicating that the reserves may not be commercially viable for extraction. This creates a risk that the amounts stated in the financial report may not be recoverable.	Our audit procedures included the following: ▸ considered the Group's right to explore in the relevant exploration area which included obtaining and assessing supporting documentation such as licence agreements. ▸ considered the Group's intention to carry out significant exploration and evaluation activity in the relevant exploration area which included an assessment of the Group's future cash flow forecasts and enquired of management and the Board of Directors as to the intentions and strategy of the Group. ▸ assessed recent exploration activity in a given exploration licence area to determine if there are any negative indicators that would suggest a potential impairment of the capitalised exploration and evaluation expenditure. ▸ evaluated the Group's assessment of the commercial viability of results relating to exploration and evaluation activities carried out in the relevant licence area.

2. Deferred consideration asset

Why significant	How our audit addressed the key audit matter
During the year, the Group signed a third supplemental agreement (as amended on 30 June 2017) with Loyz Oil Thailand Pte Ltd ("Loyz") in relation to the deferred consideration receivable as a result of the divestment of the Group's then 20% interest in the L33/43, L44/43 and SW1 Concessions ("the Concessions") in March 2014 (refer to note 8).	Our procedures included the following: ▸ evaluated the Group's assessment of the recoverability of the asset. ▸ obtained an understanding of the financial performance of the underlying concessions. ▸ evaluated the Group's assessment of Loyz's ability to settle the deferred consideration. ▸ assessed the cash received to date.

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Why significant	How our audit addressed the key audit matter
In accordance with the third supplemental agreement, the Group agreed to receive a lump sum payment of US$4million prior to 30 June 2017. The lump sum payment was to be settled either in cash or shares in Loyz Oil Thailand Pte Ltd's Singapore listed parent company, Loyz Energy Limited. The third supplemental agreement was amended on 30 June 2017 to extend settlement of the deferred consideration asset to 31 October 2017. The carrying value of the deferred consideration asset was impaired to nil at 31 December 2016 and continues to be carried at nil at 30 June 2017 (refer to note 8). We focused on this matter because of the significant judgments and estimates involved in the determination the recoverable amount of the deferred consideration asset and because the impairment expense was significant to the financial result for the year.	

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2017 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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 control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Carnarvon Petroleum Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

Ernst & Young

Ernst & Young

R J Curtin
Partner
Perth
30 August 2017

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 29 August 2017

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	31,835,942	3.10
Citicorp Nominees Pty Limited	31,832,914	3.10
HSBC Custody Nominees (Australia) Limited	25,235,480	2.45
Log Creek Pty Ltd	12,881,702	1.25
BNP Paribas Nominees Pty Ltd	12,505,951	1.22
Jacobson Geophysical Services Pty Ltd	11,674,068	1.14
Woss Group Film Productions Pty Ltd	10,750,000	1.05
Pendomer Investments Pty Ltd	9,500,000	0.92
Mr Philip Paul Huizenga	8,892,421	0.87
Elgar Park Pty Ltd	8,417,578	0.82
Arne Investments Pty Ltd	8,353,950	0.81
47 Eton Pty Ltd	8,000,000	0.78
Prettejohn Projects Pty Ltd	8,000,000	0.78
Mr Peter James Leonhardt	7,700,000	0.75
Merrill Lynch (Australia) Nominees Pty Limited	7,292,120	0.71
Mr Adrian Caldwell Cook Ms Belinda Michelle Honey	6,809,917	0.66
Kemast Investments Pty Ltd	6,502,944	0.63
Mr Edward Patrick Jacobson	6,315,982	0.61
Culloden Investments Pty Ltd	6,300,000	0.61
Mr Edward Patrick Jacobson	6,000,000	0.58
Geolyn Pty Ltd	6,000,000	0.58
	240,800,969	**23.42**

Distribution of equity security holders

Size of Holding			Number of shareholders	Number of fully paid shares
1	to	1,000	525	217,972
1,001	to	5,000	1,698	5,443,957
5,001	to	10,000	1,507	12,722,816
10,001	to	100,000	4,233	172,696,869
100,001	and over		1,407	836,888,195
			9,370	1,027,969,809

(b) Option holdings as at 29 August 2017

	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	80%	Quadrant Energy
WA-436-P, WA-438-P	Roebuck / Australia	Carnarvon	30%	
		Quadrant Energy	70%	Quadrant Energy
WAC155CP(1)	Barrow / Australia	Carnarvon	28.5%	
		Quadrant Energy	71.5%	Quadrant Energy
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
WA-524-P	Dampier / 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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