

December 2015 Half Year Financial Report

23 February 2016



Highlights

- **\$3 million Net Profit After Tax**
- **\$100 million cash (no debt)**
- **\$24 million receivable from future oil sales from previously divested Thailand production asset**
- **\$18 million exploration costs capitalised for the successful Roc and Phoenix South projects**

Carnarvon Petroleum Limited ("Carnarvon") (ASX:CVN) is pleased to provide the attached half year financial report for the six months ended 31 December 2015.

The Net Profit After Tax of \$3 million reflects Carnarvon's focus on generating income from its receivable, from Government incentives for the Company's technical initiatives and from interest on its cash. The Income Statement also reflects the Company's decision to hold a significant portion of its cash in U.S. dollars as a natural hedge to expected future expenditures. In this period the translation of foreign currency cash resulted in an unrealised foreign exchange gain of \$5.9 million being reported.

Carnarvon Managing Director and CEO, Adrian Cook said, *"these financial results reflect a strong business with a clear focus, unequivocal success in its exploration activities and growth across its asset portfolio and technical capabilities. The Phoenix South-1 and Roc-1 discoveries in a play opening province, combined with the foresight in 2015 to acquire substantial 3D and 2D seismic data over the Phoenix acreage, places the business in an enviable position for success as industry prices and sentiment improve. With its cash and remaining well cost carry of \$6 to \$8 million (net), the business is also well funded to exploit the opportunities within its portfolio."*

At 31 December 2015 Carnarvon held \$100 million in cash which equates to approximately \$0.10 per Carnarvon share. As previously articulated the purpose of this cash is to enable the Company to participate in activities that endeavour to create value from the Roc and Phoenix South discoveries and to secure new opportunities such as the Outtrim project announced on 28 January 2016.

Notwithstanding lower oil prices, the deferred consideration receivable continues to have a value for accounting purposes of \$24 million, being the estimated net present value of the US\$32 million due under the agreement with Loyz Energy.

Having regard to the potential of the Roc and Phoenix South discoveries and future activity levels, the Company maintained its recognition of past costs as an asset on the balance sheet. The majority of these costs pertain to the new 3D and 2D seismic data acquired over the permits. These have direct relevance to the expected future exploration and appraisal activities in the permits.

Yours faithfully

A handwritten signature in black ink, appearing to read "A. Cook", is positioned above the name of the signatory.

Adrian Cook

Managing Director

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Company Secretary

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

**INTERIM FINANCIAL REPORT
31 December 2015**

CORPORATE DIRECTORY

Directors

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

Company Secretary

TO Naude

Auditors

Ernst & Young

Bankers

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

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Website: www.carnarvon.com.au

Share Registry

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Perth, WA 6000 Australia

Investor Enquiries: 1300 554 474 (within Australia)
Investor Enquiries: +61 2 8280 7111 (outside Australia)
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Stock Exchange Listing

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

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DIRECTORS' REPORT

The directors present their report together with the consolidated interim financial report for the half-year ended 31 December 2015, and the independent review report thereon.

Directors

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

Peter Leonhardt
Adrian Cook
Edward (Ted) Jacobson
William (Bill) Foster
Peter Moore

Review of Operations

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

The group's Profit after tax from continuing operations for the half year ending 31 December 2015 was \$3,334,000 (2014: \$9,573,000 (restated)).

Carnarvon, along with its Joint Venture partners, made a condensate rich gas discovery in the Roc-1 well in the WA-437-P permit of the North West Shelf. This followed the oil discovery in the Phoenix South-1 well in the WA-435-P permit in 2014. The Company remains in an exploratory phase in this region, which also includes the WA-436-P and WA4-438-P permits.

The Roc-1 well was completed within budget inclusive of logging, sampling and coring costs. As Carnarvon was carried for the costs of the Roc-1 well, a result of previous farm-out agreements, the Company did not contribute to the costs of the well. In addition, Carnarvon still retains carry contributions for any further drilling or testing in the WA-435-P and WA-437-P permits of approximately A\$30 million to A\$40 million.

The Joint Venture further invested in the greater Roc and Phoenix region by continuing to acquire new 2D and 3D seismic data and progressing geoscience activities. The Company capitalised an additional \$1,031,000 (2014: \$5,849,000) in the region during the period.

Carnarvon spent \$2,926,000 (2014: \$1,095,000) in new ventures and advisory costs as the Company continues to recognise and pursue significant investment opportunities in the North West Shelf of Australia. Through a number of cost management initiatives the Company has kept administrative expenses to \$958,000 (2014: \$1,229,000) during the period.

The Company still holds a total of A\$23,893,000 (2014: A\$23,624,000) of Deferred Consideration Assets which reflects the present discounted value of the US\$32,000,000 deferred consideration from the divestment of its Thailand assets to Loyz Energy in March 2014. As a result of declining in global oil prices, the Company has recorded a A\$1,828,000 (2014: A\$2,293,000 (restated)) net change in fair value to the income statement as a remeasurement expense. This is not a cash expense and reflects the fact that the receivable will be collected over a longer period of time compared to the initial recognition of the asset on account of the decline in oil prices.

During the financial year there was an unrealised gain on foreign exchange movements of \$5,903,000 (2014: \$12,003,000) due to the depreciation of the AUD against the Company's USD cash and financial assets. The Company manages its cash position in US Dollars and Australian Dollars to naturally hedge its foreign exchange exposures.

Subsequent events

On 28 January 2016, the Company entered into an agreement to acquire 35% equity interests in the Permits WA-155-P, WA-486-P and retention license TR/3, which are operated by Quadrant Energy. Within these permits exists the previously discovered Blencathra oil resource and the Outtrim-1 oil discovery. The Joint Venture is scheduled to drill the Outtrim East-1 well in mid-2016.

The Company's commitment for its 35% share of the costs to drill the Outtrim East-1 well is estimated to be approximately \$A10 Million (net to Carnarvon) and due to be incurred within the next 6 to 12 months.

No other matter or circumstance has arisen since 31 December 2015 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

- (i) the Group's operations, or
- (ii) the results of those operations, or
- (iii) the Group's state of affairs

Rounding of amounts

The company is of a kind referred to in Class Order 98/100 issued by the Australian Securities and Investments Commission. Amounts in the Directors' Report and the interim financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order unless otherwise indicated.

Auditors' Independence Declaration

The lead auditors' Independence Declaration, as required under section 307C of the Corporations Act 2001, is set out on page 5 and forms part of this directors' report for the half-year ended 31 December 2015.

Signed in accordance with a resolution of the directors.



PJ Leonhardt
Director

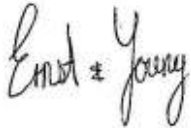
Perth
23 February 2016.

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

As lead auditor for the review of Carnarvon Petroleum Limited for the half-year ended 31 December 2015, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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



Ernst & Young



R J Curtin
Partner
23 February 2016

CARNARVON PETROLEUM LIMITED
31 DECEMBER 2015 INTERIM FINANCIAL REPORT

CONSOLIDATED INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 December 2015

	Half-year 31 December 2015 \$000	Restated Half-year 31 December 2014 \$000
	Note	
Continuing operations		
Gain on farm out	-	2,000
Other Income	3,863	1,338
Administrative expenses	(958)	(1,229)
Employee benefits expense	(443)	(789)
Directors' fees	(177)	(135)
Unrealised foreign exchange gain (loss)	5,903	12,003
New venture and advisory expenditure	(2,926)	(1,095)
Exploration expenditure written off	(100)	(24)
Remeasurement of deferred consideration asset	(1,828)	(2,293)
Finance costs	-	(203)
	<hr/>	<hr/>
Profit before tax from continuing operations	3,334	9,573
Income tax expense	-	-
	<hr/>	<hr/>
Profit after tax from continuing operations	3,334	9,573
Discontinued operations		
Profit after tax for the period from discontinued operations	-	13,866
	<hr/>	<hr/>
Net profit for the period attributable to members of the entity	3,334	23,439
	<hr/>	<hr/>
Earnings per share (EPS):		
Basic, profit for the period attributable to members of the entity (cents per share)	0.3	2.4
Diluted, profit for the period attributable to members of the entity (cents per share)	0.3	2.3
Earnings per share for continuing operations:		
Basic, profit from continuing operations attributable to members of the entity (cents per share)	0.3	1.0
Diluted profit from continuing operations attributable to members of the entity (cents per share)	0.3	0.9

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 December 2015

	Half-year 31 December 2015 \$000	Restated Half-year 31 December 2014 \$000
Net profit for the period	3,334	23,439
Other comprehensive income <i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>		
Exchange differences arising in translation of foreign operations	34	8,226
Total other comprehensive income net of tax	34	8,226
Total comprehensive profit for the period attributable to members of the entity	3,368	31,665

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

CARNARVON PETROLEUM LIMITED
31 DECEMBER 2015 INTERIM FINANCIAL REPORT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 December 2015

	Notes	31 December 2015 \$000	Restated 30 June 2015 \$000
Current assets			
Cash and cash equivalents		100,013	97,302
Trade and other receivables		1,313	446
Deferred consideration asset	7	4,207	916
Other assets		102	504
Total current assets		<u>105,635</u>	<u>99,168</u>
Non-current assets			
Deferred consideration asset	7	19,686	22,708
Property, plant and equipment		123	178
Exploration and evaluation expenditure		18,383	17,352
Total non-current assets		<u>38,192</u>	<u>40,238</u>
Total assets		<u>143,827</u>	<u>139,406</u>
Current liabilities			
Trade and other payables		1,399	585
Employee benefits		256	252
Total current liabilities		<u>1,655</u>	<u>837</u>
Non-current liabilities			
Employee benefits		178	141
Total non-current liabilities		<u>178</u>	<u>141</u>
Total liabilities		<u>1,833</u>	<u>978</u>
Net assets		<u>141,994</u>	<u>138,428</u>
Equity			
Issued capital		93,217	93,011
Reserves		(339)	(365)
Retained profits		49,116	45,782
Total equity		<u>141,994</u>	<u>138,428</u>

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

CARNARVON PETROLEUM LIMITED
31 DECEMBER 2015 INTERIM FINANCIAL REPORT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 December 2014

	Issued capital \$000	Reserve shares \$000	Retained profits \$000	Translation reserve \$000	Share based payments reserve \$000	Total \$000
Balance at 1 July 2014	90,213	-	20,815	(8,226)	1,958	104,760
Restatement of comparatives (note 2)	2,250	(2,250)	-	-	-	-
Balance at 1 July 2014 (restated)	92,463	(2,250)	20,815	(8,226)	1,958	104,760
Comprehensive income						
Profit for the period as reported in 2014	-	-	19,341	-	-	19,341
Restatement of comparatives (note 2)	-	-	4,098	-	-	4,098
Restated profit for the period	-	-	23,439	-	-	23,439
Other comprehensive income as reported in 2014	-	-	-	12,324	-	12,324
Restatement of comparatives (note 2)	-	-	-	(4,098)	-	(4,098)
Restated other comprehensive income	-	-	-	8,226	-	8,226
Total comprehensive income for the half year	-	-	23,439	8,226	-	31,665
Transactions with owners and other transfers						
Share based payments	-	-	-	-	96	96
Issue of ESP shares	38	(38)	-	-	-	-
Proceeds from exercised options	12	-	-	-	-	12
Reclassification on disposal as previously stated	-	-	4,098	(4,098)	-	-
Restatement of comparatives (note 2)	-	-	(4,098)	4,098	-	-
As restated	-	-	-	-	-	-
Total transactions with owners and other transfers	50	(38)	-	-	96	108
Balance at 31 December 2014	92,513	(2,288)	44,254	-	2,054	136,533

CARNARVON PETROLEUM LIMITED
31 DECEMBER 2015 INTERIM FINANCIAL REPORT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 December 2015

	Issued capital \$000	Reserve shares \$000	Retained profits \$000	Translation reserve \$000	Fair value reserve \$000	Share based payments reserve \$000	Total \$000
Balance at 1 July 2015	90,225	-	50,125	-	(4,343)	2,421	138,428
Restatement of comparatives (note 2)	2,786	(2,786)	(4,343)	-	4,343	-	-
Balance at 1 July 2015 (restated)	93,011	(2,786)	45,782	-	-	2,421	138,428
Comprehensive income							
Profit for the period	-	-	3,334	-	-	-	3,334
Other comprehensive income	-	-	-	34	-	-	34
Total comprehensive income for the half year	-	-	3,334	34	-	-	3,368
Transactions with owners and other transfers							
Share based payments	-	-	-	-	-	123	123
Issue of ESP shares	131	(131)	-	-	-	-	-
Proceeds from exercised options	75	-	-	-	-	-	75
Total transactions with owners and other transfers	206	(131)	-	-	-	123	198
Balance at 31 December 2015	93,217	(2,917)	49,116	34	-	2,544	141,994

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 December 2015

	Half-year 31 December 2015 \$000	Half-year 31 December 2014 \$000
Cash flows from operating activities		
Receipts from customers and GST recovered	-	8,083
Payments to suppliers and employees	(1,782)	(3,127)
Income taxes refunded / (paid)	2,212	(2,776)
Interest received	163	117
Net cash flows provided by operating activities	<u>593</u>	<u>2,297</u>
Cash flows from investing activities		
Exploration, evaluation and development expenditure	(2,756)	(5,873)
Exploration permit commitment payments	-	(1,259)
Acquisition of property, plant and equipment	(10)	(80)
Net cash outflows from sale of Thai assets	-	(3,517)
Cash held as security	-	(644)
Net cash flows used in investing activities	<u>(2,766)</u>	<u>(11,373)</u>
Cash flows from financing activities		
Proceeds from deferred consideration	138	-
Proceeds from farm out activities	-	2,000
Proceeds from exercised options	75	12
Net cash flows provided by financing activities	<u>213</u>	<u>2,012</u>
Net (decrease) in cash and cash equivalents	(1,960)	(7,064)
Cash and cash equivalents at beginning of the half-year	97,302	49,580
Effects of exchange rate fluctuations on cash and cash equivalents	4,671	482
Cash and cash equivalents at end of the half-year	<u>100,013</u>	<u>42,998</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting entity

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

The consolidated interim financial report as at and for the six months ending 31 December 2015 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled assets.

The 31 December 2015 interim financial statements were authorised for issue by the board of directors on 23 February 2016.

2. Basis of preparation

Statement of compliance

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

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

Basis of preparation

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

The company is a company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the half-year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2015 annual financial report for the financial year ended 30 June 2015, except for the impact of the Standards and Interpretations described below.

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

Restatement of Comparative Information

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

- Transfer of \$4,098,000 in respect of the exchange differences on foreign operations accumulated in the translation reserve from the statement of changes in equity to income statement on disposal (under discontinued operations) of the Thai Joint Operation to ensure compliance with AASB 121: *The Effects of Changes in Foreign Exchange Rates*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Restatement of Comparative Information (continued)

- Presentation of the results associated with the disposal of the Thai Joint Venture as “discontinued operations” in the income statement in accordance with AASB 5: *Non-current Assets Held for Sale and Discontinued Operations*.
- Gross up of “Issued Capital” with a corresponding debit to “Reserve Shares” within the statement of changes in equity to reflect the nominal value of ESP shares on issue to ensure compliance with AASB 132: *Financial Instruments: Presentation* and AASB 2: *Share Based Payments*.
- Reclassification of the accumulated remeasurement loss on the deferred consideration asset of \$4,343,000 as at 1 July 2015 from the fair value reserve to retained earnings to ensure compliance with AASB 139: *Financial Instruments - Recognition and Measurement*.

The above has been restated for each of the affected 31 December 2014 half-year financial statement line items for the prior period, as follows:

	31 Dec 2014 Restated \$'000	31 Dec 2014 As previously stated \$'000
Income Statement		
Revenue	-	7,455
Cost of sales	-	(2,820)
Gross profit	-	4,635
Other income (finance income)	1,338	1,346
Loss on sale of Thai Joint Operation	-	(18,039)
Income tax benefit	-	23,164
Profit from continuing operations	9,573	19,341
Profit from discontinued operations	13,866	-
Statement of Other Comprehensive Income		
Total comprehensive income	31,665	27,567
Statement of Changes in Equity		
Issued capital	92,513	90,225
Reserve shares	(2,288)	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Restatement of Comparative Information (continued)

Impact on basic and diluted earnings per share (EPS) (increase/(decrease) in EPS):

	increase/ (decrease) in EPS
Earnings per share (EPS):	
Basic, profit for the period attributable to members of the entity (cents per share)	0.4 cents/share
Diluted, profit for the period attributable to members of the entity (cents per share)	0.4 cents/share
Earnings per share for continuing operations:	
Basic, (Loss) from continuing operations attributable to members of the entity (cents per share)	(1.0) cents/share
Diluted (Loss) from continuing operations attributable to members of the entity (cents per share)	(0.9) cents/share

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

3. Gain on farm out

	Half-year ending 31 December 2015 \$000	Half-year ending 31 December 2014 \$000
Consideration for farm out of WA-437-P	-	2,000
	-	<u>2,000</u>

Consideration received upon Joint Venture partners exercising an option to farm into 20% of Carnarvon's equity in the WA-437-P permit in the North West Shelf of Australia.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Discontinued operations

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

Accordingly, the operations of the Thai Assets and its subsequent disposal have been classified as a discontinued operation. The profit after tax from the discontinued operations are presented below:

	Half-year ending 31 December 2015 \$000	Half-year ending 31 December 2014 \$000
Oil sales	-	7,455
Other income	-	8
Cost of sales		
Production expenses	-	(557)
Royalty and excise	-	(417)
Transportation	-	(196)
Depreciation - development costs and producing assets	-	(1,365)
Selling, general and administration	-	(285)
Profit before tax from a discontinued operations	-	4,643
Income tax credit	-	23,164
Profit after income tax from discontinued operations	-	27,807
(Loss) on sale of joint operations	-	(13,941)
Total profit from discontinued operations	-	13,866
	Half-year ending 31 December 2015 \$000	Half-year ending 31 December 2014 \$000
Receivable consideration	-	59,599
Less transaction costs	-	(1,854)
	-	57,745
(Less)/Add: asset, liability and foreign exchange adjustments:		
Cash and cash equivalents	-	(3,517)
Trade and other receivables	-	(4,235)
Inventories	-	(3,095)
Other assets	-	(200)
Property, plant and equipment	-	(254)
Oil and gas assets	-	(66,282)
Trade and other payables	-	1,441
Current tax liability	-	358
Exchange difference on foreign operations accumulated in other comprehensive income reclassified on disposal	-	4,098
Loss on disposal of joint operations	-	(13,941)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Contingent assets and liabilities

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

6. Deferred consideration asset

	Half-year ending 31 December 2015 \$000	Year ended 30 June 2015 \$000
Deferred consideration receivable		
Current deferred consideration asset	4,207	916
Non-current deferred consideration asset	19,686	22,708
	<u>23,893</u>	<u>23,624</u>

Reconciliation

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

Opening fair value	23,624	21,480
Effective interest	1,758	2,645
Remeasurement of deferred consideration asset	(1,828)	(4,343)
Reclassification to receivables	(847)	-
Unrealised foreign exchange gain	1,186	3,842
Closing fair value	<u>23,893</u>	<u>23,624</u>

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.

The deferred consideration asset has been valued using a discounted cash flow model applied to the following:

- Production volumes - Estimate production volumes are based on the production profiles of proven and probable reserves for the fields and take into account development plans for the fields agreed by management as part of the long-term planning process, which have been independently verified;
- Crude oil price – forecast crude oil prices are based on independent data;
- Discount rate – A discount rate of 14%;
- Foreign exchange rate – An AUD/USD foreign exchange rate of 0.7298.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Deferred consideration asset (Continued)

The unobservable inputs and sensitivity are as follows:

Description	Unobservable inputs	Weighted average	Sensitivity
Available-for sale	Discount rate	14%	1.00% change would increase fair value by \$841,000 / decrease fair value by \$800,000
Available-for sale	Net 2P production	33,187 MSTB	1.00% change would increase/decrease fair value by \$124,000
Available-for sale	Oil price/barrel	\$44STB - \$65STB	1.00% change would increase/decrease fair value by \$124,000 5.00% change would increase fair value by \$562,000 / decrease fair value by \$624,000.
Available-for sale	Foreign exchange rate	0.7298	1.00% change would increase fair value by \$259,000 /decrease fair value by \$254,000 5.00% change would increase fair value by 1,351,000 /decrease fair value by \$1,222,000

It must be noted that each of the sensitivities above assumes that the specific assumption moves in isolation, while all other assumptions are held constant. In reality, a change in one of the aforementioned assumptions is usually accompanied with a change in another assumption, which may have an offsetting impact. Action is also usually taken by management to respond to adverse changes in economic assumptions that may mitigate the impact of any such change.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Equity securities issued

	31 December 2015 Shares	31 December 2014 Shares
<i>Issue of ordinary shares during the half-year</i>		
Shares issued under the Employee Share Plan	1,695,511	1,000,000
Exercised options from Entitlement Offer	3,338,721	118,092
	5,015,502	1,118,092

Issue of options during the half-year

Options issued to directors	1,000,000	-
	1,000,000	-

	Number of Shares	Nominal Value \$000
<i>Movements in employee share plan issued with limited recourse employee loans</i>		
Opening balance – 1 July 2015	31,392,859	2,786
Issued during period	1,695,511	131
	33,088,370	2,917

8. Segment information

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

Basis of accounting for purposes of reporting by operating segments

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

Revenue by geographical region

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

	Half-year ending 31 December 2015 \$000	Half-year ending 31 December 2014 \$000
Thailand	-	7,463 ⁽¹⁾
Australia	3,863	3,337
	3,863	10,800

⁽¹⁾The Group derives 100% of its sales revenue from one customer in the oil and gas exploration, development and production segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Segment information (continued)

Total assets by geographical region

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

	As at 31 December 2015 \$000	As at 30 June 2015 \$000
Thailand	239	216
Australia	143,588	137,220
	<u>143,827</u>	<u>137,436</u>

9. Subsequent events

On 28 January 2016, the Company entered into an agreement to acquire 35% equity interests in the Permits WA-155-P, WA-486-P and retention license TR/3, which are operated by Quadrant Energy. Within these permits exists the previously discovered Blencathra oil resource and the Outtrim-1 oil discovery. The Joint Venture is scheduled to drill the Outtrim East-1 well in mid-2016.

The Company's commitment for its 35% share of the costs to drill the Outtrim East-1 well is estimated to be approximately \$A10 Million (net to Carnarvon) and due to be incurred within the next 6 to 12 months.

No other matter or circumstance has arisen since 31 December 2015 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

- (i) the Group's operations, or
- (ii) the results of those operations, or
- (iii) the Group's state of affairs

DIRECTORS' DECLARATION

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

1. The financial statements and notes, as set out on pages 6 to 19 are in accordance with the *Corporations Act 2001*, including:
 - a. complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
 - b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



PJ Leonhardt
Director

Perth
23 February 2016.

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

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Carnarvon Petroleum Limited, which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' responsibility for the financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Carnarvon Petroleum Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

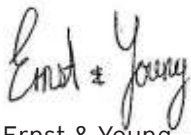
Independence

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

Opinion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Carnarvon Petroleum Limited is not in accordance with the Corporations Act 2001, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.



Ernst & Young



R J Curtin
Partner
Perth

23 February 2016

ADDITIONAL SHAREHOLDER INFORMATION

Details of associates and joint venture assets

<i>Joint venture</i>	<i>Principal activities</i>	<i>31 December 2015 Ownership interest %</i>	<i>31 December 2014 Ownership interest %</i>
<i>Thailand</i>			
Phetchabun Basin Concession, Exploration Blocks L44/43 and L33/43, 3/2546/60 and 5/2546/62 Concessions	Exploration, development and production of hydrocarbons	-	-
<i>Western Australia</i>			
WA-435-P, WA-437-P, Roebuck Basin	Exploration for hydrocarbons	20%	20%
WA-436-P, WA 438-P, Roebuck Basin	Exploration for hydrocarbons	30%	30%
EP-490, EP491, TP/27, Barrow Basin	Exploration for hydrocarbons	100%	100%
EP475, Barrow Basin	Exploration for hydrocarbons	100%	100%