CARNARVON
PETROLEUM LTD

2014 Annual Report

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Corporate Directory

Directors

PJ Leonhardt (Chairman)
AC Cook (Managing Director)
EP Jacobson (Non-Executive Director)
WA Foster (Non-Executive Director)
NC Fearis (Non-Executive Director)
(Retired 31 December 2013)

Company Secretary

T Naude

Auditors

Crowe Horwath Perth

Bankers

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

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Share Registry

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Stock Exchange Listing

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

ASX Code:	CVN - ordinary shares
	CVNO - options

Chairman's Review

As your Chairman it gives me pleasure to introduce the 2014 Annual Report for Carnarvon Petroleum.

During the financial year we have focused on opportunities in Australia, particularly those offering shareholders a strong growth oriented investment. This is a transition from the previous focus on production and diversified exploration in Australia and South East Asia. The rationale for the transition was to concentrate the Company's resources on regions in which we have excellent data, experience and are able to offer compelling opportunities for major organisations to partner with Carnarvon and invest their capital and operational expertise. In determining the areas in which we would apply our expertise the Board felt the North West Shelf of Western Australia offered a strong balance of proven hydrocarbons in material volumes, supported by quality data and fiscal terms that have the potential to result in significant value being generated if discovered from our exploration efforts.

On reflecting on our progress in 2014, I'm delighted to report the commencement of the Phoenix South-1 well in Western Australia during the year and the subsequent discovery of oil announced on 18 August 2014. Our investment in the surrounding area now allows us to progress relatively quickly with a second well having been farmed out and new 3D seismic having been already acquired and processed.

It is also pleasing that we have secured new additions to the exploration portfolio during the year in the heart of the Carnarvon Basin in Western Australia. Extensive regional work exploring new play concepts has already been undertaken and the new blocks are now being worked on by Carnarvon's technical team in preparation for exploration activities with the introduction of new partners. It is our intention to replicate the Phoenix model which enabled us to attract a world class operator with the financial and operational resources to drill exciting exploration wells.

Other notable achievements during the year included the material increase in oil production flow rates in Thailand and the sale of half of the Company's 40% interest in those assets for a material premium to the share price at the time. The monetisation of a portion of the assets placed the Company in a secure cash position leading into the drilling of the Phoenix South-1 well with appropriate resources for drilling contingencies, the next phase of progressing the Phoenix area and our new exploration initiatives.

The last two or three years have been challenging with pressures from internal operations and external market conditions requiring a concerted focus and effort from the Board and management. However, I'm very pleased with the outcomes and the sound business positioning and strategic focus we have today.

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We have also been building the Company's technical capabilities by attracting people with the skills and experience which are relevant to our focus on the North West Shelf in Western Australia. At the same time we have been encouraging staff to increase their shareholding in the Company by offering to match shares bought on market with a loan to acquire a share under the Company's Employee Share Plan ("ESP"). The Company's ESP has been in existence since 1997 and is approved every three years by shareholders. In the opinion of the Board it is, on balance, a strong plan that aligns staff and shareholder interests, in addition to attracting and retaining staff. The Board continually monitors alternative schemes such as option schemes and performance right schemes but is of the view that a share price growth ESP such as Carnarvon's most effectively aligns the holder's interests with those of shareholders.

While on the matter of staff remuneration, and appreciating the sensitivity of this matter in recent times, I note that the Board agreed this year to provide bonuses to staff. The basis for such included personal performance coupled with the delivery of key milestones such as the spudding of the Phoenix South-1 well, the securing of new exploration acreage, materially increasing oil production in Thailand and the sale of half of Carnarvon's interest in its Thailand production assets for a premium to the Company's market value.

After 14 years on the Board, Mr Neil Fearis retired in December 2013 and I thank him for his unwavering support and contribution during his tenure and since his retirement. I'd like to take this opportunity to thank my fellow members of the Board for their valuable counsel and the management team and staff for their resolve in challenging circumstances and their contribution to turning the Company into a strong operation with an exciting future.

Of course my thanks to our shareholders for their support without which we would not be able to develop and grow the business. In conclusion, I can assure shareholders that there is a very committed team at Carnarvon who are all looking forward with great enthusiasm to the next year and the unveiling of the forward plan for the greater Phoenix area.

Peter Leonhardt
Chairman

Overview of Operations

During what has been a transformational financial year for Carnarvon, several key milestones were achieved, including:

- *Spudding of the Phoenix South-1 well in WA-435-P in Western Australia;*
- *Increasing carried well cost caps from US$50 million to US$70 million per well (gross) for the Phoenix South-1 well and the contingent Roc well in the adjoining permit;*
- *Securing new exploration acreage on the North West Shelf ("Cerberus Project");*
- *Materially increasing oil production in Thailand to approximately 4,000 bopd (gross) by applying new technical knowledge;*
- *Divesting half of the Company's Thai oil production asset for US$33 million in cash plus a receivable of up to US$32 million;*
- *Strengthening the financial position of the Company in preparation for drilling success in the North West Shelf (Phoenix South-1 well) through the above divestment and a $3.1 million entitlement offer with a free listed option presented only to existing shareholders; and*
- *Continuing drilling operations in Thailand wherein Carnarvon holds a 20% interest in this active cash generative asset.*

At the time of writing, the Company is in a strong position with:

- *The Phoenix South-1 well in Western Australia discovering light oil and proving the concept envisaged by the Carnarvon team when the acreage was secured in 2008 ("Phoenix Project");*
- *A follow up well to Phoenix South-1, in the Roc structure, is funded by Apache and JX Nippon with the partners electing to drill the well on 18 August 2014 ("Phoenix Project");*
- *New Carnarvon Basin acreage in Western Australia was secured during the year and has the potential to replicate the Phoenix farm-out model ("Cerberus Project");*
- *Thailand oil production remains steady at around 4,000 bopd (gross) with Carnarvon holding a 20% interest with a look through value based on the 2014 sale of up to US$65 million; and*
- *Financial resources are strong with cash of around $50 million, no debt, minimal commitments and receivables of US$32 million due from future oil sales revenue of the acquirer of half of Carnarvon's interest in 2014.*

Australian Operations

Phoenix Project

In 2008 Carnarvon secured exploration acreage offshore Western Australia comprising four exploration permits (WA-435-P, WA-436-P, WA-437-P and WA-438-P) covering approximately 20,000km^2. These permits are situated in the north-western region of the Bedout Sub-basin within the greater Roebuck Basin, offshore Western Australia. 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 kilometres to the south of the permits and Broome lies 250 kilometres to the northeast.

The Joint Venture embarked on an extensive geological study, acquiring 1,100 km^2 of multi-client 3D seismic and another 407 kilometres of 2D seismic data through to mid 2012. The newly acquired 3D covered two previous wells in WA-435-P, Phoenix-1 and Phoenix-2, discovering gas and other evidence of hydrocarbons while drilling.

A study of the newly acquired 3D data confirmed two significant prospects, Phoenix South within WA-435-P; and Roc in WA-437-P.

Carnarvon and its partner, Finder Exploration, were then successful in attracting new partners to fund their share of well costs in drilling exploratory wells searching for the extension of the discovered hydrocarbons.

The Phoenix South-1 well commenced drilling in the WA-435-P permit on 25 May 2014.

The Phoenix South-1 well was planned to drill to a depth of approximately 4,500 metres to explore for gas and condensate on trend with that discovered in the Phoenix-1 well some 13 kilometres away.

On 18 August 2014 Carnarvon announced the discovery of light oil with some associated gas in the Phoenix South-1 well. These preliminary results are very encouraging and while they bode well for the future, this project is at a preliminary stage of exploration.

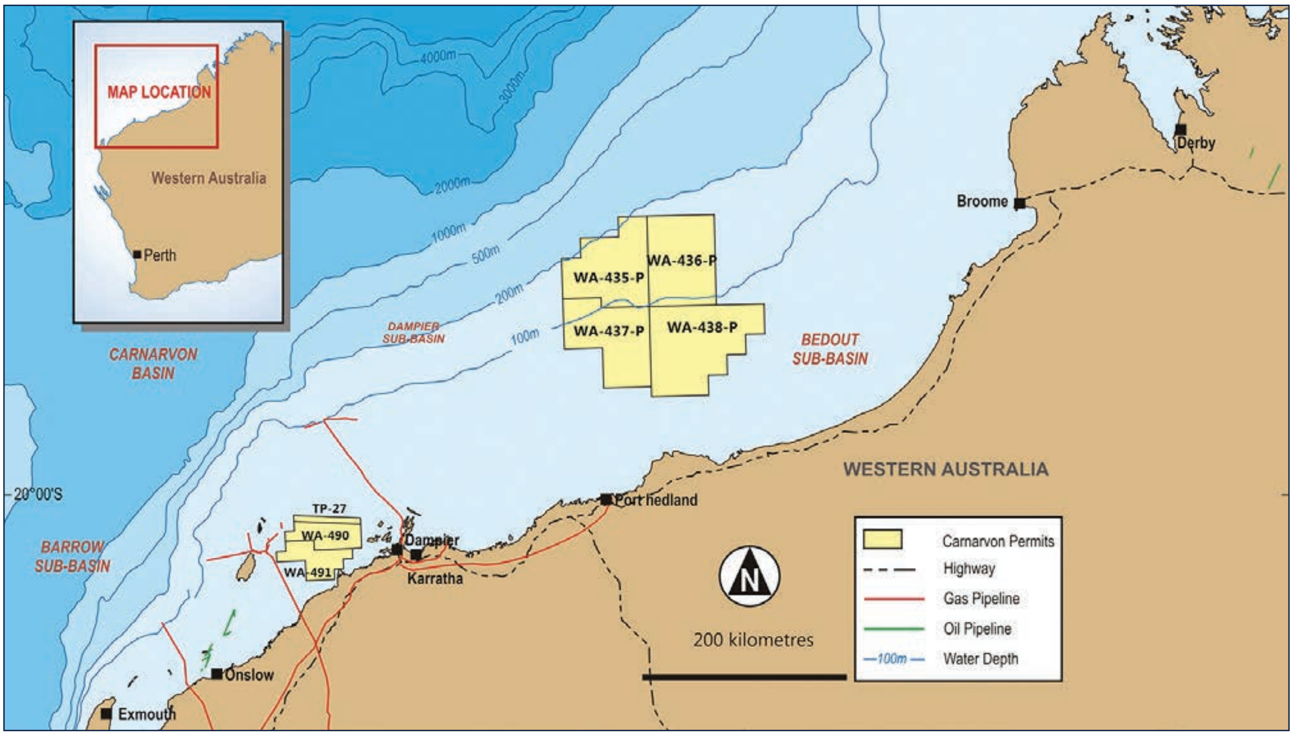


Figure 1: Carnarvon Interests as at 30 June 2014 in Australia

Cerberus Project

During the year Carnarvon secured exploration acreage offshore Western Australia comprising three permits (EP-490, TP/27 and EP-491) covering approximately 3,200km^2 in the heart of the Carnarvon Basin in Western Australia.

Two major hydrocarbon accumulations occur immediately to the north of the permits. The Wandoo Oilfield is located around 46 kilometres to the north of the permits with its primary reservoir at a depth of approximately 600 metres in the Early Cretaceous M.australis Sandstone of the Muderong Shale. Recoverable oil is estimated to be approximately 100 million barrels. The Stag Oilfield is located only 24 kilometres to the north of these permits with its primary reservoir at a depth of approximately 700 metres. Recoverable oil is estimated to be around 50 million barrels. Both fields lie in approximately 50 metres of water.

These new Cerberus permits are substantially covered by modern 3D seismic data that will aid in identifying analogous traps to the Stag and Wandoo oilfields.

Numerous oil and gas fields have also been discovered throughout the area to the west of the permits, including the significant hydrocarbon accumulations in the Harriet area, reservoired within the highly productive Flag Sandstone.

Water depth over the permits does not exceed 70 metres, which when combined with shallow target depths, allows for cost effective drilling using offshore jack-up rigs.

Work commitments for the primary two year period are limited to reprocessing the existing 3D seismic and geological studies and will not add any significant cost exposure to Carnarvon's already low future commitments.

Relinquished Permits

During the year Carnarvon relinquished its interests in WA-399-P and WA-443-P in good standing. The decision to relinquish these permits was due to a lack of material prospects being identified from technical work which did not warrant further exploration activity or expenditure.

Operating and Financial Review

Thailand Operations

Wichian Buri Project

Carnarvon's oil producing asset is contained within the L33/43, L44/43 and SW1A Concessions. These Concessions are situated onshore Thailand, within the Phetchabun Basin.

The Concessions cover the central, oil prone section of the basin, with around 100 km^2 under long term production licenses and an additional 1,000 km^2 area reserved for exploration.

Carnarvon has been a co-Concessionaire in these Concessions since 2000; however oil has been flowing from the area since 1995.

Oil has been discovered in multiple oil bearing reservoirs in two distinct reservoir types: clastic (sandstone) and fractured igneous (volcanic).

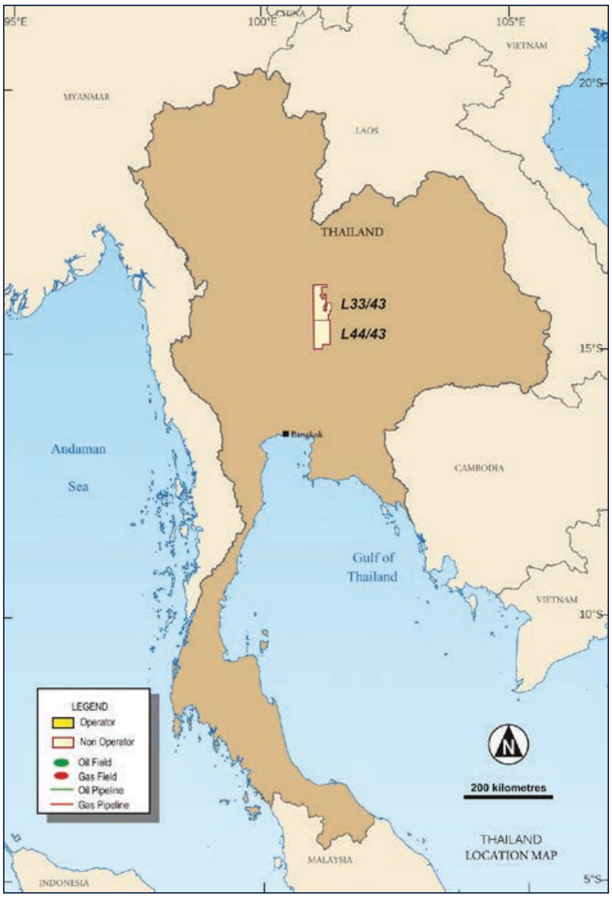


Figure 2: Carnarvon Interests as at 30 June 2014 in Thailand

Asset Divestment

The Company completed a sale of half of its 40% interest in the L33/43, L44/43 and SW1 Concessions in Thailand to Loyz Energy Ltd on 31 March 2014.

The total consideration for the disposal of a 20% interest in the Thai assets is up to US$65 million. An upfront payment of US$33 million was paid on completion. In addition, a future receivable of up to US$32 million is to be paid annually at the rate of 12% of the buyer's annual revenue in the Concessions, to a limit of US$10 million per annum. The above amounts include working capital adjustments.

Following the completion of the sale, Carnarvon's net interest in the L33/43, L44/43 and SW1 Concessions in Thailand is 20%.

2014 Production

Production for the first half of the 2014 financial year was relatively stable due to a suspension in the drilling program.

Only one well was drilled in the period between 3 January 2013 and 2 December 2013. Although this well, WBEXT-2C, was successful and contributed positively to overall oil production, it was not enough to offset the natural decline from other wells and accordingly overall production declined slightly through the first two quarters of the 2014 financial year.

After significant new technical work was undertaken during the period from March 2013 to December of 2013, drilling recommenced on 2 December 2013.

The majority of the 11 wells drilled in the current financial year were commercially successful, and average field rates increased from around 1,300 bopd (gross) over the first half of the 2014 financial year to 1,650 bopd (gross) for the March 2014 quarter and 4,000 bopd (gross) for the June 2014 quarter.

At year end field production was around 4,000 bopd (gross) from 30 producing wells, with ten wells shut-in due to ongoing land access issues.

Field capacity is significantly higher than the current production rate of circa 4,000 bopd due to the Joint Venture deliberately choking back wells in order to reduce the likelihood of early water incursion. During 2010 and 2011 a number of wells in the Wichian Buri Extension area were brought on-line at flow rates of between 3,500 and 5,000 bopd and these wells were allowed to flow unconstrained. In a relatively short period of time these wells experienced sudden high water cuts that reduced the flow rates significantly. As a result, the overall production per well was limited to around 200,000 bbls of oil. For the wells drilled in the Wichian Buri Extension area in 2014, while the wells are capable of similar flow rates of 3,000 to 4,000 bopd, the individual rates have been constrained to one half to one third their capacity. Analysis suggests that at these rates the wells are flowing below the critical water coning rate. Delaying the onset of water incursion should increase the ultimate recovery per well.

Exploration

The main oil generating kitchen is interpreted to be at the centre of the Phetchabun Basin, contained within the L44/43 exploration concession.

Major oil accumulations have been discovered to the north, east and south of the oil kitchen area.

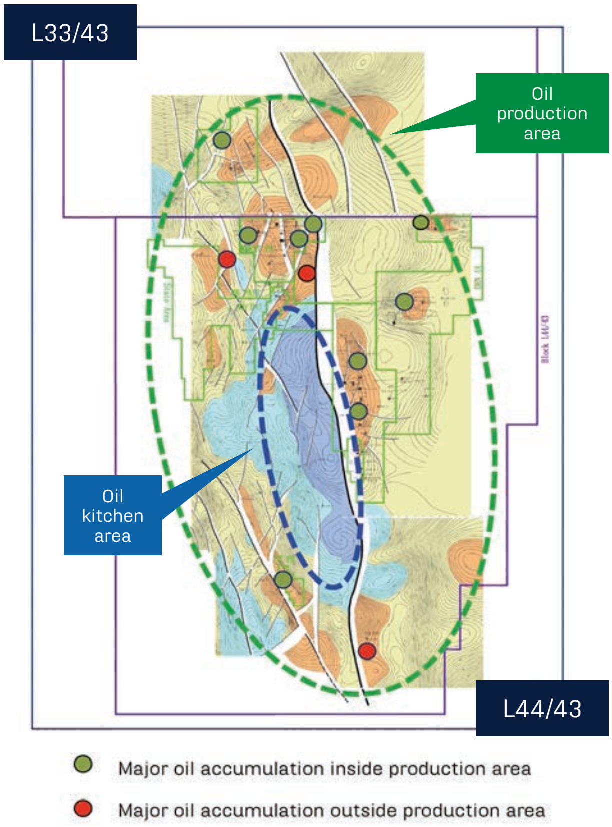
Development activity has concentrated on the areas immediately to the north and east of the kitchen.

Acquisition of 100 km² 3D seismic was completed Q1 2013 over the south-western portion of the L33/43 concession. Processing and interpretation of this seismic was completed Q4 2013. Exploration, appraisal and development in this area is expected to increase in late 2014.

Exploration activities will be expanded to the areas to the west and south of the oil kitchen beginning in early 2015. These exploration activities will include exploration drilling and acquisition of new 3D seismic data.

Development Projects

A water flood project commenced September 2013 in the Wichian Buri Extension area, incorporating a number of wells drilled in late 2012. Water injection commenced at a rate of several hundred barrels of water per day, several times higher than production voidage. Increased reservoir pressure was observed and the process arrested the previous natural field decline, and marginally



improved production results, after the first few months of operation. The water injection process does not incur additional costs so the project will continue despite recent improvements in production being minimal.

A chemical water shut-off project was undertaken in the June 2014 quarter in order to trial a chemical injection method to arrest early water incursion. After several weeks of chemical soak the well was placed back into production and early results are promising.

Agricultural Land Reform Office – Shut in wells

Ten wells in the Bo Rang North area, under control of the Agricultural Land Reform Office (ALRO), were shut in in May 2012 while clarification was sought from ALRO, regarding development approvals for these wells.

Four of these wells were brought back online during December 2012 but were shut in once more during June 2014 pending ALRO discussions.

At year end the ten wells, producing around 300 bopd in aggregate (gross) at the time of the shut-in, remain off-line whilst discussions continue with ALRO on the matter.

2014 Drilling

As summarized in the following table, the Joint Venture performed 11 drilling operations in the 2014 financial year, primarily targeting the igneous reservoirs in the north of the L44/43 Concession and in the south of the L33/43 Concession.

Seven wells were drilled into the igneous reservoirs of the Wichian Buri Extension production area and an additional three wells were drilled into the igneous reservoirs of the L33/43 Concession.

One additional well was drilled to the east, outside the Wichian Buri Extension production area targeting sandstone reservoirs. The results of that well allowed the Joint Venture to apply for an extension to the production area.

Overall the 2014 financial year drilling program was successful with nine of the wells testing oil at commercial rates and field production rates increasing materially.

Well		Cumulative Production to 30 June 2014 ('000 bbls)	Spud Date
Q1			
WBEXT-2C	Appraisal well targeting the WBV2 igneous within the Wichian Buri Extension production area. Successfully tested at up to 330 bopd with high water cut of around 700 bwpd.	17.8	16-Jul-13
Q2			
WBEXT-2BST2	Appraisal well completed up-dip of the WBEXT-2C well. Successfully completed as production well over the WBV2 igneous with initial testing of 175 bopd with 40 barrels per day of produced water and 500,000 scf/day of gas.	5.6	2-Dec-13
WBEXT-4C	Appraisal well into the WBV2 igneous within the Wichian Buri Extension production area. The well intersected good quality reservoir with excellent pressure and flowed several barrels of oil during clean-up operations before the bottom section of the well collapsed and production ceased. Several workovers have failed to restart production from this well and it remains shut-in at year end.	0.1	20-Dec-13
Q3			
WBEXT-4BST1	Appraisal well intersected the WBV2 igneous reservoir with good oil shows but initial testing resulted in high water cut oil at sub-commercial rates. Following re-completion into the overlying sandstone reservoirs the well initially tested 50-60 bopd with negligible water.	5.2	8-Jan-14
WBEXT-2AST2	Appraisal well intersected the igneous reservoir within the Wichian Buri Extension production area however failed to flow commercial oil rates.	0.0	23-Jan-14
L33-2D	Exploration well intersected good quality reservoir with flow rates of between 20 and 50 bopd and associated water of around 400 bwpd. This well was abandoned and re-drilled as L33-2D Deepen later in the year in an attempt to investigate stratigraphic component to the igneous reservoirs.	0.9	4-Feb-14
WBEXT-3C	Deviated development/appraisal well within the Wichian Buri Extension production area. Initial testing was successful with the well testing at rates up to 3,200 bopd. To reduce the chance of early water incursion due to water coning, the flow rate has been deliberately reduced.	187.6	23-Feb-14
WBEXT-5A	The WBEXT-5A well is an exploration well drilled to intersect the sandstones to the east of the current WBEXT production area. The well successfully intersected several sandstones and was put on 90 day test with rates around 80-100 bopd with no water. Following the end of the test period the well has been shut-in pending an extension to the production area.	4.8	6-Mar-14
WBEXT-3D	Deviated development/appraisal well within the same fault block as the WBEXT-3C well. Initial testing was successful with the well testing at rates up to 3,500 bopd. To reduce the chance of early water incursion due to water coning, the flow rate has been deliberately reduced.	159.3	23-Mar-14
Q4			
L33-2D Deep	The L33-2D well was deepened in an attempt to complete into an alternative reservoir section, however the well failed to flow after deepening and remains shut-in at year end.	0.9	11-Apr-14
L33-5A	Exploration well targeting igneous reservoir to the west of the L33/43 production area. No oil shows and no losses were encountered while drilling this well. The well has been suspended pending a decision to test later in the year in connection with other L33/43 drilling.	0.0	15-Jun-14

Note: All flow rates and volumes are gross to the Joint Venture in which Carnarvon had a 40% interest until 31 March 2014 and thereafter a 20% interest

L52/50 and L53/50 Surat-Khiensa Basin (Carnarvon Petroleum 100%)

In the March 2014 quarter, Carnarvon advised the Thailand authorities of its intention to withdraw from the L52/50 and L53/50 Exploration Concessions in Southern Thailand.

Carnarvon was unable to secure a suitable farm-in partner to join the Company in drilling two wells in these Exploration Concessions. As previously outlined to shareholders, Carnarvon's intention was not to commit to these wells without a farm in partner. Accordingly, these Concessions are being returned to the Government of Thailand in good standing.

L20/50 Concession

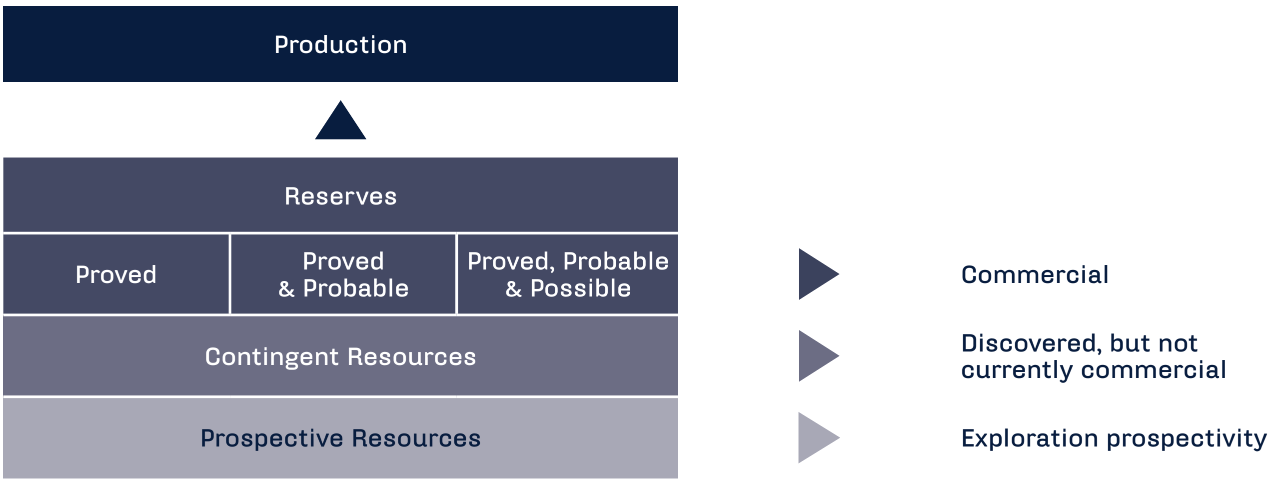
Carnarvon and Joint Venture partner, Sun Resources Limited, previously assigned 100% of the L20/50 Concession to Siam Moeco Limited.

Siam Moeco notified Carnarvon in the December 2013 quarter that they intend to relinquish this Concession prior to exploration drilling. As a result the block will revert back to the government and Carnarvon's commercial agreement with Siam Moeco over this block will lapse.

Reserve Assessment

Petroleum Resource Classification, Categorisation and Definitions

Carnarvon calculates reserves and resources according to the SPE/WPC/AAPG/SPEE [1] 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.



[1] *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

Carnarvon Reserves

All Carnarvon's reserves are within the L33/43, L44/43 and SW1 Concessions in which Carnarvon has a 20% equity interest. Eco Orient Energy ("Eco") as Operator of these Concessions has commissioned Chapman Petroleum Engineering Ltd ("Chapman") to undertake a third party independent appraisal of these Concessions.

Chapman completed a Reserve and Economic Evaluation of these Concessions in line with end of calendar year requirements for the Department of Mineral Fuels ("DMF") in Thailand. Carnarvon's 1P reserves are 1.48 million barrels and 2P reserves are 5.81 million barrels at 30 June 2014.

	Proved Developed Producing (million barrels)	Proved Undeveloped (million barrels)	Total Proved (million barrels)	Probable Developed Producing (million barrels)	Probable Undeveloped (million barrels)	Total Probable (million barrels)	Total Proved plus Probable (million barrels)	Total Possible (million barrels)	Total Proved plus Probable plus Possible (million barrels)
Reserves as at 31 December 2012									
SW1	0.19	0.30	0.49	0.09	0.76	0.84	1.33	1.34	2.68
L33	0.06	0.12	0.18	0.06	0.24	0.30	0.49	2.94	3.43
L44	0.74	2.01	2.75	0.36	7.29	7.65	10.40	16.98	27.39
Total	**0.99**	**2.43**	**3.42**	**0.51**	**8.29**	**8.80**	**12.22**	**21.27**	**33.50**
Production 1 Jan 2013 to 31 December 2013									
SW1	(0.04)								
L33	(0.01)								
L44	(0.22)								
Technical Revision									
SW1	0.09	(0.04)	0.05	0.05	0.06	0.11	0.16	0.11	0.27
L33	(0.04)	(0.03)	(0.07)	(0.05)	(0.04)	(0.10)	(0.16)	(0.22)	(0.38)
L44	(0.35)	0.12	(0.23)	(0.19)	0.03	(0.16)	(0.39)	(0.00)	(0.39)
Reserves as at 31 December 2013									
SW1	0.29	0.26	0.54	0.14	0.82	0.95	1.50	1.45	2.95
L33	0.02	0.09	0.12	0.01	0.20	0.21	0.32	2.72	3.05
L44	0.40	2.12	2.52	0.18	7.32	7.50	10.02	16.98	27.00
Total	**0.71**	**2.47**	**3.18**	**0.32**	**8.34**	**8.66**	**11.84**	**21.16**	**33.00**
Corporate Adjustment - Sale of 50% of Thailand Assets									
SW1	(0.14)	(0.13)	(0.27)	(0.07)	(0.41)	(0.48)	(0.75)	(0.73)	(1.47)
L33	(0.01)	(0.05)	(0.06)	(0.00)	(0.10)	(0.10)	(0.16)	(1.36)	(1.52)
L44	(0.20)	(1.06)	(1.26)	(0.09)	(3.66)	(3.75)	(5.01)	(8.49)	(13.50)
Production 1 Jan 2014 to 30 June 2014									
SW1	(0.01)								
L33	(0.00)								
L44	(0.10)								
Reserves as at 30 June 2014									
SW1	0.14	0.13	0.27	0.07	0.41	0.48	0.74	0.73	1.47
L33	0.01	0.05	0.06	0.00	0.10	0.10	0.16	1.36	1.52
L44	0.10	1.06	1.16	0.09	3.66	3.75	4.91	8.49	13.40
Total	**0.25**	**1.24**	**1.48**	**0.16**	**4.17**	**4.33**	**5.81**	**10.58**	**16.39**

Reserves as at 30 June 2014 have been adjusted for production and the asset sale, but have not been reassessed by Chapman. Accordingly the figures for 30 June 2014 should be considered as an interim position. Independent reserves reviews for the Thailand assets are undertaken annually at calendar year end.

Technical Discussion

Production from the Concessions is from a number of producing fields, all of which are faulted structural traps defined by 3D seismic and geological controls. These fields range in extent from 200 to 2,000 acres. Reservoirs are found at a depth ranging between 500 to 1,100 metres. The net pay thickness ranges from less than 3 to greater than 200 metres.

Total developed producing reserves are based on production decline analysis for each currently producing well in the Concessions. By analysing the optimum drainage area for existing wells and corresponding petroleum initially in place, a recovery factor can be determined. This forms the basis for the assignment of undeveloped reserves and potential well locations.

Total proved undeveloped reserves has been estimated for identified infill locations. Total probable undeveloped reserves have been estimated for step out locations. Possible underdeveloped reserves have been estimated for over 200 locations in these fields in lesser developed portions of the fields.

Reserves Assessment

Information on the Reserves in this report are based on an independent appraisal of the oil reserves conducted by Chapman covering the Concessions as at 31st December 2013 and fairly represents the information and supporting documentation reviewed. The appraisal was carried out in accordance with the SPE Reserves Auditing Standards and the SPE-PRMS guidelines under the Supervision of Mr C Chapman, President of Chapman, a leading petroleum advisory firm. Mr Chapman has a Bachelor of Science degree, is a member of the Australasian Institute of Mining and Metallurgy and has more than 25 years relevant experience. Mr Chapman meets the requirements of a qualified petroleum reserve and resource evaluator as defined in Chapter 19 of the ASX Listing Rules and consents to the inclusion of this information in this report.

The Reserve estimates outlined in this report have been compiled by the Company's Chief Operating Officer, Mr Philip Huizenga, who is a full-time employee of the Company. Mr Huizenga is qualified in accordance with ASX Listing Rule 5.11 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, and this is particularly so for the volcanic reservoirs encountered in this area.

Operating and Financial Review

The Group reports an after-tax profit of $16,787,000 for the financial year ending 30 June 2014.

	2014	2013	Change
Production (bbls)	237,311	200,147	19%
Sales ($'000)	23,193	18,304	27%
Cost of sales	13,142	13,007	1%

Increases in production and realised oil prices saw an increase in sales revenue compared to the previous financial year. A large portion of the cost of sales is fixed and as a result, cost of sales was relatively consistent with the previous year.

During the year Carnarvon raised $3,100,000 by way of an entitlement offer to existing shareholders in preparation for drilling success in the North West Shelf (Phoenix South-1 well).

In April 2014, Carnarvon completed the sale of half of its 40% interest in its producing Concessions in Thailand. This resulted in the receipt of US$33m cash and US$32m in deferred consideration. The deferred consideration has resulted in the Company carrying a deferred consideration asset classified as available-for-sale of $21,480,000 which represents the estimated present value of this receivable.

The exploration expenditure written off during the 2014 financial year consists of $4,408,000 in relation to exploration expenses incurred in the L52/50 and L53/50 Concessions, $105,000 in relation to the WA-399-P Permit and $365,000 in relation to the WA-443-P Permit. These amounts have been written off as the Concessions and Permits have been relinquished.

The Company spent $9,639,000 on exploration and development drilling and associated activities in the L33/43 and L44/43 Concessions in Thailand during the 30 June 2014 financial year.

The sale of half of the Company's 40% interest in its producing Concessions in Thailand meant there was a decrease in deferred tax liabilities of $21,343,000 recognised in the financial statements. These liabilities are due to temporary differences between income tax deductions and amortization with respect to the Company's oil and gas assets in Thailand. The deferred tax component of the income tax expense does not incur any cash obligation to the Thai tax authorities in the current period.

The Group does not currently use derivative financial instruments to hedge financial risk exposures and therefore it is exposed to daily movements in the international oil prices, exchange rates, and interest rates. The Company manages its cash positions in Thai Baht, US Dollars and Australian Dollars to naturally hedge its foreign exchange rate exposures.

Revenues under the Group's contractual arrangements with its customer are denominated in US$, linked to the US$ prices of a basket of oil products, and paid in Thai Baht at the average monthly exchange rate. The Group does not currently use derivative financial instruments to hedge commodity price risk and therefore is exposed to daily movements in the prices of these oil products.

Permit Interests

Permit	Basin	Equity	Joint Venture Partner(s)	Partner Interest	Indicative Forward Program
Thailand					
SW1A	Phetchabun	20%	Eco Orient Energy (i) Loyz Energy Limited	60% 20%	Production, Appraisal
L33/43	Phetchabun	20%	Eco Orient Energy (i) Loyz Energy Limited	60% 20%	Production, Appraisal, Exploration
L44/43	Phetchabun	20%	Eco Orient Energy (i) Loyz Energy Limited	60% 20%	Production, Appraisal, Exploration
L20/50	Phitsanulok	0%	Siam Moeco (i) (ii)	100%	Relinquishment
L52/50	Surat-Khiensa	100%	-	-	Relinquishment
L53/50	Surat-Khiensa	100%	-	-	Relinquishment
Australia					
EP-490	Carnarvon	100%	-	-	G & G Studies
EP-491	Carnarvon	100%	-	-	G & G Studies
TP/27	Carnarvon	100%	-	-	G & G Studies
WA-435-P	Roebuck	20%	Apache (i) Finder Exploration JX Nippon	40% 20% 20%	Exploration well
WA-436-P	Roebuck	50% (iii)	Finder Exploration (i)	50% (iii)	G & G Studies, Farmout
WA-437-P	Roebuck	20%	Apache (i) Finder Exploration JX Nippon	40% 20% 20%	G & G Studies, Contingent exploration well
WA-438-P	Roebuck	50% (iii)	Finder Exploration (i)	50% (iii)	G & G Studies, Farmout
WA-443-P	Roebuck	100%	-	-	Relinquishment
EP321	Perth	2.50% of 38.25% (ii)	-	-	Appraisal
EP407	Perth	2.50% of 42.5% (ii)	-	-	Appraisal
WA399P	Carnarvon	13%	Apache (i) Rialto Energy Jacka Resources	60% 12% 15%	Relinquishment

Note:
(i) Denotes operator where Carnarvon is non-operator partner
(ii) Carnarvon has an overriding royalty interest in these assets
(iii) Apache Northwest Pty Ltd have exercised an option to acquire 40% (20% from Carnarvon and 20% from Finder as per ASX announcement 18 August 2014.

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 2014, 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 and a former Senior Partner of PricewaterhouseCoopers 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 is also a director of The Honey Perkins Institute for Medical Research and the Cancer Research Trust.

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

Adrian C Cook
Chief Executive Officer and Managing Director
B Bus, CA, MAppFin

Appointed as a director on 1 July 2011

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

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

Edward (Ted) P Jacobson

Non-Executive Director

B.Sc (Hons Geology)

Appointed as a director on 5 December 2005.

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

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

Mr Jacobson retired as Chief Executive Officer of Carnarvon on 30 June 2011.

Neil C Fearis

Non-Executive Director

LL.B (Hons), FAICD, F Fin

Appointed as a director on 30 November 1999. Retired as director on 31 December 2013.

Mr Fearis has over 35 years' experience as a commercial lawyer in the UK and Australia.

During the past three years Mr Fearis served as a director of the following listed companies: Perseus Mining Limited (from 2004); Magma Metals Limited (from October 2009 to June 2013); and Tiger Resources Limited (from May 2011). Mr Fearis is also a member of several professional bodies associated with commerce and law.

Mr Fearis was Chairman of the Audit Committee and a member of the Remuneration Committee until his retirement on 31 December 2013.

William (Bill) A Foster

Non-Executive Director

BE (Chemical)

Appointed as a director on 17 August 2010.

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

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

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

Company Secretary

Mr Thomson Naude was appointed Company Secretary in November 2012. Mr Naude is a qualified Chartered Accountant, a member of Chartered Secretaries Australia and the Commercial Manager at Carnarvon Petroleum.

Directors' meetings

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

	(a)	(b)
Peter Leonhardt	10	10
Ted Jacobson	10	9
Neil Fearis	5	5
Bill Foster	10	10
Adrian Cook	10	10

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

Audit Committee

Names and qualifications of Audit Committee members

The Committee is to include at least 2 members from 1 July 2009. Current members of the committee are Bill Foster (Chairman of the Audit Committee) and Peter Leonhardt. Qualifications of Audit Committee members are provided in the Directors section of this directors' report.

Audit Committee meetings

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

	(a)	(b)
Peter Leonhardt	2	2
Neil Fearis	1	1
Bill Foster	2	2

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

Remuneration Report (Audited)

Remuneration Committee

The Committee is to include at least 2 members. Current members of the committee are Bill Foster (Chairman of the Remuneration Committee) and Peter Leonhardt. Qualifications of Remuneration Committee members are provided in the Directors section of this directors' report.

Remuneration Committee meetings

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

	(a)	(b)
Neil Fearis	1	1
Peter Leonhardt	2	2
Bill Foster	2	2

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

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

Principles of compensation

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

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

The Remuneration Committee ultimately determines its compensation practices in terms of their effectiveness to attract, retain and incentivise appropriately qualified and experienced directors and senior executives.

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.

Remuneration Report (Audited) (continued)

Principles of compensation (continued)

On 1 August 2008 the Board adopted a policy that prohibits those that are issued share-based payments as part of their remuneration from entering into other arrangements that limit their exposure to losses that would result from share price decreases. The Company requires all executives and directors to sign annual statements of compliance with this policy throughout the preceding year.

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

	30 June 2010	30 June 2011	30 June 2012	30 June 2013	30 June 2014
Share price as at 30 June each year	$0.345	$0.175	$0.105	$0.041	$0.075
Year on year change in the share price	(58%)	(49%)	(40%)	(61%)	83%
Consolidated net profit / (loss) from continuing operations ($000)	$14,423	$2,159	($2,498)	($8,385)	16,787

Non-executive directors

Total remuneration for all non-executive directors, last voted upon by shareholders at a General Meeting in November 2008, is not to exceed $300,000 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.

Additional consulting fees of $106,356 (2013:$ 149,987) were paid to a related entity of Ted Jacobson in relation to exploration advisory services during the year.

Fixed compensation

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

Remuneration Report (Audited) (continued)

Short term incentive scheme

Short term incentives are assessed by the Remuneration 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 Committee is not obliged to make incentive payments where there are material adverse changes in the circumstances of the Company.

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

All short term incentives awarded during the period are included in remuneration, as set out on page 25, and fully vested to each named Company executives, and key management personnel during the period. The basis of these short term incentives included personal performance coupled with the delivery of key milestones such as the spudding of the Phoenix South well, the securing of new acreage, materially increasing oil production in Thailand and the divesting of half of Carnarvon's interest in its Thailand production asset for a value premium to the Company's market value.

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 16 November 2013.

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 when the share price increases to 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 the most effective way to align the objectives of management with the interests of shareholders.

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

Remuneration Report (Audited) (continued)

- 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;
- a Participant may not dispose of any Plan Shares within one year of the Issue Date but, subject to repayment of any associated loan, may dispose of up to 33.3% of Plan Shares after one year, 66.6% after two years, and 100% after three years;
- until the loan to the Participant is fully repaid, the Company has control over the disposal of the Plan Shares. Once the loan is repaid in full, the Participant may deal with the Plan Shares as he wishes;
- the aggregate number of Plan Shares and other shares and options issued in the previous 5 years under any other employee incentive scheme of the Company must not exceed 5% of the issued capital of the Company; and
- applications will be made as soon as practicable after the allotment of the Plan Shares for listing for quotation on ASX.
- the principal provisions of the loan agreement include:
- the amount lent will be an advance equal to the issue price of the Plan Shares multiplied by the number of Plan Shares issued;
- the loan can be repaid at any time but the Participant must pay any amount outstanding to the Company within 30 days of termination of the Eligible Person's employment. All dividends declared and paid on the Plan Shares will be applied towards the repayment of the advance and there is no interest on the advance;
- the maximum liability in respect of the loan will be the value of the Plan Shares from time to time; and
- a holding lock will be placed on the Plan Shares until the loan is fully repaid.
- loans made under the ESP involve no cash outlay by the Company.

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 Committee based upon the assessed performance of each person against their job specifications and the recommendations of the Chief Executive Officer, and in the case of executive Directors, with the approval of shareholders.

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

During the current financial year the following Plan Shares were issued to Executive Officers of the Company:

Executive Officers	Number of shares issued	Issue date	Exercise price per share	Notional Loan
PP Huizenga	400,000	21/11/2013	$0.71	$46,000
AC Cook*	250,000*	13/12/2013*	$0.059*	$14,750*
PP Huizenga	1,000,000	23/05/2014	$0.115	$115,000

The exercise price for each issue above was calculated based on 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 15 November 2013.

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 the following page.

In order to determine the cost of Plan Shares issued in a period, the Company uses the Black-Scholes Option Pricing Model, calculated at the date of issue of the Plan Shares, assuming a 3 year life and nil cash consideration. For this purpose, Plan Shares are treated as having vested immediately and the cost calculated under the Black-Scholes Option Pricing Model is recognised as an expense entirely in the current period, notwithstanding restrictions on their disposal and the period over which the benefits arise. The following factors and assumptions were used in determining the fair value of Plan Shares at grant date in the current reporting period:

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
21/11/2013	20/11/2016	$0.042	$0.071	$0.066	70%	2.5%	0%
13/12/2013	12/12/2016	$0.025	$0.059	$0.055	70%	2.5%	0%
23/05/2014	22/05/2017	$0.030	$0.115	$0.098	70%	2.5%	0%

Service contracts

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

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.

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.

Equity instruments

(i) Shares

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

650,000 Plan Shares were issued to key management personnel to match shares acquired on market by these individuals. An additional 3,259,399 Plan Shares were issued to employees of the Company to match shares acquired on market by these individuals. The match scheme is designed to align the interests of employees and shareholders by encouraging employees to use personal funds to acquire shares in the Company.

(ii) 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. ESP shares issued as compensation to key management personnel during the year are disclosed on page 25.

There were no shares issued in either 2014 or 2013 on the exercise of options.

There are no amounts unpaid on shares issued as a result of the exercise of options. During the reporting period there was no forfeiture, lapsing or vesting of options issued in previous periods.

At the end of the reporting period, other than Plan Shares (treated in principle as options), there were no unvested options on issue.

Remuneration report (Audited) (continued)

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

	Short Term		Post Employment	Share-based payments			
Name	Salary and fees ($)	Short term cash bonus ($)	Super-annuation contributions ($)	Shares ($)	Total ($)	Proportion of remuneration performance related%	Value of shares as a % of remuneration
Directors							
Non-Executive							
Mr PJ Leonhardt (Chairman)							
2014	110,000	-	-	-	110,000	-	-
2013	105,000	-	-	-	105,000	-	-
Mr NC Fearis							
2014	31,250	-	-	-	31,250	-	-
2013	62,500	-	-	-	62,500	-	-
Mr W Foster							
2014	71,250	-	-	-	71,250	-	-
2013	62,500	-	-	-	62,500	-	-
Mr EP Jacobson							
2014	68,750	-	-	-	68,750	-	-
2013	62,500	-	-	-	62,500	-	-
Executive							
Mr AC Cook (Chief Executive Officer)							
2014	521,250	95,594	25,000	6,333 [1]	648,177	14.7	1.0
2013	520,000	-	25,000	-	545,000	-	-
Executives							
Mr PP Huizenga (Chief Operating Officer)							
2014	493,933	96,003	25,000	54,584 [1]	669,520	20.7	8.2
2013	492,750	-	25,000	-	517,750	-	-
Total compensation: key management personnel (Company and consolidated)							
2014	1,296,433	191,597	50,000	60,917 [1]	1,598,947	15.1	3.8
2013	1,305,250	-	50,000	-	1,355,250	-	-

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*

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 2014 ($)
Auditors of the Company:	
Audit and review of financial reports	142,544

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	6,890,000	640,000
EP Jacobson	34,188,267	2,890,632
WA Foster	528,205	156,250

Shares issued under the Company's ESP are included under the heading Ordinary Shares. Options over ordinary shares were acquired by Directors through their participation in the Company's entitlement offer to all shareholders.

Share options

Options issued to directors and executives of the Company

There were no options over shares issued as compensation to directors or named executives during or since the end of the financial year.

Diversity

For the year ending 30 June 2014, women made up 30% of the Company's general work force. Currently, there are no women on the board or in senior executive positions.

Likely developments

The likely developments for the 2014 financial year are contained in the operating and financial review as set out on pages 4 to 15. The directors are of the opinion that further information as to the likely developments in the operations of the Group would prejudice the interests of the Company and the Group and it has accordingly not been included.

Environmental regulation and performance

The Group's oil and gas exploration and development activities are concentrated in Thailand, and Western Australia. Environmental obligations are regulated under both State and Federal Law in Western Australia and under the Department of Mineral Fuels regulations in Thailand. No significant environmental breaches have been notified by any government agency during the year ended 30 June 2014.

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 (2013: Nil).

Auditor's independence declaration

The auditor's Independence Declaration under Section 307C of the Corporations Act is set out on page 29 and forms part of the directors' report for the financial year ended 30 June 2014.

Principal activities

During the course of the 2014 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 Corporate Governance Statement section of this Annual Report as set out on pages 79 to 81.

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 15.

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.

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 2014 is set out on pages 4 to 15 and forms part of this report.

Indemnity of directors, company secretary and auditors

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.

The company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify the auditor of the company against a liability incurred by the auditor.

Events subsequent to reporting date

As of the 18 August 2014 the Company announced a significant oil discovery in the Phoenix South-1 well in the North West Shelf in Western Australian Permit WA-435-P. At this preliminary stage it is too early to quantify the recoverable volumes of oil. In addition, further technical evaluation is required in order to be in a position to announce this information. The cost estimate for the well to completion for the Company, including additional drilling, is estimated to be around $6,000,000. This figure is subject to change pending the finalisation of the costs associated with the well.

No matters or circumstance has arisen since 30 June 2014 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 to which ASIC Class Order 98/100 dated 10 July 1998 applies. In accordance with that Class Order 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, 29 August 2014

Crowe Horwath™

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Carnarvon Petroleum Limited for the year ended 30 June 2014, I declare that, 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.

Crowe Horwath Perth

CROWE HORWATH PERTH

Sean McGurk

SEAN MCGURK
Partner

Signed at Perth, 29 August 2014

Consolidated Income Statement

For the year ended 30 June 2014

	Notes	Consolidated 2014 $000	Consolidated 2013 $000
Oil sales		23,193	18,304
Other income	4	1,574	787
(Loss) on sale of joint operations	5	(2,387)	-
Cost of sales	6	(13,142)	(13,007)
Administrative expenses		(1,365)	(1,192)
Directors' fees		(281)	(293)
Employee benefits expense		(1,552)	(885)
Travel related costs		(204)	(271)
Unrealised foreign exchange (loss)/gain		(1,501)	1,498
New venture and advisory costs		(2,203)	(2,334)
Exploration expenditure written off	16	(4,878)	(1,105)
Share-based payments		(143)	(14)
(Loss) profit before income tax		(2,889)	1,488
Taxes			
Current income tax expense / (benefit)		1,667	(261)
Deferred income tax (benefit) / expense		(21,343)	10,134
	10 (a)	(19,676)	9,873
Total taxes		(19,676)	9,873
Profit (loss) for the year		16,787	(8,385)
Profit (loss) attributable to members of the Company		16,787	(8,385)
Basic profit (loss) per share (cents per share)	9	1.7	(1.0)
Diluted profit (loss) per share (cents per share)	9	1.7	(1.0)

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

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended 30 June 2014

	Consolidated	
	2014 $000	2013 $000
Profit (loss) for the year	16,787	(8,385)
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences arising in translation of foreign operations, net of income tax	(11,501)	18,102
Total comprehensive income for the year	5,286	9,717
Total comprehensive income attributable to members of the company	5,286	9,717

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 2014

	Notes	2014 $000	2013 $000
Current assets			
Cash and cash equivalents	23(b)	49,580	19,525
Trade and other receivables	11	3,937	5,082
Inventories	14	2,728	6,963
Other assets	15	428	251
Total current assets		56,673	31,821
Non-current assets			
Deferred consideration asset	12	21,480	-
Property, plant and equipment	13	504	765
Exploration and evaluation expenditure	16	2,300	3,404
Oil and gas assets	17	52,008	108,374
Total non-current assets		76,292	112,543
Total assets		132,965	144,364
Current liabilities			
Trade and other payables	19	4,516	3,166
Employee benefits	26	244	279
Exploration provision	16	1,203	-
Current tax liability	10 (b)	235	846
Total current liabilities		6,198	4,291
Non-current liabilities			
Employee benefits	26	105	-
Deferred tax liabilities	21	21,902	43,245
Total non-current liabilities		22,007	43,245
Total liabilities		28,205	47,536
Net assets		104,760	96,828
Equity			
Issued capital	22	90,213	87,573
Reserves	22	(6,268)	857
Retained earnings		20,815	8,398
Total equity		104,760	96,828

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 2014

	Issued capital $000	Retained earnings $000	Translation reserve $000	Share based payments reserve $000	Total $000
Balance at 1 July 2012	68,536	16,783	(19,197)	2,194	68,316
Comprehensive income					
(Loss) for the year	-	(8,385)	-	-	(8,385)
Other comprehensive income	-	-	18,102	-	18,102
Total comprehensive income for the year	-	(8,385)	18,102	-	9,717
Transactions with owners and other transfers					
Share based payments	256	-	-	(242)	14
Proceeds from capital raise	18,781	-	-	-	18,781
Total transactions with owners and other transfers	19,037	-	-	(242)	18,795
Balance at 30 June 2013	87,573	8,398	(1,095)	1,952	96,828
Balance at 1 July 2013	87,573	8,398	(1,095)	1,952	96,828
Comprehensive income					
Profit for the year	-	16,787	-	-	16,787
Other comprehensive income	-	-	(11,501)	-	(11,501)
Total comprehensive income for the year	-	16,787	(11,501)	-	5,286
Transactions with owners and other transfers					
Reclassification on partial disposal	-	(4,370)	4,370	-	-
Share based payments	137	-	-	6	143
Proceeds from entitlement issue	2,503	-	-	-	2,503
Total transactions with owners and other transfers	2,640	-	-	6	2,646
Balance at 30 June 2014	90,213	20,815	(8,226)	1,958	104,760

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 2014

	Notes	Consolidated 2014 $000	Consolidated 2013 $000
Cash flows from operating activities			
Receipts from customers and GST recovered		23,413	18,352
Payments to suppliers and employees		(13,425)	(15,766)
Income tax and special remuneratory benefit paid		(1,249)	(1,479)
Interest received		151	180
Research and development refundable tax offset		714	-
Net cash provided by operating activities	23(a)	9,604	1,287
Cash flows from investing activities			
Exploration and development expenditure		(13,232)	(12,448)
Cash held as security		(164)	(745)
Acquisition of property, plant and equipment		(43)	(453)
Proceeds from farm-out activities		-	4,480
Net cash used in investing activities		(13,439)	(9,166)
Cash flows from financing activities			
Proceeds from sale of Thai assets		31,062	-
Sale from property, plant and equipment		-	19
Proceeds from entitlement issue		2,503	-
Proceeds from issue of shares		-	18,781
Net cash provided by financing activities		33,565	18,800
Net increase in cash and cash equivalents held		29,730	10,921
Cash and cash equivalents at the beginning of the financial year		19,525	7,106
Effect of exchange rate fluctuations on cash and cash equivalents		325	1,498
Cash and cash equivalents at the end of the financial year	23(b)	49,580	19,525

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

1. Reporting entity

The consolidated financial report of Carnarvon Petroleum Limited ('Company') for the financial year ended 30 June 2014 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*.

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

The financial report was authorised for issue by the directors on 30 August 2014.

2. Basis of preparation of the financial report

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 2013 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, amendments made to AASB 101 Presentation of Financial Statements effective 1 July 2013 now require the statement of comprehensive income to show the items of comprehensive income grouped into those that are not permitted to be classified to profit or loss in a future period and those that may have to be reclassified if certain conditions are met.

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.

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

Key estimate – impairment

The Group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to the impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates as detailed in Note 17.

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.

Key estimate – special remuneratory benefit and income tax

The Group's Phetchabun Basin Joint Venture is subject to Thai income tax at 50% and a special remuneratory benefit ("SRB") tax on profits, at sliding scale rates (0% - 75% per concession).

The SRB, which is tax deductible in the calculation of Thai income taxes, involves a highly detailed calculation done on a concession by concession basis. The basis of the calculation is petroleum profits, adjusted for capital spent, being subjected to a sliding scale SRB rate such that profits are not taxed until all capital has been recovered. The sliding scale rate is principally driven by production and pricing but is subject to other adjustments such as changes in Thailand's consumer price index, wholesale price index, cumulative metres drilled on the concession, and, for certain concessions, changes in the exchange rate between the Thai Baht and the USD.

The SRB calculation is performed and paid annually for each concession at the calculated annual rate at the end of each calendar year. Judgement is required in determining provisions which are based on estimates of amounts due. Where the final outcome of those matters is different from the amounts that were originally recognised, such difference may impact those provisions in the period in which such a determination is made.

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.

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

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

- asset carrying values (note 17) may be affected due to changes in estimated future cash flows;
- depreciation charged in the income statement (note 6) may change as such charges are determined by the units of production basis; and
- the carrying value of deferred tax assets (note 21) 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.

Key judgements – other

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

3. 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 report comprises the financial statements of the Company and its controlled entities. A controlled entity is any entity controlled by the Company whereby the Company has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities. All inter-company balances and transactions between entities in the group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of controlled entities have been changed where necessary to ensure consistency with those applied by the Company.

Where controlled entities enter or leave the group during the year, their operating results are included or excluded from the date control was obtained or until the date control ceased. Investments in controlled entities are carried at cost in the Company's financial statements.

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 18.

3. Significant accounting policies (continued)

(b) Income tax and special remuneratory benefit

Income tax (current tax & deferred tax)

The charge for current income tax expense is based on the result for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by balance sheet date.

Deferred tax is accounted for using the liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is recognised in the income statement except where it relates to items recognised directly in equity, in which case it is recognised in equity. Deferred income tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and tax losses. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company / group intends to settle its current tax assets and liabilities on a net basis.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law. The carrying amount of deferred tax assets is reviewed at each balance date and only recognised to the extent that sufficient future assessable income is expected to be obtained against which the benefits of the deferred tax assets can be utilized.

Special remuneratory benefit

The Group's Phetchabun Basin Joint Venture is subject to a special remuneratory benefit ("SRB") tax on profits, at sliding scale rates (0% - 75% per concession).

The SRB, which is tax deductible in the calculation of Thai income taxes, involves a detailed calculation done on a concession by concession basis. The basis of the calculation is petroleum profits, adjusted for capital spent, being subjected to a sliding scale SRB rate such that profits are not taxed until all capital has been recovered. The sliding scale rate is principally driven by production and pricing but is subject to other adjustments such as changes in Thailand's consumer price index, wholesale price index, cumulative metres drilled on the concession, and, for certain concessions, changes in the exchange rate between the Thai Baht and the USD. The SRB calculation is performed quarterly for each concession at the calculated annual rate at the end of each quarter.

The SRB is considered, for accounting purposes, to be a tax on income.

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.

3. Significant accounting policies (continued)

(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 3(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.

(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.

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.

3. Significant accounting policies (continued)

(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 3(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.

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.

Restoration costs

There are no restoration provisions required in respect of the Group's activities under current Thai Legislation.

3. Significant accounting policies (continued)

(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, amortised cost using the effective interest rate method, or cost. 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.

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 comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.
They are subsequently measured using the effective interest method which is recognised in profit or loss. A fair value gain or loss of the underlying financial asset shall be recognised in other comprehensive income (except for impairment losses and foreign exchange gains or losses). 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.

3. Significant accounting policies (continued)

(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.

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) 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.

(l) Share capital

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

3. Significant accounting policies (continued)

(m) 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.

(n) 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 – Employee Share Plan

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 issued to eligible persons on or after 1 January 2005, 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.

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. Upon repayment of the ESP loans, the balance of the share-based payments reserve relating to the loan repaid is transferred to issued capital.

(o) 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.

(p) 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.

3. Significant accounting policies (continued)

(q) 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.

(r) 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.

(s) 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.

(t) 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.

u) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

3. Significant accounting policies (continued)

(v) 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 2014. 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.

AASB 9 Financial Instruments and its consequential amendments

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2017 and completes phases I and III of the IASB's project to replace IAS 39 (AASB 139) 'Financial Instruments: Recognition and Measurement'. This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. Chapter 6 'Hedge Accounting' supersedes the general hedge accounting requirements in AASB 139 and provides a new simpler approach to hedge accounting that is intended to more closely align with risk management activities undertaken by entities when hedging financial and non-financial risks. The consolidated entity will adopt this standard and the amendments from 1 July 2017 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities

The amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of 'currently has a legally enforceable right of set-off'; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement. The adoption of the amendments from 1 July 2014 will not have a material impact on the consolidated entity.

AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets

These amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed. The adoption of these amendments from 1 July 2014 may increase the disclosures by the consolidated entity.

AASB 2013-4 Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting

These amendments are applicable to annual reporting periods beginning on or after 1 January 2014 and amends AASB 139 'Financial Instruments: Recognition and Measurement' to permit continuation of hedge accounting in circumstances where a derivative (designated as hedging instrument) is novated from one counter party to a central counterparty as a consequence of laws or regulations. The adoption of these amendments from 1 July 2014 will not have a material impact on the consolidated entity.

AASB 2013-5 Amendments to Australian Accounting Standards - Investment Entities

These amendments are applicable to annual reporting periods beginning on or after 1 January 2014 and allow entities that meet the definition of an 'investment entity' to account for their investments at fair value through profit or loss. An investment entity is not required to consolidate investments in entities it controls, or apply AASB 3 'Business Combinations' when it obtains control of another entity, nor is it required to equity account or proportionately consolidate associates and joint ventures if it meets the criteria for exemption in the standard. The adoption of these amendments from 1 July 2014 will have no impact on the consolidated entity.

3. Significant accounting policies (continued)

(v) New Accounting Standards for Application in Future Periods (continued)

Annual Improvements to IFRSs 2010-2012 Cycle

These amendments are applicable to annual reporting periods beginning on or after 1 July 2014 and affects several Accounting Standards as follows: Amends the definition of 'vesting conditions' and 'market condition' and adds definitions for 'performance condition' and 'service condition' in AASB 2 'Share-based Payment'; Amends AASB 3 'Business Combinations' to clarify that contingent consideration that is classified as an asset or liability shall be measured at fair value at each reporting date; Amends AASB 8 'Operating Segments' to require entities to disclose the judgements made by management in applying the aggregation criteria; Clarifies that AASB 8 only requires a reconciliation of the total reportable segments assets to the entity's assets, if the segment assets are reported regularly; Clarifies that the issuance of AASB 13 'Fair Value Measurement' and the amending of AASB 139 'Financial Instruments: Recognition and Measurement' and AASB 9 'Financial Instruments' did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amount, if the effect of discounting is immaterial; Clarifies that in AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets', when an asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount (i.e. proportional restatement of accumulated amortisation); and Amends AASB 124 'Related Party Disclosures' to clarify that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a 'related party' of the reporting entity. The adoption of these amendments from 1 July 2014 will not have a material impact on the consolidated entity.

Annual Improvements to IFRSs 2011-2013 Cycle

These amendments are applicable to annual reporting periods beginning on or after 1 July 2014 and affects four Accounting Standards as follows: Clarifies the 'meaning of effective IFRSs' in AASB 1 'First-time Adoption of Australian Accounting Standards'; Clarifies that AASB 3 'Business Combination' excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself; Clarifies that the scope of the portfolio exemption in AASB 13 'Fair Value Measurement' includes all contracts accounted for within the scope of AASB 139 'Financial Instruments: Recognition and Measurement' or AASB 9 'Financial Instruments', regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132 'Financial Instruments: Presentation'; and Clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in AASB 3 'Business Combinations' and investment property as defined in AASB 140 'Investment Property' requires the separate application of both standards independently of each other. The adoption of these amendments from 1 July 2014 will not have a material impact on the consolidated entity.

	Consolidated 2014 $000	Consolidated 2013 $000

4. Other income

	2014 $000	2013 $000
Finance income on bank deposits	236	188
Net gain on asset transactions	-	599
Research and development refundable offset	714	-
Interest on financial assets	624	-
	1,574	787

5. (Loss) on sale of joint operations

	2014 $000	2013 $000
Cash consideration	35,681	-
Deferred consideration	20,856	-
Less transaction costs	(1,654)	-
	54,883	-
Less asset and liability adjustments:		
Cash and cash equivalents	(2,954)	-
Trade and other receivables	(2,419)	-
Inventories	(2,776)	-
Other assets	(211)	-
Property, plant and equipment	(230)	-
Oil and gas assets	(50,440)	-
Trade and other payables	1,852	-
Current tax liability	(92)	-
	(2,387)	-

6. Cost of sales

	2014 $000	2013 $000
Production expenses	(3,787)	(4,426)
Royalty and excise	(1,297)	(1,050)
Transportation	(627)	(486)
Depreciation - development costs and producing assets	(5,613)	(5,140)
Selling, general and administration	(1,818)	(1,905)
	(13,142)	(13,007)

7. Other expenses

	2014 $000	2013 $000
Depreciation – property, plant and equipment	(300)	(310)
Rental premises – operating leases	(175)	(163)
Defined contribution – superannuation expense	(156)	(143)

8. Auditors' remuneration

	2014 $000	2013 $000
Audit and review services:		
Auditors of the Company	(143)	(138)

9. Earnings per share

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

	2014	2013
	Number of shares	
Issued ordinary shares at 1 July	935,383,501	693,370,634
Effect of shares issued	30,233,337	168,989,083
Weighted average number of ordinary shares 30 June (basic)	965,616,838	862,359,717
Effect of share options on issue	28,180,943	-
Weighted average number of ordinary shares 30 June (diluted)	993,797,781	862,359,717

	2014 $	2013 $
Profit / (loss) used in calculating basic and diluted earnings per share from continuing operations	16,787,000	(8,385,000)

10. Taxes

	Consolidated 2014 $000	Consolidated 2013 $000
(a) Income tax expense		
Numerical reconciliation between pre-tax profit and income tax expense:		
Prima facie income tax expense on pre-tax profit at 30% (2013: 30%)	(222)	446
Tax effect of:		
Special remuneratory benefit	-	-
Effect of higher overseas tax rate	1,965	1,039
Effect of foreign exchange	(3,733)	6,200
Non-deductible expenditure	1,967	635
Prior year temporary differences recognised	(275)	(356)
Effect of deferred tax on disposal	(21,509)	-
Current year tax benefit not brought to account	2,131	1,909
Income tax expense on pre tax profit	(19,676)	9,873
Current income tax	1,667	(261)
Deferred tax	(21,343)	10,134
	(19,676)	9,873
(b) Current tax liability	235	846

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.

11. Trade and other receivables

	Consolidated 2014 $000	Consolidated 2013 $000
Current		
Trade and other receivables	3,719	5,028
Cash held as security	218	54
	3,937	5,082

The Group's exposure to credit and currency risks is disclosed in Note 34.

12. Deferred consideration asset

	Consolidated 2014 $000	Consolidated 2013 $000
Deferred consideration	21,480	-

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

	2014 $000	2013 $000
Opening fair value	-	-
Additions	20,856	-
Disposals	-	-
Effective interest	624	-
Closing fair value	21,480	-

Carnarvon completed the sale of half of its 40% interest in its producing Concessions in Thailand during the year. This resulted in the receipt of US$33,000,000 cash and US$32,000,000 in deferred consideration based on 12% of the acquirer's share of revenue in the Concessions.The $20,856,000 AUD deferred consideration asset addition relates to the present value of $32,000,000 USD of deferred consideration receivable to Carnarvon. This is recognised in accordance with AASB 139 as an available-for-sale financial asset.

Refer to note 35 for further information on fair value measurement.

13. Property, plant and equipment

	Consolidated 2014 $000	Consolidated 2013 $000
Plant and equipment		
Cost:		
Balance at beginning of financial year	892	552
Additions	38	206
Disposals	-	(8)
Effect of sale	(463)	-
Effects of movements in foreign exchange	(44)	142
Balance at end of financial year	423	892
Depreciation and impairment losses:		
Balance at beginning of financial year	415	279
Effect of sale	(235)	-
Depreciation charge for year	133	136
Balance at end of financial year	313	415
Carrying amount opening	477	273
Carrying amount closing	110	477
Fixtures and fittings		
Cost:		
Balance at beginning of financial year	1,122	823
Additions	369	222
Effect of sale	(413)	-
Effects of movements in foreign exchange	(27)	77
Balance at end of financial year	1,051	1,122
Depreciation and impairment losses:		
Balance at beginning of financial year	899	695
Effect of sale	(431)	-
Depreciation charge for year	203	204
Balance at end of financial year	671	899
Carrying amount opening	223	181
Carrying amount closing	380	223

13. Property, plant and equipment (continued)

	Consolidated 2014 $000	Consolidated 2013 $000
Land and buildings		
Cost:		
Balance at beginning of financial year	159	139
Additions	19	-
Effect of sale	(88)	-
Effects of movements in foreign exchange	(6)	20
Balance at end of financial year	84	159
Depreciation:		
Balance at beginning of financial year	94	71
Effect of sale	(59)	-
Depreciation charge for year	28	23
Balance at end of financial year	63	94
Carrying amount opening	65	68
Carrying amount closing	21	65
Total		
Cost:		
Balance at beginning of financial year	2,226	1,567
Additions	425	428
Disposals	-	(8)
Effect of sale	(964)	-
Effects of movements in foreign exchange	(79)	239
Balance at end of financial year	1,608	2,226
Depreciation and impairment losses:		
Balance at beginning of financial year	1,461	1,098
Effect of sale	(722)	-
Depreciation charge for year	365	363
Balance at end of financial year	(1,104)	1,461
Carrying amount opening	765	469
Carrying amount closing	504	765

	Consolidated 2014 $000	Consolidated 2013 $000

14. Inventories

	2014 $000	2013 $000
Current		
Consumables	2,728	6,963

15. Other assets

	2014 $000	2013 $000
Current		
Deposits and prepayments	428	251

16. Exploration and evaluation expenditure

	2014 $000	2013 $000
Cost:		
Balance at beginning of financial year	3,404	7,776
Additions	3,774	1,213
Exploration back costs recovered	-	(4,480)
Exploration expenditure written off	(4,878)	(1,105)
Balance at end of financial year	2,300	3,404

The exploration expenditure written off during the financial year ended 30 June 2014 of $4,878,000 was in relation to $470,000 of exploration expenses incurred in the WA-443-P and WA-399-P Permits in Western Australia in addition to $3,205,000 of exploration expenses incurred, a $991,000 provisional work program obligation and a $212,000 community commitments provision in the L52/50 and L53/50 Concessions in Thailand as the Company has relinquished these Concessions to the relevant authorities. The obligation and provision commitments have generated a $1,203,000 exploration provision owing by the Company at year end.

17. Oil and gas assets

	2014 $000	2013 $000
Cost:		
Balance at beginning of financial year	144,064	113,730
Additions	9,639	13,196
Effect of Sale	(70,364)	-
Effects of movements in foreign exchange	(10,174)	17,138
Balance at end of financial year	73,165	144,064
Depreciation and impairment losses:		
Balance at beginning of financial year	35,690	30,825
Depreciation charge for year	5,391	4,865
Effect of Sale	(19,924)	-
Balance at end of financial year	21,157	35,690
Carrying amount opening	108,374	82,905
Carrying amount closing	52,008	108,374

18. Joint operations

The Group has the following interests in joint operation assets:

Joint operation	Principal activities	Ownership interest %	
Thailand		2014	2013
Phetchabun Basin Concession, Exploration Blocks L44/43 and L33/43 3/2546/60 and 5/2546/62 Concessions	Exploration, development and production of hydrocarbons	20%	40%
Exploration Blocks L52/50 and L53/50 3/2553/105 concession	Exploration for hydrocarbons	100%	100%
Western Australia			
WA-435-P, WA-437-P, Roebuck Basin	Exploration for hydrocarbons	20%	20%
WA-436-P, WA 438-P, Roebuck Basin	Exploration for hydrocarbons	50%	50%
WA-399-P, Carnarvon Basin	Exploration for hydrocarbons	13%	13%
WA-443-P, Roebuck Basin	Exploration for hydrocarbons	100%	100%
EP-490, EP-491, TP/27 Barrow sub Basin	Exploration for hydrocarbons	100%	0%

The Company has accounted for its interest in the above Concessions as Joint Operations even though some of the Company's interests do not require the unanimous consent of all of the parties sharing control to make decisions about the relevant activities. These interests are still treated as Joint Operations because the Company's investment in these Concessions gives it rights to its share of the assets, and obligations for its share of the liabilities. Therefore the Company has recognised its interests in the assets, liabilities, revenues and expenses for the above arrangements.

18. Joint operations (continued)

Summary financial information for joint venture assets, as included in the consolidated statement of financial position and income statement, is shown below:

	2014 $000	2013 $000
Current assets		
Cash and cash equivalents	5,880	5,087
Trade and other receivables	3,535	4,972
Inventories	2,728	6,963
Other assets	174	174
Total current assets	12,317	17,196
Non-current assets		
Property, plant and equipment	218	707
Exploration and evaluation	691	3,132
Oil and gas assets	52,008	108,374
Total non-current assets	52,917	112,213
Total assets	65,234	129,409
Current liabilities		
Trade and other payables	2,884	2,568
Current tax	235	846
Provisions	1,203	-
Total current liabilities	4,323	3,414
Non-current liabilities		
Deferred tax	21,902	43,245
Total non-current liabilities	21,902	43,245
Total liabilities	26,225	46,659
Net assets	39,009	82,750
Income	23,318	18,351
Expenses	(15,159)	(23,026)
Deferred tax reversal	21,343	-
Net profit after tax	29,502	(4,675)

Capital commitments and contingent liabilities for the joint ventures are disclosed in Notes 24 and 25 respectively.

19. Trade and other payables

	Consolidated 2014 $000	Consolidated 2013 $000
Current		
Trade payables	1,574	533
Non-trade payables and accrued expenses	2,942	2,633
	4,516	3,166

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 34

20. Provisions

Provision for restoration costs

There are no restoration provisions required in respect of the Group's activities under current Thai Legislation.

Provision for drilling commitments

The Company recognised a provision of $1,203,000 in relation to drilling commitments to the Government of Thailand for the L52/50 and L53/50 exploration Concessions in which the Company did not complete prior to relinquishing these Concessions.

21. Deferred tax liabilities

Recognised deferred tax assets and liabilities

The net deferred tax liability is attributable to the following:

	2014 $000	2013 $000
Oil and gas assets	22,292	44,359
Tax value of losses carry forward - Thailand	(390)	(1,223)
Net deferred tax liability	21,902	43,245

The movement in the deferred tax liability during the reporting period has all been recognised in the income statement.

Unrecognised deferred tax assets and liabilities

Deferred tax assets have not been recognised in respect of the following items:

	2014 $000	2013 $000
Australian tax losses	7,103	6,362

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. As explained in note 10(a), income tax is not payable in Australia 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.

22. Capital and reserves

	Company 2014	Company 2013
	Number of shares	
Issued capital		
Balance at beginning of financial year	935,383,501	693,370,634
Issued for cash	48,519,077	243,887,066
Employee Share Plan issues	4,159,399	600,000
Employee Share Plan cancellations	(885,000)	(2,474,199)
Balance at end of financial year	987,176,977	935,383,501

	Company 2014 $000	Company 2013 $000
Issued capital		
Balance at beginning of financial year	87,573	68,536
Transfer from share based payment reserve*	137	256
Net proceeds from capital raising activities	2,503	18,781
Balance at end of financial year	90,213	87,573

* *This represents the fair value of Employee Share Plan shares transferred from the share based payment reserve to issued capital upon cancellation.*

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

Translation reserve

Movements in the translation reserve are set out in the Statement of Changes in Equity on page 33.

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 33.

This reserve represents the fair value of shares issued under the Company's ESP. This reserve is reversed against issued capital when shares are issued on exercise of options issued under the previous employee option plan and the loan is repaid or cancelled under the current ESP.

23. Reconciliation of cash flows from operating activities

	Consolidated 2014 $000	Consolidated 2013 $000
(a) Cash flows from operating activities		
Profit (loss) for the year	16,787	(8,385)
Adjustments for:		
Equity settled share based payment expense	143	14
Deferred tax expense	(21,343)	10,134
Depreciation	5,068	5,139
Foreign exchange gains	325	(1,498)
Exploration expenditure written off	4,878	1,105
Operating profit before changes in working capital and provisions:	5,858	6,509
Changes in assets and liabilities:		
(Increase) / decrease in trade and other receivables	(828)	(2,544)
(Increase) / decrease in inventories	957	(2,631)
(Increase) / decrease in other assets	(401)	176
Increase / (decrease) in trade and other payables	3,416	1,221
Increase / (decrease) in provisions and employee benefits	602	(1,444)
Net cash flows generated from operating activities	9,604	1,287

(b) Reconciliation of cash and cash equivalents

	Consolidated 2014 $000	Consolidated 2013 $000
Cash at bank and at call	17,798	19,525
Cash on deposit	31,782	-
	49,580	19,525

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 34.

Restricted cash of $862,227 consolidated is included under trade and other receivables (2013:$ 1,443,100 consolidated), see Notes 11 and 25.

24. Capital and other commitments

	Consolidated 2014 $000	Consolidated 2013 $000
(a) Joint operation commitments		
Share of capital commitments of joint operation assets:		
Within one year	232	542
Capital commitments of the Group to joint operation assets:		
Within one year	309	1,987

24. Capital and other commitments (continued)

(b) 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	
	2014 $000	2013 $000
Less than one year	1,205	3,120
Between one and five years	1,200	3,650
	2,405	6,770

(c) Capital expenditure commitments

Data licence commitments	257	229

25. Contingencies

The directors are of the opinion that provisions are not required in respect of these matters as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Contingent liabilities considered remote

a) The Company has provided a cash bond of THB 19,654,800 (AUD$644,227) to the Department of Mineral Fuels in Thailand in respect of its obligations for its 20% interest in the L44/43 and L33/43 Concessions in Thailand. The bond is secured by a cash deposit of THB 19,654,800 (AUD$644,227) held with the joint operations partner's Thai bank. The other partners of the joint operations have also provided their remaining 80% shares of similar guarantees to the Department of Mineral Fuels.

The restricted cash held by the banks as security for these bonds and other guarantees total $862,227 (2013: $1,443,100) is classified under "trade and other receivables".

b) 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.

26. Employee benefits

	Consolidated 2014 $000	Consolidated 2013 $000
Current:		
Liability for annual leave	244	279
Non-Current:		
Provision for long service leave	105	-
Total Employee benefits	349	279

Share based payments - Employee Share Plan

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

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

The movements in the ESP during the financial year, including those held by Key Management Personnel, were as follows:

	1 July 2013	Issued	Cancelled	30 June 2014
Number of shares	21,365,000	4,159,399	885,000	24,639,399
Loan	4,173,894	359,396	325,334	4,207,956
Average loan per share	$0.19	$0.09	$0.37	$0.17

	1 July 2012	Issued	Cancelled	30 June 2013
Number of shares	23,239,199	600,000	2,474,199	21,365,000
Loan	4,718,316	54,000	598,422	4,173,894
Average loan per share	$0.20	$0.09	$0.24	$0.19

26. Employee benefits (continued)

Shares issued under the ESP are accounted for in accordance with the AASB 2.

The fair value of shares issued under the ESP is measured by reference to their fair value using the Black-Scholes model, as set out below.

Fair value of share options and related assumptions	Key management personnel 2014	Key management personnel 2013	Other employees 2014	Other employees 2013
Fair value at measurement date (cents)	3.7	-	3.0	2.3
Share price at date of issue (cents)	8.4	-	6.6	7.4
Exercise price (cents)	9.1	-	7.3	9
Expected volatility	70%	-	70%	70%
Actual / assumed option life	3 years	-	3 years	3 years
Expected dividends	Nil	-	Nil	Nil
Risk-free interest rate	2.5%	-	2.5%	3%
Share-based expense recognised	$60,918	-	$82,207	$13,723

The current year volatility is intended to reflect the movement of the Company's share price during the financial year.

Further details of shares and options issued to directors are set out in Note 30, and in the Remuneration Report set out on pages 20 to 25.

27. Related party disclosures

Ultimate parent

Carnarvon Petroleum Limited is the ultimate parent company.

Wholly-owned group transactions

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

The carrying value of loans to controlled entities at 30 June 2014 was $8,377,000 (2013: $8,131,000) after provisions of $690,000 (2013: $833,000). These loans are unsecured, non-interest bearing, and have no fixed terms of repayment.

Other related party balances and transactions

At 30 June 2014 an amount of $80,437 (2013: $84,175) is included in Company and consolidated trade and other payables for outstanding director fees and expenses.

Additional consulting fees of $106,356 (2013:$149,987) were paid to a related entity of Ted Jacobson in relation to exploration advisory services during the year.

28. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Consolidated	
	2014 $000	2013 $000
Less than one year	227	298
Between one and five years	875	114
	1,102	412

During the reporting period $305,000 was recognised as an expense in the consolidated income statement in respect of operating leases (2013: $238,000).

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.

29. Segment information

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

Basis of accounting for purposes of reporting by operating segments

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

Revenue by geographical region

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

	2014 $000	2013 $000
Thailand	23,317	18,350
Australia	1,450	741
	24,767	19,091

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

Assets by geographical region

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

	2014 $000	2013 $000
Thailand	65,246	128,692
Australia	67,719	15,672
	132,965	144,364

30. 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 2014 $000	Consolidated 2013 $000
Short term employee benefits	1,488	1,305
Post-employment benefits	50	50
Share-based payments	61	-
	1,599	1,355

Information regarding individual directors and executives' compensation and some equity instruments disclosures, as permitted by Corporations Regulation 2M.3.03, are provided in the Remuneration Report section of the directors' report as set out on pages 20 to 25.

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) Loans to key management personnel and their related parties

Details of loans to key management personnel and their related parties, which are all interest free loans with limited recourse security over the plan shares provided in accordance with the Company's Employee Share Plan ("ESP"), are set out below.

2014	Balance 1 July 2013 ($)	Balance 30 June 2014 ($)	Highest balance in period ($)	Loaned in period ($)	Repaid in period ($)
Directors					
PJ Leonhardt*	270,000	270,000	270,000	-	-
EP Jacobson*	540,000	540,000	540,000	-	-
Executives					
PP Huizenga	1,021,300	1,164,850	1,164,850	143,550	-
AC Cook	1,528,800	1,543,550	1,543,550	14,750	-

2013	Balance 1 July 2012 ($)	Balance 30 June 2013 ($)	Highest balance in period ($)	Loaned in period ($)	Repaid in period ($)
Directors					
PJ Leonhardt*	270,000	270,000	270,000	-	-
EP Jacobson*	540,000	540,000	540,000	-	-
Executives					
PP Huizenga	1,021,300	1,021,300	1,021,300	-	-
AC Cook	1,528,800	1,528,800	1,528,800	-	-

* The loans to directors were made in 2006 in lieu of normal remuneration at a time the Company had no full time employees and limited cash resources.

30. Key management personnel disclosures (continued)

Details regarding the aggregate of loans, all of which are interest-free, made by the Group to key management personnel and their related parties, and the number of individuals in each group, are as follows:

	Opening balance ($)	Closing balance ($)	Number in group at 30 June
2014	2,550,100	2,708,400	2
2013	2,550,100	2,550,100	2

(c) 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	
	2014 $000	2013 $000
Current		
Trade and other payables	80	84

(d) Movements in shares

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:

2014	Held at 1 July 2013	Net acquired/ (sold)	Award under Employee Share Plan	Received on exercise of options	Held at 30 June 2014
Directors					
PJ Leonhardt	17,750,000	-	-	-	17,750,000
EP Jacobson	31,297,635	2,890,632	-	-	34,188,267
W Foster	121,955	406,250	-	-	528,205
AC Cook	5,900,000	740,000	250,000	-	6,890,000
Executives					
PP Huizenga	4,750,000	250,000	1,400,000	-	6,400,000

2013	Held at 1 July 2012	Net acquired/ (sold)	Award under Employee Share Plan	Received on exercise of options	Held at 30 June 2013
Directors					
PJ Leonhardt	17,000,000	750,000	-	-	17,750,000
EP Jacobson	31,297,635	-	-	-	31,297,635
NC Fearis	9,000,000	287,768	-	-	9,287,768
W Foster	-	121,955	-	-	121,955
AC Cook	5,000,000	900,000	-	-	5,900,000
Executives					
PP Huizenga	4,600,000	150,000	-	-	4,750,000

30. Key management personnel disclosures (continued)

Shares allotted under the ESP were funded by interest-free loans with a limited recourse security over the plan shares and subject to the detailed rules of the ESP.

In accordance with AASB 2 the issue of shares under the ESP is accounted for using the Black-Scholes Option Pricing Model, and their valuation assumptions are set out in Note 26.

Information regarding individual directors' and executives' compensation, including company loans used to finance the purchase of the ESP shares, is provided in the Remuneration Report section of the directors' report as set out on pages 20 to 25.

31. Non-key management personnel disclosures

Identity of related parties

The Group has a related party relationship with its controlled entities (see Note 32), joint operation assets (see Note 18), and with its key management personnel (see Note 30).

32. Consolidated entities

		Ownership interest	
Name	Country of Incorporation	2014	2013
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%	100%
Carnarvon (NZ) Pty Ltd	New Zealand	100%	100%
Carnarvon Khian Sa Pte Ltd	Singapore	100%	100%

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

33. Subsequent events

As of the 18 August 2014 the Company announced a significant oil discovery in the Phoenix South-1 well in the North West Shelf in Western Australian Permit WA-435-P. At this preliminary stage it is too early to quantify the recoverable volumes of oil. In addition, further technical evaluation is required in order to be in a position to announce this information.

The cost estimate for the well to completion for the Company, including additional drilling, is estimated to be around $6,000,000. This figure is subject to change pending the finalisation of the costs associated with the well.

33. Subsequent events (continued)

No other matters or circumstance has arisen since 30 June 2014 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

34. Financial risk management

The Group's activities expose it to market risk (including currency risk, commodity price 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) Commodity price risk

Commodity price risk is the risk of financial loss resulting from movements in the price of the Group's commodity output, being crude oil.

Revenues under the Group's contractual arrangements with its customer are denominated in US$, linked to the US$ prices of a basket of oil products, and paid in Thai Baht at the average monthly exchange rate. The Group does not currently use derivative financial instruments to hedge commodity price risk and therefore is exposed to daily movements in the prices of these oil products.

Sensitivity analysis

An increase of 10% in the achieved monthly oil sale price would have increased equity and pre tax profit and loss by the amounts shown below. This analysis assumes that all other variables other than royalties, which are directly related to oil revenues, remain constant. The analysis is performed on the same basis for 2013:

34. Financial risk management (continued)

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2014	2,198	2,198
30 June 2013	1,739	1,739

A decrease of 10% in the achieved monthly oil sale price would have decreased equity and pre tax profit and loss by the amounts shown below. This analysis assumes that all other variables other than royalties, which are directly related to oil revenues, remain constant. The analysis is performed on the same basis for 2013:

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2014	(2,198)	(2,198)
30 June 2013	(1,739)	(1,739)

(b) 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. There were no interest-bearing financial liabilities.

	Consolidated	
	2014	2013
Carrying amount (A$000) Financial assets – cash and cash equivalents	49,580	19,525
Weighted average interest rate (%) Financial assets – cash and cash equivalents	0.63%	1.12%

34. Financial risk management (continued)

Sensitivity analysis

All other financial assets are non interest bearing.

An increase in 50 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 2013:

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2014	199	199
30 June 2013	96	96

A decrease in 50 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 2013:

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2014	(274)	(274)
30 June 2013	(110)	(110)

(c) 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 at both June 2014 and June 2013 are all due from an entity located in Thailand and controlled by its government. This entity has an appropriate credit history with the Group. There were no receivables at 30 June 2014 or 30 June 2013 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 25.

Exposure to credit risk is considered minimal but 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.

34. Financial risk management (continued)

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	
	2014 $000	2013 $000
Carrying amount:		
Cash and cash equivalents	49,580	19,525
Trade and other receivables	3,937	5,082
	53,517	24,607

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

	Gross 2014 $000	Impairment 2014 $000	Gross 2013 $000	Impairment 2013 $000
Not past due	2,812	-	3,153	-
	2,812	-	3,153	-

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

(d) Currency risk

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

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

Cash receipts from the Thai operations, which comprise 100% of the Group revenues, are received in Thai Baht. The majority of the Group's payments, including Thai SRB and income tax, are also payable in THB which effectively creates a natural hedge. The Company's foreign exchange risk predominantly resides in its US$ loans to its controlled entities.

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 THB cash balances to meet its THB obligations, in particular its SRB and income tax liabilities.

34. Financial risk management (continued)

(d) Currency risk (continued)

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

	THB A$000	USD A$000
Consolidated 2014		
Cash and cash equivalents	5,878	40,686
Trade and other receivables	3,549	185
Trade payables and accruals	(2,838)	(86)
SRB and income tax provisions	(235)	-
Gross balance sheet exposure	6,354	40,785
Consolidated 2013		
Cash and cash equivalents	4,348	7,773
Trade and other receivables	4,957	191
Trade payables and accruals	(2,112)	(455)
SRB and income tax provisions	(846)	-
Gross balance sheet exposure	6,347	7,509

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
AUD to:	2014	2013	2014	2013
1 Thai baht	0.034	0.032	0.033	0.035
1 USD	1.089	0.974	1.059	1.093

Sensitivity analysis

A 10% strengthening of the AUD against the THB for the 12 months to 30 June 2014 and 30 June 2013 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 2014		
THB	(6,932)	(773)
30 June 2013		
THB	(16,761)	(945)

A 10% weakening of the AUD against the THB for the 12 months to 30 June 2014 and 30 June 2013 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:

34. Financial risk management (continued)

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2014		
THB	11,827	2,364
30 June 2013		
THB	20,486	1,155

(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 net cashflows arising from its Thai assets are considered to generate sufficient working capital to 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 cashflows $000	6 months or less $000	6 to 12 months $000
Consolidated 2014				
Non-derivative financial liabilities				
Trade and other payables	4,516	4,516	4,516	-
SRB and income tax provisions	235	235	235	-
	4,751	4,751	4,751	-
Consolidated 2013				
Non-derivative financial liabilities				
Trade and other payables	3,167	3,167	3,167	-
SRB and income tax provisions	846	846	846	-
	4,013	4,013	4,013	-

35. 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 that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Consolidated - 2014	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Deferred consideration available-for-sale	-	-	21,480	21,480
Total assets	-	-	21,480	21,480

Consolidated - 2013	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Deferred consideration available-for-sale	-	-	-	-
Total assets	-	-	-	-

There were no transfers between levels during the financial year.

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

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

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

- Production volumes - Estimate production volumes are based on the production profiles of proven and probable reserves for the fields and take into account development plans for the fields agreed by management as part of the long-term planning process, which have been independently verified;
- Crude oil price – forecast crude oil prices are based on independent data;
- Discount rate – A discount rate of 12%

35. Fair value measurement (continued)

Level 3 assets and liabilities

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

Consolidated	Available-for-sale $'000	Total $'000
Balance at 30 June 2013	-	-
Gains/(losses) recognised in other comprehensive income	-	-
Additions	21,480	21,480
Disposals	-	-
Balance at 30 June 2014	21,480	21,480

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

Description	Unobservable inputs	Weighted average	Sensitivity
Available-for sale	Discount rate	12%	1.00% change would increase/ decrease fair value by $732,000
Available-for sale	Net 2P production	27,858 MSTB	1.00% change would increase/ decrease fair value by $209,000
Available-for sale	Oil price	$86STB - $114STB	1.00% change would increase/ decrease fair value by $209,000

36. 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:

	2014 $000	2013 $000
Statement of financial position		
Current Assets	44,356	14,625
Non-current assets	37,208	12,917
Total assets	81,564	27,542
Current liabilities	1,842	821
Non-current liabilities	105	-
Total liabilities	1,947	821
Equity		
Issued Capital	90,213	87,573
Accumulated losses	(12,554)	(62,804)
Reserves	1,958	1,952
Total equity	79,617	26,721
Statement of comprehensive income		
Total Profit / (loss)	49,602	(3,709)
Total comprehensive income	49,602	(3,709)

Parent Contingencies

In accordance with normal petroleum industry practice, the Group 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	
	2014 $000	2013 $000
Parent capital and other commitments		
(a) Joint operation commitments		
Capital commitments of the Group to joint venture assets:		
Within one year	309	1,987

36. Parent Information (continued)

(b) Exploration expenditure commitments

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

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

Less than one year	1,205	3,120
Between one and five years	1,200	3,650
	2,405	6,770

(c) Capital expenditure commitments

Data licence commitments	257	229

Non-cancellable operating lease rentals are payable as follows:

Less than one year	174	155
Between one and five years	768	13
	942	168

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 30 to 75 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 2014 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the financial statements comply with International Financial Reporting Standards as set out in Note 2; and

(c) the remuneration disclosures that are contained in the Remuneration Report in the Directors Report comply with the Corporations Act 2001 and the Corporations Regulations 2001; and

(d) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2014.

Signed in accordance with a resolution of the directors.

PJ Leonhardt
Director

Perth, 29 August 2014

Crowe Horwath™

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CARNARVON PETROLEUM LIMITED AND ITS CONTROLLED ENTITIES

Report on the Financial Report
We have audited the accompanying financial report of Carnarvon Petroleum Limited and its controlled entities (the consolidated entity), which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated income statement, consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report
The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

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

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

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

Independence
In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's Opinion
In our opinion:

(a) the financial report of Carnarvon Petroleum Limited is in accordance with the Corporations Act 2001, including:
    (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
    (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Crowe Horwath

Report on the Remuneration Report
We have audited the Remuneration Report included in pages 20 to 25 of the directors' report for the year ended 30 June 2014. 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.

Auditor's Opinion
In our opinion, the Remuneration Report of Carnarvon Petroleum Limited for the year ended 30 June 2014 complies with section 300A of the Corporations Act 2001.

Crowe Horwath Perth

CROWE HORWATH PERTH

SEAN MCGURK
Partner

Signed at Perth, 29 August 2014

Introduction

The Company's directors are fully cognisant of the Corporate Governance Principles and Best Practice Recommendations published by the ASX Corporate Governance Council ("CGC") and have adopted those recommendations where they are appropriate to the Company's circumstances.

However, a number of those principles and recommendations are directed towards listed companies considerably larger than Carnarvon, whose circumstances and requirements accordingly differ markedly from the Company's. For example, the nature of the Company's operations and its low direct employee count mean that a number of the board committees and other governance structures recommended by the CGC are not only unnecessary in Carnarvon's case, but the effort and expense required to establish and maintain them would, in the directors' view, be an unjustified diversion of shareholders' funds.

Carnarvon's directors are aware that according to one school of thought listed companies will be rated by the investment community according to their compliance with the CGC's Best Practice Recommendations. However, in the directors' view that approach is not soundly based, particularly where unquestioning compliance with the recommendations would produce marginal or no benefit to shareholders.

In discharging its functions Carnarvon's board of directors receives competent legal and other professional advice. Based on that advice the board is satisfied that, notwithstanding non-compliance with the Best Practice Recommendations (to the extent noted below), the Company's governance structures are appropriate for its circumstances and the board acts at all times in the best interests of the Company and its shareholders.

The following additional information about the Company's corporate governance practices is set out on the Company's website at www.carnarvon.com.au:

- Corporate governance disclosures and explanations;
- Statement of Board and management functions;
- Composition of the Board and new appointments;
- Committees of the Board;
- Summary of code of conduct for directors;
- Summary of policy on securities trading;
- Audit Committee Charter;
- Remuneration Committee Charter;
- Summary of policy and procedures for compliance with ASX Listing Rule disclosure requirements;
- Summary of arrangements regarding communication with and participation of shareholders;
- Summary of Company's risk management policy; and
- Corporate code of conduct.

Skills, experience, expertise and term of office of each director

A profile of each director containing the applicable information is set out in the directors' report.

Statement concerning availability of independent professional advice

If a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of his/her office as a director then, provided the director first obtains approval for incurring such expense from the chairman, the Company will pay the reasonable expenses associated with obtaining such advice.

Explanations for departures from best practice recommendations

From 1 July 2013 to 30 June 2014 (the "Reporting Period") the Company complied with each of the Essential Corporate Governance Principles (Note 1 below) and the corresponding Best Practice Recommendations (Note 2 below) as published by the ASX Corporate Governance Council ("ASX Principles and Recommendations"), other than in relation to the matters specified below:

Principle Reference	Recommendation Reference	Notification of Departure	Explanation for Departure
2	2.4	A separate Nomination Committee has not been formed.	The Board considers that the Company is not currently of a size to justify the formation of a Nomination Committee. The Board as a whole undertakes the process of reviewing the skills base and experience of existing directors to enable identification or attributes required in new directors. Where appropriate independent consultants are engaged to identify possible new candidates for the Board.
3	3.2	A diversity policy has not been established.	Due to the size of the Company's workforce, the Company has not adopted a formal diversity policy or any gender diversity objectives. The Board believes that there is no detriment to the Company in not adopting a formal diversity policy or in not setting gender diversity objectives as the Company is committed to providing all employees with fair and equal access to employment opportunities.
3	3.3	Measurable objectives for achieving gender diversity set in accordance with the diversify policy have not been established.	See above.

Notes

(1) A copy of the Ten Essential Corporate Governance Principles is set out on the Company's website under the section entitled "Corporate Governance". (2) A copy of the Best Practice Recommendations is set out on the Company's website under the section entitled "Corporate Governance".

Existence and terms of any schemes for retirement benefits for non-executive directors

The Company does not have any terms or schemes relating to retirement benefits for non-executive directors.

Company's remuneration policies
The Company's remuneration policies are set out in the Remuneration Report on pages 20 to 25.

The Company has separate remuneration policies for executive and non-executive directors. Non-executive directors receive a fixed fee and, when appropriate, share options or participation in the Employee Share Scheme.

Executive directors receive a salary or fee and, when appropriate, shares, share options, or participation in the Employee Share Scheme.

Material business risks

Management has reported to the Board as to the effectiveness of the Company's management of its material business risks.

Performance evaluation of the Board, its committees and senior executives

The Board reviews and evaluates the performance of the Board and its committees, which involves consideration of all the Board's key areas of responsibility.

A performance evaluation of senior executives was undertaken during the year, in the case of the Chief Executive by the Board, and in all other cases by the Chief Executive Officer and the Chairman.

Identification of independent directors

The Company's independent directors are considered to be Peter Leonhardt, Ted Jacobson, Neil Fearis, and Bill Foster.

Neither of these directors was considered to have a material relationship with the Company or another group member during the Reporting Period as professional advisor, consultant, supplier, customer, or through any other contractual relationship, nor did they have any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

The Board considers "material" in this context to be where any director-related business relationship represents the lesser of at least 5% of the Company's or the director-related business's revenue.

Number of Audit Committee meetings and names of attendees

The number of Audit Committee meetings and names of attendees is set out in the directors' report.

Names and qualifications of Audit Committee members

The names and qualifications of Audit Committee members are set out in the directors' report.

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 27 August 2014

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	70,286,895	7.12
HSBC Custody Nominees (Australia) Limited	35,501,582	3.60
Citicorp Nominees Pty Limited	26,454,091	2.68
Mr Edward Patrick Jacobson	13,315,982	1.35
Log Creek Pty Ltd	12,881,702	1.30
Sunshine Group Investments Pty Ltd	12,000,000	1.22
Mr James Mark Dack	11,999,999	1.22
Jacobson Geophysical Services Pty Ltd	11,674,068	1.18
Comsec Nominees Pty Limited	9,701,885	0.98
Pendomer Investments Pty Ltd	9,500,000	0.96
Arne Investment Pty Ltd	8,052,592	0.82
Mr Peter James Leonhardt	7,700,000	0.78
Egmont Pty Ltd	7,000,000	0.71
Arne Investment Pty Ltd	6,293,851	0.64
Mr Edward Patrick Jacobson	6,000,000	0.61
Geolyn Pty Ltd	6,000,000	0.61
Zero Nominees Pty Ltd	5,950,000	0.60
Mr Philip Paul Huizenga	5,800,000	0.59
Sun Loong Corporation Pty Ltd	5,181,000	0.52
Whitehall Corporation Pty Ltd	5,000,000	0.51
	281,083,935	**28.47**

Distribution of equity security holders

Size of Holding			Number of shareholders	Number of fully paid shares
1	to	1,000	523	239,177
1,001	to	5,000	2,099	6,713,796
5,001	to	10,000	1,750	14,836,957
10,001	to	100,000	4,710	184,340,620
100,001	and over		1,273	781,046,427
			10,355	987,176,977

The number of shareholders holding less than a marketable parcel of ordinary shares is 872.

b) Option holdings as at 27 August 2014

	Number on issue	Number of holders
Options over ordinary shares issued	48,519,077	891

c) On-market buyback

There is no current on-market buyback.

Additional Shareholder Information

d) Schedule of permits

Permit	Basin/Country	Joint Venture Partners	Equity %	Operator
SW1A	Phetchabun / Thailand	Carnarvon Eco Orient Energy Loyz Energy	20% 60% 20%	Eco Orient Energy
L33/43	Phetchabun / Thailand	Carnarvon Eco Orient Resources Loyz Energy	20% 60% 20%	Eco Orient Resources
L44/43	Phetchabun / Thailand	Carnarvon Eco Orient Resources Loyz Energy	20% 60% 20%	Eco Orient Resources
L52/50, & L53/50	Surat-Khiensa / Thailand	Carnarvon	100%	Carnarvon
EP321	Perth / Australia	Carnarvon	2.5% of 38.25%	Latent Petroleum
EP407	Perth / Australia	Carnarvon	2.5% of 42.5%	Latent Petroleum
WA-435-P, WA-437-P	Roebuck / Australia	Carnarvon Apache Finder Exploration JX Nippon	20% 40% 20% 20%	Apache
WA-436-P, WA-438-P	Roebuck / Australia	Carnarvon Finder Exploration	50% 50%	Finder Exploration
WA-443-P	Roebuck / Australia	Carnarvon	100%	Carnarvon
EP-490	Barrow / Australia	Carnarvon	100%	Carnarvon
EP-491	Barrow / Australia	Carnarvon	100%	Carnarvon
TP/27	Barrow / Australia	Carnarvon	100%	Carnarvon

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