CARNARVON
PETROLEUM LTD

2018 ANNUAL REPORT

Carnarvon Petroleum Limited
ABN 60 002 688 851

CONTENTS

Directors

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

Company Secretary

T Naude

Auditors

Ernst & Young

Bankers

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

Registered Office

2nd Floor
76 Kings Park Road
West Perth WA 6005

Telephone:	+61 8 9321 2665
Facsimile:	+61 8 9321 8867
Email:	admin@cvn.com.au
Website:	carnarvon.com.au
Corporate Governance Statement:	carnarvon.com.au/about-us/corporate-governance/

Share Registry

Link Market Services Limited
Level 12
250 St Georges Terrace
Perth, WA 6000 Australia

Investor Enquiries:	1300 554 474 (within Australia)
Investor Enquiries:	+61 2 8280 7111 (outside Australia)
Facsimile:	+61 2 9287 0303

Stock Exchange Listing

Carnarvon Petroleum Limited's shares are quoted on the Australian Securities Exchange.
ASX Code: CVN - ordinary shares

CARNARVON
PETROLEUM LTD

Carnarvon Petroleum Limited ("Carnarvon") has remained committed to its strategy of pursuing high value exploration opportunities on the North West Shelf ("NWS") of Australia. Despite challenging industry conditions in recent years, Carnarvon continued to build its regional NWS database, technical team and participated in high impact exploration drilling programs. With a recovery in the price of oil and a growing sense of optimism in the industry, Carnarvon has built a significant position within the Australian oil and gas industry to take advantage of an improving market. Carnarvon's current suite of projects has already begun to deliver considerable value to its shareholders, with the potential for additional value to come.

Carnarvon and its Joint Venture partner Quadrant Energy ("Quadrant"), commenced drilling the Dorado-1 and Phoenix South-3 wells towards the end of the financial year. In July 2018, Carnarvon was pleased to announce the significant discovery of oil, condensate and gas in the Dorado-1 well. The Dorado discovery is the third largest oil field ever found on the greater NWS and with nearby follow up targets already identified of similar characteristics to that of Dorado, there is the potential to considerably add to the resources which have already been discovered.

In addition, the Phoenix South-3 well reached its target depth in August 2018 with the well also encountering hydrocarbons. Over the coming months, technical work will be performed to evaluate the reservoir and determine if the Caley Member in the Phoenix South area is capable of flowing at commercial rates.

During the year, Carnarvon completed its technical work on the Labyrinth project which shares a border to the north of the Phoenix and Dorado area. In light of the Dorado and Phoenix South discoveries, I am looking forward to Carnarvon attracting a partner and testing the significant structures within the permit.

Carnarvon has also made significant progress in its plans to redevelop the Buffalo oil field. Carnarvon's technical work has provided compelling evidence of the existence of economically recoverable oil remaining in the previously producing field. On this basis, Carnarvon commenced work to acquire approvals and commence the necessary work to drill a Buffalo well and subsequently redevelop the oil field.

Following the signing of the Maritime Boundary Treaty ("Treaty") by the Australian and Timor-Leste Governments, the redevelopment of the Buffalo oil field will now occur under Timor-Leste jurisdiction. The Treaty will preserve Carnarvon's legal title and ensure that the redevelopment will occur with equivalent outcomes to those already in place under Australian domestic law. Continuing discussions with the Timor-Leste government have also made it clear to Carnarvon that all parties are aligned in wanting to achieve first oil production as soon as practical. We look forward to working closely with the people of Timor-Leste.

I would like to take this opportunity to thank our shareholders for their continued support of Carnarvon, in particular, those who participated in the Capital Raising in May 2018.

In August 2018 we were pleased to announce that Mr Gavin Ryan had accepted an appointment to join the Board. We warmly welcome Gavin who is a lawyer with extensive legal and commercial skills gained through an international career with organisations such as BHP Petroleum, BP, PTTEP and Shell. As we focus on the important period of growth before us we are confident his experience, particularly in oil field developments will add significantly to our discussions and I look forward to working with him.

Building and maintaining a team with the skill and passion to deliver Carnarvon's strategy has always been of primary importance to the Board. The Board acknowledges that Carnarvon achieved a number of key milestones in this regard during the year. As such, the Board granted both a cash bonus and employee shares (with attaching loans) as part of Carnarvon's short and long-term incentive plans.

> **Carnarvon has built a significant position within the Australian oil and gas industry to take advantage of an improving market**

In regards to the latter, I would like to highlight that the Board has updated its long-term incentive plan in terms of the requirements for granting employee shares. The potential share issues provided during each year are tied to reaching strategic objectives and Carnarvon's share price growth in relation to a group of its peers during each year. The Board feels this both motivates staff to achieve strategic goals and also aligns staff rewards with growth in shareholder value. Further details can be found in the Remuneration Report section of the Annual Report.

Adrian Cook and the Carnarvon team continue to bring their skills to bear with great energy and enthusiasm and I thank them for the outstanding results that they have delivered after a long period of hard work. Their efforts have guided the Company through immensely challenging times in the industry.

In closing, I believe my fellow directors bring an excellent balance of experience and skills to our deliberations and I thank them for their counsel and support during a period of intense activity. We look forward to the year ahead with great enthusiasm about the opportunities to build upon the successes achieved so far.

Peter Leonhardt
Chairman

OVERVIEW OF OPERATIONS

The highlights for the Company during the 2018 financial year were:

- **Commenced drilling the Dorado-1 and Phoenix South-3 wells.**
- **Advancing technical work for the Buffalo Project including booking of 31 million barrels 2C resource.**
- **Carnarvon began developing plans to drill a Buffalo well and to redevelop the Buffalo oil field.**
- **Awarded new permits AC/P62 and AC/P63 in the Bonaparte basin named the Condor and Eagle projects.**
- **Completed technical work on the Labyrinth project and began farm-out preparations.**

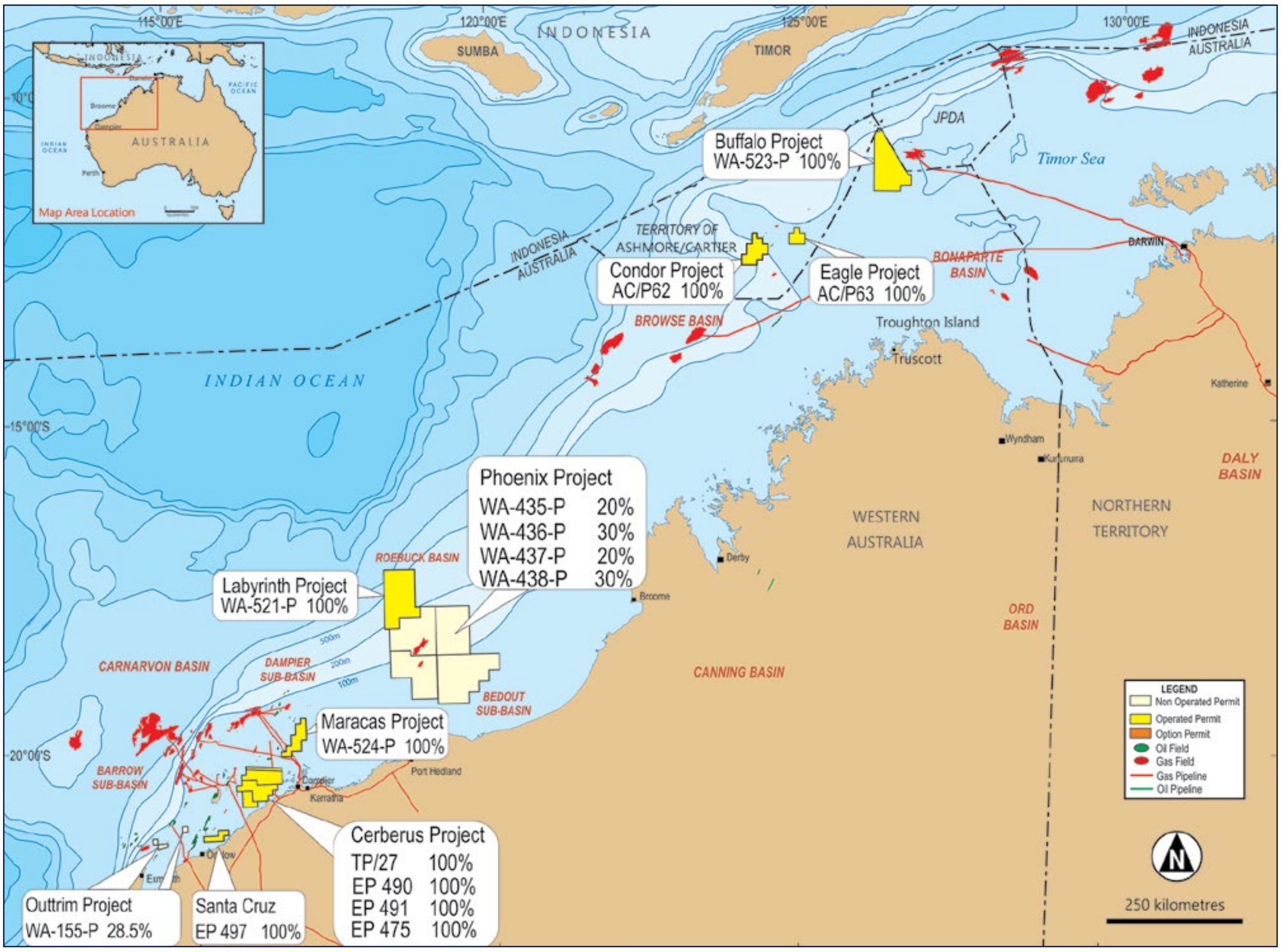


Figure 1: Carnarvon Interests as at 30 June 2018 in Australia.

Phoenix Project Background

Carnarvon and its partners acquired the Phoenix project acreage in 2009, which included the four exploration permits of WA-435-P, WA-436-P, WA-437-P and WA-438-P. The permits cover an area of approximately 22,000km^2 in the Bedout sub-basin, approximately 150 kilometres offshore of Port Hedland in Western Australia.

Carnarvon was initially drawn to the area after realising the significance of the Phoenix-1 and 2 gas discoveries in the early 1980's. Following the award of the exploration permits, Carnarvon, along with its Joint Venture partner, acquired approximately 1,100km^2 of modern 3D seismic data and 407 km of additional 2D seismic data to better understand the sub-surface opportunity. Interpretation of this data, together with extensive geological studies, confirmed two significant prospects in Roc and Phoenix South.

The Phoenix South-1 well was drilled in 2014 which encountered light oil. This discovery was followed by the Roc-1 and Roc-2 wells which discovered condensate rich gas. Additionally, the Roc-2 well was able to perform a successful flow test, confirming the quality of the reservoir, in particular within the Caley interval.

On the basis of these discoveries the Joint Venture significantly expanded the seismic data coverage with the acquisition of an additional 10,000km^2 of high quality 3D data and 10,000km of new 2D data. A number of new leads and prospects emerged after the interpretation, with the Dorado prospect being the standout target following the successes in the Roc wells.

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

The Phoenix South-3 well commenced drilling in April 2018. The well was drilled using the GSF Development Driller-1, a sixth-generation semi-submersible drilling rig from Transocean Limited.

The primary objective of the Phoenix South-3 well was to evaluate the gas and condensate potential of the Caley Member within a large, faulted anti-clinal closure that was partially penetrated with the Phoenix South-2 well.

The increased pressure encountered in the Phoenix South-2 well led to an earlier than planned termination of drilling. The successful control of the increased pressure encountered in the Phoenix South-2 well led Carnarvon to submit a successful cost recovery claim under its insurance policy. The claim will cover a majority of the costs of the Phoenix South-3 well.

Phoenix South-3 is located around 560 metres North-North East of the Phoenix South-2 well. The well targeted a closure that was estimated by Carnarvon to contain a gross mean recoverable resource of 489 Bscf of gas and 57 million barrels of associated condensate (being 143 million barrels of oil equivalent, gross, Pmean as per the table on page 14).

Subsequent to the year end, the well encountered hydrocarbons within the Caley interval. The net reservoir from the wireline logging is around 16 meters with an average porosity of 8%. With permeabilities in the lower end of the expected range, an analysis of the core is required to determine if the reservoir is capable of flowing at commercial rates.

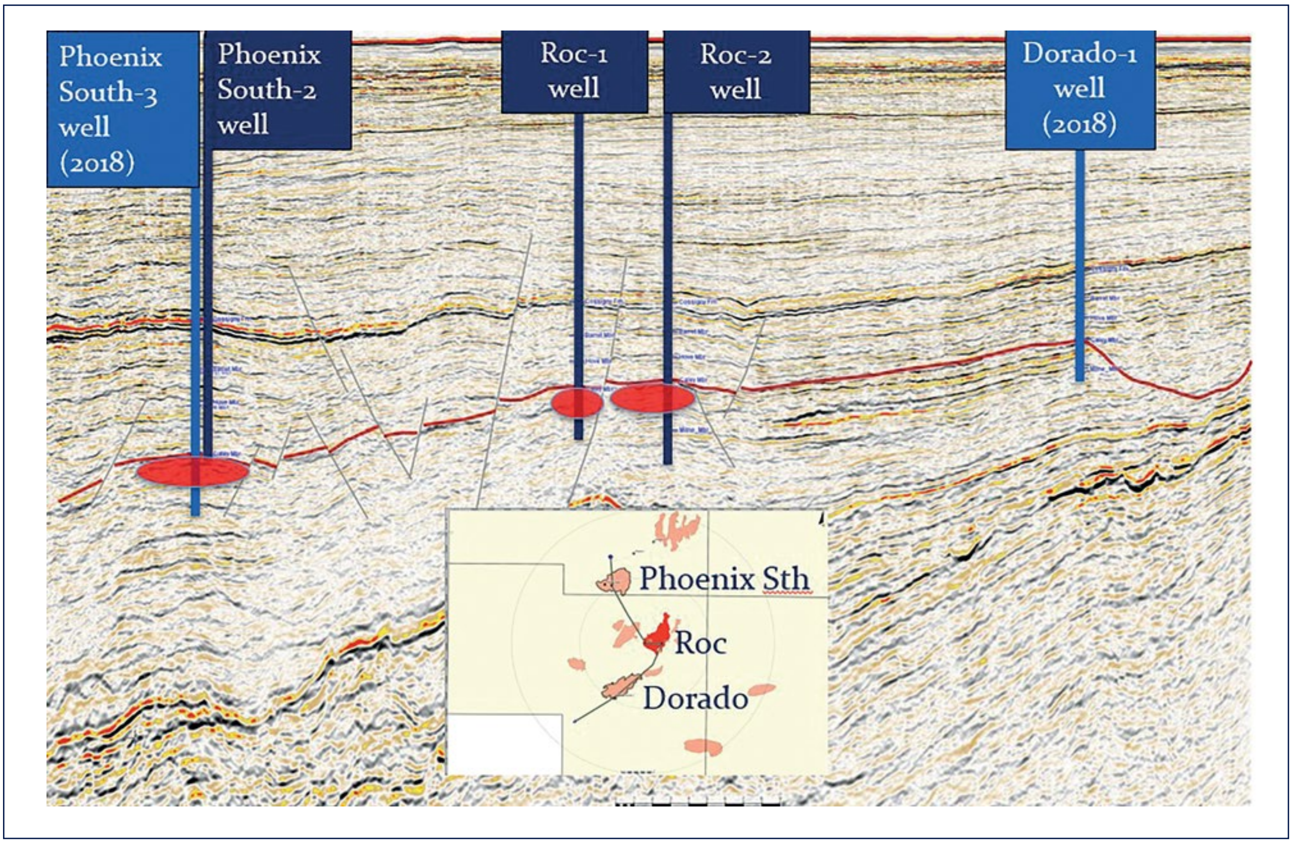


Figure 2: Seismic map of Carnarvon's well locations and discoveries in the Bedout Sub-basin.

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

The gas and condensate discoveries within the Caley Member in the Roc-1 and Roc-2 wells confirm the hydrocarbon bearing nature of this interval. Furthermore, the successful flow test in the Roc-2 well in October 2016 proved that the reservoir in the Caley interval is of high quality.

The flow test achieved a peak flow rate of 55 million scf/day and 3,000 barrels of condensate per day, which is equal to approximately 11,500 barrels of oil equivalent per day. These rates were achieved through an approximate 1 ½" choke and were equipment constrained flow rates; meaning the well flowed at the maximum rate possible with the equipment being used.

These results supported the drilling of the Dorado-1 well, which the Joint Venture commenced drilling in June 2018. The primary objective of the Dorado-1 well was to assess additional hydrocarbons within the Caley Member with the well located less than 20km from and updip of the Roc-1 and Roc-2 wells. The significant size of the Dorado structure made it a natural follow up target to the Roc wells.

Following the end of the financial year, the Company announced that there were multiple discoveries in the Dorado-1 well.

As a result of the Dorado-1 oil and gas discoveries, the Joint venture is currently reassessing the greater area and have already identified follow-up prospects with similar characteristics to Dorado.

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

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

Following a string of discoveries at Phoenix South, Roc and Dorado, the Joint Venture has proved that there is an excellent petroleum system in the region. Given Carnarvon and operator Quadrant Energy hold a significant acreage in the area of approximately 22,000km^2, there is considerable exploration upside within the permits.

In particular, the discovery of light oil in the Dorado-1 well has enhanced the potential for additional oil discoveries in the region. With additional structures of similar properties to Dorado, there is significant opportunity for greater volumes of hydrocarbons. The Joint Venture will now focus on assessing the follow up prospects and leads, particularly in the Caley, Barret and Milne intervals.

The prospects and leads surrounding the Dorado, Roc and Phoenix South areas are listed in the Prospective Resource table on page 14. The additional leads which have been identified across the rest of the acreage are currently under technical review. The joint venture will continue to analyse the discoveries it has made to date and will update its prospect and lead inventories in the coming months.

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

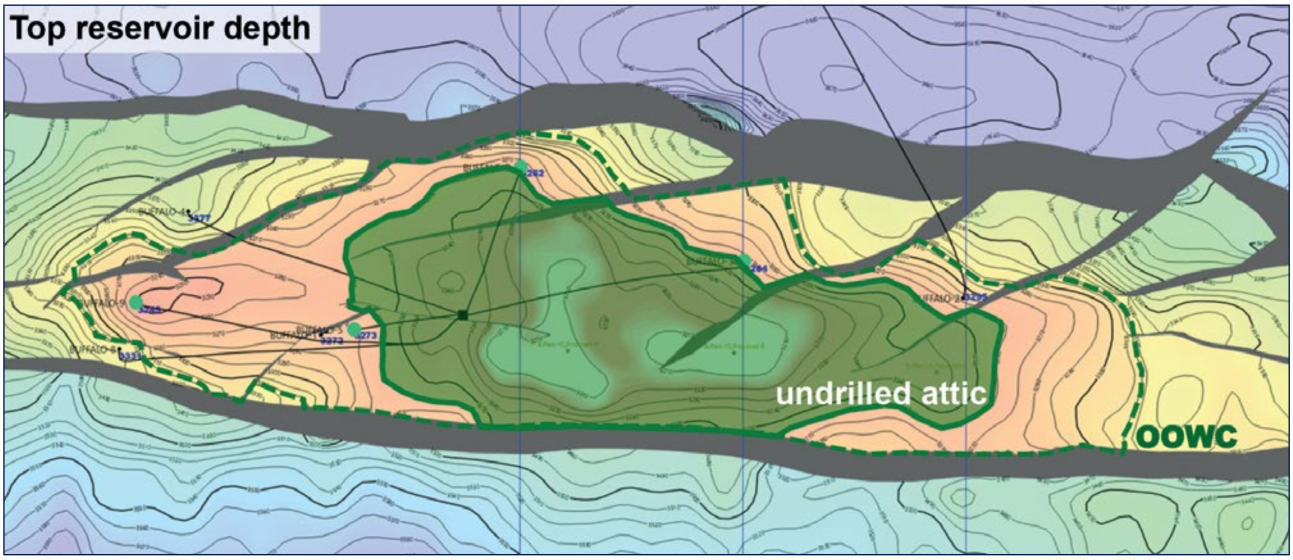


Figure 4: Structure map of the top of the reservoir showing the undrilled attic in the Buffalo field.

Carnarvon was awarded the WA-523-P permit in May 2016 which included the previously developed Buffalo oil field.

The initial technical work was focused on reprocessing the 3D seismic data using state of the art Full Waveform Inversion (FWI) technology. The FWI reprocessing considerably improved the data quality, allowing clearer analysis of key intervals in and around the Buffalo oil field. The subsequent technical work supported the interpretation of a significant attic oil accumulation remaining after the original development, based on sub-optimal positioning of early wells using poorly processed seismic data.

Independently audited volumetric estimates of contingent resources in the Buffalo oil field are 31.1 million barrels (2C) with a low case estimate of 15.3 million barrels (1C) and a high case estimate of 47.8 million barrels (3C) (refer to page 14 for more information).

The Buffalo permit is in a proven petroleum system with the Buffalo oil field achieving production rates up to approximately 50,000stb/d of highly-unsaturated, light oil (53°API). On this basis, Carnarvon commenced preparations to redevelop the Buffalo oil field and initiate plans to drill a Buffalo well.

Carnarvon commissioned an independent cost analysis of the field redevelopment with the report showing capital expenditure of approximately US$150M (inclusive of the three production wells). At current Brent oil prices of around US$73 per barrel, the field is expected to generate significant revenue based on the 2C contingent resource of 31 million barrels (page 14).

On 7 March 2018, the Australian and Timor-Leste Governments signed a new Maritime Boundary Treaty. The Buffalo project is affected by the boundary change and the Buffalo oil field redevelopment will now be undertaken within Timor-Leste's jurisdiction. A portion of WA-523-P will remain within Australia's jurisdiction, which contains untapped exploration prospects.

The treaty provides that security of title and legal rights currently held by Carnarvon will be preserved through conditions equivalent to those already in place under Australian domestic law. Special legislation will also be enacted by Timor-Leste to confirm these arrangements. The Government meetings to date have demonstrated that all parties are aligned in wanting to achieve first oil as soon as practicable.

Carnarvon has already established an office in Dili, appointing a specialist Timor-Leste advisor and initiating a series of meetings with the Timor-Leste government agency Autoridade Nacional do Petróleo e Minerais (ANPM).

Once the Treaty is ratified by Australia and Timor-Leste, Carnarvon will enter a Production Sharing Contract (PSC) with the Timor-Leste government. This will allow the Company to begin entering contracts with suppliers to progress towards drilling a Buffalo well and redeveloping the oil field.

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

The WA-521-P permit is located in the Roebuck Basin in the North West Shelf of Western Australia and shares a border to the north of the Phoenix permit, where the Company has made a number of recent hydrocarbon discoveries. Carnarvon holds 100% of the equity in the WA-521-P permit, comprising of an area of approximately 5,000km^2.

The permit was acquired in March 2016 by committing to reprocessing existing 2D seismic over the area in addition to completing various geological and geophysical studies.

The seismic reprocessing was completed during the financial year with the Company identifying a number of significant prospects. The technical work was supplemented by the information gained from the oil, gas and condensate discoveries directly to the south of the Labyrinth project in the Phoenix, Roc and Dorado wells.

Following the completion of the technical interpretation, a petrophysical analysis has identified 1.5 billion barrels of unrisked recoverable prospective resource within eight prospects in the permit (see page 14 for further information). A number of additional leads have also been recognised.

The standout target is the Ivory prospect, estimated to contain 420 million barrels of mean recoverable oil over two levels. Ivory is located in 350 metres water depth with dual target reservoirs which can be drilled with one well. The primary reservoir of the mid-Jurassic Depuch sandstone is relatively shallow in at approximately 2,700 meters below sea level. This reservoir is typically of excellent quality, with porosities averaging around 30% and consisting of hundreds of meters of thick deltaic sandstones.

The secondary target is the Upper Bedout formation at approximately 3,400 meters below sea level. At the Ivory location, these sandstones are overlain by approximately 200m-300m with seismically mapped shaly facies which should promote an effective seal.

With the technical work now complete, Carnarvon has commenced a farm-out process to identify an appropriate partner to join the project. The forward program following farm-out will involve acquiring 3D seismic in order to refine potential drilling locations and enhance the chance of success of the plays within the area.

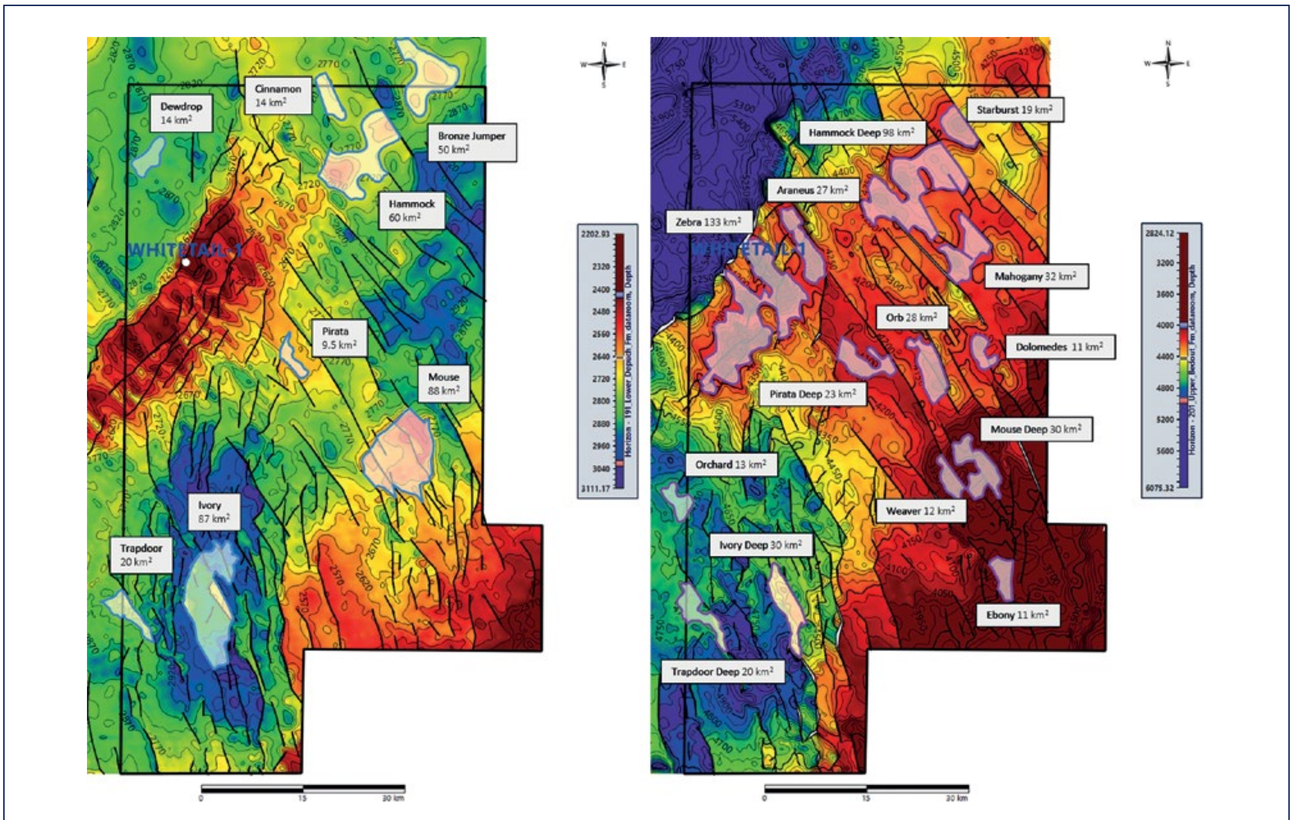


Figure 5: Prospect and lead inventory for the Labyrinth project.

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

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

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

The reprocessing of the existing 3D seismic data over the permit was completed during the year. The reprocessing included the application of Full Waveform Inversion (FWI) which has demonstrated clear improvements in both the Phoenix and Buffalo projects.

The FWI application has greatly assisted the mapping of the existing leads within the permit. It has also enabled the identification of new prospects and is allowing Carnarvon to identify the potential for hydrocarbon bearing sands within the permit.

The interpretation of the data has had a particular focus on the Permian interval. Carnarvon was attracted to the Permo-Triassic stratigraphy within the permit in part due to the well documented success of drilling the Early Triassic play types in the Roebuck Basin. Carnarvon has also identified, through its regional technical work, the potential for a similar pre-Jurassic play on the flanks of the Dampier sub-basin.

Carnarvon's technical team will further investigate the potential of a secondary play system in the shallower Cretaceous stratigraphy, which has seen great success in the nearby Stag and Wandoo oil accumulations.

The technical work is expected to be completed in the coming financial year. Once finalised, the Company will begin working towards a farm-out to progress the project towards drilling the prospects.

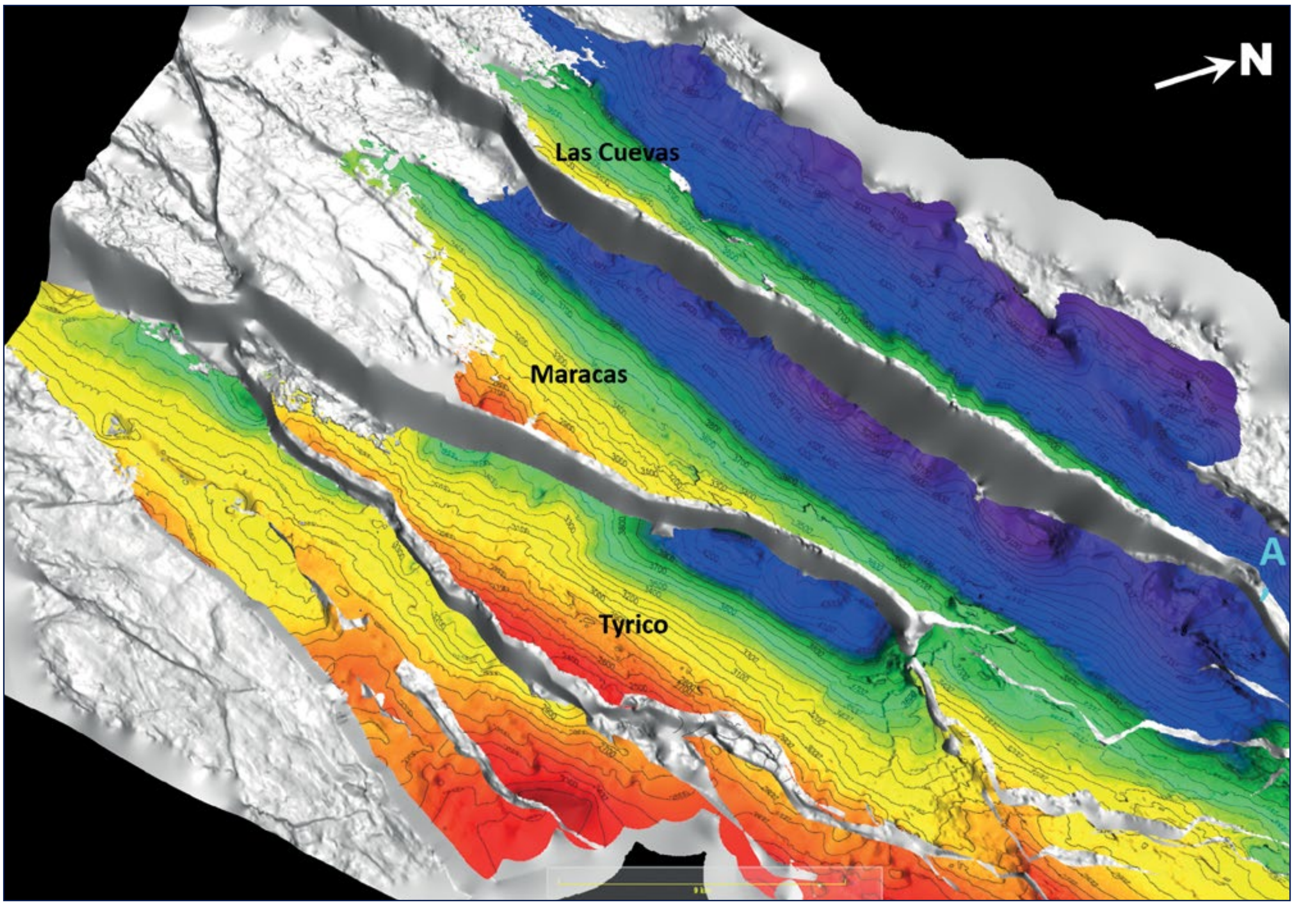


Figure 6: 3D interpretation highlighting the top Permian reservoir sand depth map pinching out on Basement stratigraphy.

Condor Project – AC/P62 (Carnarvon 100% and operator)

Carnarvon was awarded the AC/P62 permit in November 2017 over an area of 1,512km^2 within the Vulcan sub-basin in the Bonaparte basin.

The permit is on trend with and in the vicinity of numerous oil and gas fields including the Montara, Jabiru, Skua and Challis oil fields.

Carnarvon's technical work has been focused around interpreting the recent Cygnus 3D seismic survey acquired by Polarcus over 682km^2 of the permit. The interpretation is being greatly assisted by the high-quality data as interpretation in the Vulcan sub-basin has historically been hampered by poor quality vintage seismic data.

The Company has already identified various leads over multiple Jurassic and Triassic reservoir levels with similar properties to the nearby Challis oil field and Crux gas field. In addition, there is the potential for secondary plays in the shallower, Late Cretaceous stratigraphy. These reservoirs could be targeted with the same well.

Carnarvon is also performing a fault seal study in order to de-risk the fault seal integrity of the leads within the Permit. Carnarvon will prepare the Condor project for farm-out later in the year, once the studies and interpretation have been completed.

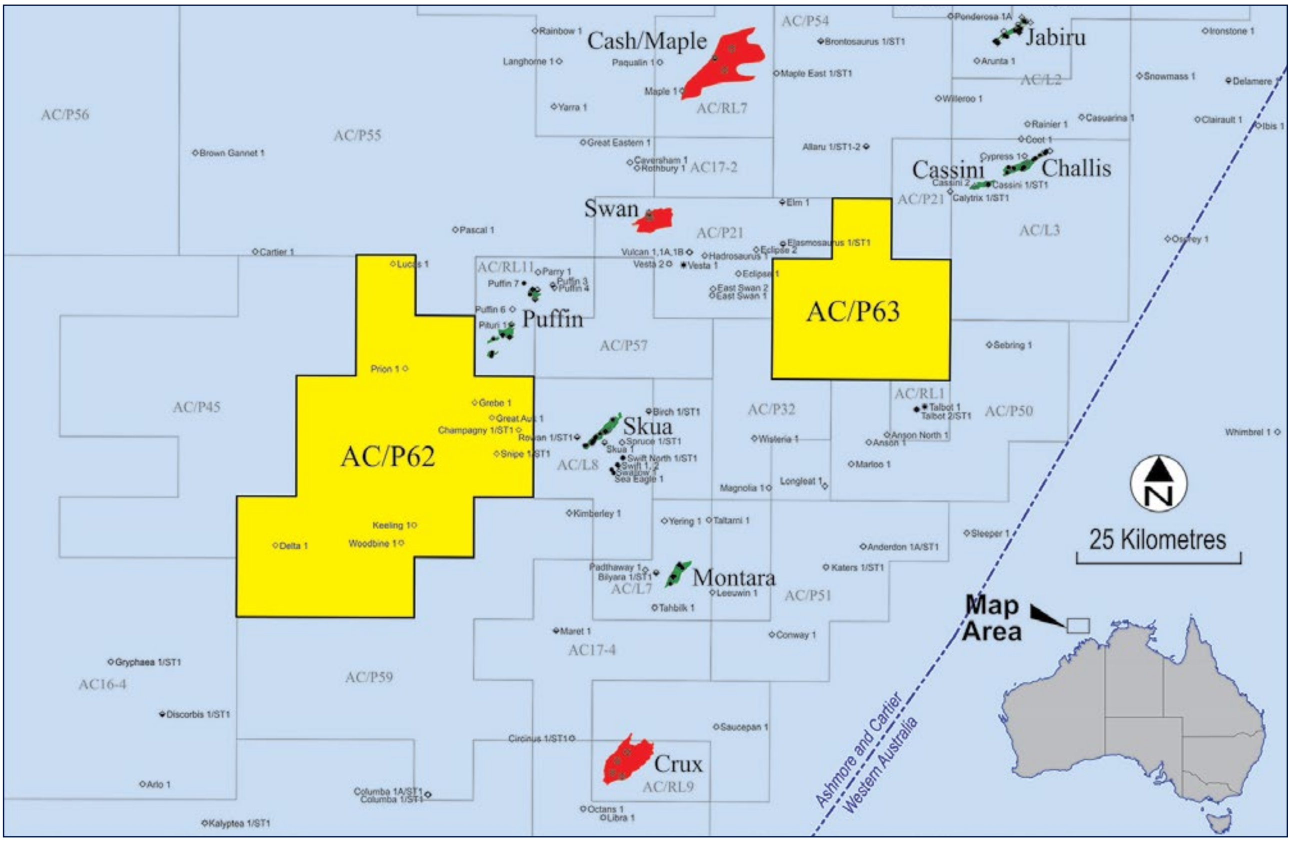


Figure 7: Outline of the AC/P62 and AC/P63 permits in relation to existing fields.

Eagle Project – AC/P63 (Carnarvon 100% and operator)

Carnarvon was awarded the AC/P63 permit in February 2018, within the same Vulcan sub-basin as the Condor project on Western Australia's North-West Shelf.

The Eagle project is located in shallow water and contains multiple Jurassic and Cretaceous leads over multiple reservoir levels of the 542km^2 permit area.

Carnarvon will utilise the Cygnus 3D seismic survey acquired by Polarcus which has provided high quality data for the Condor project. The seismic is currently being processed and will be available for interpretation in the coming financial year.

Carnarvon will work towards maturing the identified leads into prospects within the permit and will utilise its geoscience work-flows to add to its portfolio.

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

The Outtrim project is in the Barrow sub-basin, within the Northern Carnarvon Basin of the North West Shelf. Carnarvon entered the project in January 2016.

Following on from Carnarvon's 2016 Outtrim East oil discovery, the Company has identified another significant prospect.

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

Belgravia lies within the north westerly graticular block of the Outtrim permit and contains an estimated prospective resource of 440 billion cubic feet of gas (Bcf) and 18 million barrels (Mmbbls) of condensate (gross Pmean) as listed in the Prospective Resource table on page 14.

The Upper Triassic play system is the most successful petroleum play within the North West Shelf creating a heartland of LNG scale gas and condensate discoveries. Upper Triassic reservoirs have underpinned fields such as Gorgon, Rankin and Wheatstone. The petroleum traps within this play tend to be simple fault block structures. Reservoir quality is excellent and dependant on facies and depth of burial. Results from the Zola and Gorgon gas fields (North East of the area of interest) have proven that the Upper Triassic stratigraphy can preserve good reservoir quality and can flow hydrocarbons from depths of over 4,000 metres.

In June 2018, the Joint Venture renewed the WA-155-P exploration permit for a period of 5 years. The renewal was acquired with minimal commitments, with only geotechnical studies in the first three years being compulsory. Following this the Joint Venture has the option to commit to an exploration well in the final 2 years.

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

Having acquired the Cerberus permits in May 2014, Carnarvon's interpretation identified several significant prospects within the permit areas.

Due to suppressed industry conditions in the years following the award of the permit, associated with the collapse in the price of oil, Carnarvon was unable to secure a partner to progress towards the drilling of a well. As a result, Carnarvon made the prudent decision not to progress with 100% of the equity in the permits and avoid the well commitments.

As such, in July 2018 Carnarvon divested the permits for nominal consideration.

Santa Cruz Project - EP-497
(Carnarvon 100% and operator)

Carnarvon was awarded EP-497 in November 2017, which lies inboard of the Carnarvon basin on the North-West Shelf of Western Australia.

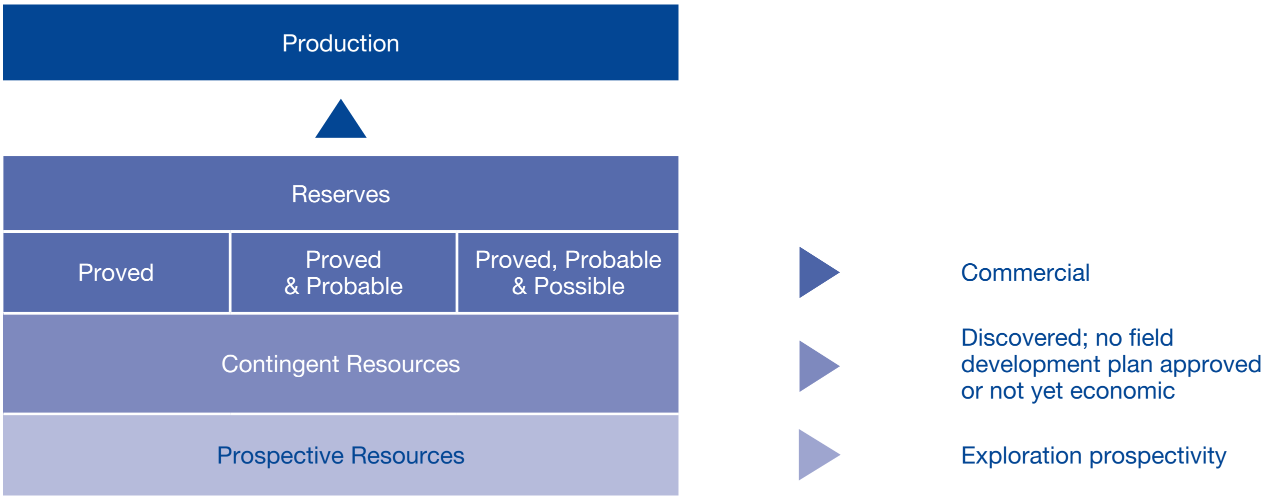
The permit contains the previously drilled Santa Cruz-1 well, drilled in 1994 which discovered a gas cap above a possible oil discovery.

In July 2018, Carnarvon divested the Santa Cruz permit along with the Cerberus permits for nominal consideration.

RESERVE ASSESSMENT

Petroleum Resource Classification, Categorisation and Definitions

Carnarvon calculates reserves and resources according to the Society of Petroleum Engineers' Petroleum Resource Management System ("SPE-PRMS") definition of petroleum resources. Carnarvon reports reserves and resources in line with ASX Listing Rules.



Reserves

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

Contingent Resources

Contingent resources are less certain than reserves. These are resources that are potentially recoverable but not yet considered mature enough for commercial development due to technological or business hurdles. For contingent resources to move into the reserves category, the key conditions, or contingencies, that prevented commercial development must be clarified

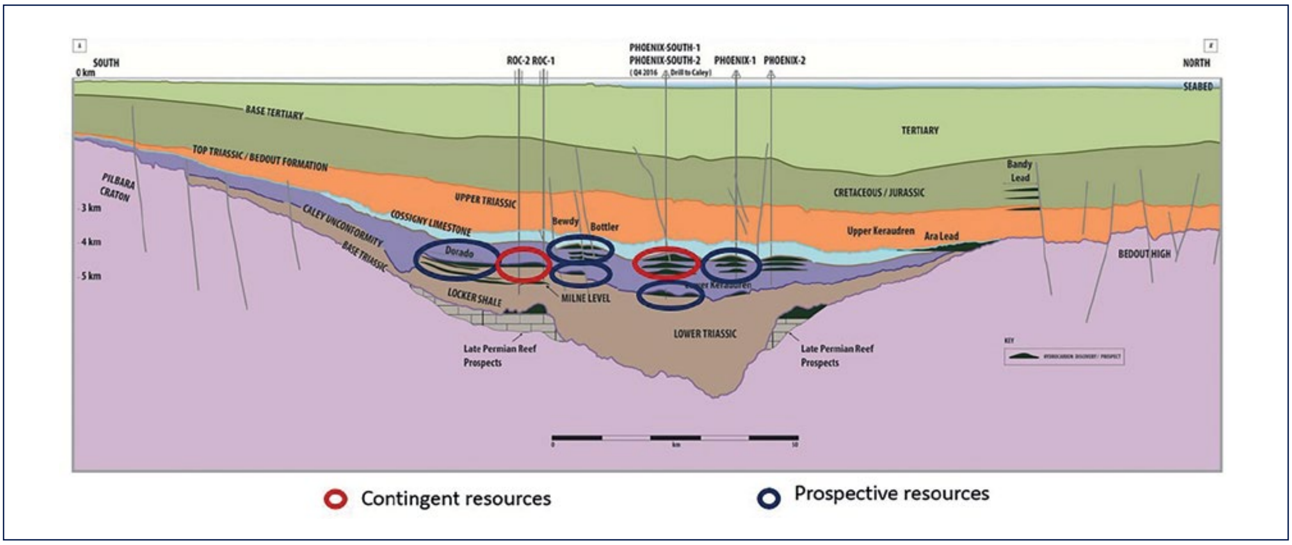


Figure 8: Cross section as indicated in Figure 2

and removed. As an example, all required internal and external approvals should be in place or determined to be forthcoming, including environmental and governmental approvals. There also must be evidence of firm intention by a company's management to proceed with development within a reasonable time frame (typically 5 years, though it could be longer).

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

Gross Contingent Resources

		Light Oil			Natural Gas			Condensate			Barrels of Oil Equivalent		
Gross at 30 June 2017		MMSTB	MMSTB	MMSTB	BSCF	BSCF	BSCF	MMSTB	MMSTB	MMSTB	MMBOE	MMBOE	MMBOE
	Permit	1C	2C	3C	1C	2C	3C	1C	2C	3C	1C	2C	3C
Roc	**WA-437-P**	-	-	-	204.5	331.8	580.3	11.9	19.6	34.8	47.8	77.8	136.6
Phoenix South	**WA-435-P**	6.8	16.7	29.6	-	-	-	-	-	-	6.8	16.7	29.6
Phoenix	**WA-435-P**	2.0	7.0	16.0	-	-	-	-	-	-	2.0	7.0	16.0
Buffalo	**WA-523-P**	-	-	-	-	-	-	-	-	-	-	-	-
Total		**8.8**	**23.7**	**45.6**	**204.5**	**331.8**	**580.3**	**11.9**	**19.6**	**34.8**	**56.6**	**101.5**	**182.2**

		Light Oil			Natural Gas			Condensate			Barrels of Oil Equivalent		
Technical Revision		MMSTB	MMSTB	MMSTB	BSCF	BSCF	BSCF	MMSTB	MMSTB	MMSTB	MMBOE	MMBOE	MMBOE
	Permit	1C	2C	3C	1C	2C	3C	1C	2C	3C	1C	2C	3C
Roc	**WA-437-P**	-	-	-	-	-	-	-	-	-	-	-	-
Phoenix South	**WA-435-P**	-	-	-	-	-	-	-	-	-	-	-	-
Phoenix	**WA-435-P**	-	-	-	-	-	-	-	-	-	-	-	-
Buffalo	**WA-523-P**	15.3	31.1	47.8	-	-	-	-	-	-	15.3	31.1	47.8
Total		**15.3**	**31.1**	**47.8**	**-**	**-**	**-**	**-**	**-**	**-**	**15.3**	**31.1**	**47.8**

		Light Oil			Natural Gas			Condensate			Barrels of Oil Equivalent		
Gross at 30 June 2018		MMSTB	MMSTB	MMSTB	BSCF	BSCF	BSCF	MMSTB	MMSTB	MMSTB	MMBOE	MMBOE	MMBOE
	Permit	1C	2C	3C	1C	2C	3C	1C	2C	3C	1C	2C	3C
Roc	**WA-437-P**	-	-	-	204.5	331.8	580.3	11.9	19.6	34.8	47.8	77.8	136.6
Phoenix South	**WA-435-P**	6.8	16.7	29.6	-	-	-	-	-	-	6.8	16.7	29.6
Phoenix	**WA-435-P**	2.0	7.0	16.0	-	-	-	-	-	-	2.0	7.0	16.0
Buffalo	**WA-523-P**	15.3	31.1	47.8							15.3	31.1	47.8
Total		**8.8**	**23.7**	**45.6**	**204.5**	**331.8**	**580.3**	**11.9**	**19.6**	**34.8**	**56.6**	**101.5**	**182.2**

(i) Buffalo volumes added as per ASX announcement 28 August 2017.

Net Contingent Resources

		Light Oil			Natural Gas			Condensate			Barrels of Oil Equivalent		
		MMSTB	MMSTB	MMSTB	BSCF	BSCF	BSCF	MMSTB	MMSTB	MMSTB	MMBOE	MMBOE	MMBOE
Net at 30 June 2018	Permit	1C	2C	3C	1C	2C	3C	1C	2C	3C	1C	2C	3C
Roc	**WA-437-P**	-	-	-	40.9	66.4	116.1	2.4	3.9	7.0	9.6	15.6	27.3
Phoenix South	**WA-435-P**	1.4	3.3	5.9	-	-	-	-	-	-	1.4	3.3	5.9
Phoenix	**WA-435-P**	0.4	1.4	3.2	-	-	-	-	-	-	0.4	1.4	3.2
Buffalo	**WA-523-P**	15.3	31.1	47.8	-	-	-	-	-	-	15.3	31.1	47.8
Total		**17.1**	**35.8**	**56.9**	**40.9**	**66.4**	**116.1**	**2.4**	**3.9**	**7.0**	**26.6**	**51.4**	**84.2**

Prospective Resource Estimates

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

Net Prospective Resources

			Light Oil				Natural Gas				Condensate				Barrels Of Oil Equivalent				Probability Geological Success	Risked MMBOE Pmean
	Permit		MMBBL P90	MMBBL P50	MMBBL Pmean	MMBBL P10	BSCF P90	BSCF P50	BSCF Pmean	BSCF P10	MMBBL P90	MMBBL P50	MMBBL Pmean	MMBBL P10	MMBOE P90	MMBOE P50	MMBOE Pmean	MMBOE P10		
Phoenix South Caley	WA-435-P	20%					128.0	401.0	489.0	963.0	10.5	39.4	56.8	122.0	33.0	109.8	142.6	290.9	71%	101.2
Roc-2 C/D	WA-437-P	20%					52.5	110.0	120.0	199.0	3.1	6.5	7.2	12.1	12.3	25.8	28.2	47.0	71%	20.0
Dorado Caley	WA-437-P	20%					58.7	338.0	545.0	1,260.0	2.5	16.6	31.6	74.9	12.8	75.9	127.2	296.0	36%	45.8
Roc Satellites	WA-437-P	20%					28.7	112.9	143.3	300.3	1.7	6.7	8.6	18.0	6.7	26.5	33.7	70.7	59%	19.9
Bewdy	WA-437-P	20%					0.2	8.6	27.6	84.7	1.1	9.8	26.7	64.2	1.1	11.3	31.5	79.1	32%	10.1
Bottler	WA-437-P	20%	1.9	12.7	31.2	74.1	-	-	-	-					1.9	12.7	31.2	74.1	59%	18.4
Peng	WA-437-P	20%					4.9	18.2	22.6	46.4	0.3	4.1	9.7	23.6	1.2	7.3	13.7	31.7	32%	4.4
Phoenix South Hove (ii)	WA-435-P	20%										*To be determined*								
Dorado Milne A	WA-437-P	20%	-	-	-	-	45.7	266.0	429.0	1,016.0	2.0	13.1	24.9	59.7	10.0	59.8	100.2	237.9	23%	23.0
Dorado Milne B	WA-437-P	20%	-	-	-	-	36.5	295.0	438.0	1,025.0	1.6	14.3	25.4	60.8	8.0	66.1	102.2	240.6	23%	23.5
Dorado Milne C	WA-437-P	20%	-	-	-	-	82.3	416.0	565.0	1,248.0	3.5	20.1	32.8	75.4	18.0	93.1	131.9	294.3	23%	30.3
Dorado Milne D	WA-437-P	20%	-	-	-	-	51.5	409.0	555.0	1,251.0	2.3	19.4	32.2	75.5	11.3	91.2	129.6	295.0	23%	29.8
Apus Caley (iii)	WA-437/8-P	20/30%					97.0	332.0	481.0	1,087.0	4.0	14.0	24.0	51.0	21.0	72.2	108.4	241.7	12%	13.0
Mensa Caley (iii)	WA-435-P	20%					75.0	305.0	446.0	1,000.0	6.0	30.0	52.0	121.0	19.2	83.5	130.2	296.4	17%	22.1
Pavo Caley (iii)	WA-438-P	30%					31.0	193.0	234.0	500.0	2.0	10.0	12.0	27.0	7.4	43.9	53.1	114.7	22%	11.7
Mensa Barret (Phoenix) (iii)	WA-435-P	20%	6.0	68.0	163.0	418.0									6.0	68.0	163.0	418.0	54%	88.0
Lupus (iii)	WA-435-P	20%					4.0	80.0	347.0	443.0	1.0	2.0	8.0	20.0	1.7	16.0	68.9	97.7	71%	48.9
Indus (iii)	WA-435-P	20%					10.0	187.0	346.0	892.0	1.0	5.0	17.0	42.0	2.8	37.8	77.7	198.5	32%	24.9
Ara (iii)	WA-435/6-P	20/30%	5.0	77.0	172.0	457.0									5.0	77.0	172.0	457.0	32%	55.0
Bandy Rankin (iii)	WA-435/6-P	20/30%	4.0	63.0	142.0	372.0									4.0	63.0	142.0	372.0	59%	83.8
Belgravia	WA-155-P	28.50%	-	-	-	-	4.6	50.7	125.4	314.9	0.1	1.4	5.1	12.8	0.9	10.3	27.1	68.1	29%	7.9
Honeybadger	EP-491	100%	12.0	86.0	144.0	340.0	-	-	-	-	-	-	-	-	12.0	86.0	144.0	340.0	15%	21.6
Kes	EP-475	100%	3.0	21.0	50.0	126.0	-	-	-	-	-	-	-	-	3.0	21.0	50.0	126.0	18%	9.0
Belfon	EP-491	100%	4.0	25.0	40.0	92.0	-	-	-	-	-	-	-	-	4.0	25.0	40.0	92.0	17%	6.8
Rudder	EP-491	100%	4.0	26.0	36.0	80.0	-	-	-	-	-	-	-	-	4.0	26.0	36.0	80.0	25%	9.0
Bunji	EP-491	100%	3.0	10.0	18.0	39.0	-	-	-	-	-	-	-	-	3.0	10.0	18.0	39.0	25%	4.5
Sparrow	EP-491	100%	4.0	15.0	22.0	46.0	-	-	-	-	-	-	-	-	4.0	15.0	22.0	46.0	25%	5.5
Westy	EP-491	100%	7.0	52.0	114.0	281.0	-	-	-	-	-	-	-	-	7.0	52.0	114.0	281.0	17%	19.4
Mighty	EP-491	100%	10.0	50.0	94.0	226.0	-	-	-	-	-	-	-	-	10.0	50.0	94.0	226.0	11%	10.3
Gallant	EP-490	100%	3.0	79.0	200.0	544.0	-	-	-	-	-	-	-	-	3.0	79.0	200.0	544.0	12%	24.0
Ivory (iv)	WA-521-P	100%	20.0	170.0	322.0	828.0	-	-	-	-	-	-	-	-	20.0	170.0	322.0	828.0	18%	58.0
Ivory deep (iv)	WA-521-P	100%	6.0	48.0	99.0	243.0	-	-	-	-	-	-	-	-	6.0	48.0	99.0	243.0	13%	12.9
Mouse (iv)	WA-521-P	100%	40.0	202.0	278.0	618.0	-	-	-	-	-	-	-	-	40.0	202.0	278.0	618.0	18%	50.0
Mouse deep (iv)	WA-521-P	100%	3.0	33.0	62.0	152.0	-	-	-	-	-	-	-	-	3.0	33.0	62.0	152.0	13%	8.1
Zebra (iv)	WA-521-P	100%	20.0	179.0	382.0	924.0	-	-	-	-	-	-	-	-	20.0	179.0	382.0	924.0	13%	49.7
Hammock deep (iv)	WA-521-P	100%	8.4	112.0	249.0	630.0	-	-	-	-	-	-	-	-	8.4	112.0	249.0	630.0	13%	32.4
Mahogany (iv)	WA-521-P	100%	21.5	94.0	148.0	332.0	-	-	-	-	-	-	-	-	21.5	94.0	148.0	332.0	13%	19.2
Weaver (iv)	WA-521-P	100%	3.4	24.5	44.0	106.0	-	-	-	-	-	-	-	-	3.4	24.5	44.0	106.0	13%	5.7
Total			**189.2**	**1447.2**	**2810.2**	**6928.1**	**710.6**	**3522.4**	**5,313.9**	**11630.3**	**42.7**	**212.4**	**374.0**	**860.0**	**356.6**	**2277.6**	**4116.4**	**9828.5**		**1027.9**

(ii) Hydrocarbon shows were encountered in the Hove Member while drilling the Phoenix South-2 well however resource estimates are not able to be calculated for this package until further data is available as per ASX announcement 28 March 2017.

(iii) Additional prospective resources included within the Phoenix project based on the results of the Phoenix South 1, Roc-1, Roc-2 and Phoenix South-2 well results as per ASX announcement 23 April 2018.

(iv) Updated prospective resources for the Labyrinth project based on the completion of a petrophysical analysis and per ASX announcement 7 February 2018.

Notes on Petroleum Resource Estimates

Unless otherwise stated, all petroleum resource estimates are quoted as at 30 June 2018 at standard oilfield conditions of 14.696 psi (101.325 kPa) and 60 degrees Fahrenheit (15.56 deg Celsius).

Carnarvon is not aware of any new information or data that materially affects the information included in the Reserves Statement. All the material assumptions and technical parameters underpinning the estimates in the Reserves Statement continue to apply and have not materially changed. One exception to this is the prospective resources for Dorado. Subsequent to the year end, Carnarvon announced Dorado contingent resource following discoveries in the Dorado-1 well on 20 August 2018.

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

MMBOE means millions of barrels of oil equivalent. Dry gas volumes, defined as 'C4 minus' hydrocarbon components and non-hydrocarbon volumes that are present in sales product, are converted to oil equivalent volumes via a constant conversion factor, which for Carnarvon is 5.7 Bcf of dry gas per 1 MMboe. Volumes of oil and condensate, defined as 'C5 plus' petroleum components, are converted from MMbbl to MMboe on a 1:1 ratio.

The estimates of petroleum resources are based on and fairly represent information and supporting documentation prepared by qualified petroleum reserves and resources evaluators. The estimates have been approved by the Company's Chief Operating Officer, Mr Philip Huizenga, who is a full-time employee of Carnarvon. Mr Huizenga has over 25 years' experience in petroleum exploration and engineering. Mr Huizenga holds a Bachelor Degree in Engineering and a Master's Degree in Petroleum Engineering and is a member of the Society of Petroleum Engineers. Mr Huizenga is qualified in accordance with ASX Listing Rules and has consented to the form and context in which this statement appears.

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

FINANCIAL REVIEW

The Group reports an after-tax profit $1,425,000 for the financial year ending 30 June 2018 (2017: Loss: $36,977,000).

Carnarvon's balance sheet remained strong with cash and cash equivalents of $63,606,000 (2017: $53,050,000), no debt and minimal commitments going forward.

During the financial year, Carnarvon successfully completed a capital raising through a placement to sophisticated and institutional investors followed by a share purchase plan to existing shareholders. Carnarvon raised $19,107,000 after fees (2017: $0).

Carnarvon entered into an agreement with CWX Global Limited (formerly Loyz Energy Limited) ("CWX") to settle the outstanding deferred consideration payable to Carnarvon for a sum of US$4.0m with $0.05m paid on the agreement date in the previous financial year and the balance settled on 14 November 2017 in shares of CWX.

As the deferred consideration was written down to nil in the prior financial year, the settlement resulted in a gain of A$3,514,000 under other income in the Consolidated Income Statement. Conversely, the subsequent decline in the value of the shares since settlement has created a change in fair value of ($1,217,000) in Other Comprehensive Income. The resulting balance represents a value of the shares of A$2,297,000 which is classified as an Available for sale financial asset on the Balance Sheet as at 30 June 2018.

Carnarvon spent $2,204,000 (2017: $2,894,000) in new venture and advisory costs as the Company continues to build its database and portfolio of potentially high impact assets to add to the Company's string of successful discoveries.

The Company also invested a further $6,505,000 on its exploration assets. Most significantly in relation to the Phoenix South-3 and Dorado-1 wells, and preparatory work on redeveloping the Buffalo oil field.

During the financial year there was an unrealized gain on foreign exchange of $1,751,000 (2017: Loss: $1,461,000) due to the effect of a depreciation of AUD against the Carnarvon's USD cash and financial assets.

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

Permit Interests

Permit	Basin	Equity	Joint Venture Partner(s)	Partner Interest	Indicative Forward Program
Australia					
AC-P62	Bonaparte	100%	-	-	G & G Studies
AC-P63	Bonaparte	100%	-	-	G & G Studies
EP-475	Carnarvon	100%	-	-	G & G Studies
EP-490	Carnarvon	100%	-	-	G & G Studies
EP-491	Carnarvon	100%	-	-	G & G Studies
EP-497	Carnarvon	100%	-	-	G & G Studies
TP/27	Carnarvon	100%	-	-	G & G Studies
WA-521-P	Roebuck	100%	-	-	G & G Studies
WA-523-P	Bonaparte	100%	-	-	G & G Studies
WA-524-P	Dampier	100%	-	-	G & G Studies
WA-435-P	Roebuck	20%	Quadrant Energy (i)	80%	G & G Studies, Appraisal
WA-436-P	Roebuck	30%	Quadrant Energy (i)	70%	G & G Studies
WA-437-P	Roebuck	20%	Quadrant Energy (i)	80%	G & G Studies, Appraisal
WA-438-P	Roebuck	30%	Quadrant Energy (i)	70%	G & G Studies
WA-155-P	Barrow	28.5%	Quadrant Energy (i)	71.5%	G & G Studies, Exploration well
EP321	Perth	2.50% of 38.25% (ii)	-	-	Appraisal
EP407	Perth	2.50% of 42.5% (ii)	-	-	Appraisal

Note:

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

Statutory Information

The directors present their report together with the financial report of the Group, being the Company, its controlled entities, and the Group's interest in jointly controlled assets, for the financial year ended 30 June 2018, and the auditor's report thereon.

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

DIRECTORS

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

Peter J Leonhardt
Chairman

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

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

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

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

Adrian C Cook
Chief Executive Officer and Managing Director

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

Mr Cook has over 30 years' experience in commercial and financial management, primarily in the petroleum industry. Immediately prior to joining Carnarvon, he was the Managing Director of Buru Energy Limited, an ASX listed oil and gas exploration and production company with interests in the Canning Basin in Western Australia. Mr Cook has also held senior executive positions within Clough Limited's oil and gas construction business and was on the executive committee at ARC Energy Limited, an ASX listed mid cap oil and gas exploration and production company. Mr. Cook is a fellow of the Australian Institute of Company Directors.

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

DIRECTORS' REPORT

William (Bill) A Foster
Non-Executive Director

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

Mr Foster is an engineer with extensive technical, commercial and managerial experience in the energy industry over a 40 plus year period. He has been an advisor to a major Japanese trading company for the last 25 years in the development of their global E&P and LNG activities and has spent time prior to this working internationally in the development of a number of energy companies. Mr Foster has significant M&A experience and has assisted companies in their commercial activities including financing and marketing.

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

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

Peter Moore
Non-Executive Director

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

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

During the past three years Dr Moore served as a non-executive Director of Central Petroleum Ltd and Beach Energy Limited.

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

Gavin Ryan
Non-Executive Director

LLB (Hons), GAICD
Appointed as a director on 30 July 2018.

Mr Ryan is a lawyer who has extensive legal and commercial skills in oil and gas gained through an extensive international career with organisations such as BHP Petroleum, BP, PTTEP and Shell. Mr Ryan has experience in government dealing, production sharing contracts and petroleum project construction contracts.

During the past three years, Mr Ryan has not served as a Director on any other listed Company.

Company Secretary

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

Directors' meetings

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

	(a)	(b)
PJ Leonhardt	8	8
WA Foster	8	8
AC Cook	8	8
P Moore	8	7

(a) Number of meetings held and eligible to attend during period of office
(b) Number of meetings attended

Audit and Risk Committee

Names and qualifications of Audit and Risk Committee members

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

Audit and Risk Committee meetings

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

	(a)	(b)
PJ Leonhardt	2	2
WA Foster	2	2
P Moore	2	1

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

REMUNERATION REPORT (AUDITED)

Principles of remuneration

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

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

The Committee determines its compensation practices in terms of their effectiveness to:

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

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

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

The Remuneration & Nomination Committee, having regard to recent changes in the taxation of certain long term incentive schemes and current trends in structuring long term incentive plans, is of the view that the Company's ESP is the most effective structure to meet its objectives and attract, retain and motivate appropriately qualified and experienced executives.

In considering the Group's performance and impact on shareholder wealth, the Board has had regard to the following in respect of the current financial year and the previous four years.

	30 June 2014	30 June 2015	30 June 2016	30 June 2017	30 June 2018
Share price as at 30 June each year	$0.075	$0.115	$0.100	$0.079	$0.15
Year on year change in the share price	83%	53%	(13%)	(21%)	90%

REMUNERATION REPORT (AUDITED) (CONTINUED)

The Board sets objectives and targets for its executives and employees for each financial year. The quantum of short-term incentive payments and long term incentive payments to be made to executives are determined by the extent to which they meet achieve strategic objectives set by the board. Given many of these objectives are closely linked to strategy, it is not possible for the Company to publicly disclose the objectives until they are fully achieved. These objectives are summarised, to the extent possible in the following pages.

Non-executive directors

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

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

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

Fixed compensation

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

Short-term incentive scheme

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

1. The performance of the business as a whole;
2. The extent to which the executive team achieves strategic objectives set by the board; and
3. The individual performances of each employee.

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

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

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

All short-term incentives awarded during the period are included in remuneration, as set out on page 27, and fully vested to each named executive and key management personnel during the period.

The strategic objectives that were met during the 30 June 2018 financial year were as follows:

- Identifying 2C contingent resource of 31 mmbbls in the Buffalo project;
- Materially advancing the Buffalo redevelopment project;
- Award of AC/P62 (Condor Project);
- Award of AC/P63 (Eagle Project);
- Materially advanced the North-West Shelf database;
- Completion of the Maracas project reprocessing and initial prospect mapping;
- Commencement of the Labyrinth project farm out;
- Conversion of deferred consideration to shares in CWX global;

REMUNERATION REPORT (AUDITED) (CONTINUED)

Given many of objectives are closely linked to strategy, it is not possible for the Company to publicly disclose all of the objectives until they are fully achieved.

Long- term incentive scheme - Employee Share Plan

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

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

The Plan is considered to be the most appropriate long-term incentive scheme for the size and nature of the Company.

The plan only rewards long term share price growth, rather than relative performance. Unlike performance rights, the Plan shares are only of value to the holder of the shares to the extent to which the share price increases to exceed at least 120% of the share price when the offer is made to the employee. Furthermore, the Plan does not give rise to a tax liability on issue (unlike some options) thus encouraging long-term holdings.

The Company Employee Share Plan is considered to be an effective way to align the objectives of management with the interests of shareholders.

Each year the maximum numbers of Plan shares that can be awarded is 1.5% of the Company's total issued capital which is broken down into two components.

The award of Plan shares is based on two components:

1. Relative total shareholder return (maximum of 0.75% of total issued capital); and
2. The extent to which the executive team achieves strategic objectives set by the board (maximum of 0.75% of total issued capital).

The relative total shareholder return component as awarded on the following basis:

CVN TSR compared to peers	% of EPS award
Less than 50%	Nil
50%	25%
50% to 90%	Pro rata
90% and above	Full amount

For the purposes of the TSR evaluation, Carnarvon's peer group is Buru Energy Ltd, Cooper Energy Ltd, Cue Energy Resources Ltd, Elk Petroleum Ltd, FAR Ltd, Horizon Oil Ltd, Karoon Gas Australia Ltd, Otto Energy Ltd, Senex Energy Ltd, Sino Gas & Energy Ltd, 88E Ltd and Tap Oil Ltd.

In the 30 June 2018 financial year, the relative TSR outcome was 58% on the pro rata basis outlined above. Therefore, the pool of plan shares on the relative TSR basis was 5,147,524 shares.

The board has set a number of long term measurable objectives for the executive team. Given the sensitive, strategic and ongoing nature of these objectives the Company is not in a position to fully disclose these at this point in time. The long term objectives do however relate to:

- Progress under the company's traditional model of acquiring permits, applying technical expertise with a view to attract a farm in partner to advance the project;
- Progress in the Phoenix project (multiple objectives);
- Progress in the Buffalo project (multiple objectives); and
- Numerous corporate objectives which remain confidential.

REMUNERATION REPORT (AUDITED) (CONTINUED)

During the 30 June 2018 year, the pool of plan shares on the meeting of measurable objectives was 2,640,000 shares.

Therefore, the total pool of Plan shares to be awarded was 7,787,524 shares. Given the team like nature of the Carnarvon organization, the Plan shares were allocated pro rata each executives salary.

The principal provisions of the Plan include:

- The Plan is available to all executive Directors, employees or consultants of the Company or any of its subsidiaries ("Eligible Person");
- Non-Executive Directors are not eligible to participate in the Plan;
- The Company may at any time, in its absolute discretion, make an offer to an Eligible Person;
- The number of Plan Shares issued to any Eligible Person and the issue price is to be determined by the directors of the Company;
- The issue price is to be determined by the Board, provided that the issue price is at least 120% of the market price of the Company's Shares, being the weighted average sale price of Shares sold through the ASX on the 5 trading days prior to the proposed date of an offer under the Plan.;
- The offer may be accepted by an Eligible Person or an associate of that Eligible Person, within the given acceptance period;
- The person accepting the offer ("Participant") will be taken to have agreed to borrow from the Company on the terms of the loan agreement referred to below an amount to fund the purchase of the Plan Shares;
- The Plan Shares will rank pari passu with all issued fully paid ordinary shares in respect of voting rights, dividends and entitlement to participate in any bonus or rights issues;
- Plan participants may not dispose of any ESP Shares within two years of the issue date but, subject to repayment of any associated loan (equal to the issue price), participants may dispose of up to 25% of their ESP Shares after two years, 50% after three years, 75% after four years and 100% after five years.
- Until the loan to the Participant is fully repaid, the Company has control over the disposal of the Plan Shares. Once the loan is repaid in full, the Participant may deal with the Plan Shares as he wishes;
- The aggregate number of Plan Shares and other shares and options issued in the previous 5 years under any other employee incentive scheme of the Company must not exceed 5% of the issued capital of the Company; and
- Applications will be made as soon as practicable after the allotment of the Plan Shares for listing for quotation on ASX.

The principal provisions of the loan agreement include:

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

REMUNERATION REPORT (AUDITED) (CONTINUED)

There has been some misunderstanding with respect to the Company's ESP scheme. Unlike performance rights where executives enjoy the entire value of the share upon vesting,the Company's ESP scheme only rewards the holder of the share to the extent the share price exceeds the issue price of the share.

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

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

Details of the nature and amount of each major element of the remuneration of each director of the Company and each of the named Company and Group executives receiving the highest remuneration are set out on page 27.

Service contracts

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

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

Equity instruments

(i) Shares

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

(ii) Plan Shares

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

Executive Officers	Number of plan shares issued	Grant date	Exercise price per plan share	Fair value at grant date
AC Cook*	1,500,000*	17/11/2017*	$0.100*	$0.041*
PP Huizenga	1,176,201	29/06/2018	$0.165	$0.082
TO Naude	548,880	29/06/2018	$0.165	$0.082

* Approved by shareholders at the AGM on 25 November 2017.

REMUNERATION REPORT (AUDITED) (CONTINUED)

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

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

2018 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
27/11/2017	29/06/2022	$0.041	$0.100	$0.079	68%	1.50%	0%
29/06/2018	28/06/2022	$0.082	$0.165	$0.150	68%	1.50%	0%

(iii) Options

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

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

	Granted in year ($)	Expense recognised in year ($)	Exercised in year ($)	Forfeited in the year ($)	Total option value in year ($)
Directors					
WA Foster	-	7,446*	-	-	39,637
P Moore	-	7,446*	-	-	39,637

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

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

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

REMUNERATION REPORT (AUDITED) (CONTINUED)

Remuneration & Nomination Committee

The Committee is to include at least 3 members. Members of the committee during the 30 June 2018 financial year were Mr Foster (Chairman of the Remuneration & Nomination Committee), Mr Leonhardt and Dr Moore. Qualifications of Remuneration & Nomination Committee members are provided in the Directors section of this directors' report.

Remuneration Committee meetings

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

	(a)	(b)
WA Foster	2	2
PJ Leonhardt	2	2
P Moore	2	1

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

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

REMUNERATION REPORT (AUDITED) (CONTINUED)

	Short Term		Post-Employment	Long Term			
Name	Salary and fees ($)	Short term cash bonus ($)	Superannuation contributions ($)	Shares/ Options ($)	Total ($)	Proportion of remuneration performance related %	Value of shares/ options as a % of remuneration
Directors							
Non-Executive							
Mr PJ Leonhardt (Chairman)							
2018	118,450	-	-	-	118,450	-	-
2017	115,000	-	-	-	115,000	-	-
Mr WA Foster							
2018	82,400	-	-	7,446[1,2]	89,846		8.3%
2017	80,000	-	-	19,983[1,2]	99,983	-	20.0%
Dr P Moore							
2018	77,250	-	-	7,446[1,2]	84,696	-	8.8%
2017	75,000	-	-	19,983[1,2]	94,983	-	21.0%
Executive							
Mr AC Cook (Chief Executive Officer)							
2018	578,865	73,124	28,375	61,226[1,3]	741,590	18.1%	8.3%
2017	543,896	-	37,060	54,370[1,4]	635,326	8.6%	8.6%
Executives							
Mr PP Huizenga (Chief Operating Officer)							
2018	548,671	69,468	23,661	96,747[1]	738,547	22.5%	13.1%
2017	513,974	-	37,933	45,919[1]	597,826	7.7%	7.7%
Mr TO Naude (Chief Financial Officer)							
2018	241,097	32,417	24,103	45,147[1]	342,764	22.6%	13.2%
2017	235,205	-	24,225	30,613[1]	290,043	10.6%	10.6%
Total compensation: key management personnel (Company and consolidated)							
2018	1,646,733	175,009	76,139	218,012	2,115,893	18.6%	10.3%
2017	1,604,685	-	99,218	170,868[1]	1,874,771	9.3%	9.3%

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

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

2 2017 and 2018 options issued to Mr Foster and Dr Moore relate to 2015 financial year remuneration approved at AGM on 13 November 2015, issued 20 November 2015.

3 2018 share-based payments to Mr Cook relate to 2018 financial year remuneration approved at the AGM on 17 November 2017 and issued 27 November 2017.

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

REMUNERATION REPORT (AUDITED) (CONTINUED)

Ordinary shares held by key management personnel

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

2018	Held at 1 July 2017	Net acquired/ (sold)	Award under Employee Share Plan	Received on exercise of options	Held at 30 June 2018
Directors					
PJ Leonhardt	17,750,000	-	-	-	17,750,000
WA Foster	684,455	52,847	-	-	737,302
AC Cook	10,999,917	-	1,500,000	-	12,499,917
P Moore	-	270,232	-	-	270,232
Executives					
PP Huizenga	9,492,421	-	1,176,201	-	10,668,622
TO Naude	2,692,509	-	548,880	-	3,241,389

Plan shares held by key management personnel

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

2018	Held at 1 July 2017	Granted as compensation	Employee Share Plan cancellations	Exercised	Held at 30 June 2018
Directors					
PJ Leonhardt	3,000,000	-	-	-	3,000,000
WA Foster	-	-	-	-	-
AC Cook	8,234,917	1,500,000	-	-	9,734,917
P Moore	-	-	-	-	-
Executives					
PP Huizenga	8,992,421	1,176,201	-	-	10,168,622
TO Naude	2,478,436	548,880	-	-	3,027,316

Options over equity instruments held by key management personnel

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

2018	Held at 1 July 2017	Granted as compensation	Acquired/ (sold)	Exercised	Held at 30 June 2018
Directors					
WA Foster	500,000	-	-	-	500,000
P Moore	500,000	-	-	-	500,000

End of Remuneration 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 2018 ($)
Auditors of the Company:	
Ernst & Young	99,575

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	12,499,917	-
WA Foster	737,302	500,000
P Moore	270,232	500,000

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

Diversity

For the year ending 30 June 2018, women made up 25% of the Company's general work force. Currently, there are no women on the board or in senior executive positions.

The Board has set the diversity objective of providing mentoring and support to female employees for the 2018 financial year.

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

Likely developments

The likely developments for the 2018 financial year are contained in the operating and financial review as set out on pages 4 to 16.

Environmental regulation and performance

The Group's oil and gas exploration and development activities are concentrated in Western Australia. Environmental obligations are regulated under both State and Federal Law in Western Australia. No significant environmental breaches have been notified by any government agency during the year ended 30 June 2018.

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 (2017: Nil).

Auditor's independence declaration

The auditor's Independence Declaration under Section 307C of the Corporations Act is set out on page 32 and forms part of the directors' report for the financial year ended 30 June 2018.

Principal activities

During the course of the 2018 financial year the Group's principal activities continued to be directed towards oil and gas exploration, development and production.

Identification of independent directors

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

Significant changes in state of affairs

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

Indemnification and insurance of directors and officers

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

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

Proceedings on behalf of the Company

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

Operating and financial review

An operating and financial review of the Group for the financial year ended 30 June 2018 is set out on pages 4 to 16 and forms part of this report.

Indemnity of auditors

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

Events subsequent to reporting date

No matters or circumstance has arisen since 30 June 2018 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

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

Rounding off

The Company is an entity of the kind referred to in the Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016. As a result, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors.

PJ Leonhardt
Director

Perth, 28 August 2018

Building a better working world

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

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

As lead auditor for the audit of Carnarvon Petroleum Limited for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Ernst & Young

Ernst & Young

R J Curtin
Partner
28 August 2018

RC:KW:CARNARVON:024

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

The Group's Corporate Governance Statement for the financial year ending 30 June 2018 is dated as at 30 June 2018 and was approved by the Board on 28 August 2018. The Corporate Governance Statement is available on Carnarvon Petroleum's website at **carnarvon.com.au/about-us/corporate-governance/**.

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2018

	Notes	Consolidated 2018 $000	Consolidated 2017 $000
Other income	2	5,653	3,690
Administrative expenses		(1,409)	(1,587)
Directors' fees		(278)	(312)
Employee benefits expense		(2,088)	(2,155)
Unrealised foreign exchange gain/(loss)		1,751	(1,462)
New venture and advisory costs		(2,204)	(2,894)
Exploration expenditure written off	12	-	(10,104)
Remeasurement of deferred consideration asset	9	-	(22,153)
Profit (loss) before income tax		1,425	(36,977)
Taxes			
Current income tax expense	6(a)	-	-
Profit (loss) for the year		1,425	(36,977)
Profit (loss) attributable to members of the Company		1,425	(36,977)
Profit (loss) per share:			
Basic profit (loss) for the period attributable to members of the entity (cents per share)	5	0.14	(3.62)
Diluted profit (loss) for the period attributable to members of the entity (cents per share)	5	0.14	(3.62)

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Notes	Consolidated 2018 $000	2017 $000
Profit (loss) for the year		1,425	(36,977)
Other comprehensive income			
Items that may be reclassified to profit or loss			
Change in fair value of available for sale financial asset	8	(1,217)	-
Exchange differences arising on translation of foreign operations, net of income tax		-	(2)
Total comprehensive profit (loss) for the year		208	(36,979)
Total comprehensive profit (loss) attributable to members of the company		208	(36,979)

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 2018

	Notes	Consolidated 2018 $000	Consolidated 2017 $000
Current assets			
Cash and cash equivalents	16(b)	63,606	53,050
Trade and other receivables	7	324	400
Other assets	11	555	459
Total current assets		64,485	53,909
Non-current assets			
Property, plant and equipment	10	35	80
Available for sale financial asset	8	2,297	-
Exploration and evaluation expenditure	12	53,443	46,938
Total non-current assets		55,775	47,018
Total assets		120,260	100,927
Current liabilities			
Trade and other payables	14	902	1,341
Employee benefits	19	386	379
Total current liabilities		1,288	1,720
Non-current liabilities			
Employee benefits	19	196	279
Total non-current liabilities		196	279
Total liabilities		1,484	1,999
Net assets		118,776	98,928
Equity			
Contributed equity	15	115,508	95,865
Reserves	15	(1,595)	(375)
Retained earnings		4,863	3,438
Total equity		118,776	98,928

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 2018

	Issued capital $000	Reserve shares $000	Retained earnings $000	Translation reserve $000	Fair value reserve $000	Share based payments reserve $000	Total $000
Balance at 1 July 2016	95,401	(3,190)	40,415	28	-	2,854	135,508
Comprehensive loss							
Loss for the year	-	-	(36,977)	-	-	-	(36,977)
Other comprehensive loss	-	-	-	(2)	-	-	(2)
Total comprehensive loss for the year	-	-	(36,977)	(2)	-	-	(36,979)
Transactions with owners and other transfers							
Share based payments	-	-	-	-	-	399	399
Issue of ESP shares	464	(464)	-	-	-	-	-
Total transactions with owners and other transfers	464	(464)	-	-	-	399	399
Balance at 30 June 2017	95,865	(3,654)	3,438	26	-	3,253	98,928
Balance at 1 July 2017	95,865	(3,654)	3,438	26	-	3,253	98,928
Comprehensive loss							
Profit for the year	-	-	1,425	-	-	-	1,425
Other comprehensive loss	-	-	-	-	(1,217)	-	(1,217)
Total comprehensive loss for the year	-	-	1,425	-	(1,217)	-	208
Transactions with owners and other transfers							
Share based payments	-	-	-	-	-	619	619
Proceeds from capital raise	19,021	-	-	-	-	-	19,021
Issue of ESP shares	622	(622)	-	-	-	-	-
Total transactions with owners and other transfers	19,643	(622)	-	-	-	619	19,640
Balance at 30 June 2018	115,508	(4,276)	4,863	26	(1,217)	3,872	118,776

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 2018

	Notes	Consolidated 2018 $000	Consolidated 2017 $000
Cash flows from operating activities		-	
Payments to suppliers and employees		(5,855)	(7,345)
Interest received		630	480
Research and development tax credit received		1,523	1,822
Net cash used in operating activities	16(a)	(3,702)	(5,043)
Cash flows from investing activities			
Exploration and development expenditure		(6,505)	(27,760)
Acquisition of property, plant and equipment	10	(6)	(17)
Proceeds from deferred consideration asset		-	93
Net cash used in investing activities		(6,511)	(27,684)
Cash flows from financing activities			
Proceeds from capital raise		19,021	-
Net cash provided by financing activities		19,021	-
Net increase (decrease) in cash and cash equivalents held		8,808	(32,727)
Cash and cash equivalents at the beginning of the financial year		53,050	87,847
Effect of exchange rate fluctuations on cash and cash equivalents		1,748	(2,070)
Cash and cash equivalents at the end of the financial year	16(b)	63,606	53,050

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 2018 comprises the Company and its controlled entities (the "Group") and the Group's interest in jointly controlled assets.

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

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

The financial report was authorised for issue by the directors on 28 August 2018.

The basis for the preparation of the following notes can be found in note 29 and the significant accounting policies used in the preparation can be found in note 30.

2. OTHER INCOME

	Consolidated	
	2018 $000	2017 $000
Finance income on bank deposits	630	480
Research and development tax credit received	1,523	1,822
Gain on settlement of deferred consideration asset (Note 8)	3,514	-
Other income	-	93
Unwinding of interest on deferred consideration asset (note 9)	-	1,403
Net loss on foreign currency transactions	(14)	(108)
	5,653	3,690

3. OTHER EXPENSES

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

Depreciation – property, plant and equipment	(52)	(102)
Rental premises – operating leases	(242)	(275)
Defined contribution – superannuation expense	(288)	(293)

4. AUDITORS' REMUNERATION

Audit and review services:		
Ernst & Young	(67)	(56)
Tax services:		
Ernst & Young	(33)	-

5. PROFIT (LOSS) PER SHARE

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

	2018	2017
	Number of shares	
Issued ordinary shares at 1 July	1,027,969,809	1,019,941,717
Effect of shares issued	24,552,749	1,275,448
Weighted average number of ordinary shares 30 June (basic)	1,052,522,558	1,021,217,165
Effect of share options on issue [1]	1,000,000	-
Weighted average number of ordinary shares 30 June (diluted)	1,053,522,558	1,021,217,165

	2018 $	2017 $
Profit (loss) used in calculating basic and diluted loss per share	1,425,000	(36,977,000)

[1] As the consolidated entity incurred a loss for the year ended 30 June 2017, the effect of options on issue is considered to be antidilutive and thus not factored in determining the diluted earnings per share.

6. TAXES

	Consolidated 2018 $000	Consolidated 2017 $000
(a) Income tax expense		
Numerical reconciliation between pre-tax profit and income tax expense:		
Prima facie income tax benefit on pre-tax profit (loss) at 27.5%	392	(10,169)
Tax effect of:		
Effect of foreign exchange	-	402
Non-deductible expenditure	190	5,896
R&D grant not assessable	(419)	(501)
Settlement of deferred consideration	(966)	-
Current year tax benefit not brought to account	803	4,372
Income tax benefit	-	-
Current income tax	-	-
Deferred tax	-	-
	-	-
(b) Current tax liability	-	-

Tax Consolidation

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

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

(c) Unrecognised deferred tax assets and liabilities

	2018 $000	2017 $000
Deferred tax asset on Australian tax losses	21,006	20,773
Deferred tax liability on capitalised exploration and evaluation expenditure	(2,335)	(1,912)
Deferred tax liability on capitalised exploration and evaluation expenditure	(14,697)	(12,908)
Net deferred tax asset not recognised	3,974	5,953

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

7. TRADE AND OTHER RECEIVABLES

	Consolidated 2018 $000	Consolidated 2017 $000
Current		
Trade and other receivables	96	175
Cash held as security	228	225
	324	400

The Group's exposure to credit and currency risks is disclosed in Note 26.

8. AVAILABLE FOR SALE FINANCIAL ASSET

	2018 $000	2017 $000
Available for sale financial asset	2,297	-

Reconciliation

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

	2018 $000	2017 $000
Carrying value at the beginning of period	-	-
Receipt of shares in CWX Global Limited on settlement of deferred consideration asset	3,514	-
Fair value movements	(1,217)	-
Carrying value at the end of period	2,297	-

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

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

CWX made the US$3.95m in settlement for the deferred consideration asset by issue of shares as it was unable to make a cash settlement. On 6 September 2017, the issue of 331,653,000 shares in CWX (equating to a fair value of US$3.95m) to Carnarvon (in settlement of the deferred consideration asset) was approved by the shareholders of CWX. Settlement occurred on 14 November 2017. The settlement of the deferred consideration asset resulted in a gain of $3,514,000 which has been reflected in other income in the income statement (note 2).

The shares in CWX held by Carnarvon at 30 June 2018 has been accounted for as an available for sale financial asset under Australian Accounting Standards and classified as a "level 1" financial asset under the fair value hierarchy.

9. DEFERRED CONSIDERATION ASSET

	Consolidated 2018 $000	Consolidated 2017 $000
Current portion of deferred consideration asset	-	-
Non-current portion of deferred consideration asset	-	-
	-	-

Reconciliation

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

	2018 $000	2017 $000
Opening fair value	-	20,051
Effective interest	-	1,403
Repayments	-	-
Fair value movement	-	(22,153)
Effects of exchange rate fluctuations	-	699
Closing fair value	-	-

Carnarvon completed the sale of half of its 40% interest in its producing Concessions in Thailand during the 2014 financial year to Loyz Energy Limited ("Loyz Energy") which included a US$32,000,000 deferred consideration based on 12% of the acquirer's share of revenue in the Concessions.

In the 2017 financial year, Carnarvon impaired the carrying value of the deferred consideration asset due to a number of factors including the performance of the underlying Thai assets, a sustained decline in oil prices since the divestment and the financial position of Loyz. More specifically, Loyz was unable to make the deferred consideration payment that was due in December 2016 and an agreement was reached to settle the deferred consideration for US$4.0m by 30 June 2017, which was extended to 31 October 2017 (note 8).

10. PROPERTY, PLANT AND EQUIPMENT

	Consolidated 2018 $000	Consolidated 2017 $000
Fixtures and fittings		
Cost:		
Balance at beginning of financial year	558	541
Additions	6	17
Disposals	-	-
Effects of movements in foreign exchange	-	-
Balance at end of financial year	564	558
Depreciation and impairment losses:		
Balance at beginning of financial year	478	376
Additions	-	-
Disposals	-	-
Depreciation charge for year	51	102
Balance at end of financial year	529	478
Carrying amount opening	80	165
Carrying amount closing	35	80

11. OTHER ASSETS

Current		
Deposits and prepayments	555	459

12. EXPLORATION AND EVALUATION EXPENDITURE

Cost:		
Balance at beginning of financial year	46,938	29,282
Additions	6,505	27,760
Exploration expenditure written off	-	(10,104)
Balance at end of financial year	53,443	46,938

13. JOINT OPERATIONS

The Group has the following interests in joint operations:

Joint operation	Principal activities	Ownership interest %	
Western Australia		2018	2017
WA-435-P, WA437-P, Roebuck Basin	Exploration for hydrocarbons	20%	20%
WA-436-P, WA 438-P, Roebuck Basin	Exploration for hydrocarbons	30%	30%
WA-155-P, Barrow sub Basin	Exploration for hydrocarbons	28.5%	28.5%

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

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

14. TRADE AND OTHER PAYABLES

	Consolidated	
	2018 $000	2017 $000
Current		
Trade payables	533	1,263
Non-trade payables and accrued expenses	369	78
	902	1,341

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 26.

15. CAPITAL AND RESERVES

	Company 2018	Company 2017
	Number of shares	
Contributed equity		
Balance at beginning of financial year	1,027,969,809	1,019,941,717
Issued for cash	153,769,034	-
Employee Share Plan issues	8,149,416	8,028,092
Balance at end of financial year	1,189,888,259	1,027,969,809

	Company 2018 $000	Company 2017 $000
Issued capital		
Balance at beginning of financial year	95,865	95,401
Reserve employee shares	622	464
Proceeds from capital raise	19,021	-
Balance at end of financial year	115,508	95,865

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

	Company 2018	Company 2017
	Number of shares	
Reserve shares (plan shares)		
Balance at beginning of financial year	45,455,192	37,427,100
Employee Share Plan issues	8,149,416	8,028,092
Balance at end of financial year	53,602,608	45,455,192

	Company 2018 $000	Company 2017 $000
Reserve shares (plan shares)		
Balance at beginning of financial year	3,654	3,190
Employee Share Plan issues	622	464
Balance at end of financial year	4,276	3,654

Translation reserve

Movements in the translation reserve are set out in the Statement of Changes in Equity on page 37.

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

Share based payments reserve

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

16. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated 2018 $000	Consolidated 2017 $000
(a) Cash flows from operating activities		
Profit (loss) for the year	1,425	(36,977)
Adjustments for:		
Equity settled share based payment expense	618	399
Settlement of deferred consideration asset	(3,514)	-
Impairment of deferred consideration asset	-	22,153
Depreciation	51	102
Foreign exchange (loss) profit	(1,748)	1,362
Exploration expenditure written off	-	10,104
Operating loss before changes in working capital and provisions:	(3,168)	(2,857)
Changes in assets and liabilities:		
Decrease / (increase) in trade and other receivables	76	(1,594)
(Increase) / decrease in other assets	(96)	8
Decrease in trade and other payables	(439)	(789)
(Decrease) / increase in provisions and employee benefits	(75)	189
Net cash flows used in operating activities	(3,702)	(5,043)
(b) Reconciliation of cash and cash equivalents		
Cash at bank and at call	3,726	13,938
Cash on deposit	59,880	39,112
	63,606	53,050

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 26.

Restricted cash of $228,000 consolidated is included under trade and other receivables (2017:$ 225,000 consolidated), see Note 7.

17. CAPITAL AND OTHER COMMITMENTS

(a) Exploration expenditure commitments

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

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

	Consolidated	
	2018 $000	2017 $000
Less than one year	1,153	2,707
Between one and five years	1,474	3,297
	2,627	6,004

(b) Capital expenditure commitments

	2018 $000	2017 $000
Data licence commitments	437	493

18. CONTINGENCIES

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

19. EMPLOYEE BENEFITS

	Consolidated	
	2018 $000	2017 $000
Current:		
Liability for annual leave and long service leave	386	379
Non-Current:		
Provision for long service leave	196	279
Total Employee benefits	582	658

19. EMPLOYEE BENEFITS (CONTINUED)

Employee Share Plan

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

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

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

	Number 2018	WAEP 2018	Number 2017	WAEP 2017
Outstanding at 1 July	45,453,192	0.15	37,427,100	0.16
Granted during the year	8,149,416	0.15	8,026,092	0.10
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at 30 June	53,602,608	0.15	45,453,192	0.15
Exercisable at 30 June	53,602,608	0.15	45,453,192	0.15

Shares granted under the ESP are accounted for as "in-substance" options due to the limited recourse nature of the loan between the employees and **Carnarvon** to finance the purchase of ordinary shares. The fair value at grant date for the various tranches of shares issued under the ESP is determined using a Black Scholes methodology using the following model inputs:

Fair value of ESP shares and related assumptions	Key management personnel 2018	Key management personnel 2017	Other employees 2018	Other employees 2017
Fair value at measurement date (cents)	6.3	6.7	8.1	4.1
Share price at date of issue (cents)	11	11	15	8
Exercise price (cents)	13	13	17	10
Expected volatility	68%	89%	68%	68%
Expected life of ESP share	5 years	4 years	5 years	5 years
Expected dividends	Nil	Nil	Nil	Nil
Risk-free interest rate	1.50%	1.75%	1.5%	1.5%
Share-based expense recognised	$203,120	$80,289	$400,975	$279,051

Further details of shares granted under the ESP to directors are set out in Note 23, and in the Remuneration Report set out on pages 20 to 28.

19. EMPLOYEE BENEFITS (CONTINUED)

Options over equity instruments

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

2018

	Held at 1 July 2017	Granted as compensation	Acquired/ (sold)	Exercised	Held at 30 June 2018
Directors					
W Foster	500,000	-	-	-	500,000
P Moore	500,000	-	-	-	500,000

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

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

	Number 2018	WAEP 2018	Number 2017	WAEP 2017
Outstanding at 1 July	1,000,000	0.15	1,000,000	0.15
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at 30 June	1,000,000	0.15	1,000,000	0.15
Exercisable at 30 June	1,000,000	0.15	1,000,000	0.15

The weighted average remaining contractual life for the share options outstanding as at 30 June 2018 was 1 years (2017: 2 years).

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

Fair value of share option and related assumptions	2018	2017
Fair value at measurement date (cents)	7.9	7.9
Share price at date of issue (cents)	12	12
Exercise price (cents)	15	15
Expected volatility	89%	89%
Expected life of options	5 years	5 years
Expected dividends	Nil	Nil
Risk-free interest rate	2.0%	2.0%
Share-based expense recognised	$14,891	$39,966

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

20. RELATED PARTY DISCLOSURES

Ultimate parent

Carnarvon Petroleum Limited is the ultimate parent company.

Wholly-owned group transactions

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

Other related party balances and transactions

At 30 June 2018 an amount of $78,006 (2017: $130,978) is included in Carnarvon and consolidated trade and other payables for outstanding director fees and expenses.

21. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Consolidated	
	2018 $000	2017 $000
Less than one year	203	196
Between one and five years	-	203
	203	399

During the reporting period $196,000 was recognised as an expense in the consolidated income statement in respect of operating leases (2017: $188,000).

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.

22. SEGMENT INFORMATION

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

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

Basis of accounting for purposes of reporting by operating segments

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

23. 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	
	2018 $000	2017 $000
Short term employee benefits	1,822	1,605
Post-employment benefits	76	99
Share-based payments	218	171
	2,116	1,875

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 28.

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

(b) Other key management personnel transactions

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

	Consolidated	
	2018 $000	2017 $000
Current		
Trade and other payables	78	131

23. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(c) Ordinary shares held by key management personnel

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

2018

	Held at 1 July 2017	Net acquired/ (sold)	Award under Employee Share Plan	Received on exercise of options	Held at 30 June 2018
Directors					
PJ Leonhardt	17,750,000	-	-	-	17,750,000
WA Foster	684,455	52,847	-	-	737,302
AC Cook	10,999,917	-	1,500,000	-	12,499,917
P Moore	-	270,232	-	-	270,232
Executives					
PP Huizenga	9,492,421	-	1,176,201	-	10,668,622
TO Naude	2,692,509	-	548,880	-	3,241,389

2017

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

23. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(d) Plan shares held by key management personnel

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

2018	Held at 1 July 2017	Granted as compensation	Employee Share Plan cancellations	Exercised	Held at 30 June 2018
Directors					
PJ Leonhardt	3,000,000	-	-	-	3,000,000
WA Foster	-	-	-	-	-
AC Cook	8,234,917	1,500,000	-	-	9,734,917
P Moore	-	-	-	-	-
Executives					
PP Huizenga	8,992,421	1,176,201	-	-	10,168,622
TO Naude	2,478,436	548,880	-	-	3,027,316

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

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

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

2018	Held at 1 July 2017	Granted as compensation	Acquired/ (sold)	Exercised	Held at 30 June 2018
Directors					
WA Foster	500,000	-	-	-	500,000
P Moore	500,000	-	-	-	500,000

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

24. CONSOLIDATED ENTITIES

Name	Country of Incorporation	Ownership interest 2018	Ownership interest 2017
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%
Timor-Leste Petroleum Pty Ltd	Australia	100%	-

25. SUBSEQUENT EVENTS

No other matters or circumstance has arisen since 30 June 2018 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

26. FINANCIAL RISK MANAGEMENT

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

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

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

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

(a) Interest rate risk

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

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

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

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

	Consolidated	
	2018	2017
Carrying amount (A$000)		
Financial assets – cash and cash equivalents	63,606	53,050
Weighted average interest rate (%)		
Financial assets – cash and cash equivalents	1.78%	1.07%

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

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity analysis

An increase in 25 basis points from the weighted average year-end interest rates at 30 June would have increased equity and profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2017:

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2018	159	159
30 June 2017	132	132

A decrease in 25 basis points from the weighted average year-end interest rates at 30 June would have decreased equity and profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2017:

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2018	(159)	(159)
30 June 2017	(132)	(132)

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk

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

The Group's trade receivables are deposits and amounts due from the Australian Taxation office. There were no receivables at 30 June 2018 or 30 June 2017 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 17.

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

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

	Consolidated	
	2018 $000	2017 $000
Carrying amount:		
Cash and cash equivalents	63,606	53,050
Trade and other receivables	324	400
	63,930	53,450

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

	Gross 2018 $000	Impairment 2018 $000	Gross 2017 $000	Impairment 2017 $000
Not past due	324	-	400	-
	324	-	400	-

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

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Currency risk

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

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

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

	USD A$000
Consolidated 2018	
Cash and cash equivalents	46,930
Trade payables and accruals	-
Gross balance sheet exposure	46,930
Consolidated 2017	
Cash and cash equivalents	49,827
Trade payables and accruals	379
Gross balance sheet exposure	50,206

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
AUD to:	2018	2017	2018	2017
1 USD	1.290	1.325	1.349	1.301

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Currency risk (continued)

Sensitivity analysis

A 5% strengthening of the AUD against the USD for the 12 months to 30 June 2018 and 30 June 2017 would have decreased equity and pre-tax profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant:

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2018		
USD	(2,235)	(2,235)
30 June 2017		
USD	(2,372)	(2,372)

A 5% weakening of the AUD against the USD for the 12 months to 30 June 2018 and 30 June 2017 would have increased equity and pre-tax profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant:

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2018		
USD	2,470	2,470
30 June 2017		
USD	2,622	2,622

(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 Group's significant balance of cash and cash equivalents are considered to be adequately address this risk.

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

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

	Carrying amount $000	Contractual cash flows $000	6 months or less $000	6 to 12 months $000
Consolidated 2018				
Non-derivative financial liabilities				
Trade and other payables	533	533	533	-
Consolidated 2017				
Non-derivative financial liabilities				
Trade and other payables	1,263	1,263	1,263	-

27. FAIR VALUE MEASUREMENT

Fair value hierarchy

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

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

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

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

Consolidated - 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Available for sale financial asset	2,297	-	-	2,297
Total assets	2,297	-	-	2,297

Consolidated - 2017	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Available for sale financial asset	-	-	-	-
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.

28. 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:

	2018 $000	2017 $000
Statement of financial position		
Current Assets	64,485	53,909
Non-current assets	55,775	47,018
Total assets	120,260	100,927
Current liabilities	1,288	1,720
Non-current liabilities	196	279
Total liabilities	1,484	1,999
Equity		
Issued Capital	115,508	95,865
Accumulated Profits	3,672	3,438
Reserves	(404)	(375)
Total equity	118,776	98,928
Statement of comprehensive income		
Total loss	1,425	(36,977)
Total comprehensive loss	1,425	(36,977)

28. PARENT INFORMATION (CONTINUED)

Parent Contingencies

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

	Parent	
	2018 $000	2017 $000

Parent capital and other commitments

(a) Exploration expenditure commitments

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

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

	2018 $000	2017 $000
Less than one year	1,153	2,707
Between one and five years	1,474	3,297
	2,627	6,004

(b) Capital expenditure commitments

	2018 $000	2017 $000
Data licence commitments	437	493

Non-cancellable operating lease rentals are payable as follows:

	2018 $000	2017 $000
Less than one year	203	196
Between one and five years	-	203
	203	399

29. BASIS OF PREPARATION OF THE FINANCIAL REPORT

(a) Statement of compliance

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

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

Adoption of new and revised Accounting Standards

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2017 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

(b) Basis of measurement

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

Use of estimates and judgements

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

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

Key estimate – income and capital gains taxes

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

Exploration and evaluation expenditures

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

29. BASIS OF PREPARATION OF THE FINANCIAL REPORT (CONTINUED)

Key estimate – reserve quantities

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

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

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

Key judgement – functional currency

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

Classification of deferred consideration

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

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

Key judgements – other

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

30. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

Controlled entities

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

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

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

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

Joint Operations

The Group's shares of the assets, liabilities, revenue and expenses of joint operations have been included in the appropriate line items of the consolidated financial statements. Details of the Group's interests are provided in Note 13.

30. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Income tax and special remuneratory benefit

Current income tax

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

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

Deferred tax

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

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

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

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

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

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

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

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

30. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Tax consolidation

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

(c) Property, plant and equipment

Recognition and measurement

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

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

Impairment

The carrying amount of property, plant and equipment is reviewed at each balance date to determine whether there are any objective indicators of impairment that may indicate the carrying values may not be recoverable in whole or in part. Impairment testing is carried out in accordance with Note 30(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.

30. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The carrying amount of Oil and gas assets is reviewed at each balance date to determine whether there are any objective indicators of impairment that may indicate the carrying values may not be recoverable in whole or in part. Impairment testing is carried out in accordance with Note 30(f).

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

30. 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 29(f).

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

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

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

(f) Recoverable amount of assets and impairment testing

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

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

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.

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

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

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

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

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

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

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

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

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

30. 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) Discontinued operations

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

30. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Leases

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

Operating leases

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

(m) Share capital

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

(n) Inventories

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

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

(o) Employee benefits

Wages and salaries, annual leave

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

Share based payments

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

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

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

30. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Earnings per share

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

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

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

(q) Cash and cash equivalents

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

(r) Revenue

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

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

(s) Goods and services tax

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

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

(t) Finance income and expenses

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

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

(u) Royalties

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

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

30. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Government grants

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

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

(w) New Accounting Standards for Application in Future Periods

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2018. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below:

Reference	Title	Summary	Impact on the Company	Application date of standard	Application date for Group
AASB 2017-2	*Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*	The amendments to AASB 107 *Statement of Cash Flows* are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).	There will be no material impact on the Company.	1 January 2018	1 July 2018
AASB 2018-2	*Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2017 Cycle*	This Standard clarifies the scope of AASB 12 *Disclosure of Interests in Other Entities* by specifying that the disclosure requirements apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.	There will be no material impact on the Company.	1 January 2018	1 July 2018

30. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Impact on the Company	Application date of standard	Application date for Group
AASB 9, and relevant amending standards	*Financial Instruments*	AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement.* Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held. There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss. For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB 9, including the embedded derivative separation rules and the criteria for using the FVO. The incurred credit loss model in AASB 139 has been replaced with an expected credit loss model in AASB 9. The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies in the hedge accounting model in AASB 139. Based on an initial impact assessment, the new standard is not expected to significantly impact the recognition and measurement of financial instruments.	AASB 9 Financial Instruments brings together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. This standard does not apply before 1 January 2018 and the application date for the Company is 1 July 2018. The Company holds equity instruments that are not held for trading. The Company has elected to carry their investment at fair value with the fair value changes recognised in profit and loss. On the adoption of AASB 9, the fair value movement currently in fair value reserves of $1.217m will be transferred to the opening retained earnings on 1 July 2018.	1 January 2018	1 July 2018

30. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Impact on the Company	Application date of standard	Application date for Group
AASB 15, and relevant amending standards	*Revenue from Contracts with Customers*	AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111 *Construction Contracts*, AASB 118 *Revenue*, AASB Interpretation 13 *Customer Loyalty Programmes*, AASB Interpretation 15 *Agreements for the Construction of Real Estate*, AASB Interpretation 18 *Transfers of Assets from Customers* and AASB Interpretation 131 *Revenue – Barter Transactions Involving Advertising Services*) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 (or AASB 16 *Leases*, once applied). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps: • Step 1: Identify the contract(s) with a customer • Step 2: Identify the performance obligations in the contract • Step 3: Determine the transaction price • Step 4: Allocate the transaction price to the performance obligations in the contract • Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. As the company does not generate any revenue at the moment, AASB 15 is not expected to have a significant impact on the financial performance of the company.	This standard does not apply before 1 January 2018 and the application date for the Company is 1 July 2018. The Company has performed an initial impact assessment and concluded that there will be no material impact on the adoption of AASB 15.	1 January 2018	1 July 2018

30. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Impact on the Company	Application date of standard	Application date for Group
AASB 2014-10	*Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3 *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. • AASB 2015-10 defers the mandatory effective date (application date) of AASB 2014-10 so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2017.	There will be no material impact on the Company.	1 January 2018	1 July 2018
AASB 2017-5	*Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*	This Standard amends AASB 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: • The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments • Share-based payment transactions with a net settlement feature for withholding tax obligations • A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.	There will be no material impact on the Company.	1 January 2018	1 July 2018
AASB Interpretation 22	*Foreign Currency Transactions and Advance Consideration*	The Interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.	There will be no material impact on the Company.	1 January 2018	1 July 2018

30. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Impact on the Company	Application date of standard	Application date for Group
AASB 16	*Leases*	AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases. The Group has yet to fully assess the impact on the Group's financial results when it is first adopted for the year ended 30 June 2020	The Company is still assessing whether there will be any material impact.	1 January 2019	1 July 2019
IFRIC 23	*Uncertainty over Income Tax Treatments*	The Interpretation clarifies the application of the recognition and measurement criteria in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following: • Whether an entity considers uncertain tax treatments separately • The assumptions an entity makes about the examination of tax treatments by taxation authorities • How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates • How an entity considers changes in facts and circumstances.	The Company is still assessing whether there will be any material impact.	1 January 2019	1 July 2019

DIRECTORS' DECLARATION

(1) In the opinion of the directors of Carnarvon Petroleum Limited:

(a) the financial statements and notes of the Group set out on pages 34 to 77 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 2018 and of its performance for the year ended on that date; and

(ii) Complying with Accounting Standards and the Corporations Regulations 2001; and

(b) The financial statements and notes comply with International Financial Reporting Standards as set out in Note 29; 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 by the chief executive officer and chief financial officer in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2018.

Signed in accordance with a resolution of the directors.

PJ Leonhardt
Director

Perth, 28 August 2018

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Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

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

Report on the audit of the financial report

Opinion

We have audited the financial report of Carnarvon Petroleum Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated income statement, statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; and

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

Basis for opinion

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

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

Key audit matters

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

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

RC:KW:CARNARVON:023

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1. Carrying value of capitalised exploration and evaluation

Why significant	How our audit addressed the key audit matter
As disclosed in Note 12, the Group held capitalised exploration and evaluation expenditure of $53,443,000 as at 30 June 2018. The carrying value of exploration and evaluation assets is subjective as it is based on the Group's ability and intention to continue to explore the asset. The carrying value may also be impacted by the results of exploration and evaluation work indicating that the reserves may not be commercially viable for extraction. This creates a risk that the amounts stated in the financial report may not be recoverable.	Our audit procedures included the following: ▸ considered the Group's right to explore in the relevant exploration area which included obtaining and assessing supporting documentation such as licence agreements. ▸ considered the Group's intention to carry out significant exploration and evaluation activity in the relevant exploration area which included an assessment of the Group's future cash flow forecasts and enquired of management and the Board of Directors as to the intentions and strategy of the Group. ▸ assessed recent exploration activity in a given exploration licence area to determine if there are any negative indicators that would suggest a potential impairment of the capitalised exploration and evaluation expenditure. ▸ evaluated the Group's assessment of the commercial viability of results relating to exploration and evaluation activities carried out in the relevant licence area.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2018 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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

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

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Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on the audit of the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Carnarvon Petroleum Limited for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

R J Curtin
Partner
Perth
28 August 2018

RC:KW:CARNARVON:023

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 2018

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	50,364,139	4.23
Citicorp Nominees Pty Limited	36,167,527	3.04
HSBC Custody Nominees (Australia) Limited	29,350,701	2.47
Nero Resource Fund Pty Ltd	18,538,462	1.56
Jacobson Geophysical Services Pty Ltd	11,934,068	1.00
BNP Paribas Noms Pty Ltd	10,480,994	0.88
Mr Philip Paul Huizenga	10,068,622	0.85
Brentworth Pty Ltd	9,000,000	0.76
National Nominees Limited	8,489,858	0.71
Elgar Park Pty Ltd	8,470,425	0.71
Prettejohn Projects Pty Ltd	8,400,000	0.71
Arne Investments Pty Ltd	8,353,950	0.70
Mr Adrian Caldwell Cook Ms Belinda Michelle Honey	8,309,917	0.70
Mr Peter James Leonhardt	7,700,000	0.65
Kemast Investments Pty Ltd	7,000,000	0.59
Kemast Investments Pty Ltd	6,502,944	0.55
Log Creek Pty Ltd	6,440,851	0.54
Mr Edward Patrick Jacobson	6,000,000	0.50
Geolyn Pty Ltd	6,000,000	0.50
47 Eton Pty Ltd	5,500,000	0.46
Mr Edward Patrick Jacobson	5,315,982	0.45
	268,388,440	**22.56**

Distribution of equity security holders

Size of Holding			Number of shareholders	Number of fully paid shares
1	to	1,000	609	284,659
1,001	to	5,000	2,544	7,690,691
5,001	to	10,000	1,930	16,103,961
10,001	to	100,000	5,151	198,289,077
100,001	and over		1,603	967,519,871
			11,837	1,189,888,259

(b) Option holdings as at 27 August 2018

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

(c) On-market buyback

There is no current on-market buyback.

(d) Schedule of permits

Permit	Basin/Country	Joint Venture Partners	Equity %	Operator
WA-435-P, WA-437-P	Roebuck / Australia	Carnarvon	20%	
		Quadrant Energy	80%	Quadrant Energy
WA-436-P, WA-438-P	Roebuck / Australia	Carnarvon	30%	
		Quadrant Energy	70%	Quadrant Energy
WA-155-P	Barrow / Australia	Carnarvon	28.5%	
		Quadrant Energy	71.5%	Quadrant Energy
EP-490, EP-491, EP-475, EP497, TP/27	Carnarvon / Australia	Carnarvon	100%	Carnarvon
WA-521-P	Roebuck / Australia	Carnarvon	100%	Carnarvon
WA-523-P	Bonaparte / Australia	Carnarvon	100%	Carnarvon
WA-524-P	Dampier / Australia	Carnarvon	100%	Carnarvon
AC-P62	Bonaparte / Australia	Carnarvon	100%	Carnarvon
AC-P63	Bonaparte / Australia	Carnarvon	100%	Carnarvon
EP321	Perth / Australia	Carnarvon	2.5% of 38.25%	Transerv Energy
EP407	Perth / Australia	Carnarvon	2.5% of 42.5%	Transerv Energy

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